Do predatory lending techniques share similarities with Chinese lending practices in Sub-Saharan Africa?

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- Abstract

Recent western news regarding the economic situation in Africa has been dominated by the accusation that China is applying a debt trap policy in Sub Saharan Africa. However, many scientific arguments disprove this debt trap accusation. This research therefore attempts to create a better framework to assess Chinese behavior in Sub Saharan Africa. It uses a quantitative and a qualitative method to discover whether predatory lending techniques bear similarities to Chinese lending tactics. The research found out that indebted countries share characteristics with predatory lending victims. In addition, China uses similar tactics as predatory lenders to increase debt levels in African countries.

1. Introduction

Almost daily one can find a new media article discussing Chinese actions in Africa. The articles differ from opinion, from accusations claiming China is employing a devastating debt to seize assets (Chaudhury, 2021), or gaining military bases (Tanchum, 2021), to lauding China as the saviour of Africa as the protector against imperialist western hegemony (Azikiwe, 2021). The Chinese actions in Africa are clearly under close scrutiny and the international world is unsure what is going on. Many articles accusing China of ill-intended use similar proof and examples to show how China is using a debt trap. Examples like China taking over the Sri Lankan Hambantota port (Parsons, 2021), China placing a military base in the heavily indebted Djibouti (Chaudhury, 2021) or the exorbitant loan to Montenegro for the construction of an unnecessary highway (Đorđević, 2021), paint a picture of China deliberately piling countries with debt in order to gain strategic assets. Another aspect of Chinese loans which is often discussed is the waiving of sovereignty rights by the borrowing country. They state that the borrowing country gives up sovereignty rights of its land, meaning that the borrowing country has to give up sovereignty in case of economic difficulty (von der Brelie, 2021).

However, most of these claims have already been disproven in scientific literature (Singh, 2020). As Deron et al (2021) explain, the sovereignty of land narrative is often distorted in media articles to suit their message. Others prove that the debt trap narrative is false and due to the many sources pointing back to US officials claim its racist US propaganda (Sautman & Hairong, 2019). If the debt trap narrative has already been disproven, then the question remains why is this narrative still strong in media articles? A possible answer to that question might be because the loans help stimulate Chinese growth, giving them a selfish dimension. Chinese loans are often resource backed (Moyo, 2020). Since China requires significant amounts of natural resources to maintain their growth (Zongwe, 2010), these loans are a way to gain natural resources for a lucrative price. In addition, the loans are often package deals providing a new market for Chinese construction companies (Moyo, 2020). Chinese loans have surged significantly since 2000 to a point that China has become the largest creditor of the world in 2017 (Horn et al, 2021). With that surge in loans and the arguably selfish intentions, fears are therefore not illogical.

It is therefore possible that the debt trap narrative cannot be applied to describe Chinese lending behaviour as it does not contain enough elements in the case of Sub-Saharan countries. When reviewed in the context of these countries, the debt trap narrative can easily be disproven because as soon as the borrowing country does not demand strategic assets in return for the loan, the narrative can quickly be disproven. The debt trap narrative would not be able to detect or properly assess the Chinese intentions regarding Sub-Saharan African countries. A more inclusive framework is required to include the economic impact of the loans while taking into account the borrowing country's behavior.

This research builds upon existing literature to explore what constitutes the debt trap narrative, including its inherent faults. From these faults I argue that the persistence in the debt trap narrative is derived. In order to provide a better framework to discuss Chinese lending behaviour in Sub-Saharan Africa, I have developed a new framework as an alternative to the debt trap narrative. This framework will test whether Chinese lending behaviour displays similar characteristics as predatory lenders. However, this research will not judge whether China is using harmful lending activities in

Sub-Saharan Africa but will rather test whether the developed framework would be suitable to assess lending behaviour.

Thus, this research attempts to find an answer to the following main question: to what extent can predatory lending characteristics be found in Chinese lending practices in Sub-Saharan Africa? In order to do so, I have divided this paper into two parts. The first part will focus on creating a profile of predatory lending borrowers and whether they share similarities with countries borrowing heavily from China. In this framework I will implement the characteristics of borrowers from predatory lenders into a point system. I will apply the point system to the Sub-Saharan countries. From this, a selection of Sub-Saharan countries will emerge which will be compared to heavy borrowers from China. From this I will select countries with a high score on which I will focus in the second part.

The second part aims to compare whether loan agreements between China and the selected countries share similarities with predatory lending techniques. An in-depth research will be conducted on the selected countries by looking at loan agreements, motivations and the consequences of the loans. This way, I will try to uncover the similarities between predatory lending and the Chinese loan practices.

To conclude this paper, I will assess whether similarities can be found between both the borrower and the techniques used by predatory lenders and China. This way the suitability of the created framework in the context of Chinese lending behaviour in Sub-Saharan Africa can be reviewed. By combining the results of the two parts, I will attempt to answer the main question.

2. Conceptual framework

I will start by explaining where the debt trap narrative comes from and what arguments exist why the debt trap narrative seems to be true. Subsequently I will explain how and why the debt trap narrative has been disproven in many scientific articles.

The notion that China uses a deliberate debt trap diplomacy to trap other countries and strip them from strategic and tactical assets or natural resources was coined by Indian pundit Brahma Chellaney (Singh, 2020). Since then, the narrative has been picked up by western media, who accused China of using a debt trap with every newly signed deal or agreement (Gelpern et al, 2021). One explanation of the narrative is provided by Singh (2020): China deliberately seeks out developing countries and uses financial means to extend unsustainable loans which the receiving country cannot possibly repay. The loans are often not intended to support the local economy because for China it is better if the loans do not work well, the consequence would be a heavier debt on the country thus increasing China's leverage. Saddled with onerous levels of debt, these states are left vulnerable to China's political and economic influence and subordination, being forced to accept terms that make their debt crises 'interminable'. China's 'neocolonial designs' include conducting takeovers of strategic assets and natural resources, and expanding its military and naval presence. Another explanation is provided by Sautman & Hairong (2019): The Chinese Debt Trap notion portrays China as lending to corrupt and inept foreign rulers to build useless infrastructure, expecting the borrowers to default. China can then seize state assets and further its drive to world domination. However the most common definition is: The Chinese debt trap narrative is China luring poor, developing countries into agreeing unsustainable loans to pursue infrastructure projects so that, when they experience financial difficulty, Beijing can seize the asset, thereby extending its strategic or military reach (Jones & Hameiri, 2020; Were, 2018). In essence all definitions have an essence of the claim that China deliberately seeks to entrap countries in a web of debt to secure some kind of strategic advantage or an asset of some kind (Brautigam, 2020) or that geo-economic power is harnessed for geopolitical ends (Lai et al, 2020).

To understand how this debt trap narrative came about, one needs to understand the case of the Sri Lankan port of Hambantota, since this story sparked the entire debate and provided the most arguments for and against the debt trap narrative. In 2005 Sri Lanka wanted to take advantage of their strategic position in the Indian Ocean by expanding the port of Hambantota (Patrick, 2017). With a first and second phase costing a combined 1460 million USD, China helped for 85% of the funding with a loan and a construction company to execute the job (Carrai, 2018). However the project was a complete failure and incurred heavy losses on the Sri Lankan government. This caused them to sell a 99-year lease of the port to China in return for debt (Patrick, 2017). After the docking of Chinese submarines in the Sri Lankan port, many saw the takeover of the port as a military strategic takeover as a consequence of a deliberate debt trap (Carrai, 2018). This seizure of strategic assets causes fear for the sovereignty of other countries indebted to China but also neighboring countries like India who fear China is using this scheme to gain strategic footholds to threaten them (Ameyaw-Brobbey, 2018). This fear caused the popularity of the debt trap narrative and the Hambantota port gave the perfect example of how China indebts countries in order to seize their assets (Singh, 2020). The narrative especially enjoys a strong support in the media (Ferchen & Perera, 2019). The allegations of debt-trap diplomacy only worsen by China's increased lack of transparency surrounding the details of the deals and contracts (Moyo, 2020; Gelpern et al, 2021).

However in the scientific debate there is a clear trend against this debt trap narrative, calling it western fear for the Chinese (Brautigam, 2020) or racist US propaganda (Sautman & Hairong, 2019). Most researchers point out the many flaws in the narrative. As Singh (2020) explained, there are three main reasons why the debt trap narrative is false for the Hambantota case: 1) Chinese loans were a small part of Sri Lankan debt. It only consisted of 15% of the total Sri Lankan debt and the sale of the port was mainly used to service debts to other countries. 2) China never requests military presence. The docking of submarines in a neighboring countries port is not uncommon and happens regularly. The docking of Chinese submarines in Hambantota was thus not an infringement on Sri Lankan sovereignty. 3) Projects are often not initiated by the Chinese, but rather by the recipient country. Before Sri Lanka accepted the loan from China it lobbied with multiple other countries like Japan and India for a loan. However these countries rejected Sri Lanka due to large already existing loans and Sri Lanka becoming their direct competitor.

That last point is also further elaborated on by Were (2018). He emphasises that the recipient countries often seek out Chinese investments to finance their projects. China benefits over western lenders since it has no colonial history, provides 'no strings attached' loans which do not interfere with local policies and is often also willing to help construction by providing experts and companies to execute the projects. China is thus willing and able to fill the gap in infrastructure development which the World Bank deliberately leaves behind since investments in Africa are often perceived as uneconomical (Moyo, 2020). China can thus not entirely be blamed for employing a debt trap which the recipient countries initiate.

Another example frequently used to prove Chinese debt trap intentions is the case of Djibouti, a country with significant debt to China who sold grounds for a military base in order to repay some of their debt (Brautigam, 2020). Djibouti had loaned heavily from China in order to build a railway linking the Ethiopian capital of Addis Ababa to Djibouti and to built an extensive port (Styan, 2020). The railway and the port were however not as profitable as expected due to bad due diligence and due to tensions between the Chinese building company and the government (Jones & Hameiri, 2020). Djibouti thus became unable to meet debt service payments (Styan, 2020). China, who was interested in Djibouti due to its strategic position close to Ethiopia and in the horn of Africa proposed to buy the port. In addition, China bought land on which they were allowed to built a military base (Brautigam, 2020). This case thus clearly proved to be an example for the debt trap narrative (Styan, 2020). However as Brautigam (2020) points out, Djibouti is a country with a military base of almost all major powers in its borders. China's military base in Djibouti is its sole foreign military base, while the US has 800 foreign military bases (Singh, 2020). China can thus hardly be viewed as an exception with their military base in Djibouti (Brautigam, 2020).

Moyo (2020) explains that China's motivations to invest and lend to Africa have four reasons. First of all, China is interested in the business opportunities it provides for its contractors. China possesses the largest construction companies in the world and they need new projects. Secondly, the continent is full of natural resources. China requires huge amounts of natural resources to maintain the growth of their economy. Thirdly, by gaining a foothold on the African continent, trade and transportation through Africa will become cheaper. This is especially important when considering the fourth reason, China wishes to benefit from the African markets. The continent contains a large population and China hopes to profit from these markets. The loan agreements to Africa are often package deals where trade agreements, construction jobs and employment are included.

Another, more neutral reasoning whether China is employing a debt trap policy is provided by Were (2018). According to him, it is too soon to determine whether a debt trap is taking place, since the consequences have yet to emerge. It is currently too soon to determine whether Chinese intentions are altruistic or malevolent. This opinion is shared by Lai et al (2020), who also stated that the Belt and Road Initiative (BRI), of which most loans are a part, is too fragmented to constitute a deliberate plan to entrap other countries. The BRI is a broad umbrella concept which constitutes projects from different sectors and continents. Any project associated with Chinese loans or investments related to the development of a country is part of the BRI. Whether a project is part of the BRI is thus hardly an indication of its aims, financial foundation or its structure. The results of the projects can thus only determine whether it was a debt trap, which is currently too early to determine. Jones & Hameiri (2020) continue this argument by saying that due to this fragmentation different organizations seek different goals. The targets of one Chinese SOE can even be completely different from the other, despite both being led by state appointed CEOs. However the SOE has to reach its own economic targets and is focused on that. They therefore claim that the success of a BRI project is the result of the intersection between powerful interests and associated governance shortcomings on the Chinese and recipient sides. Thus whether a BRI project is beneficial or disastrous is not based on Chinese intentions.

Despite not being labeled as a debt trap, Chinese intentions thus seem not entirely altruistic. The Chinese have developed into highly sophisticated lenders with highly sophisticated contracts (Usman, 2021). These contracts guarantee the repayment of the loan, include nondisclosure agreements and the recipient country waives its right of debt restructuring through initiatives like the Paris Club (Gelpern et al, 2021). By keeping the agreements opaque and confidential, citizens in both China and the recipient country cannot hold their governments in account (Usman, 2021). The confidentiality also means that nobody knows exactly how much money African countries own to China, increasing the suspicion of ill intentions (Carvalho et al, 2014).

To conclude, the debt trap narrative initially seemed to adequately describe Chinese practices. However, the narrative has been disproven frequently and consequently cannot be used as an accusation against China. The debt trap narrative might be too narrow and is missing certain elements which are important for loan agreements. The debt trap narrative primarily focuses on what happens after the loans become unsustainable. However, many scientists have already stated that it is too soon to tell what happens since few countries actually defaulted on their debts. The debt trap narrative thus misses an important part of the loan agreement proceedings, namely the initiation and motivation behind the agreements. Loan agreements are initiated and signed by both the lender and the borrower. To assess what is happening in Sub-Saharan Africa it is therefore important to not only consider what Chinese motivations are, but also why the borrowing countries willingly accept these loans. China is unable to pile debt on the countries without their permission, so the motivation of the borrowing countries to accept the loan agreement should also be taken into consideration. The debt trap narrative thus clearly fails to include two important aspects of the loan agreements: the recipient country and the establishment of the loan agreements. Not only are we capable of researching the intentions and establishment already, it also provides a better description thus assessment, of the situation. The debt trap narrative therefore does not seem to display Chinese practices properly. The debt trap narrative is not the right approach to assess Chinese practices, but rather predatory lending seems to be more fitting. China has previously been accused of using predatory lending practices (Singh, 2020), but this has never been substantiated nor disproven. This might be because predatory lending is a practice mainly found in the mortgage lending financial sector (rather than in the international lending markets, but It might bear some behavioural resemblance to Chinese lending practices to Africa. Similarly to African countries, predatory lending borrowers have little other options of finance (Azmy, 2005). Predatory finance takes place in the informal market (Caplan, 2014) and African countries can often not borrow anymore from traditional institutions (Moyo, 2020). Predatory lending theory has been researched thoroughly and explains which techniques are used to bind borrowers to unfavourable contracts or why a borrower might initiate a potentially unfavourable loan agreement. By using the concept of predatory lending we would therefore cover a broader aspect of the loan agreements. Not only the outcome of the loan agreements will be covered, but also the initiation, motivation and proceedings of the loan agreements. It might therefore be a better alternative than the debt trap narrative. In order to understand the concept of predatory lending better, I will hereafter continue to explain the phenomenon by explaining what it entails, what methods are used by predatory lenders and why people would be inclined to borrow from a predatory lender.

According to Carr & Kolluri (2011) the concept of predatory lending is hard to define, but generally consists of three elements either alone or combined. Often a combination is used to extract the greatest possible profit and invoking serious financial harm to the borrower. The first element is fraudulent marketing. Predatory lenders use sophisticated techniques to target borrowers who are financially unsophisticated and are therefore less likely to understand the loans and thus more likely to accept unfavourable terms. Often this means that the borrowers are older or lower educated. In addition, they favour borrowers with significant assets, for example a homeowners, but with low incomes. Due to the low incomes the borrowers will have a harder time to meet debt service payments, giving the predatory lender an opportunity to take ownership of the assets. The first element of predatory lending is therefore targeting specific borrowers. They prefer the unsophisticated borrowers with significant assets.

The second element are abusive loan terms. The lender may offer a loan which is excessive in size, making it hard for the borrower to repay. Ideally, the loan is has a greater value than the house itself. If so, the borrower cannot sell his house to pay off the loan, but even then remains indebted. Other abusive terms are negative amortisation, where the loan keeps increasing even after debt service payments. Padding costs or excessive prepayment fees are often applied to increase the size of the debt. The last abuse term implemented is the insertion of clauses preventing or binding the borrower to the loan. This prevents the borrower from receiving debt relief of any kind. This combined with the excessive debt which cannot be repaid, ties the borrower to the lender in an endless negative loop of increasing debts. The second element of predatory lending is therefore abusive loan terms. Predatory lenders like to entrap their borrowers using complicated contracts preventing other lending options and providing loans bigger than the market value of the collateral.

The last element of predatory lending is fraudulent lending behaviour. Fraudulent lending behaviour consists of illegal mismanagement of the loan transaction in order to extract the maximum profits. Examples are purposefully deceiving or omitting borrowers of information in the contracts and purposefully providing loans without considering the borrower’s ability of repayment. But also using high pressure tactics to seal the agreement by for example are asking costs after discontinuing the application process. This way, predatory lenders often discourage the exploration of other possibilities. The use of balloon payments, which is a repayment scheme where the first payments are relatively low but the last payment is gigantic. The borrower will be able to repay the first debt service payments but will be unable to repay the last, requiring refinancing. All previous fraudulent behaviour often have this as their aim, making the borrower default on their loans and require a refinancing of the loan. This is because the refinancing will result in the loan flipping phenomena, a popular tactic among predatory lenders. Loan flipping is a tactic where the lenders proposes loan restructuring after a failed service payment, only to increase the length and the total costs of the loan. This is how a predatory lender can strip their borrowers of their assets, tricking their borrowers into defaulting on their loans, forcing the refinancing of the loan in order to take a bigger collateral. If all collateral has been taken, then the predatory lender has extracted the maximum profit from the borrower. Essentially, loan flipping is the tool predatory lenders use to strip the assets of their borrowers. The last element of predatory lending is therefore the stripping of assets through fraudulent behaviour.

These three elements are used by predatory lenders to extract the most profits out of their borrowers. They start by targeting specific borrowers, providing them abusive and unrealistic loan terms. As soon as the borrower becomes unable to repay the debts they flip to loan to strip more assets out of the borrower.

Another definition of predatory lending is provided by Morgan (2007). He defines predatory lending as the provision of credit resulting in the reducing of the welfare of the borrower. This is often done through over-lending and by using income deception to fool the borrower. The predatory lender exaggerates the borrowers future household income. On the basis of that income the borrower will accept a bigger loan. The borrowers believe they accept a loan based on a rational decision, since they believe they will be able to pay it back, while they are actually being fooled. The predatory lender must be careful not to lend too much, risking a default on the loan. Another interesting point Morgan (2007) discovered is the wrong focus often applied on predatory lenders. He states that often it is expected that predatory lenders provide loans with higher interest rates than other lenders. However he found out that they often lend at similar rates but provide a loan so big it can still entrap the borrower.

An important predatory lending technique is the home improvement scheme (Azmy, 2005). With a home improvement scheme, either a contractor or a predatory lender will advice a borrower on a possible home improvement. Subsequently the payment goes directly from the predatory lender to the contractor, giving the borrower no control over the debt nor the quality of the work (Azmy, 2005). The loan often contains abusive terms or gains a size far out of proportion for the construction job (Bond et al, 2009). The predatory lender and the contractor will pay each other a fee for bringing in clients (Renuart, 2004). Subsequently the borrower is left with often shoddy construction and a huge debt (Amzy, 2005). Home improvement schemes are often focused on borrowers who require significant home improvements, since they are more likely to accept a loan (Carr & Kolluri, 2011).

McCoy (2005) researched the behaviour behind accepting loans and how it is possible that people accept unfavourable terms for predatory lenders. One of the first things she noted was that people focus more on whether they are able to make the debt service payments than the interest rates and the costs of the loans. Added to that borrowers often overestimate their ability to repay loans. When they review a loan agreement they estimate whether they will be able to make their next payment. On the basis of that likelihood they will accept the loan. However people are always highly likely to meet their first service payments and get into trouble later, thus overestimating their repayment ability. The last tendency of typical predatory lending borrowers is the pessimism of receiving another loan offer. They fear they will receive no other option than the one presented by the predatory lender. As Hill & Kozup (2007) explain further in-depth, the predatory lender uses a specific behavioral pattern to gain the trust of the borrower by giving them a special treatment. As a result, they will jump on the chance as long as they are able to make the (first) debt service payment. The predatory lenders take advantage of these behavioural characteristics by deceiving the borrowers. However they only find out after getting entrapped, after which the predatory lender will change its behaviour from (overly) friendly to aggressive (Hill & Kozup, 2007).

As was mentioned before, borrowers from predatory lenders are often economically unsophisticated. They are unaware of how economic processes work or unfamiliar with detecting schemes which put them at a disadvantage. Pair this with the findings of McCoy (2005) and Hill & Kozup (2007), who found that predatory lenders exploit human weaknesses and purposefully deceive through behavioural changes, it becomes more clear why people borrow from a predatory lender. Due to their economic unsophisticated nature they put their trust in others who seem to act as their friend. However they have been purposefully deceived by the predatory lender who acted differently to gain their trust. The misplaced trust results in the borrower ending up in a predatory lender scheme.

Another phenomenon in the informal market is explained by Liu & Roth (2016), which I will refer to as ‘keeping down the little guy’ after the title of their paper. They explain that predatory lenders often entrap their borrowers in the informal market in a debt trap by charging an interest rate exactly equal to the additional profits. To illustrate this phenomena I will use the example of a mother of a poor household who sews dresses as an additional income for her household. She can produce five dresses each week and consequently make a small profit. She could expand her business by buying a better sewing machine, allowing her to produce seven dresses instead of five, generating a bigger profit. However, because her household is poor, they can solely lend money in the informal market instead of receiving a conventional bank loan or commercial loan, making a predatory lender the is only option to borrow money for investments. A predatory lender will provide her the money, but he will also charge an interest rate which is equal to the profits of two dresses. This means that the mom is obliged to make the seven dresses each week to repay the predatory lender while to maintain the same level of income for the household. By borrowing from the predatory lender she ended up working harder each week, while gaining no additional profits. She is, therefore, trapped in a debt trap from her predatory lender. As becomes clear from this example, predatory lenders are often the only option for poor people who can only lend from the informal market. Predatory lenders can thus take advantage of those people by providing them with loans which require them to work harder but gain no additional income.

From surface level observations, similarities can thus be found between Chinese lending practices and predatory lenders. Similarly as predatory lenders, China seems to use sophisticated contracts which guarantee repayment and waive rights to relief or restructuring. China seems to provide loans for large projects against normal rates, but the size of the loans result in worrying debt service. The repayments of the loans, either through sale of natural resources or other assets, seem similar to the stripping of assets by predatory lenders. The package deals offered by China, in which loan agreements for development projects are paired with Chinese construction companies, share a resemblance of the home improvement scheme. Due to these similarities I want to use the predatory lending framework, translate it into a country context and discover whether China could be accused of predatory lending.

3. Methods

In this research, I will review whether there are similarities between predatory lending and Chinese lending practices. From the conceptual framework, I identified two important and distinctly recognizable actors within the predatory lending phenomenon: the lender and the borrower. In order to research the similarity between predatory lenders and China, we therefore need to look at both Chinese behaviour, the lender, and the Sub Saharan African countries, the borrowers. To answer the main question we thus need to find similarities between both actors.

First I will research whether similarities can be found between the borrower and the Sub Saharan African countries. From the conceptual framework we established that predatory lenders have a specific type of borrowers they prefer. These borrowers have a low income and are economically unsophisticated but possess significant assets. As explained before, to be economically unsophisticated means that an individual has little knowledge of economic dealings either through old age or low education. Due to their low income they will struggle with the repayment of the loan, giving the predatory lender a chance to flip the loan and strip the borrower of more assets. The borrowers distinct profile thus has to be translated into a country context, in order to assess the similarities. The first variable to be translated is economically unsophisticated. It exists of multiple facets which can be translated differently, however not all are suitable to literally turn into a country context. Low educated level can for example not be translated literally to a country's education level. Even in countries with low education level could assume that the country still posses educated inhabitants who are employed to make the economic policy. Instead I will look more towards the behaviour characteristics of McCoy (2005) to determine whether countries would borrow from a predatory lender. One can assume corrupt countries have a short planning horizon and the corrupt government will want to borrow much money in a short time. Other measurements of economically unsophisticated countries used in this research are inflation, debt stock and debt service payments. To determine whether countries contain significant assets I will look at the resource rents, which display the percentage of the GDP generated through the sale of natural resources. If this is higher than average, one can assume this country has significant natural resources, assets, which are attractive for a predatory lender. To determine whether a country has a good income stream, I will look at the export diversification. This displays whether countries generate their revenue through diverse sectors or mainly from a single sector. If a country is depended on a single sector, one could compare this to a low income individual. This is become the revenue generated through a single sector is often unsteady and as soon as the sector will be in decline, the country will have troubles repaying the debts. This would therefore show similarities to the low income targets from the predatory lenders. Through the use of these country statistics, similarities will be analysed between predatory lending borrowers and heavy borrowers from China. Further elaboration of the statistics, their translation to the country context and the point system used to determine whether a country might be a predatory lending borrower will follow.

In the second part, I will research whether similarities can be found between Chinese behaviour and predatory lending practices. To establish whether similarities exist, I will conduct an in-depth research of the loan agreements between China and the borrowing African countries. In the conceptual framework I established that predatory lenders use several techniques to extract the maximum profits out of their borrowers. Examples of techniques I will search for are loan flipping, home improvement schemes, income deception and keeping down the little guy. In this part, not only will the techniques used be investigated, but also the motivations by both the lender and borrower for the loan agreement. This is because this also paints a picture of who might be held responsible for certain outcomes of the loan agreements. Based on this in-depth research we can determine whether Chinese lending practices show similarities to predatory lending techniques. Combining that conclusion with the result from the point system and whether heavy borrowers from China share similarities with predatory lending borrowers we can conclude whether Chinese lending practices could be assessed using a predatory lending framework.

The point system

The first step of my research is to use a point system to determine whether a country is a likely borrower from the predatory lender. As mentioned before, I will use six statistics: Inflation, resource rents, export diversification, external debt stock, debt service payments and corruption. These statistics represent the level of a country's economic sophistication, income stability and assets. This will be done according to a point system. If a country scores below average on a statistic, it will score a point in this point system. Countries with more points than other countries will therefore fit better in the predatory lender borrowing profile than their peer. These countries who score high on the point system will subsequently be compared to the countries that borrow heavily from China. If many countries score high on the point system and borrow from China, we could say the borrowers from China and predatory lenders are similar.

The statistics used to determine whether a country is a likely borrower from predatory lenders are determined by the characteristics found in the conceptual framework. The statistics and the elaboration why they are chosen are:

(1) Inflation. The inflation statistics are retrieved from the World Bank international debt statistics dataset (2021). Inflation is the increase of overall prices in a country (Barro, 1996). Inflation can be a result of a large influx of money in the economy. A high inflation rate is often a consequence of an instable or badly managed economy. It can be a consequence of for example a failure of trust of the local currency, excessive money printing or gigantic loans (Mishkin, 1984). Volatile inflation numbers display bad economic control and thus it is likely that those countries crave economic support in any way it is offered to them. Because of that, it is ideal for a predatory lender to borrow money to a country with a high inflation rate since they are more willing to accept the loan terms. The mismanagement or lack of control over the economic system displays that the country is economically unsophisticated. This increases the chances of the predatory lender to use their tactics to extract more money out of the borrower country. To determine whether a country deserves a point for inflation, the coefficient of variation of that country should be higher than the average of all Sub Saharan African countries. The coefficient of variation displays the volatility of the inflation numbers. The use of the coefficient of the variation is better with the percentages of inflation since countries with hyperinflation can skew the average up to an extend where only those countries are above average. The coefficient of the variation is therefore more telling since it displays the performance of that country over time, adjusted for outliers while still displaying the volatile countries.

(2) Resource rents. The resource rent statistics are retrieved from the World Bank international debt statistics dataset (2021). The resource rent is the percentage is the national GDP generated from the sale of natural resources. If a country has high resource rents, this means that a considerable amount

of the country's GDP is generated through the sale of natural resources. This would imply the ownership of assets which is desirable for a predatory lender to strip. The resource rents could be used as collateral or a repayment method of the loans. This way the lender country is ensured of the return of the debt. To determine whether a country deserves a point for resource rents, the average resource rent of that country should be higher than the average of all Sub Saharan Africa countries. A high average resource rent would imply that the country has a stable and considerable amount of natural resources it can mine every year. If the rents are above average it can be more attractive for a predatory lender to lend to that country since there are assets which can be taken.

(3) Export diversification. The export diversification index is an index by the IMF which measures the diversity of export products of a country. The statistics used for this research are from the dataset by Henn et al. (2013) who developed the index. A high number on the export diversification index indicates that a large part of that country's exports is dependent on a few products or sectors. A high number thus indicates low economic sophistication. In addition, the country might be more susceptible to the predatory lending technique of income deception. The predatory lender can convince the country their main export will thrive and based on that they might be willing to accept bigger loans. Therefore, a point is scored for export diversification if the average index of a country is higher than the average of the Sub Saharan African countries.

(4) External debt stock. A country's total debt is all the cumulative debt owed to lenders. The external debt stock statistics are retrieved from the World Bank international debt statistics dataset (2021). This is the money they borrowed but also includes the interest payments. A high amount of debt owed displays that the country is in a weak economic position and likely requires investments or loans. They are therefore more likely to accept new debt. Borrowers are more willing to accept higher risk when they are facing a loss (McCoy, 2005). A predatory lender can introduce an idea like building a new port facility or railway line with their loan the borrower country, fearing it might be the only chance of receiving a loan, might be more inclined to accept it when they have high debt than with lower debts. A country scores a point for total debts if their average total debt is higher than the average of the other Sub Saharan African countries.

(5) Debt service payments due. A country's debt service is the amount of debt and interest repayments a borrower country has to pay to the lender country. The debt service statistics are retrieved from the World Bank international debt statistics dataset (2021). A high amount debt service payments means that a country needs to spend a lot of their annual budget on repaying debts. Often borrowers who face large debt repayments are focused on making the next repayments, without looking further in the future (McCoy, 2005). Predatory lenders take advantage of this situation by offering them a large sum of money, letting the borrower believe they can repay their debts or make their debt service payments but by accepting the new loan they often increase their long term commitments, resulting in even bigger debts. A country score a point for debt service if their debt service is higher than the average of the sub Saharan African countries. A higher than average debt service implies that the country might be in need of assistance in repaying their debts and a might also be a sign of lacking economic sophistication.

(6) Corruption. The last variable I will look at is the corruption perception index from transparency international (2021). The corruption index give a lower score to countries with a high perceived corruption level. High levels of corruption can be a sign that the country is willing to borrow money

against higher rates since the government is mainly focused on the short term, long term planning is not part of the government's strategy. They will focus on being able to make the debt service payments during their turn, but will not think of the possibility of the repayment of the entire loan. Added to that, corrupt countries are less willing to publicize the loan agreement to prevent the population from finding out any specifics. The country will thus be more likely to sign the waiver for their legal rights in order to receive their loan. For a predatory lender, countries with a high amount of corruption are therefore the prime countries to lend money to, since their practices are not discovered and higher (long term) rates can be negotiated. For corruption, a country thus scores a point when their average corruption index is lower than the average. If the countries average corruption index is lower than the average, it means that there is more corruption in that country and the predatory lender countries are more willing to lend money to that country.

As a result of this point system, countries with a high score will be identified who susceptible to borrow money from a predatory. These countries will be compared to the countries who borrow more than the average Sub Saharan African country. If a comparison can be found, the claim can be made that China borrows heavily to countries who might fall victim to a predatory lender. One might even say that if there is a similarity, China targets asset rich, unsophisticated borrowers desperate for a loan, just as predatory lenders. However this is hard to guarantee since many borrowers also approach China. One can thus never be sure who is to blame, the recipient country for borrowing bigger loans than they can bear or China for lending money to these countries despite knowing the negative consequences for the borrowing country.

The point system will take statistics of a country until the year 30% of its cumulative loan has been committed. Before this 33% is committed, one can argue that the statistics are realized through other factors than the Chinese loans. After the 30% commitment threshold it is likely that the statistics of the borrowing country is influenced by the Chinese one way or another. By limiting the statistics until 33% we therefore prevent a bias caused by the results of the loan.

In-depth researches

From this selection of countries, three countries will be chosen to be researched in-depth. A research will be done between the relationship between the countries and the establishment of the loan agreements. This will constitute the second part of the research, in which I will attempt to find similarities between predatory lending techniques and Chinese behavior. As established in the conceptual framework, predatory lenders use several techniques to gain the maximum profit out of their borrowers. These techniques will be translated to a country context to form a framework. The Chinese behavior will be assessed using this framework to determine whether they display similarities with predatory lending. In this analysis, an explanation will be given why the borrowing country is interested in the loans and what it hopes to achieve with the credit lines. Then an explanation will be give why China is interested in the borrowing country. An answer or suggestion will be given why China might benefit from the loans aside from the interest payments and how this might happen. Lastly I will compare the loan agreements and practices with the predatory lending tactics. I will mainly focus on the following tactics:

The first tactics is the home improvement scheme. Al already explained in the conceptual framework, a home improvement scheme in the predatory lending context consists of a contractor or a predatory lender convincing the borrower they needs home repairs or improvements.

Subsequently the lender and the contractor exaggerate the loan in relation to the construction work done. The predatory lender gains the borrowers debt and the contractor receives a larger commission for his construction job than normal. The borrower is left with insufficient construction and a huge debt. In a country context this would mean that the predatory lender country decides which construction company would realize the development project, since that the predatory lender country benefits from choosing that construction company. In the country context, the home improvement scheme would result in the borrowing country having a big debt while simultaneously having development projects realized which are not economically viable.

The second tactic is the debt trap explained by Liu & Roth (2016). As they explained, in some informal sector debt trap the borrower ends up working twice as hard, but addition profits are used to pay the interests to the lender. The borrower is never able to work less anymore otherwise repayment is not possible. The borrower is thus trapped in the debt trap, doomed to work harder to keep up. In a country context this would mean that the borrowing country will increase its GDP and development. However the country will not benefit from it since all additional profits will be used for the debt service payment. The population of that country is thus worse off than before, since they work harder but gain no welfare.

The third is income deception. Predatory lenders use income deception to convince the borrower that their future income will be higher than realistically possible. On the basis of these inflated expectations will the borrower 'rationally' accept a bigger loan. In the country context this could be similar, the predatory lender country would convince the borrower that their economy will grow in the future making it possible for them to repay the loan. However this would be hard to track down, since these talks are not open. I will therefore look whether the predatory lender country has provided the borrowing country with unrealistic feasibility reports. If the borrowing country believes that an improvement provided by the loan will result in a big stimulus for the country, even though this is not realistic, one could say that the predatory lender country is using income deception to fool the borrowing country.

The last technique is loan flipping. As mentioned in the conceptual framework, loan flipping is often the goal for predatory lenders, because this is the part where they can strip more assets from the borrower. Predatory lenders like to use loan flipping in order change the details of the loan, increasing the total returns on the loan. After flipping the loan they might increase the duration of the loan, change interest rates or increase their stake in the collateral. Often the predatory lender also applies transaction, administration or other additional costs to the changing of the loan, increasing the debt further. By flipping the loan several times they can strip the borrower of its assets, by taking a bit more every time the loan is flipped. Every time the loan is flipped it also becomes harder to escape the debt trap, since amortization can become negative, ownership of the collateral declines or total costs increase. In a country context, loan flipping would mean that the borrowing country is unable to service a debt payment and the lender country is using new and harsher terms in the new loan. It can be discovered after seeing how many times a loan is refinanced or by seeing whether collateral has been taken.

In de second part I will discuss whether these techniques can be found in a country context in the loan agreements between China and the borrowing African countries. By combining the conclusions drawn from the point system in the first part and the in-depth studies in the second part, a good overview is created on the Chinese lending practices in Sub Saharan Africa. From this overview I can discuss whether similarities with predatory lending arise and to what extent. On the basis of the combined results of the different parts, a conclusion will be drawn whether Chinese lending practices share similarities with predatory lending.

4. Point system

To know which countries should be compared to the results of the point system, we first have to establish which countries are heavy borrowers of China. For this I looked at total cumulative debt in 2019, the latest year of data from the SAIS-CARI dataset. If a country had a total loan commitment higher than the average of all Sub-Saharan countries, this country would be considered as a country borrowing heavily from China. This identified 13 countries as heavy borrowing countries, which will be compared with the results of the point system. The identified countries are shown in red in table 1 with their respective cumulative loan commitments in millions.

Country	Total loan commitments from China	Points
Angola	$ 42.619,38	5
Congo, Dem. Rep.	$ 2.686,32	5
Ethiopia	$ 13.729,23	5
Nigeria	$ 6.731,73	5
Chad	$ 769,72	4
Cote d'Ivoire	$ 3.721,83	4
Gabon	$ 1.680,87	4
Guinea	$ 2.119,86	4
Guinea-Bissau	$ -	4
Burundi	$ 107,32	3
Cameroon	$ 6.201,79	3
Congo, Rep.	$ 5.390,30	3
Equatorial Guinea	$ 3.019,69	3
Kenya	$ 9.175,22	3
Niger	$ 699,22	3
South Sudan	$ 406,80	3
Sudan	$ 6.169,33	3
Tanzania	$ 2.074,31	3
Zambia	$ 9.848,34	3

Table 1: Results from the point system compared to heavy borrowers from China. Source: SAIS-CARI dataset, 2019

After conducting the point system research, similar countries emerge from point system and the cumulative loan commitment numbers. The results of the point system can be found in table 1 as well. From the top 4 countries picked through the point system, 3 are also heavy borrowers namely: Angola, Ethiopian and Nigeria. The only country which scored 5 points but isn't one of the cumulative list is the Democratic Republic of the Congo. This however does not mean that the Democratic Republic of the Congo does not borrow money from China. With a cumulative loan of 2686 million USD, the Democratic Republic of the Congo is 15th biggest lender, just below the average borrowed cumulative amount of 2983 million USD. Added to that, Chinese interests in the Democratic Republic of the Congo is not small. After Western companies started to retreat from the country due to the conflicts, many Chinese companies bought their resource rich mines (Kabemba, 2016).

In total 10 out of the 14 countries which have higher than average cumulative loans are found back in the 19 countries which had 3 or more points, while all of them scored 2 or more. This means that almost all countries China lends to display characteristic statistics of countries which are likely to borrow from predatory lenders. The countries are either asset rich, economically unsophisticated and in need of loans or a combination of all. The only country without a score of three or higher is South Africa. The reasoning behind this is rather simple. South Africa has a rich history of connection with the West which provided them with generally better institution than the other African countries, decreasing their corruption compared to most other Sub Saharan African countries. Only Botswana (which used to be a part of South Africa) and Cameroon have better corruption statistics. The country was also early recognized as resource rich and therefore has a healthy infrastructure built around these resources. The wealth of these resources is subsequently used to improve and stabilize the economy of the country and diversify its exports.

On the basis of these result one could therefore argue that China is predominantly lending money to countries which seem, according to the predatory lending framework, the ideal borrowers for predatory lending. Especially high resource rents and low export diversification seems dominantly present in the higher scoring countries.

5. In-depth research

Following this point system research, three countries will be researched further in depth. These countries will be investigated to discover any potential similarities between predatory lending practices and Chinese lending techniques. The in-depth research will start by explaining the motivations behind the loan agreements from both the lender and the borrower side. The motivations are important to understand why the countries initiate the loan agreement and to understand to which extend responsibility can be distributed. The research will continue by reviewing the consequences of the loan. What projects are realized using the borrowed money and what impact do the loan and project have on the economy. I will conclude by discussing the comparisons between predatory lending practices found in the loan agreements between the borrowing country and China. The research displayed three interesting countries which provide diverse results and practices of Chinese loans. The countries themselves are also different in history, size and economic structure. This ensures a diversity in motivation, negotiation and results for the loan agreements.

The first country is Angola. As can already be seen in table 1 Angola has by far the largest debt commitment of all Sub Saharan African countries. The country was also among the highest scoring countries from the point system. The country thus seemed susceptible for predatory loans and borrowed a significant amount, something the predatory lenders desire. Due to the large loan commitments, Angola will display an extreme case of Chinese lending practices.

The second country, Kenya, has been chosen on the combined basis of the point system and scientific articles. The Kenyan Standard Gauge Railway is also suggested by some researchers as an example of a debt trap (Jones & Hameiri, 2020). Another article by ZiroMwatela & Changfeng (2016) explain that Chinas main motivation for investing in Kenya was to establish a safe route for oil from South Sudan. The point system did recognize Kenya as a possible predatory lending borrower and as table 1 shows the country is in the middle of heavy borrowers. Kenya therefore provides a moderate display of Chinese lending practices as well as serving as a example that targeting borrowers might not only depend on statistics but also on geography.

The third and last country is South Africa. South Africa is chosen because the country has not been recognized by the point system. However as table 1 shows it has received above average loan commitments from China. South Africa thus lends substantial amounts from China, but does not conform a typical borrower of predatory lending. Further research is therefore needed to explain why South Africa borrows heavily from China, or perhaps why China is eager to lend to South Africa. An explanation could be that China is looking for countries with less risk but, perhaps a more assuming and accusing hypothesis, also that China feels secure enough to target richer countries to strip from assets.

5.1 Angola:

As the country with the biggest cumulative debt to China, Angola has frequently been discussed when China is being accused of debt trap policies. Between 2002 and 2019, Angola has accumulated a total debt to China of 4219 million USD of loan commitments (SAIS-CARI, 2021). Especially in 2016, Angola received an enormous amount of 19021 million USD loan commitments from China as can be seen in figure 1.

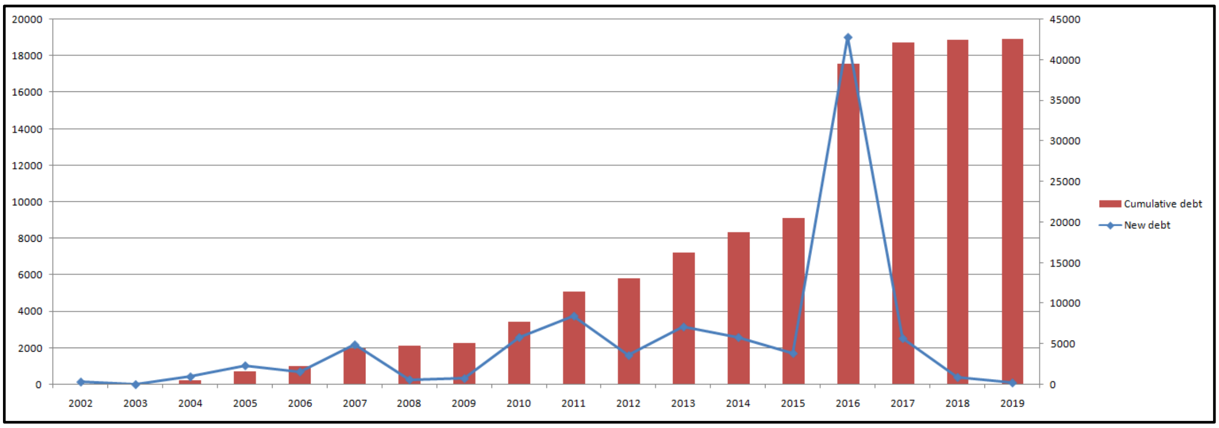

Figure 1: Angolan loan commitments by China. Source: SAIS-CARI dataset, 2019.

Establishment of the loan relations

During the Angola civil war between 1975 and 2002, the MPLA government used its vast oil revenues to buy arms, neglecting the Angolan economy. Due to this lack of investment in economic development, the Angolan economy was weak after years of war devastation (Volman, 2003). The country required considerable investments to rebuilt the country's infrastructure. Therefore Angola went into discussion with the IMF to receive consultation on how the country could receive donor support from western countries and the IMF to help rebuilt the country. However this would mean that Angola needed to go through three trimesters of staff monitored programs which did not seem attractive to Angola, possibly because the IMF found out that large sums of the social spending budget ended up in officials pockets. Angola therefore rejected IMF help due to its conditional help and felt secure enough that due to high oil prices it could survive without (Campos & Vines, 2008). Angola was more drawn towards the no string attached loans offered by China, which meant no interference with the governmental policies in order to receive the loan (Begu, 2018). This however also meant that Angola had literally no other place to look for investments than China (Carvalho et al, 2014). However due to its unstable post-war situation, China could not completely depend on repayments from Angola.

China's economy in its turn was growing rapidly. To sustain this economic growth, China required vast amounts of oil. In addition to that, China possesses the biggest and most competitive infrastructure industries in the world (Zongwe, 2010). Since Angola is the 2nd largest oil producer of the Sub Saharan Africa and due to its desire for infrastructure investments the match seemed logical. China would provide Angola with the infrastructure development it needed and Angola would provide China with the oil it required (Begu et al, 2018). China therefore offered 'oil-backed' loans to Angola (Carvalho et al, 2014). China would provide loans and investments in return for debt service payments which would be procured through revenues of oil or Chinese would receive rights for the extraction of Angolan oil. To ensure that the revenues from oil are used for debt service payments, the contracts state that revenue from sold oil is put immediately in an escrow account which makes the debt service payments to China (Campos & Vines, 2008). In addition, Chinese companies would help built the infrastructure or public facilities. This type of resource for infrastructure (R4I) became to be known as the Angola model, which is displayed in figure 2.

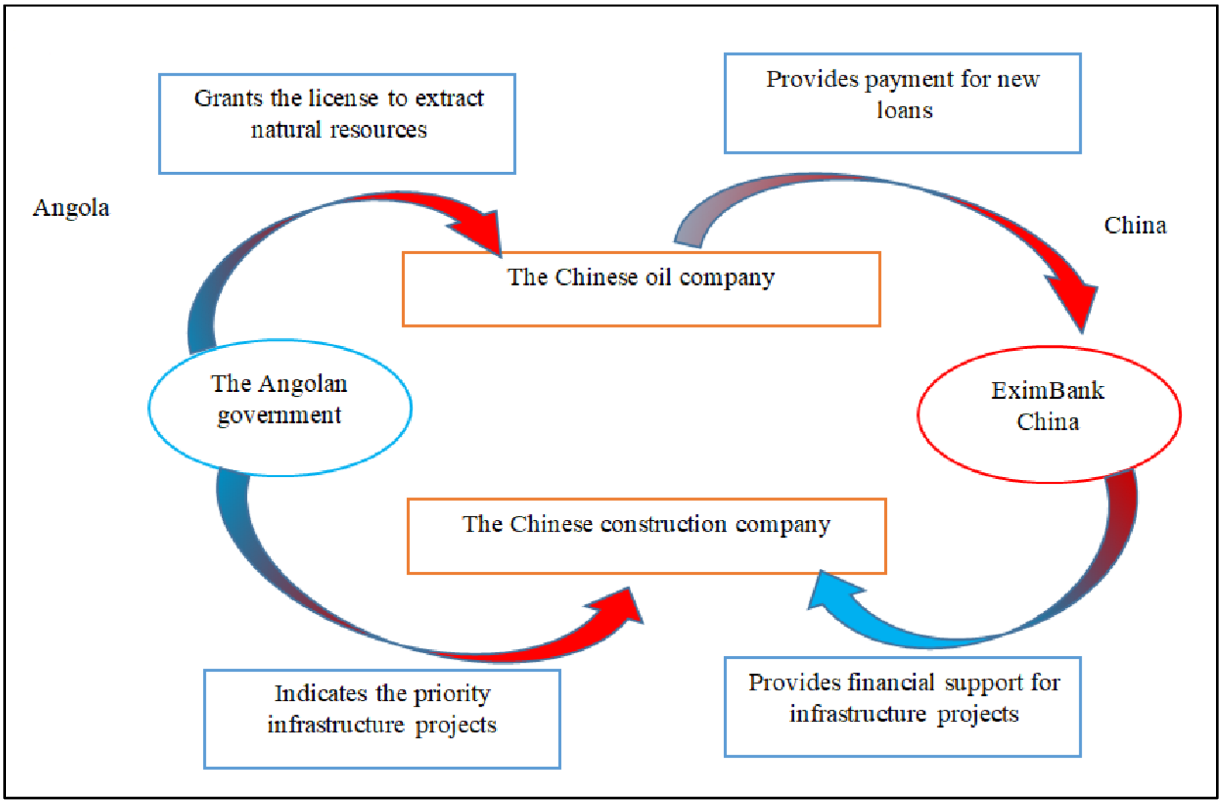

Figure 2: Angolan Model. Source: Begu et al, 2018, page 10.

The Angolan government claimed to put the focus of the loans on improving and expanding infrastructure and education and healthcare facilities (Begu et al, 2018). However due to the war devastation, in practice Angola jumped on almost any project that was put forward and for every project China was willing to provide funding and also suggested multiple Chinese companies which were able to implement the project (Campos & Vines, 2008). With the costs in hand and ready to begin the project, these Chinese companies would often get the commission due to a lack of competitive bidding (Zongwe, 2010). This meant that the only thing Angola had to do is confirm the project and Chinese companies would realize it using the money of the Angolan credit line.

Consequences of the loans

The opaqueness of the exact deals made between China and Angola provides internal and international controversy. The government has multiple times been accused and certain officials have been imprisoned for the misuse or disappearance of loaned money (Campos & Vines, 2008). Despite the efforts of both China and Angola to increase transparency, in the period of heavy lending by Angola, corruption in Angola has increased (Transparacy.org, 2020). Due to this opaqueness and misuse it is also uncertain how much Angola has actually borrowed from China (Carvalho et al, 2014).

The only thing that is certain is that after the price drops of oil, Angola is required to send increasing amounts of barrels of oil to China. This is because at the time of negotiation, China tied the repayments to the price of oil (Begu et al, 2018). With the declining oil output of the Angolan offshore rigs, government revenue from oil is shrinking (Carvalho et al, 2014). A declining trend can already be seen in the resource rents of Angola in figure 3.

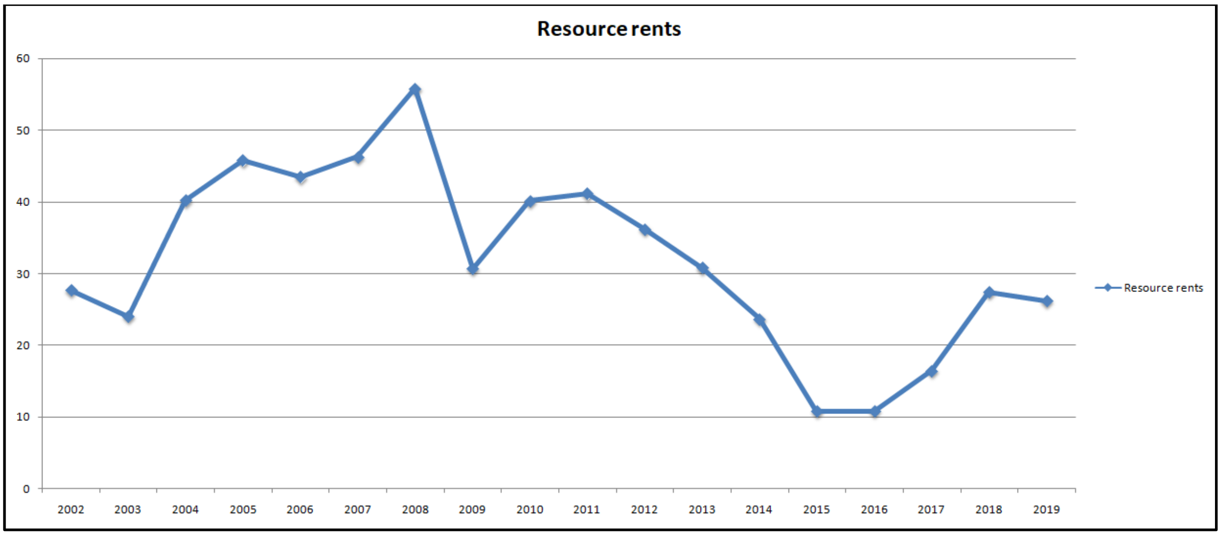

Figure 3: Resource rents of Angola. Source: World Bank debt statistics dataset, 2019.

Angola is among the least export diversified countries in the world (IMF, 2014) and the investments made from the Chinese loans were supposed to increase the diversity of the Angolan exports in order to create a more sustainable and healthy economy. However Angolan exports became only more dependent on their oil after the Chinese loans (Zongwe, 2010). In 2020, oil still accounted for 95% of Angola's export revenue (AfdB, 2021). Added to that, the increased trade between China and Angola drove the Angolan manufacturing industry in decline. Angolan companies were unable to compete with the Chinese companies due to the gap in technologies and prices (Vargas Murgui, 2014). Other exports could therefore hardly help debt service payments before the loans and even less after.

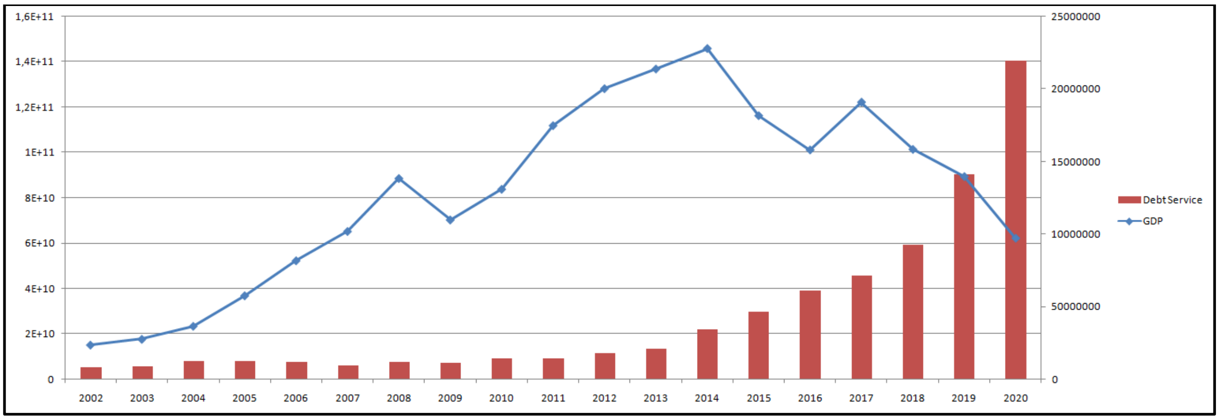

Figure 4: Angolan debt service relative to GDP. Sources: SAIS-CARI dataset, 2019.World Bank debt statistics dataset, 2019.

The GDP of Angola initially increased significantly after the start of the loans in 2002 as can be seen in figure 4. The GDP peaked in 2014 but subsequently fell sharply. Meanwhile, the debt service payments Angola has to pay steadily increased over time. Debt service payments thus not only require more oil due to lower oil prices, the debt service payments also increase in size, further aggregating the amount of oil required. As mentioned before with declining oil production, Angola will struggle increasingly with debt service payments

Another Angolan problem which could be resolved using the Chinese finance is the massive unemployment rates Angola suffers from. A quarter to a third or the population in Angola is unemployed (Vargas Murgui, 2014). The projects to resolve the infrastructure deficit could be an opportunity to mitigate these numbers. Infrastructure projects are a useful tool to combat unemployment since it requires no to low skilled workers (Kanyenze, 2000). The initial agreement was that at least 30% of the workforce employed by the Chinese contractors were Angolan. However this quota was hardly ever attained (Vargas Murgui, 2014). Most employees were still Chinese and it is estimated that in 2014 already 400.000 Chinese workers lived in Angola (Jureńczyk, 2020). The Angolan population therefore barely benefited from the creation of new jobs with the projects. According to the African economic outlook (2021), Angola currently still suffers from an unemployment rate of 34%, albeit partially influenced by the COVID-19 pandemic and its effects on the oil prices. Especially youth unemployment is high and persistent with numbers reaching in the 50 percent even before the COVID-19 pandemic (AfdB, 2021).

Despite the desperate need of Angola to rebuilt their country and infrastructure after the civil war, it is disputed whether the projects China realized are beneficial for the country. Many construction jobs suffer from low quality, cheap materials and lack of adaptability to the population (Vargas Murgui, 2014). Despite the fact that all projects are researched by a third party (Campos & Vines, 2008), even the governmental ministries could be bypassed by high ranking officials close to the president for the acceptance of projects. One of the most notorious examples is the Kilamba project, a project where the ministry of Housing was bypassed on the decision to built new houses (Cain, 2014). The Kilamba project was a prestige project of the government to built apartment for approximately 200.000 Angolans in order to resolve the housing crisis caused by the war. The project was completely executed by Chinese construction and planning companies and according to Chinese standards which were not compatible with the Angolan standards (Benazeraf, 2014). The apartments in Kilamba had a cost of 120.000 USD on completion which few Angolan could afford. The consequence was that the city turned into a ghost town with barely any inhabitants (Cain, 2014). The Angolan government thus implemented a costly housing-scheme subsidizing the apartments in Kilamba in order to make the houses affordable for more middle-class citizens (Cain, 2014).

The opaqueness of the exact deals made between China and Angola provides internal and international controversy. The government has multiple times been accused and certain officials have been imprisoned for the misuse or disappearance of loaned money (Campos & Vines, 2008). Despite the efforts of both China and Angola to increase transparency, in the period of heavy lending by Angola, corruption in Angola has increased (Transparacy.org, 2020). Due to this opaqueness and misuse it is also uncertain how much Angola has actually borrowed from China. The only thing that is certain is that after the price drops of oil, Angola is required to send increasing amounts of barrels of oil to China (Carvalho et al, 2014). This is because at the time of negotiation, China tied the repayments to the price of oil (Begu et al, 2018).

Comparison with predatory lenders

When comparing the Angola-China loan deals and practices with the predatory lending behaviour, one could observe some similarities. Up until now, Angola has not benefitted significantly from their loans from China (Vargas Murgui, 2014; Begu et al, 2018). As mentioned before, Angola in deeply indebted to China and is required to send increasing amounts of their depleting oil resources to service those debts. An Angolan government official even stated that the country was indebted to China in every way (Carvalho et al, 2014). One could therefore say China is stripping Angola from its oil assets. In addition, China could be accused of both targeting asset rich borrowers and of using a home improvement scheme.

The first thing that is interesting about Chinese loans to Angola is how quickly China extended credit to Angola. The Kilamba project displays how even with a project with a minimal feasibility research, Angola received a credit line to realize the project. Due to the linkage of debt service payments to oil it is easy for China to provide credit lines to Angola with almost a certain guarantee of repayment. Even if the debt service payment is paid through the oil revenue rather than physical oil, the inserted clause that the oil revenues are immediately put in escrow for debt service repayments provides a guarantee of repayments. Clauses like this are not uncommon in Chinese loan agreements. Gelpern et al (2021) notes that Chinese contracts are often more elaborate and complicated than the contracts of their peers. These contracts do not only guarantee repayment through the use of the earlier mentioned escrow accounts but also oblige the borrower country not to disclose the contract nor restructure the debt using the Paris Club initiative, offering the country no possibility of debt relief. These complicated contracts can thus be compared to the complex contracts offered by predatory lenders.

Secondly, the choice of Angola is not a coincidental one. As mentioned before, Angola had oil but needed to rebuilt its country and China needed oil and had big construction companies. Although this match is the responsibility of both parties, Angola had little choice in picking its partner. Just after the civil war Angola had declined IMF support due to the required monitoring of their finances. That monitoring would find out corruption in the social spending budget. This left Angola in the vulnerable place with no other option than China. China on the other hand mainly chose Angola for its vast oil reserves. During the civil war, China even actively supported the opposition of the MPLA (Carvalho et al, 2014), showing that Chinese relations with the government were only established from the moment they realized it could be a useful to gain oil. This purposeful choice of picking Angola due to its rich assets is a comparable strategy as predatory lenders use to pick their victim. Added to that, we established that corrupt countries could be compared to an economic unsophisticated victim. Angola has clearly shown signs of corruption, thus completing the predatory lending prey profile. Angola was asset rich in oil, corrupt and had nowhere else to turn.

Lastly and most obviously is the home improvement scheme used by China to bind Angola to increasing amounts of debt. As mentioned before, with every project that was proposed, China provided multiple Chinese companies willing to execute the project. This meant that the only thing Angola had to do is confirm the project and the Chinese companies would execute it and use the money of the Angolan credit line. As a result, with every project the Angolan debt was mounting. The plan was that the money used for the project would trickle down to the population and help economic development in Angola. However since Chinese contractors were used and they employed

Chinese workers, all money flowed back to China. The implemented projects were often insufficiently adapted to local needs and therefore often lacked impact. Again the Kilamba project is an example, a complete new city is built where no Angolan can afford to live. The money used to built the project has already flowed back to China but the debt is still in Angola. Providing loans for unnecessary construction jobs is a typical predatory lender tactic called a home improvement scheme. Predatory lenders also often suggest a construction company who executes the project, receiving a part of the commission from the construction company. These home improvement schemes can be compared to the Chinese home improvement scheme, China provides the loan and a contractor, ensuring that the money flows back to China while the borrower country is left with the debt and an unnecessary construction.

In the end it can be said that China used predatory lending practices in Angola. It found a vulnerable, economic unsophisticated but asset rich country which had little other lending options. The complex contracts ensured that China was ensured repayments. The home improvement schemes created the accumulation of debt but simultaneously ensuring the flow of money back to China. Chinese loans left the Angolan economy worse off than before due to their increased dependency on oil, trapping them in debt. Meanwhile China profits by stripping Angola of its oil assets with minimal risks. The predatory lending techniques China used in Angola are: home improvement scheme, targeting an asset rich borrower and stripping assets. Since little is known regarding the considerations and negotiations between China and Angola, one cannot say whether income deception was used. However considering the exorbitant loan commitments and the fact that our society is dependent on oil, it is not inconceivable some form of income deception was used to convince Angola to accept bigger loans. Since no evidence of this is found, we conclude that predatory lending practices not found in Angola are income deception and loan flipping.

5.2 Kenya

Kenya is due to multiple reasons an interesting case to further elaborate on. The country is at the moment of writing deeply indebted and Kenyans are unhappy with the government's debt behaviour (Mureithi, 2021). This unhappiness has erupted into protests among the population (Wangari, 2021). However the country is not strategically situated and is not known for its vast natural resources (Sanghi & Johnson, 2016; ZiroMwatela & Changfeng, 2016).

Between 2001 and 2019, Kenya has accumulated a total of 9175 million USD of debt commitment from China. Here again a sharp rise can be seen in figure 5 in 2014 when Kenya received a loan commitment of 3700 million USD from China. Chinese debt constitute 66% of the total bilateral debt of Kenya (Were, 2018) and 27% of Kenyan total debt (Brautigam et al,2020). Despite the low interest rates China has asked over these loans (Warui, 2010), debt service to China consists of 38% of all debt service in 2020 (Brautigam et al,2020).

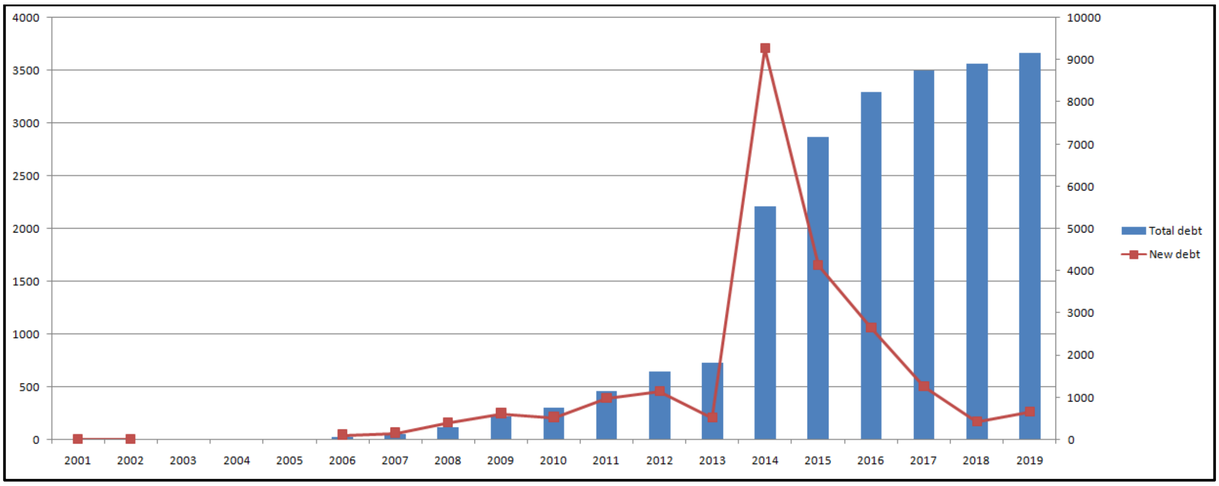

Figure 5: Kenyan debt commitments by China. Source: SAIS-CARI dataset, 2019.

Establishment of the loan relations

Infrastructure development was sorely needed in Kenya. According to Onjala (2018), more than half of the Kenyan roads were in a poor condition and resulted in big regional disparities. The road infrastructure development would result in a positive effect for the long-term growth of Kenya (Onjala, 2018). To acquire loans to invest in their infrastructure, Kenya sought out debt with multiple different countries (Were, 2018). However Kenya did not only require the investments, it also required companies which could implement and upgrade existing infrastructure. Many Kenyan companies lacked the skills to built the infrastructure (Hope, 2010).

The relations between China and Kenya started around 2006 when the Chinese EXIM bank started providing credit to Kenya in order to meet the demand in infrastructure investments (Sanghi & Johnson, 2016). Traditional donors and investors purposefully stayed away from the infrastructure sector in Kenya due to its high levels of corruption and risks. Musyoki (2018) revealed that for more than half of the infrastructure cases in Kenya negative governmental factors like corruption, embezzlement or nepotism is involved. He also revealed that sometimes up to a third of the projects are never realized. To convince Chinese contractors to accept these jobs, the EXIM bank also provided them with cheap capital to bid on the large infrastructure projects (Sanghi & Johnson, 2016). As a consequence, Chinese companies became heavily involved in Kenyan infrastructure development, implementing for billions of USD worth of roads even without the Standard Gauge Railway project (Sanghi & Johnson, 2016). Not only were these companies meant to built the infrastructure, they were also meant to transfer knowledge and skills over to the local population. This way, Kenyans would be equipped to maintain and operate the infrastructure by themselves in the future (Moss, 2015). In addition and in order to further improve the relationship between the countries, China provides a scholarship for 100 Kenyans to study in Chinese universities (Warui, 2010). Kenya therefore not only benefitted from the increased infrastructure development but also from the increased education level and skilled workers in the population.

The infrastructure projects built by Chinese companies used finance from the credit line provided by the EXIM bank for Kenya (Sanghi & Johnson, 2016). Finance flows directly from the EXIM bank to the Chinese contractors and the Kenyan government authorizes the contract and agrees to be responsible for the repayment of the loan. The contracts are set up this way to prevent the embezzlement of funds and corruption (Warui, 2010). Due to the extent of projects China became by far the biggest lender to Kenya (Were, 2018). Contrary to many other loans in Africa, loans to Kenya were not often resource backed (Brautigam et al, 2020). The explanations of the Chinese motivations in therefore Kenya differ. The first explanation is provided by Warui (2010) and complimented by Moss (2015), who argue that Kenya is the ideal location to start a regional base on the African continent. He explains that Kenya is a relatively politically stable country and therefore safe to establish the base. China provides favourable loans, helps built hospitals and schools. In addition China gave Kenya Airways landing rights in Chinese cities (Moss, 2015). All these initiatives create a tighter bond between the two countries resulting in a closer relationship and trade treaties. However Warui (2010) points out that the trade between the countries is heavily skewed towards China. The loans therefore seem to be linked to the Chinese goods and services flowing into Kenya. As a result the competitive Chinese businesses drive out the Kenyan businesses. At the same time the better educated and skilled Chinese workers drive out Kenyan employment. This was also partially due to the work culture of the Chinese. Chinese workers are used to longer hours than the Kenyans and have less demand from their employees. Since most businesses became Chinese, it caused less friction for Chinese bosses to employ Chinese workers than Kenyans (Warui, 2010; Wissenback &Wang, 2017) One could infer from his results that Chinese intentions could therefore be to provide loans to establish an economic base in the region where Chinese companies and workers can seek out opportunities.

Another explanation is provided by (ZiroMwatela & Changfeng, 2016), who point out that there seems to be no political, security of trade link between the countries and the fact that Kenya is not resource rich. They also explain that the country is not strategically located for trade towards Europe. However since China imports a large part of their oil from South Sudan and since Kenya borders South Sudan, the country is strategically located for that trade node. Since there is still hostilities between Sudan and South Sudan, Kenya is the only safe route to transport oil from South Sudan to China. This reasoning is reinforced when considering the Chinese emphasis on infrastructure networks combining towards the bordering countries (Moss, 2015; Warui, 2010) but also the focus on the improvement of oil pipelines through the county (Farooq et al, 2018; Warui, 2010; ZiroMwatela & Changfeng, 2016). From these results one could therefore infer that China is using the loans in Kenya to establish a safe passage of the oil from South Sudan to China.

However the Kenyan population had a negative opinion of the Chinese. They associate them with racism and bad construction work but also with the implementation of infrastructure without any environmental impact assessment (Kimari, 2021)

Consequences of the loans

The results of the loans provide mixed results. On the one hand it helps solve the infrastructure and knowledge needs in Kenya, on the other hand Chinese companies and workers drive the Kenyans out of the market (Warui, 2010). Despite these claims, the Kenyan economy has grown in recent years. In figure 6 it is visible that the Kenyan GDP has risen steadily. However this growth is also paired with a steady rise in total debt stock and especially in recent years the debt service is ballooning. This ballooning debt service payments can potentially offset and impede the growth made in the GDP. Kenya thus possibly does not benefit from the investments made with the loans, since the additional profits are used to service the debts.

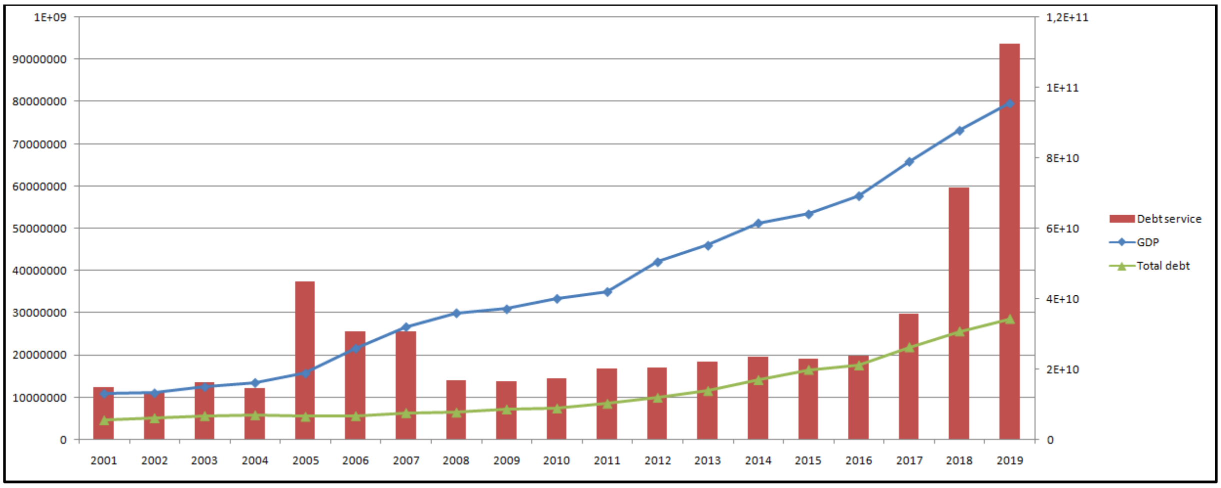

Figure 6: Kenyan debt levels, debt service payments and GDP yearly. Source: SAIS-CARI dataset, 2019. World Bank debt statistics dataset, 2019.

An example of the mixed results provided by the Chinese loans in Kenya is the controversial Standard Gauge Railway (SGR) project which has been completed in 2017, which has been the main cause of the ballooning debt service payments in 2020 (Brautigam et al, 2020). The 580 kilometre long railway would connect the capital of Nairobi with the Indian Ocean at the port in Mombasa (Wissenbach & Wang, 2017). The project would further connect the capital with neighbouring countries but this has met with reluctance (Taylor, 2020). The project was financed for 90% by the Chinese EXIM bank providing credit to Kenya but was implemented by a Chinese construction company (Sanghi & Johnson, 2016). To guarantee repayments for this mega project, China inserted a clause in the contract that the revenue from the railway would be put in an escrow account for debt service payments (Onjala, 2018). However if these revenues would not be sufficient to service the debt, the Kenyan Railway Development levy revenue was used. This levy is a tax of 1,5 % on all imports to Kenya collected by the Kenya Port Authority (Brautigam et al, 2020). These clauses are understandable considering the fact that the viability of the railway was in question from the beginning (Taylor, 2020). Multiple reports stated that the implementation of the SGR would not make economic sense (Otele, 2021) The feasibility report of the World Bank Africa Transport Unit estimated that 14,4 million tons of freight traffic was to be transported in 2030, but that the SGR was only viable from 55,2 million tons (Taylor, 2020). However these reports were dismissed and the Chinese construction company was allowed to perform a feasibility study by itself which claimed the line would be “highly profitable” without backing those claim up in the projections (Taylor, 2020). Despite these claims, the operation of the SGR resulted in massive losses for the Kenyan government. By mid-2020 it had amassed a total of 200 million USD of losses for the Kenyan government (Otele, 2021). Curiously enough, Tanzania is planning on building an electric railway of about the same length, twice the speed but at half the costs of the Kenyan railway (Were, 2018).

Wissenbach & Wang (2017), found that in the construction of the SGR, most Chinese workers were engineers and management staff while most unskilled labourers were Kenyans. This provided many frictions between employees and employers. As a consequence, the Kenyan population had a negative opinion of the Chinese. They started to associate them with racism and bad construction work but also with the implementation of infrastructure without any environmental impact assessment (Kimari, 2021). This is because during the construction process of the SGR, little attention was paid to the environmental impact assessment and priority seems to have been given to achieve the completion of the project as soon as possible (Wissenbach & Wang, 2017). This despite the considerable environmental impact the SGR has (Nyumba et al, 2021). In addition, the acquisition of land resulted in an unhappy population because many owners believed their land should be valued higher than they actually did. They could appeal for this in court but in the mean time the construction of the railway continued and the budget allocation is not sufficient for the resettlement that is fair (Wissenbach & Wang, 2017; Irandu & Owilla, 2020)

The construction and operation of the railway has also had some positive benefits. Around the stations local consumption has increased and as a consequence shops and banks have been opened (Wissenbach & Wang, 2017). The project has provided jobs during the construction for around 20.000 Kenyans (Wissenbach & Wang, 2017). The employed Kenyans also received on the job trainings from the Chinese (Zhao, 2020). In total it is estimated that around 15.000 Kenyans received this training (Irandu & Owilla, 2020). After the completion of the project it has generated around 27.000 new jobs around the stations (Zhu et al, 2020).

The Standard Gauge Railway has certainly shown some improvements in the form of jobs, training and accessibility, but it has also come with significant downsides. The railway is not profitable and some reports suggest it will take a long time before it becomes profitable. In the meantime an import tax needs to be levied, making Kenya less attractive to trade with. Tension between the Chinese and the Kenyan population has increased and the livelihood of some Kenyans has been destroyed.

Comparison with predatory lenders

When comparing the Kenyan-China loan deals and practices with the predatory lending behaviour, one could observe some similarities. Contrary to most Chinese-African loan deals there are few resource-backed loans, mostly because Kenya is not a resource rich country. China can thus hardly be accused of stripping Kenya of its resources. However, China can be accused of using a home improvement scheme, possibly deceit through their feasibility report and keeping down the little guy.

As is often the case with Chinese loans to African countries, the infrastructure loan agreements are tied to Chinese contractors executing the project. Loans Kenya received for the SGR and other infrastructure projects were also tied to the Chinese contractors. By tying the loan agreements to their own contractors, China gains work for their companies, improving their own economy and simultaneously they gain the interests from the loans. This is a comparable practice as the home improvement schemes often used in predatory lenders, where the lenders are willing to provide a bigger loan when contractors are used they suggest.

The second observable predatory lending phenomenon is hard to prove but there are signs of income deception. With income deception the predatory lender purposefully paints a picture of a bright future for the borrower, coercing them into taking in a bigger loan they can realistically sustain. Though this can hardly be proven, hints towards this behaviour can be found with the SGR feasibility report. The construction company conducted a research after the feasibility of the SGR economic viability, providing a bright picture of its future and claiming high profitability. However contemporary and later reports showed that this report contained flaws and that the SGR made no economic sense. Nevertheless on the basis of this feasibility report the Kenyan government accepted the loan and the project was executed. The SGR ended up making massive losses and thus one could argue that the feasibility report produced by the Chinese contractor was a form of income deception.

The last observable predatory lending phenomenon is “keeping down the little guy”. Keeping down the little guy constitutes lending to a borrower who can expand his production with the investments, but asking an interest rate which offsets the additional profits. This way, the “little guy” has to increased efforts to maintain the higher revenue streams but no bigger profit, since this is used to repay the debts. In such a way, the little guy is worse off than before the loan: he has to double his efforts but gains no monetary benefit. This phenomenon can be found back in the Chinese-Kenyan loan relations. As was seen in figure 6, Kenya’s GDP increased after the loans provided by China. This would constitute an increased production and increased revenues. However simultaneously the debt increased and the debt services as well. The increased profits are therefore likely to be used for debt service payments. This way, China profits from the increased efforts of the Kenyans.

In the end one could argue that China used some predatory lending practices. It seemed to have used some deceitful practices to lure Kenya in bigger loans than they could sustain. This resulted in Kenya increasing its GDP but in reality remaining stagnant due to the increasing debt service payments. Even though economic indicators might display a better economy, in reality Kenya is collapsing under its debt. Predatory lending practices found in Kenya are: home improvement schemes, income deception and ‘keeping down the little guy’. There seems no indication of loan flipping or asset stripping or targeting.

5.3 South Africa

As the country with one of the biggest economies in Sub-Saharan Africa (DATASET), South Africa seems not a typical victim of predatory lending behaviour. It scored low on the previous framework, only scoring points on their debt levels themselves. South Africa should also be able to acquire loans from other countries and is not limited to Chinese loans. Despite that, South Africa has accumulated a total loan commitment of 3857 million USD from China in the period between 2001 and 2019. As is visible in figure 7 the bulk of these commitments, 3630 million USD, has been acquired only recently between 2016 and 2019. This attributed to a sharp rise of 21% of the South African external debt stock in 2017 (World bank, 2019). But what can explain this surge in debt commitments?

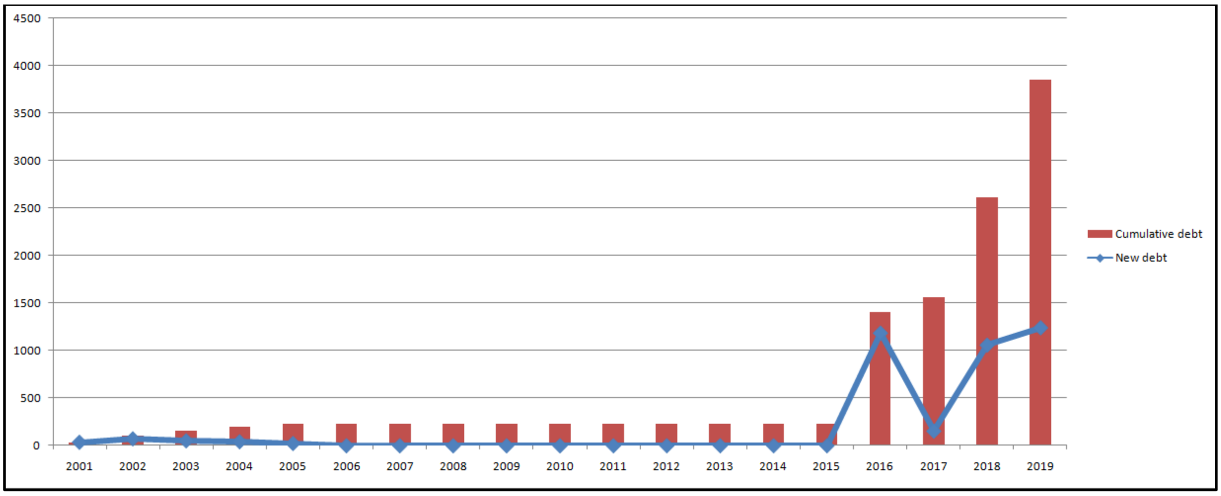

Figure 7: South African debt commitments by China. Source: SAIS-CARI dataset, 2019

Establishment of the loan relations

Due to the South African apartheid policy, the country has been politically and economically isolated until the abolishment in 1994 (Bell et al, 2018). Therefore after the abolishment the country experienced a growth in trade of up to four times its former volumes (Arora & Vamvakidis, 2005). This resulted in an economic boom, especially during the 2000s when it was combined with the higher commodity prices and the liberalization of the economy (Bell et al, 2018). However since 2011 the South African started to decline (Masipa, 2018). The economy had strongly been growing in anticipation of the 2010 soccer World Cup. However after the World Cup they could not sustain their economic growth (Bell et al, 2018).

The South African opinion of China is very mixed. In 2001 the South African president Mbeki stated that China could help with the realization of an African Renaissance and thus help their economy (Mlambo et al, 2016). However in 2013 the South African president Zuma said that the trade relationship between China and South Africa is unsustainable (Mlambo et al, 2016). He stated this because he believes the Chinese know exactly what they seek in the relationship, but South Africa does not. According to him, China has developed a mean and method to extract their desires from Africa. This change in opinion can be the consequence of the decline in the South African textile industry due to Chinese imports.

From the ascension of China into the WTO, Chinese textile exporters have outcompeted local African companies (Looy, 2006). The influx of Chinese imports have had a clear negative impact on the countries producers (Pigato & Tang, 2015). The textile imports ruined an estimated 60.000 South African jobs (Mlambo et al, 2016) and 800 firms (Alden & Davies, 2006). This is part of the Chinese strategy to target high population countries when exporting their low-value commodities. As a consequence, Chinese companies have destroyed the South African textile industry by acquiring 86% of the South African market share (Looy, 2006). South Africa thus rightfully accused China for destroying their textile industry (Mlambo et al, 2016). China therefore seems an even more unlikely country South Africa would borrow from.

But as Watermeyer & Phillips (2020) stated, another South African sector has been in a sharp decline. After the soccer World Cup, large South African construction companies had bloated their overhead due to the boom caused by the World Cup. This caused them troubles in the next economic downturn, forcing them to shrink. These shrinkages are hard to reverse. Since the construction sector is one of the most important sectors in South Africa, this constitutes a problem for the South African economy (Bell et al, 2018; Masipa, 2018). South Africa is another African country in desperate need for infrastructure investments. According to the South African government the lack of infrastructure is hindering economic development. However they also stated that they did not have the budget to increase their spending on infrastructure (Makhathini et al, 2020).

This need in infrastructure and financial aid might have driven South Africa towards Chinese loan agreements. South African loan commitments exist mainly of credit for infrastructure and energy development (SAIS-CARI, 2021). Like other African countries, South Africa is beginning to rely on Chinese money for their lack of budget for infrastructure development. Whether these loans are resource-backed is unknown. China has always been interested in providing loans to South Africa, as China views South Africa as the future place to invest (Alden, 2012). South Africa is one of the more developed and western oriented countries in Sub Saharan Africa (Grey 2006). In addition, the country processes significant diamond and gold deposits (Antin, 2013), which is the focus of Chinese economic interests (Looy, 2006). South Africa is therefore the top destination for Chinese investments (Pigato & Tang, 2015).

With the increased intensity of Chinese loans to South Africa, a shift can be observed from countries with a high debt sustainability risk, like Angola, to countries with a safer debt sustainability risk, like South Africa. This shift of Chinese result in fewer debt restructuring needs, since countries like South Africa and Nigeria did not require any debt restructuring in the period between 2010 and 2019 while Angola, Zambia and Kenya did (Acker & Brautigam, 2021). This move seems to be a move towards more commercial lending focussed on bigger economies in Africa. This provides a lower risk for China since these countries do not struggle with debt sustainability. It is however interesting to note that the outlook for South Africa is worsening (Acker & Brautigam, 2021), as can be seen in figure 8. However, whether this meant that China focuses more heavily on South Africa or South Africa approached China for loans is uncertain.

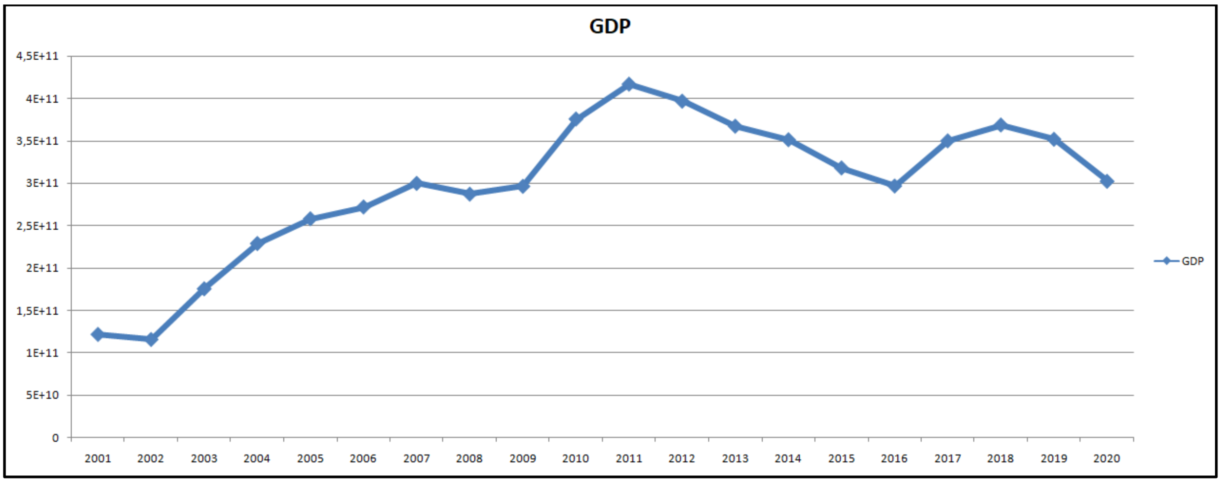

Figure 8: South African GDP. Source: World Bank debt statistics dataset, 2019.

The second reason China is increasing its focus on South Africa is due to the market potential. As mentioned earlier, Chinese companies can profit from the high South African population and target their consumer goods (Looy, 2006). In addition, China is known for using the African markets as a testing ground for their companies (Jedlowski & Röschenthaler, 2017). The Chinese government encouraged their companies to first become acquainted with doing business in foreign countries in African countries. Investing in Africa is cheaper and the margins are higher than in China or Western countries (Bell et al, 2018), thus the success rate is higher and in case of a failure the loss is low. This was already visible in the influx of Chinese exports in the South African market (Looy, 2006). Other examples are Chinese telecom and television companies like StarTimes, Huawei and ZTE (Jedlowski & Röschenthaler, 2017). After the successful establishment of these companies in the emerging markets they will move towards Western markets (Drahokoupil, 2017). For this practice of testing products and companies South Africa provides a double benefit: the country contains a large population and is westernized. The companies can thus both market their products to a large population, gaining profit from them. Subsequently the barriers and adaptations required to enter the Western market is lower.

Comparison with predatory lenders

Due to the recent surge of debt commitments from China to South Africa, little can be said about the consequence of the loans. In addition, it is hard to make any claims whether predatory lending is taking place. Chinese loans are also increasingly hidden from the public eye, since more and more contracts contain a confidentiality clause (Gelpern et al, 2021).

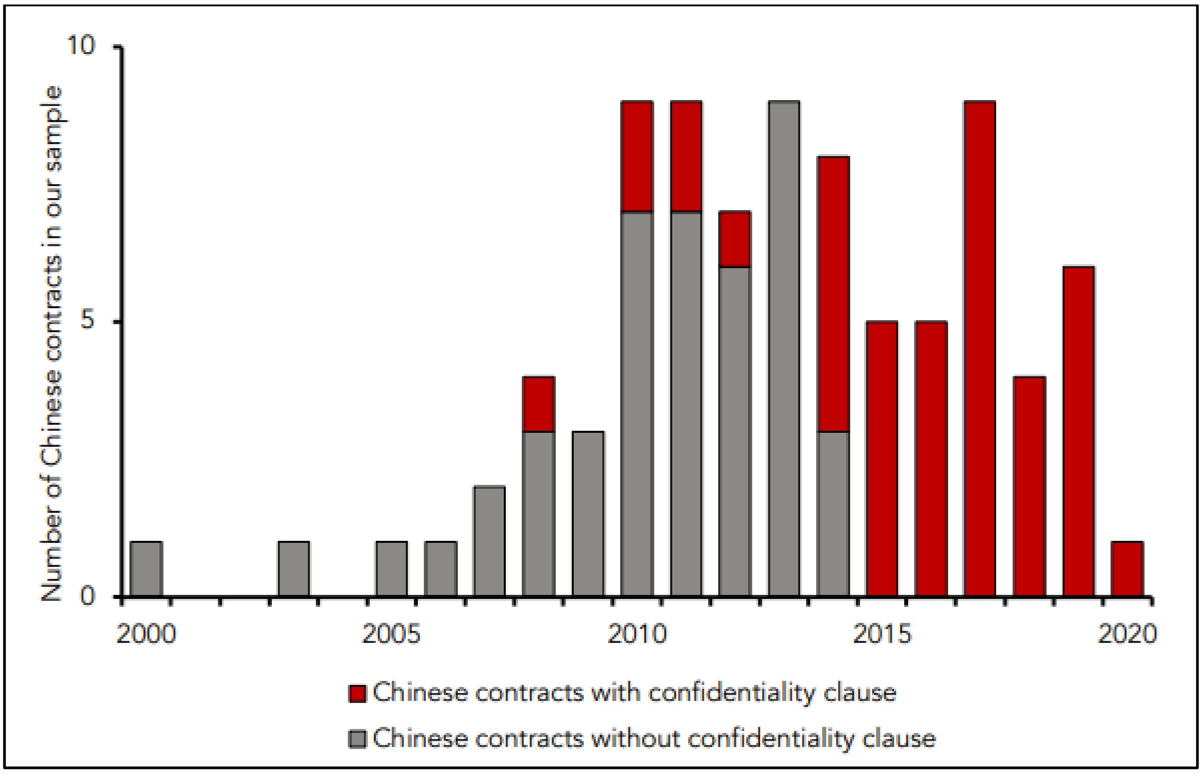

Figure 9: Confidentiality clauses in Chinese loan agreements Source: Gelpern et al, page 24 (2021)

However, a Chinese pattern can be observed. China lends money to every country willing to accept their terms, which are none. This enticed many countries to accept these loans over IMF, World Bank or other multilateral loans. Especially the countries who themselves have been turned away by these lenders, due to different reasons, see an opportunity to secure cheap loans with little consequences. However due to the many intricate details and complex clauses, China secures repayments of the loans one way or another. Whether the consequences clauses are understood and ignored or unknown is uncertain, but the consequences are regardless the same. The country often waives their rights to sovereign courts and the claim of debt restructuring through the Paris Club or other collective restructuring agreements (Gelpern et al, 2021). In addition China is allowed to terminate the agreement and demand full repayment if the borrower defaults on other loans (Usman, 2021). In return, China sends its own companies, who prefer Chinese employees, to complete the, regularly unfeasible, projects for the borrowing country and the borrowed money flows back to China. The borrowing country is left with the same economic instability, albeit with a brand new excessive infrastructure project, and has little options to repay their loans. They either repay through natural resources or levy harsher taxes on their population. Meanwhile Chinese companies have tested their products on foreign markets and received valuable experiences, making them ready to market their products on Western markets.

South Africa seems to be at the beginning of this pattern, the country is in economic decline and seeks investments to turn this trend around. For a predatory lender, this would be the ideal moment to step in. The predatory lender would seduce the borrower with good deals and lofty promises of help and project a bright future when working together. Similarly, China seems eager to step in and lend money to South Africa. As mentioned before, South Africa has always been a prime target of Chinese investments and now the opportune moment to be there. China might thus seduce South Africa into loans by advertising Sino-African unity. However lending money to South-Africa might be solely to either gain some natural resources, asset stripping, or take advantage of the large westernized South African market. It would therefore show similarities to predatory lenders. China would use their old and tested tricks on a bigger country like South Africa in the hopes to gain better profits. In addition they would benefit by provoking less international scrutiny, since South Africa seems a less obvious victim to a debt trap. However this is speculation. South Africa might be at the beginning of a pattern of Chinese behaviour which bares similarities to predatory lending. There are already similarities between the other countries beginning of loan relations and South African loan relations. However it is currently hard to research what the loans have been used for exactly. Therefore to state that similar outcomes will occur is too early to tell. This will be hard to research due to the increased secrecy in the loan agreements. Despite that, future developments should be kept an eye on to see whether the pattern subsists.

6. Discussion

6.1 Results

From the results one could conclude China is using predatory lending techniques in Sub Saharan Africa. Countries borrowing heavily from China bear similarities with typical predatory lending borrowers. Not only that but also the techniques employed by China to benefit from the loan agreements bear similarities with predatory lending techniques, as can be seen in table 2. Most of Chinese loan agreements are package deals with their Chinese contractors. These bear high similarities with the predatory lending home improvement schemes. The construction is might not be bad, but is often insufficiently adapted to the local context. Development projects are too big, unfeasible to sustain or lack an environmental impact assessment. Chinese contractors have been reported to inflate the feasibility of projects, convincing the borrowing country to accept the bigger loans. This bear a similarity to the income deception tactic. The fact that the Chinese companies use the Chinese credit lines directly is suspiciously like the setup of predatory lending home improvement schemes, where contractors receive money directly from the predatory lender.

The results of the loans are different. In the example of Angola the loans resulted in negative consequences. Considering the increasing debt service and the decreasing oil price and production the country is likely to fall into debt distress or even default on its loans. For Kenya the loans resulted in an increase of the GDP, showing a positive effect on the country’s economy. However when considering the increased debt and increasing debt service payments one could see a similarity between the debt trap described by Liu & Roth (2016).

	Angola	Kenya	South Africa
Targeting borrower	Yes	Yes	Yes
Home improvement scheme	Yes	Yes	No
Income deception	Yes	Yes	No
Keeping down the little guy	No	Yes	No
Loan flipping	No	No	No

Table 2: Predatory lending techniques found in the in-depth research. Source: Author

However despite the similarities between Chinese lending to African countries and predatory lending, it should be noted that African countries are no innocent victims. As earlier noted by Were (2018), African countries also actively seek out Chinese loans. This does not fully absolves China from any blame. In a situation where an economically struggling country, to which it likely not smart to provide a loan, is asking for a loan, who is to responsible? Do you hold the country for asking for more money, even though it knows it cannot sustain the debt, responsible? Or do you blame the country providing the country with a new loan? As McCoy (2005) explains, predatory lending borrowers do not always behave rationally and are susceptible to deception. It is thus entirely possible that the African countries approached China, who subsequently deceived the countries in order to gain the maximum profit. The Chinese can thus still be blamed for predatory lending practices even though the African countries approached them. This question opens up an entire new debate for future research.

The results of this research paint a bleak picture for future borrowers from China. It displays how other borrowers are possibly deceived by the Chinese and how the loans can result in a negative spiral for the borrowing country. It can therefore serve as a warning for countries interested in borrowing money from China. Due to the recent surge in Chinese loan commitments to South Africa it is possible South Africa will be the next country following the Chinese predatory lending pattern. This research can show as a guideline which tactics and behaviour to look out for.

The research has failed to find any loan flipping behaviour in Chinese lending practices. China can therefore not be accused of purposefully restructuring loans in a manner beneficial to China. The fact that loan flipping is not found can be simply because it has not occurred, but also due to other reasons. Loan restructuring is rarely discussed or researched, it can therefore be undetectable unless deliberately researched. Other possibilities are that it is too early to discuss loan flipping because it has not occurred yet, the influence of the COVID-19 pandemic can propose an interesting change in this. The economic consequences might trigger loan restructuring.

Another important thing to consider is that assumption that China is attempting to improve the world and help these African countries, but their attempt just fails. As explained before, China encourages its companies and population to test their products on the African markets to gain experience before going to the Western markets. This means that even with the best intentions for the borrowing country, the Chinese send their inexperienced or new companies to the African countries. These companies mainly know the Chinese standards and systems. Trying to implement these in the African countries can cause friction and might be incompatible. This is bound to end up in a few mistakes, think of employment friction resulting in mainly Chinese labourers or incompatible Chinese roads connected to old colonial western roads. These mistakes can result in the recipient countries in a situation worse off than before the loan. Thus even if China is doing its best to help the African countries, the incompatibility or inexperience of Chinese help may negatively affect the borrowing country. The wrong interpretation of this picture can be the result of a wrong diagnosis of the debt trap or predatory lending narrative. This should especially be kept in mind since the results of the Chinese loans are still unfolding. Despite these early setbacks it is entirely possible that the economies of the borrowing countries can turn around or that the Chinese will be more forgiving with their loans than anticipated, despite their waiver clauses. The last reason this research ends with a negative conclusion is the fact that negative consequences are more often researched than positive. As becomes clear from the extensive media attention and the extensive research on the Sri Lankan Hambantota port, bad news sells better than good news. It is therefore entirely possible that there are numerous cases where Chinese loans have benefitted the African population but these are less researched.

6.2 Methods

In this research I used two methods to answer the main question. The first method was a point system which allowed me to rank countries based on the amount of points they scored. If a country would have worse statistics in a certain category than their peers, this country would score a point as it indicates they would be more likely to accept a loan from a predatory lender. This method was used since it provided an opportunity to compare multiple different statistics from a large dataset without resulting in a complicated output. This way, the point system would provide a better overview and would be less time consuming than making a country profile of all the candidate countries. I also tested whether a cut off of 25% of the loan commitment would result into different result, but most countries scored the same amount of points. I however remained with the 33% cut-off because after the commitment of the loan, the recipient country does not have the entire loan amount. They received the commitment to withdraw that amount of money from China. Before all this money is withdrawn and spend, multiple years have passed. Development has thus not taken place yet as soon as the commitment is started. The 25% cut-off would therefore be too soon to notice any impacts from the debt commitment.

The method is also susceptible to certain flaws. Often the average of all Sub-Saharan countries is used to calculate whether a country scores a point. However, this does not take into account the country's size or population. Smaller countries would be less likely to score points since their total external debt stock or debt service payments are likely to be lower than average, even if their debt per capita might be above average. This is however an acceptable fault to the framework as a predatory lender would not be interested in borrowers which have little assets since it requires more efforts than the profits might be. Small countries are thus likely generate smaller profits and less interesting for predatory lenders. Meanwhile big countries are likely to contain more assets, whether they be natural resources or a large market to exploit, and will consequently generate better returns.

The second part consisted of the in-depth research. Preferably, all sub Saharan countries would be researched in-depth to provide a better conclusion to the main question. However, to research the loan relations of all Sub Saharan African countries with China would be too ambitious. Therefore I picked three widely different countries to get a representative sample while keeping the research realistic. This does provide a small sampling bias, since other countries would provide different results. The cases used vary differently and it is possible that if similar countries are picked a better pattern can emerge. Yet, picking similar countries would provide the suspicion that these countries are selected to form the pattern which is why further research is required. In addition, it is likely that the predatory lender adapts its techniques based on the borrower. This means that patterns are hard to recognize but also that an overview of the different techniques is more valuable than a pattern, for the framework would cover a broader range of predatory lending behaviour. Therefore, even though pattern recognition is hard, I chose to pick widely different countries which provides a more complete picture of possible predatory lending techniques than picking similar countries. Further research using this framework and different countries could be conducted to further test the framework.

I therefore also suggest that further research continues to use a predatory lending framework rather than the debt trap narrative. As becomes clear from in the conceptual framework, the debt trap narrative is easily disproven but the predatory lending framework has merit. The debt trap narrative is too narrow, focussing mainly on the seizure of strategic assets, while the predatory lending framework argues that the lender is focussed on slowly stripping the borrower of assets. Since the seizure of assets is a rare occurrence in the international lending market, the debt trap narrative is easily disproven. Therefore, the slow seizure of assets from the predatory lending framework is more suitable to assess Chinese lending behaviour in Sub Saharan Africa. In addition, whereas the debt trap narrative solely focuses on the outcome of the loan agreements, the predatory lending framework also assess the motivation and the establishment of the loan agreement. This is important as we have seen that the establishment of the loan agreement can transpire in abusive manners. By profiting from the lack of alternatives or by using seduction techniques the borrower often willingly accepts the loans, seeing it as the best and possibly only option. However, often the borrower only realizes the abusive terms after signing the deal or faces further terms. The establishment of the loan is therefore as important as the consequences of the loan when looking at the Chinese lending behaviour in Sub-Sahara Africa. The predatory lending framework covers all three aspects of the loan, motivation, establishment and consequences, while accounting for a long and slow seizure of assets. It is therefore a better framework to use than the debt trap narrative which mainly focuses on the consequences of the loan and quick and big seizure of strategic assets.

Further research could focus on different countries or for example keep track of South Africa. This research could develop a more precise framework around the predatory lending narrative. As mentioned before, future research could focus on the responsibility of the loans. Should China be held accountable for providing unsustainable loans or should the borrowing country be blamed? Another focus future research can have is the comparison of Chinese loans to other loans, for example World Bank, IMF or Western lenders. The current research only focuses on the Chinese loans but the Western World is not free of blame when considering the African economic situation. Maybe the practices described are normal in the world of international lending. However the increased secrecy behind the Chinese loan agreements will make future research regarding this topic limited. Researchers will mainly be able to discuss the results of the loan and provide little evidence of the actual contents or intentions of the agreements.

7. Conclusions

This research sought to find out whether China could be accused of purposefully indebting Sub Saharan African countries in order to gain the maximum profits. The research established that China is accused of two different practices, employing a debt trap and predatory lending. The debt trap narrative is often disproven since China is rarely demanding territorial concessions from the indebted country. Despite this scientific resistance against the debt trap narrative, it still lives strongly in media articles. However the predatory lending accusation has received little attention, while displaying a suspicious similarity to Chinese lending. A framework was therefore built to translate traditional mortgage predatory lending in a country context. From this framework a group of countries emerged which seem susceptible to predatory lending. This group of countries is similar to the countries China borrows heavily to. A further in-depth research on a selection of countries from this framework, found multiple similar tactics are being deployed as predatory lenders use to extract money from their borrowers. Since both the Chinese borrowers and the Chinese tactics share similarities to predatory lending, it can be concluded that China is using predatory lending tactics on Sub Saharan African countries. With that conclusion, we can say that Chinese lending behavior share similarities to predatory lending techniques.

One of the main tactics used by China is the home improvement scheme. Projects financed by Chinese loans are often obliged to employ Chinese contractors. The contractors prefer Chinese employees due to cultural and educational differences, resulting in little employment benefit for the local population during the realization of the project. The Chinese contractors receive money directly from the Chinese financers, similar to the predatory lending practices. The projects implemented are often according to Chinese regulations and sizes, thus rarely adapted to the local context. This incompatibility results in a mega projects which fail to provide a benefit to the local population. The borrowing country thus ends up with a development running a loss, like expensive housing or railway lines, and a debt for which they have little means of repayment. Meanwhile most of the money has already flowed back to China through the construction companies and Chinese employees.

8. Resources

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Appendix 1

Full result of the point system

Country	Total loan commitments from China		Points
Angola	$	42.619,38	5
Congo, Dem. Rep.	$	2.686,32	5
Ethiopia	$	13.729,23	5
Nigeria	$	6.731,73	5
Chad	$	769,72	4
Cote d'Ivoire	$	3.721,83	4
Gabon	$	1.680,87	4
Guinea	$	2.119,86	4
Guinea-Bissau	$	-	4
Burundi	$	107,32	3
Cameroon	$	6.201,79	3
Congo, Rep.	$	5.390,30	3
Equatorial Guinea	$	3.019,69	3
Kenya	$	9.175,22	3
Niger	$	699,22	3
South Sudan	$	406,80	3
Sudan	$	6.169,33	3
Tanzania	$	2.074,31	3
Zambia	$	9.848,34	3
Benin	$	691,05	2
Burkina Faso	$	77,35	2
Central African Republic	$	70,52	2
Comoros	$	122,73	2
Ghana	$	4.811,48	2
Liberia	$	55,00	2
Malawi	$	261,92	2
Mali	$	790,19	2
Mauritania	$	518,62	2
Mozambique	$	2.292,67	2
Senegal	$	1.929,85	2
Seychelles	$	34,24	2
Sierra Leone	$	92,91	2
South Africa	$	3.856,80	2
Togo	$	693,61	2
Uganda	$	3.124,89	2
Zimbabwe	$	2.961,88	2
Cabo Verde	$	48,19	1
Eritrea	$	631,67	1
Gambia, The	$	25,00	1
Lesotho	$	123,49	1
Rwanda	$	413,32	1
Somalia	$	-	1
Botswana	$	931,12	0
Eswatini	$	-	0
Madagascar	$	418,69	0
Mauritius	$	568,96	0
Namibia	$	489,27	0
Sao Tome and Principe	$	-	0

Source: IMF, 2014. SAIS-CARI dataset, 2019. World Bank debt statistics dataset, 2019.