SCHOOL OF ECONOMICS AND MANAGEMENT

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Cath-up and Capabilities: Resource-for-Infrastructure Loans, Economic Transformation and Catch-Up Growth in Angola

By

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Abstract:

This thesis explores the implications of Chinese Resource-for-Infrastructure (RFI) loans on Angola's economic transformation and catch-up through the lens of social capabilities theory. Initiated in 2004, the "Angola Model" involved RFI loans primarily supported by oil exports to China in return for infrastructure construction. Despite substantial infrastructure inputs, the expected economic diversification in Angola's economy has been limited. This study evaluates how these loans align with transformation, inclusion, autonomy, and accountability within Angola's socio-economic framework. Findings indicate limited sector-specific growth, persistent oil dependency, and widespread wealth distribution inequity. This research highlights the need for more effective governance and targeted development policies to ensure equitable growth amidst decreasing Chinese investments.

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1 Introduction

Over the last two decades, China's economic presence in Africa has grown significantly, marking an important shift in the continent's economic landscape (van Dijk, 2009). Angola is an important example of this transformation. The introduction of an oil-backed resource-for-infrastructure (RFI) loan agreement in 2004, known as the 'Angola Model,' has since its introduction challenged the traditional concept of development aid and international cooperation (Martuscelli, 2020; Ndinga-Muvumba & Corkin, 2009). These RFI loans were introduced with several objectives in mind: to supply China with high-demand raw materials, establish geo-political ties, and catalyze structural transformation in Angola through investments in infrastructure (Machado, 2021). An overarching goal was also to facilitate economic catch-up—a process where developing economies' productivity grows at a faster pace than developed ones, thereby reducing global income disparities (Abramovitz, 1986). This strategic financial corporation was designed to leverage Angola's natural resources in exchange for infrastructure development, aiming to enhance the country's economic diversification and integration into the global economy (Halland et al., 2014). Since the first RFI loan was introduced, different variations of oil-backed lending have been extended from China to Angola. Some are resource-backed loans where payments are secured against the net present value of future oil revenue streams, and others are paid in oil (Halland, 2014; Jureńczyk, 2020). In this thesis, the term RFI will be used to encompass both.

With a population of 35.5 million, Angola ranks among Sub-Saharan Africa's top ten economies by GDP per capita, rising from USD 556 in 2000 to USD 3000 in 2022 (World Bank, 2022). This economic growth has been partly fueled by increased Chinese demand for raw materials, notably Angola's petroleum, which constituted 98.9% of Angola's exports in 2021 (Chen, Fornino & Rawlings, 2024; WTO, 2023). Despite substantial GDP growth, Angola's economy faces challenges from low commodity prices and heavy reliance on oil, impacting its economic diversification and integration into global value chains (China Africa Research Initiative, 2024; UNCTAD, n.d.; World Bank, 2022; Chen, Fornino & Rawlings, 2024).

Recent decreases in the volume of loans and investments from China have partially been attributed to the COVID-19 pandemic and concerns regarding debt sustainability, but it also signals a potential shift in China's approach to economic activities in Africa (Chen et al., 2024;

IMF, 2023a). A higher risk aversion from China's side, the IMF (2023a) argues, could be due to an aging population and domestic demographic challenges. They explain how a decline in the GDP growth rate in China, resulting from demographic challenges, can have negative spillover effects on sub-Saharan countries that trade with China, especially if these countries rely heavily on the export of a particular natural resource, such as Angola's petroleum. The IMF (2023a) claims that deceleration in the volume exported and declining commodity prices can harm the exporting countries' growth rate and economic performance. This dynamic presents a need to assess the impact of Chinese RFI loans on Angola's structural and economic transformation.

The nature of RFI loans has been debated in academic literature, most often by evaluating China's investments' impact and the effects on Angola's social and economic landscape (Machado, 2021). Many highlight socio-economic concerns such as the impact on labor practices, influence on governance, transparency, and debt sustainability (Alves, 2013; Mihalyi et al., 2022; Ogwang & Vanclay, 2021). The impact on poverty and inequality are issues that are also raised (Power, 2012; Ding et al., 2021; Sandrey & Edinger, 2011). Others are focused on whether the trade agreements between China and Angola have perpetuated a resource dependency or whether the RFI-type loans have increased the diversification and structural transformation capacity through infrastructure development (Habiyaremye, 2016). Indeed, this thesis also evaluates the RFI loan framework; however, it does so by reviewing the loans through the perspective of social capabilites theory to identify specific factors that shape the socioeconomic effects of the loans. By adopting this framework, which emphasizes the development of social capabilities as central to understanding economic processes, this thesis offers a nuanced perspective that goes beyond traditional economic analyses and sheds light on the underlying mechanisms that drive the outcomes of RFI loan agreements.

1.1 Aim and Research Question

This thesis aims to examine the Angola Model's RFI approach from its implementation in 2004 to the present, focusing on the role it plays in promoting structural transformation and accelerating catch-up growth in Angola. Despite the loans' substantial financial inputs, the expected economic transformation and development have not been fully realized. Approaching this through the lens of social capabilities theory introduces a unique perspective that has not been explored in existing literature. Therefore, this thesis seeks to analyze the potential reasons for the limited economic transformation and catch-up, offering a structured evaluation of how these loans compare to the four key areas of social capabilities within Angola's socioeconomic context: transformation, inclusion, autonomy, and accountability. Moreover, this thesis will attempt to contribute to a broader understanding of China-Angola relations by assessing the implications RFI loans, as a model of financial cooperation, have on economic transformation and catch-up. This analysis may also provide valuable insights into how similar strategies could affect other resource-rich developing countries, potentially contributing to the discourse on international development finance and its role in promoting sustainable economic growth. Through this approach, the thesis aims to highlight the complex dynamics of international loans and their real impacts on the economic structures of developing nations. Thus, this thesis paper will aim to answer the following research question:

How have China's resource-for-infrastructure loans affected Angola's structural transformation and economic catch-up efforts? What factors have contributed to these outcomes?

1.2 Background

This section provides essential historical background and context to understand the economic relationship between Angola and China by chronologically outlining key developments in the partnership, from Angola's emergence as a significant petro-state to the establishment of the Angola Model.

1.2.1 The Start of Angola as a Petro-State

Corkin (2017) explains how Angola first started on the path towards becoming a petro-state at the beginning of the 20th century when the Portuguese colonial administration first granted oil drilling rights in the Kwanza and Congo Basins. Starting in 1910, the initial progress was slow; however, in 1955, the Belgian oil company Petrofina discovered large reserves south of the capital city of Luanda (Corkin, 2017). This paved the way for the establishment of Fina Petróleos de Angola (Petrangol), where Petrofina partnered with the Angolan government. Corkin (2017) marks his partnership as the beginning of a new era for the Angolan economy, characterized by oil-dominated exports and a shift away from traditional agricultural exports such as coffee. In the period between 1962 and 1968, significant discoveries of oil were made, and by 1973, crude oil was Angola's largest export in terms of value (Corkin, 2017). By 2010, oil production hit a peak of up to 2 million barrels per day, making Angola one of Sub-Saharan

Africa's largest crude oil exporters, solidifying its role as a major player in the global oil market. The civil war period that followed Angola's independence in 1975 further underscored the importance of the oil as it provided vital financial support to the People's Movement for the Liberation of Angola (MPLA) (Meijer & Birmingham, 2004). Most of Angola's oil explorations are done offshore out in the ocean (Chen, Tao & Lu, 2024). The offshore location of major oil production allowed financing throughout the Civil War as these locations were easier to protect from attacks by opposing forces in the war and could fund the MPLA successfully (Corkin, 2017). These sources were also exploited by corporate US interests despite the US' official support for the opposing National Union for the Total Independence of Angola (UNITA) movement (Corkin, 2017; Meijer & Birmingham, 2004).

1.2.2 The Emergence of the Angola-China Partnership

The first formal diplomatic ties between Angola and China date back to 1983 during the Angolan Civil War (Ndinga-Muvumba & Corkin, 2009). At this point, China initially supported UNITA alongside their Cold War adversaries, the United States and South Africa, against the soviet backed MPLA government (Campos & Vines, 2008). This phase of the Angola-China relationship was mostly characterized by ideological and strategic reasoning and the broader Cold War dynamics of the time (Ndinga-Muvumba & Corkin, 2009). However, by the late 1980s and early 1990s, China shifted its foreign policy focus towards economic development and international trade, which was characterized by rapid trade growth (Brender, 1992). This shift laid the foundations for a partnership with Angola that was more focused on economic relations.

In the post-World War II era, Chen, Tao, and Lu (2024) explain how China experienced rapid economic expansion and increased energy demand. They argue that the rapid growth introduced new challenges for China as the gap between domestic oil supply and demand grew, leading to a greater dependence on foreign oil. They identify this gap as a significant bottleneck for China's rapidly growing economy. In 1990, the Chinese president, Jiang Zemin, introduced the country's first "going out" policy, which ultimately encouraged state-owned firms to search for natural resources abroad (Economy, 2010). This initiative resulted in trade between China and resource-rich countries, such as Angola, growing by 600 percent between 2001 and 2007 (Economy, 2010). The evolving economic relationship between China and Angola shows a transformation in Angola's development trajectory and the role Angola plays in the global economy.

1.2.3 The Angola Model: A Turning Point

The nature of the relationship between Angola and China began to transform when China got involved in the post-conflict reconstruction following the end of the Angolan Civil War in 2002 (Ndinga-Muvumba & Corkin, 2009). In 2004, the two pioneered a type of economic partnership that has since come to be known as the 'Angola Model' (Martuscelli, 2020). This model is a type of RFI loan agreement where large Chinese firms carry out infrastructure projects such as railways and road construction, and the recipient country pays back via commodity exports to China (Martuscelli, 2020). The first loan in 2004 was from The Export-Import Bank of China (Exim Bank), which extended an oil-backed credit line of two billion dollars to Angola, with favorable interest rates over 17 years, which was later expanded by one and a half billion dollars in the following three years (Ndinga-Muvumba & Corkin, 2009). The Chinese firms conducting the infrastructure projects were paid 10,000 barrels of oil per day as payment for the loan (Ndinga-Muvumba & Corkin, 2009). The agreement served to aid Angola in the reconstruction process and secure China's growing demand for oil (Jureńczyk, 2020).

The loans provided by China Exim Bank have played a significant role in infrastructure construction in Angola, argues Ndinga-Muvumba and Corkin (2009). They explain how the expansion of infrastructure, particularly in the communications sector, was to drive economic growth in Angola by improving essential infrastructure. However, they note that this bilateral trade agreement favors Chinese companies in Angola and has introduced some concerns regarding job opportunities and labor practices for Angolan workers. The Angola Model marks a critical change in Angola-China relations, which introduced a new way to approach infrastructure deficits through resource-backed loans, a strategy that has both driven development and met some criticism.

1.2.4 The Belt and Road Initiative

In line with Angola's emergence as a petro-state and it's evolving partnership with China, a significant project has been China's Belt and Road Initiative (BRI), introduced by President Xi Jinping in 2013 (Dollar, 2019). This global infrastructure project seeks to increase economic integration and connectivity across Asia, Africa, and Europe, focusing on infrastructure development in energy, telecommunications, and transport (Madeira, Ferreira & Cardoso, 2023). In Africa, this initiative is viewed as a significant opportunity for development, aiming to integrate the continent into a global network that enhances commercial capabilities and regional economic integration through infrastructure construction in transport, power, and water supply, among other sectors (Madeira, Ferreira & Cardoso, 2023). Angola is one of the top borrowers, having taken out loans of 8.1 billion USD per year between the years 2015 and 2017, emphasizing the initiative's role in deepening Africa-China relations by fostering connectivity and economic cooperation (Dollar, 2019). The BRI has faced some criticism from other industrialized countries regarding the transparency of the initiative, concerns about debt sustainability, and insufficient social and sustainability practices in the recipient countries (Bandiera & Tsiropoulos, 2019). Still, it remains popular in the developing world since it works to fill infrastructure gaps that limit economic growth (Dollar, 2019). Like the Angola model, the BRI represents a significant evolution of China's influence in Angola, making infrastructure development possible at an unprecedented scale. Yet, it raises questions about sustainability and equity, highlighting the need for a nuanced assessment of potential long-term impacts.

2 Literature Review

2.1 Historical Overview of Development Aid

Understanding the significance of RFI loans as a development tool helps to outline the context from which development aid has evolved. Tarp (2006) describes the emergence of development aid following World War II, highlighting how the collapse of the international economic system presented significant challenges for Europe, particularly regarding reconstruction and addressing capital shortages. This marked the beginning of what we today see as modern development assistance or development aid, such as loans, grants, and direct monetary assistance targeted to aid war-torn and developing countries (Hjertholm & White, 2000). The Marshall Plan, introduced at the start of the Cold War, exemplifies this. Tarp (2006) presents that this was a type of program aid, i.e., aid aimed at strengthening the balance of payments, where the US sent 2-3% of national income to Europe to reconstruct damaged regions and establish political alliances. Further, Tarp (2006) explains how The Bretton Woods conference in 1944 played a major role in the emergence of multilateral development assistance since the International Bank for Reconstruction and Development, also known as the World Bank, was first created during this conference. In its aftermath, the International Monetary Fund (IMF) was established. Moreover, with the establishment of the International Development Association (IDA) in 1960, industrialized nations were prompted to turn their attention towards newly independent and developing countries, to whom the IDA provided concessional loans and grants (IDA, 2024).

The 1960s saw the rise of multilateral programs to support states with productive sectors, such as the Green Revolution and infrastructure (Hjertholm & White, 2000). By the 1970s, multilateral programs from the IMF and World Bank started to take off, making up about 30% of total aid Tarp (2006) points out. This same period, he claims, was also characterized by a shift in goals of the development aid, addressing employment, poverty alleviation, and income distribution to a greater extent; the effectiveness of the previously popular trickle-down economics started to be questioned. These development programs in the 1960s and 70s showed that these new aid strategies contributed to noticeable economic progress in many developing countries. However, he argues that the effectiveness varied greatly and was influenced heavily by the recipient countries' economic policies and structural characteristics. Edwards (2015) also highlights that the perception of what can be considered *effective aid* has evolved over time, indicating a shift in economic policies and development strategies, thus making aid dynamics and its impact on development even more complex. As development aid strategies evolved, they increasingly sought to leverage the specific assets of recipient countries, paving the way for new financing models like RFI.

2.2 Evolution to Resource-for-Infrastructure Models

Building on the legacy of traditional aid, the RFI model represents a strategic change to utilize natural resources to secure necessary infrastructure, reflecting a shift in global economic policies (Machado, 2021). The 1980s and 1990s introduced further changes to traditional grant-based assistance (Nissanke, 2013). New aid programs with strict neoliberal policy conditions aimed to drive specific economic policies and structural reform in developing countries, Nissanke (2013) explains. She claims that these policy conditions included, among other things, market liberalization, privatization, and reduced government spending to facilitate debt repayment to lenders. By the mid-1990s, however, the effectiveness of these programs was questioned as they rarely aligned with the needs or capabilities of the recipient countries (Hjertholm & White, 2000). This critique prompted a shift toward a more performance-based, flexible approach to conditional loans (Nissanke, 2013). The origins of collateralized lending and resource-backed loans can be traced back to the mid-nineteenth century, exemplified by Peru using substantial guano deposits as collateral, as studied by Vizcarra (2009). The development of RFI models in Africa, particularly in the context of Chinese-African economic relations, can be traced back to the economic policies of Western countries, Jurеńczyk (2020) argues. He claims that because traditional donor states typically extend loans through Western-controlled international financial institutions, such as the IMF and the World Bank, and since they impose stringent transparency and good governance criteria before granting development loans, many African countries turn to China instead. Because China offers more flexible financing options, countries needing infrastructure investment, such as Angola, have chosen to end negotiations with the IMF in favor of Chinese propositions (Jureńczyk, 2020). This shift highlights a broader trend where developing nations, limited by the demanding conditions of traditional donors, seek alternative financing from sources like China, reshaping the landscape of international aid and infrastructure development (Jureńczyk, 2020; Halland et al., 2014; Machado, 2021).

RFI also emerged as a way for governments to access crucial infrastructure without needing immediate revenue from the infrastructure to finance it right away (Halland et al., 2014). This type of investment aid is rooted in the principles of project finance, which uses non-recourse financing to construct new infrastructure based on anticipated and committed revenue flows (Halland et al., 2014). However, it diverges from traditional project finance models since it leverages future government revenue from resources rather than revenue generated directly from the infrastructure. Halland et al. (2014) argue that RFI models arose as a way for governments in developing nations to gain the necessary infrastructure to promote economic growth and investors who wished to gain access to natural resources for profit-seeking and securing the resource supply. Gyeyir (2022) mentions how natural resource-rich countries can leverage their resources to bridge large infrastructure gaps since high borrowing costs or limited access to capital markets limits the ability of the government to fund such investments traditionally. The "Angola Model" is an example of this approach to aid, where resource-backed loans (RBL) drive infrastructure development and facilitate economic cooperation between China and various African nations (Jureńczyk, 2020). Unlike traditional aid models that focused on direct financial assistance and program aid, RFI models, as illustrated by Halland et al. (2014), leverage natural resources as collateral, offering a self-financing approach to infrastructure development, reflecting a significant shift in global aid dynamics.

2.3 The Role of Infrastructure in Development

As the RFI model has evolved, it has presented a range of advantages and challenges that are essential to understand when evaluating its overall impact. There is widespread recognition of the role that robust infrastructure development plays in driving urbanization, economic growth, and economic diversification (Chotia & Rao, 2017; Muturi, 2023; Coller & Crust, 2015; Halland et al., 2014). In India, the collaboration between private firms and the government through public-private partnerships (PPPs) has played a crucial role in enhancing infrastructure across various sectors, such as telecommunications, energy, roads, and seaports. Chotia and Rao (2017) highlight that these PPPs have substantially impacted the GDP by mobilizing resources for infrastructure improvement. Although PPPs are not resource-backed like RFI models and primarily utilize government funds, they share a similar financial strategy by combining public and private investments to address infrastructure needs without immediately straining government funds and the origins of the FRI model can be traced back to PPPs (Xu et al., 2020). While both RFI and PPP models aim to enhance infrastructure development, RFI leverages resources as collateral, unlike PPPs, where risks and returns are shared between public and private entities, often without direct reliance on resource guarantees.

Building on these advantages, Muturi (2023) explores how robust infrastructure supports broader economic dynamics and underscores its power in promoting economic growth and enhancing living standards. She argues that well-established infrastructure, including transportation, energy, and communication systems, significantly boosts productivity, reduces costs associated with economic transactions, and stimulates overall economic activity. However, she does note that despite infrastructure investments' substantial effects on the rest of the economy, challenges like funding constraints and regulatory barriers remain (Muturi, 2023). Acknowledging the impact infrastructure has on growth, Lin and Wang (2016) explore how natural resources can be transformed into productive assets through RFI financing. They argue that this financing method combines resource extraction and infrastructure-building supply chains, which could accelerate developmental outcomes significantly ahead of traditional methods. They highlight this as a cost-effective option for developing countries due to its use of 'non-recourse' loans, which allows the lender only to collect the collateral, ultimately shifting the financial risk from the borrower to the lender. Lin and Wang (2016) also claim that in an environment with low economic returns, investing in infrastructure that alleviates bottlenecks offers attractive returns for investors.

2.4 Efficiency and Accountability Mechanisms in RFI Financing

On the one hand, Konijn and Tulder (2015) argue that the efficiency of RFI agreements is influenced by the specifics of the contract, including its size and scope, i.e., whether it is designed to meet single or multiple objectives. Their findings suggest that the complexity of a contract can increase the likelihood of failure, with more complex agreements having a higher risk of not achieving their intended goals. On the other hand, Xu, Ru, and Song (2020) find that the size of the RFI agreements makes less of a difference, especially in countries with poor governance structures. They show that RFI loans are typically larger, especially in poorly governed countries, suggesting that they are less affected by common governance issues. Xu, Ru, and Song (2020) argue that RFI agreements employ innovative mechanisms to enhance efficiency and mitigate corruption risks, particularly in poorly governed, resource-rich countries.

Through interviews with key stakeholders, Xu, Ru, and Song (2020) identify two important mechanisms that improve the success of RFI loans: monitoring technology and commitment technology. Monitoring technology involves direct payments from lenders to construction companies, bypassing government channels, thus minimizing the corruption risks by eliminating intermediary government handling of funds. For example, contractors submit work-done invoices directly to the lender, who then disburses funds only upon validation by the borrowing government (Xu, Ru, & Song, 2020). This ensures that loan disbursements are tied strictly to project milestones rather than government discretion. The second mechanism they identify, Commitment technology, refers to the process of securing loan repayments through resource revenues deposited directly into independent escrow accounts (Xu, Ru, & Song, 2020). This process ensures that resource extraction revenue, like oil, is not mismanaged by the borrowing government but instead goes directly towards repaying the infrastructure loan. For instance, a predetermined amount of oil revenue—such as 10,000 barrels per day—can be allocated to such escrow accounts, ensuring a reliable repayment stream without governmental interference (Tang, 2014 cited in, Xu, Ru, & Song, 2020; Collier and Cust, 2015). These mechanisms collectively reduce the potential for credit rationing by assuring lenders of both the ongoing financing of infrastructure projects and the secure accumulation of repayment funds. By avoiding common governance pitfalls associated with infrastructure financing in developing nations, Xu, Ru, and Song (2020) argue that RFIs offer a more reliable and corruption-resistant model than traditional government procurement systems.

2.5 Autonomy, Accountability, and Transparency in RFI Agreements

Although Alves (2013) acknowledges how the RFI loans significantly contribute to economic growth in many African countries through improved roads and other critical infrastructure, she highlights several pressing issues that could undermine these gains in the long run. She lists challenges such as poor labor practices, inadequate local content, governance issues, debt sustainability, and environmental impacts as factors that might exacerbate existing inequalities if not addressed effectively. Alves (2013) claims these problems largely stem from institutional constraints within African nations, including weak capacity to negotiate equitably with the lender country, poor governance and accountability, and inadequate regulatory frameworks. For African governments and civil society, she states that there is an opportunity and a responsibility to take advantage of the benefits from these RFI loans. She claims this involves integrating these loans into long-term development and industrialization plans, strengthening regulatory and implementation frameworks, and asserting their needs and demands in negotiations with Chinese officials. By doing so, she claims African countries can ensure they benefit from these arrangements as much as China does. Many seemingly positive scholars also underscore the need for greater transparency and accountability in RFI deals to enhance their developmental impact and ensure they meet broader policy goals (Lin & Wang, 2016; Xu, Ru, & Song, 2020). Transparency and accountability issues discuss some significant risks and drawbacks regarding leveraging resources for loans, such as debt accumulation, highlighted by Mihalyi et al. (2022).

2.6 Debt Accumulation

IMF-affiliated scholars Mihalyi et al. (2022) analyze resource-backed loans (RBLs) in Sub-Saharan Africa from 2004 to 2018, revealing that while these loans are limited to a few countries, RBLs constitute a significant debt portion. They point out that these loans often lack transparency in debt reporting, especially concerning state-owned enterprises and undisclosed collateral. Ogwang and Vanclay (2021) explore the role of Chinese government concessional loans (CGCL) in financing urban infrastructure in Africa, particularly in Uganda, where external debt was reported at $8.3 billion in mid-2019, and the reliance on future oil revenues to finance major projects like the Standard Gauge Railway and hydroelectric dams presents a precarious balance between development and financial sustainability. Mihalyi et al. (2022) noted variability in interest rates, with some bilateral lenders offering low rates, whereas commercial traders typically charge higher rates. The lack of competitive bidding and local procurement is critiqued for potentially diminishing the economic value of these projects and exacerbating debt challenges (Ogwang & Vanclay, 2021). Features like price-contingent repayments that adjust according to commodity market fluctuations provide flexibility but also pose challenges for economic planning, Mihalyi et al. (2022) explain. Additionally, they claim that while RBLs aimed at infrastructure can theoretically justify their borrowing costs, the economic viability of loans without that specific purpose is questionable. Moreover, they discuss the legal and renegotiation aspects of RBLs, emphasizing the need for transparency and international support in building financial and legal capacities within borrowing countries to manage these complex agreements better and protect their economic interests.

2.7 The 'Resource Curse' and Economic Diversification

A frequent concern of RFI loans involves the risks of the resource curse (Amundsen, 2014). Although each country has unique conditions and reasons for falling behind in economic growth, Venables (2016) identifies two leading causes for why resource-rich countries do so. The first is the difficulty of handling volatile, time-limited, and risky resource revenues, and the second is the failure to commit to long-run development and investment strategies in favor of short-term goals. Moreover, Landry (2018) explores The Sicomines agreement, which was an RFI agreement between the Democratic Republic of Congo (DRC) and China where Congolese mine-exploration licenses were given to a Chinese conglomerate in exchange for the financing of public good infrastructure, as well as in the mining project itself. He concludes that the deal's attractiveness for China has decreased over time, primarily because of lowered estimated deposits from the mines and declining copper prices. However, he claims that price volatility could eventually lead to no winners in this deal, and if the infrastructure is not of high quality or is not maintained adequately, it could have severe consequences for the Congolese people. Relying on natural resources to finance infrastructure in this way can thus be considered high-risk since volatile commodity prices severely influence the outcome.

Economic diversification in countries receiving RFI loans varies considerably, often depending on the management of the investments and the sectors targeted by these projects. Studies have shown that despite substantial investments in diversifying economies, countries like Angola and Zambia continue to rely heavily on primary commodities (Brautigam, 2019; Wolf, 2017). These findings suggest a complex relationship between investment and actual economic transformation. Wolf (2017) claims that focusing on infrastructure for extracting and exporting natural resources can limit economic diversification. She challenges the notion that developing countries can rely solely on traditional export-led strategies, emphasizing the importance of expanding the domestic market and a robust manufacturing industry (Wolf, 2017). Ekeocha, Ogbuabor, and Orji (2020) conclude that through effective public administration, African leaders and policymakers can improve economic performance on the continent by developing policies that support increased infrastructure development, human capital improvement, and capital accumulation. While the immediate impacts of RFI on economic diversification present mixed results, the long-term structural changes induced by RFI loans reveal further challenges.

2.8 Long-term Structural Changes and Catch-up

The long-term impact of RFI loans on structural transformation and catch-up in recipient countries is a complex issue, with many loans failing to promote sustainable economic growth, Lin and Xu (2019) argue. They noted a significant decline in manufacturing's contribution to employment and real value added since the 1980s. This decline is exemplified by looking at Tanzania, where the manufacturing sector's GDP contribution and growth have stagnated over the past decade. They note that in 2017, sub-Saharan Africa's manufacturing value added as a percentage of GDP was just 10%, a significant drop from over 20% in the 1980s. Furthermore, Gottschalk and Sampath (2021) criticize the view of infrastructure as an asset to attract private investment. This view, they argue, will lead to a fragmented development of infrastructure systems without adequate consideration for developmental needs and structural transformation. They argue that this approach often overlooks the need to integrate these projects within a broader national development strategy, which is essential for fundamental economic transformation.

2.9 Governance and Policy Implications

The structural transformation challenges discussed underscore the role of governance and policy frameworks in shaping the outcomes of RFI loans, especially the need for robust management and implementation of agreements that align with national development policies. Ekeocha et al. (2022) claim that effective public administration can enhance the benefits of infrastructure investments by ensuring they are well-integrated with broader economic policies aimed at growth and development. However, as Osei and Bentum-Ennin (2022) suggest, many RFI loans' lack of transparency and accountability can undermine their potential, leading to projects that do not align with the public interest or contribute to sustainable development. RFI loans also have far-reaching implications on social structures and community dynamics, which calls attention to the relationship between infrastructure financing and societal outcomes.

2.10 Impacts Beyond Structural Transformation

While intended to foster development, RFI loans have exhibited mixed social outcomes across different regions. In Ethiopia, Afesorgbor et al. (2023) examined import competition from China and found that it disproportionately affects female manufacturing workers. They claim this competition tends to exacerbate gender disparities in employment and wage conditions, significantly reducing employment opportunities for female production workers without similarly impacting male employment. This gender-differential impact, they argue, highlights the need for policies that protect vulnerable worker groups from the adverse effects of these types of international agreements.

In Angola, the construction of infrastructure projects financed by Chinese loans, Power (2012) claims, has led to community displacement without adequate compensation since the capital-intensive nature of these projects often fails to provide sustainable employment opportunities for the local population. Power (2012) argues that this limits the potential benefits of RFI loans to a smaller part of society. He claims this highlights a pattern of exclusion and marginalization, raising concerns about the equitable distribution of benefits from RFI investments. Furthermore, Ding et al. (2021) raise concerns regarding the governance issues associated with projects observed in Guinea and Ghana, including a lack of transparency and weak regulatory frameworks, which increase displacement risks and failure to protect local community interests. Additionally, the influx of Chinese firms and labor, a common stipulation in these RFI agreements, tends to be unfavorable for local workers and businesses, further limiting the developmental impact of the financed projects on local employment and skill development (Sandrey & Edinger, 2011; Alves, 2013). These findings collectively suggest that while RFI loans aim to address infrastructure deficits, they often do so at the cost of social equity and local empowerment, emphasizing the need for more inclusive planning and implementation strategies to ensure broader benefit distribution. However, Tang and Shen's (2020) fieldwork in Ghana revealed that the Bui Hydropower Project, financed by a resource-backed loan secured with cocoa proceeds, enhanced access to electricity for local urban households and boosted their ownership of electrical appliances.

2.11 Conclusion

To summarize, RFI loans mark a significant shift in international development finance. This literature review examines the evolution of the FRI framework, from the first official forms of developmental aid following World War II to establishing multilateral organizations and eventually RFI loans such as the “Angola Model”. The literature seems to acknowledge the benefits of infrastructure development when attempting to drive economic growth, but it also points to challenges related to governance, dispersion of benefits, and transparency. One of the main concerns regarding sustainable growth and economic diversification is the perpetuation of resource dependency in resource-rich countries. This can be seen in countries like Zambia and Angola, whose economic well-being is heavily influenced by the volatile commodity prices of copper and oil. These observations underscore the importance of adapting an RFI framework that fits the needs and conditions of the recipient countries. Integrating RFI loans into a broader national strategy and strengthening regulations for these types of loans are essential to mitigate the associated risks. The complexity and varying outcomes associated with RFI loans highlight a significant gap in understanding how this type of financial model impacts structural transformation and economic catch-up. This gap justifies this thesis’s focus on examining RFI loans through the lens of social capabilities Theory to assess its real impacts on Angola's economic transformation and growth. By building on the dynamics introduced in this literature review, this study aims to contribute to a more nuanced understanding of how RFI loans are structured and implemented and how they might impact economic transformation and catch-up in Angola.

3 Theoretical Framework

This section outlines the social capabilities theory conceptualized by Andersson and Palacio (2017). This theory will provide an analytical framework to explore the research question of why Angola has struggled to achieve structural transformation and economic catch-up despite significant Chinese investments in infrastructure.

3.1 Social Capabilities Theory

Social Capabilities Theory, introduced by Andersson and Palacio (2017), builds upon Abramovitz (1986) and his ideas regarding the role of 'social capabilities' in economic development and the catch-up process. The idea is that "technologically backward but socially advanced" (Abramovitz, 1986, p.388) countries can take advantage of advanced social capabilities to adopt technologies and thus increase the potential for rapid growth under globalization. The theory suggests that by enhancing a country's social capabilities, it is possible to drive the catch-up process. Catch-up is defined as the process when developing or low-income countries grow at a pace that is faster than developed or high-income countries, effectively reducing income disparities between the two and leading to a convergence in global income levels. The process is assumed to work when lower-income countries can leverage and implement technologies and practices from higher-income countries, thus increasing productivity faster than they otherwise would. However, despite global growth rates currently driven by developing countries, convergence seems only to apply to East Asian economies. As for the poorest countries, economic trends show that they have not been converging regarding increased productivity levels. Sub-Saharan Africa is one of these regions where the gap to the developed countries is widening rather than narrowing.

Andersson and Palacio (2017) expand on this idea, establishing a framework that defines the main components of social capabilities and indicates how they can be measured and understood. They present four dimensions of social capability that help explain why countries' experiences differ in reaching sustainable catching-up and resilience to economic shrinking: Transformation, Inclusion, Autonomy, and Accountability. Andersson and Palacio (2017) raise the idea of economic shrinking, the period economies experience negative growth rates, and analyze how these periods can give some insight into why some countries struggle with the long-term catch-up process. They suggest that social capabilities play an important role in making economies more resilient and able to withstand downturns and economic adversities. Moreover, Andersson and Palacio argue that traditional production function models do not sufficiently explain why economies shrink. This is where their four dimensions of social capability come in. They present an alternative way of measuring and approaching institutional and social dynamics to understand economic shrinking and its implications on catch-up growth. Enhancing social capabilities could be a strategic way to lessen the effects of economic shrinking and support sustained development efforts in developing countries.

3.2 The Four Processes of Social Capability

Firstly, the theory discusses the process of *transformation*. This refers to structural changes within the economy, for instance, labor and capital moving from the low-productivity agricultural sector to the higher-productivity sectors such as industry and services. Structural adjustment is necessary to drive economic diversification and modernization. As an indicator of transformation, they identify that as the agricultural gap share, i.e., agricultural contribution to GDP versus the agricultural labor share, decreases, it increasingly resembles the sectoral employment structure in many developed countries. They also identify the emergence of larger firms, the development of more financial intermediaries, and shifts in capital and labor market policies as indicators of transformation.

Secondly, *inclusion* focuses on distributing the benefits and gains from economic growth widely across society, not specific groups. As an indicator of inclusion, they highlight examining poverty levels, the economy's and labor market's openness to entry, and access to education for those from low-income families. Additionally, they note that lower costs of access to formal banking services, such as a savings account, will mobilize more capital for activities of high value; thus, looking at access to formal credit can indicate the level of inclusion. The inclusion process emphasizes that reducing inequality and dispersing the growth benefits to all groups, especially those underprivileged, will foster a more cohesive and equitable society well-suited for long-term growth.

Third is the aspect of *Autonomy*. This involves the government's ability to implement and create policies that align with the nation's economic and social priorities without excessive influence from powerful international or domestic interests. The ability to implement trade policies, impose a direct and progressive taxation system for those who are better off, and subsidize specific goods to even out income distribution is an example of how autonomy can be measured and assessed. This is crucial for a stable and conducive environment for prosperous economic activity and reforms.

Lastly, the theoretical framework raises the object of *Accountability*. Accountability refers to the mechanisms that ensure the government's actions are transparent and align with public interests. Higher levels of Accountability lower the risks of corruption and mismanagement, and a country that honors social contracts and has less volatility in social spending has a better chance of achieving long-term growth.

To conclude, the social capabilities theory provides a comprehensive framework on which I can build my analysis and use it to examine the challenges that hinder Angola's economic catch-up process following the introduction of RFI loans. By focusing on the processes of transformation, inclusion, autonomy, and accountability, this theory will help identify potential challenges within the RFI framework that may be problematic during periods of economic shrinkage and identify potential pathways for the RFI loans to contribute to sustainable growth and catch-up.

4 Methodology

4.1 Research Design

In this thesis paper, I have applied a qualitative methodology, analyzing the RFI agreements in Angola as a single-N case study combining theoretical application and a synthesis of secondary data and statistics. The case study approach allows me to analyze unique circumstances and outcomes within a real-life context since case studies traditionally aim to explain the '*why*' and '*how*' of a social phenomenon in depth (Yin, 2014; Clark et al., 2021). I have conducted an evaluation of various economic indicators associated with economic transformation and catch-up. By analyzing these indicators and findings in previous related literature, I evaluate Angola's ability to leverage technology and practices associated with China's infrastructure investments, using the four dimensions of social capability theory. Moreover, I have utilized theory as a framework to build my analysis and interoperate the data since this provides a framework for my analysis (Yin, 2014; BMJ, 2008). I combine qualitative data, statistics, and theoretical insights to assess the policy implications and economic transformation. This type of research approach might contribute to the existing theory of social capabilities and the potential implications on economic development. Moreover, I employed data triangulation in the research to enhance the thesis' validity and credibility, and work to mitigate as many potential biases as possible, making it a more comprehensive analysis of the topic (Bhandari, 2023; Wang & Duffy, 2009). Using a variety of sources, i.e., developing converging evidence, strengthens the validity of the analysis (Yin, 2014).

4.2 Data Collection

In the data collection process, secondary data documents help to corroborate arguments and information (Yin, 2014). This was specifically true of definitions and stipulations regarding the RFI framework. Secondary data was gathered from various public sources through academic databases such as Scopus and Google Scholar. The selection criteria for these sources used in the analysis included their citation frequency and relevance to the research themes of economic transformation, RFI loans, and Chinese-Angola relations. The reliability of the sources was determined by their publication in peer-reviewed journals, books or from widely accepted organizations, and their alignment with this thesis' focus, ensuring that the information was authoritative and broadly accepted in the academic community. The accessibility of primary data, for instance, the original RFI loan agreements, were not publicly available, thus I used secondary data to conduct the analysis. Comparing multiple sources allowed me to define and validate certain stipulations and characteristics (Taherdoost, 2022). Data was collected through books and e-journals since they provide information on this very specific subject were accessible. Additional data came from public sector records such as those produced by private companies and NGOs, reports from international organizations, official government records, and census data, which provided various statistical records on economic development indicators.

4.3 Ethical Considerations

Ethical considerations have been ensured by following the guidelines outlined by the Lund School of Economics and Management (2024). I did not use any data that meets any of the conditions specified in the Act Concerning the Ethical Review of Research Involving Humans, so I was not required to apply for ethical permission from Lund University. Accurate citations are provided for all sources of information. Additionally, I approach the discussion of RFI loans with the aim of being unbiased and respecting any and all entities or subjects involved despite potential biases. I carefully considered the implications of my findings on policy and public perception, aiming to contribute responsibly to discussions on Angola's economic development. Moreover, the analysis was conducted with an awareness of the potential impacts of the findings on public perceptions and policy decisions related to Angola's economic policies and international agreements. Care was taken to present a balanced view, attempting to avoid biases and ensuring that the interpretation of data did not misrepresent the socio-economic realities in Angola.

4.4 Limitations

The data used in this thesis has limitations that need to be acknowledged. Firstly, the findings may not be generalizable beyond the context of Angola's engagement with Chinese infrastructure loans. Moreover, the secondary data was not initially collected with the current research questions in mind and may not fully represent the evolving economic and political landscape. Additionally, the completeness and objectivity of these sources may be subject to potential biases. Published sources might have been gathered, presented, or published with specific agendas, which could influence the interpretation of data. This is especially relevant since official loan agreements are not publically available or accessible. Moreover, census data on certain economic indicators was incomplete in terms of reporting over time, limiting the analysis's potential. These factors combined result in a need to be cautious and critical when approaching, analyzing, and drawing conclusions from the data. To address these limitations, careful analysis and evaluation of the sources were used to ensure accuracy and relevance, taking a cautious approach when identifying and interpreting the data.

5 Analysis and Discussion

In this section, I will review the four dimensions of social capabilities – transformation, inclusion, autonomy, and accountability - within the context of Chinese RFI loans to Angola. By diving into the dynamics and outcomes of these four dimensions, this analysis outlines the implications and how RFI loans could have implications for the process of structural transformation and catch-up.

5.1 Transformation

Drawing on Andersson and Palacio's (2017) social capabilities framework to analyze the implications of the RFI loans, certain factors provide an understanding of the transformation process in Angola. The theory highlights the transition from a more traditional agricultural-based society to a more diversified economic structure, and that transformation can be measured by the agricultural gap, i.e., the difference between the labor share in agriculture and the employment share in agriculture. They suggest that as economies evolve, sectors that traditionally absorb a lot of labor, such as family farming and microenterprises, become less significant when the economy transitions. Moreover, the theory notes that a trend in many developing countries is that the growth in the services sector is more significant than in labor-intensive manufacturing sectors. Andersson and Palacio (2017) emphasize the importance of capital and labor market policies in facilitating this transformation across both agricultural and non-agricultural sectors, which raises questions regarding the role of RFI loans in this process.

Sectoral Employment 1991-2022

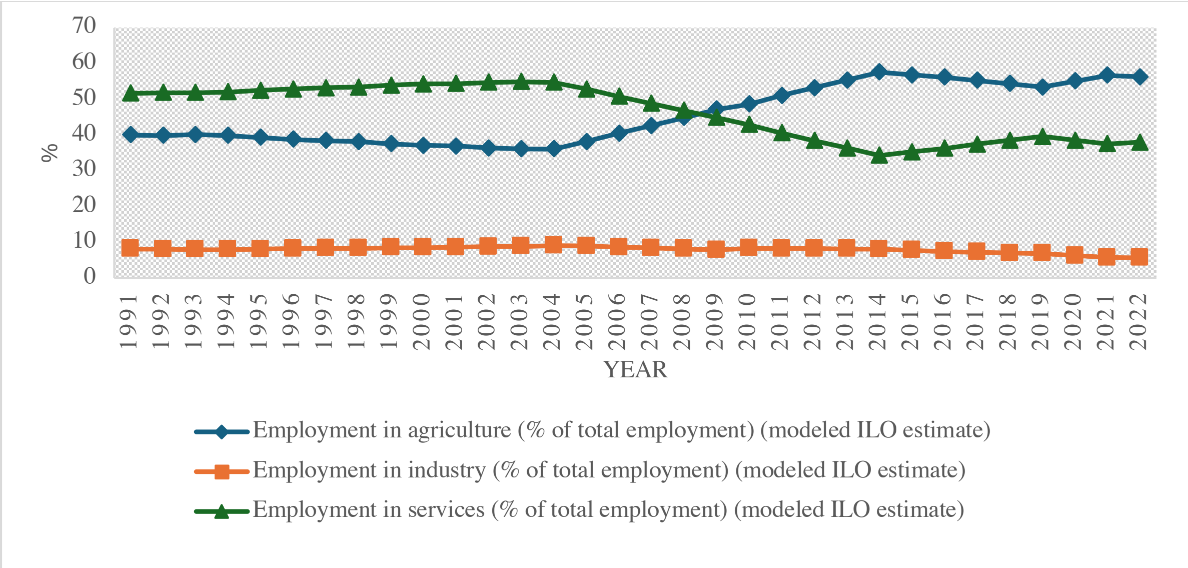

Figure 1: *Sectoral employment 1991-2022 (World Bank, 2024)*

Agricultural Gap

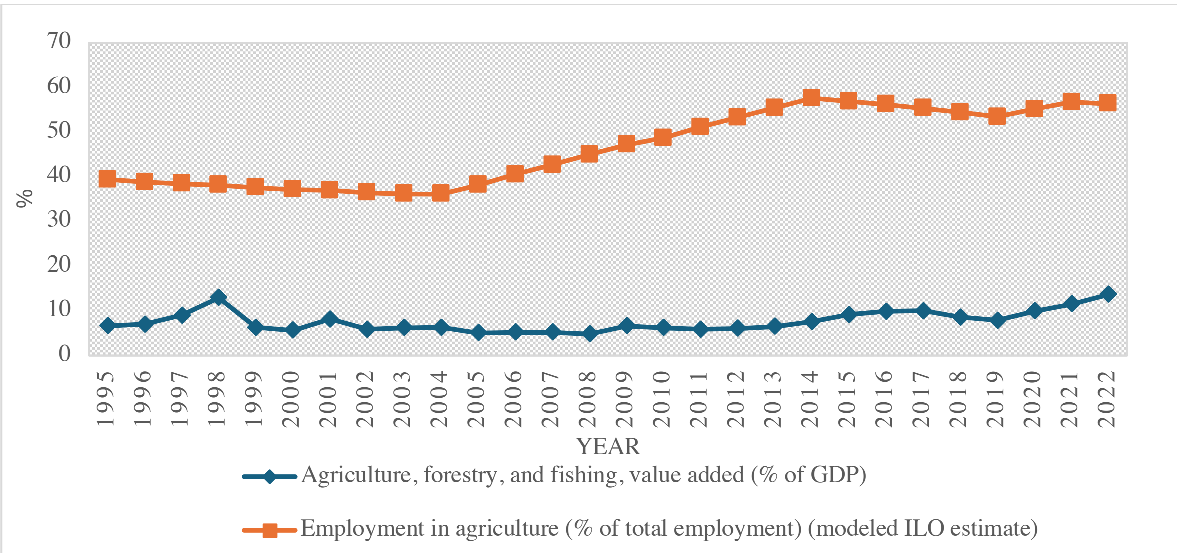

Figure 2*: Employment share in agriculture and agriculture value-added as % of GDP (World Bank, 2024)*

However, empirical data retrieved from the World Bank's DataBank (2024) does not seem to align with the prediction of a transition to the service sector. Figure 1 illustrates sectoral employment shares between 1991 and 2022 and indicates no evidence of structural transformation in terms of labor movement from agriculture to the manufacturing and service sectors during the RFI loan era. Rather than experiencing a shift toward the service and manufacturing sector, employment in agriculture has grown since 1991 while the service sector employment has declined, and manufacturing has stayed static over the last 30 years. Additionally, figure 2 measures the agricultural gap, which also does not show any significant convergence in output and employment. This trend suggests a deviation from the expected path of transformation outlined by social capabilities theory.

The Economic Diversification Index (EDI), created by Prasad et al. (2024), assesses countries' economic diversification of economic activities, international trade, and government revenues and also paints a picture of Angola's lack of diversification. Angola consistently ranks in the lowest quartile of the global economic diversification index, with only minor improvements in its diversification score from 71.8 to 78.2 between 2000 and 2020 (Prasad et al., 2024, p.14). This limited improvement highlights a continued dependency on natural resources, which does not align with the diversification outlined by the theory.

However, there are some positive signs linked to Angola's engagement in RFI loans in terms of growth in the manufacturing sector. Studies by Durovic (2016), Habiyaremye (2016), and Wolf (2017) suggest that these loans have facilitated other significant economic activities. Durovic's research indicates that RFI loans have effectively funneled resources to development projects, decreasing the so-called resource curse. They found that from 2005 to 2013, Angola's manufacturing sector experienced the fastest growth in Africa, expanding by an average of 18.3% per year (Durovic, 2016). Habiyaremye (2016) supports these findings, suggesting that RFI agreements have helped reduce infrastructure bottlenecks, thus increasing the capacity for economic diversification. This correlation between infrastructure service provision and export diversification, they find, is also strong in other countries that have entered RFI agreements with China (Habiyaremye, 2016). Wolf (2017) finds that emerging manufacturing activities in Angola, particularly in building materials and beverages, were spurred by an increase in domestic demand due to the agreements. They note that although the raw material price volatility poses a risk, the growth in manufacturing output from RFI-backed projects indicates some transformative progress (Wolf, 2017).

The observed lack of structural transformation in terms of labor movement in Angola, particularly under the influence of Chinese RFI loans, is complex. Despite stipulations requiring a 30% subcontracting quota for Angolan firms, enforcement has been lax, often sidelined to meet project deadlines (Corkin, 2012). For instance, a Ministry of Finance Official who was responsible for the program said that the 30% quota was only upheld if it did not compromise project deadlines (Corkin, 2012). This dynamic underscores a broader trend where rapid execution of projects is prioritized over local capacity building, leading to limited support for developing local industries and employment (Ovadia, 2017).

Furthermore, while Chinese firms have engaged in training and skills development, such training tends to be less formal than training provided by domestic and other foreign firms in Angola, impacting the quality and transferability of skills to the local workforce (Calabrese, 2020). Moreover, the focus of the RFI loans on economic infrastructure, without simultaneous emphasis on employment creation and inequality reduction, reflects a missed opportunity to address broader developmental goals. This oversight has been critiqued widely, with recommendations urging a shift in development aid towards more employment and productivity-enhancing activities (Van der Hoeven, 2012).

Additionally, the presence of a significant number of Chinese workers in Angola, often cited in the tens of thousands, not only exacerbates the job market challenges for Angolans but also hampers the potential for industrial diversification (Tkachenko, 2018 in Begu et al., 2018). The trade linkages fostered through these agreements contribute to the continuation of Angola's reliance on oil exports, removing focus from broader economic diversification and developing other sectors that could offer more employment opportunities to the local population (Begu et al., 2018). Additionally, enhancing education and training for Chinese companies to ensure compliance with labor, social, and environmental standards is in addition to improving training and capacity development programs for African workers and managers, is crucial (Lin & Wang, 2014).

Despite some growth in the manufacturing sector output, it has not led to a proportional increase in employment within these sectors. This discrepancy underscores the limited impact of RFI loans on Angola's broader economic transformation. While the loans have stimulated growth in specific industries, like building materials, the overall transformation remains ambiguous, especially regarding employment distribution. Contributing factors include the predominance of Chinese firms fulfilling major contracts with limited enforcement of local subcontracting requirements, inadequate training provided by Chinese companies compared to domestic and other foreign firms, and an overall focus on infrastructure that overlooks employment and inequality. These issues reveal a complex situation where Angola's economy, under the influence of RFI loans from China, does not exhibit the expected signs of structural transformation, highlighting a misalignment between the theoretical benefits of these loans and their actual implications.

5.2 Inclusion

The inclusion dimension of the social capabilities theory also identifies pro-poor growth as a key aspect of economic development and cath-up (Andersson & Palacio, 2017). This pro-poor growth includes several parameters that can be observed other than GDP growth and that focus on the benefits to the poorest segments of society: reduced poverty rates, openness to entry, access to education, and other non-income measurements. Understanding the RFI framework's compliance with the inclusion dimension can help evaluate its impact on structural transformation and cath-up in Angola.

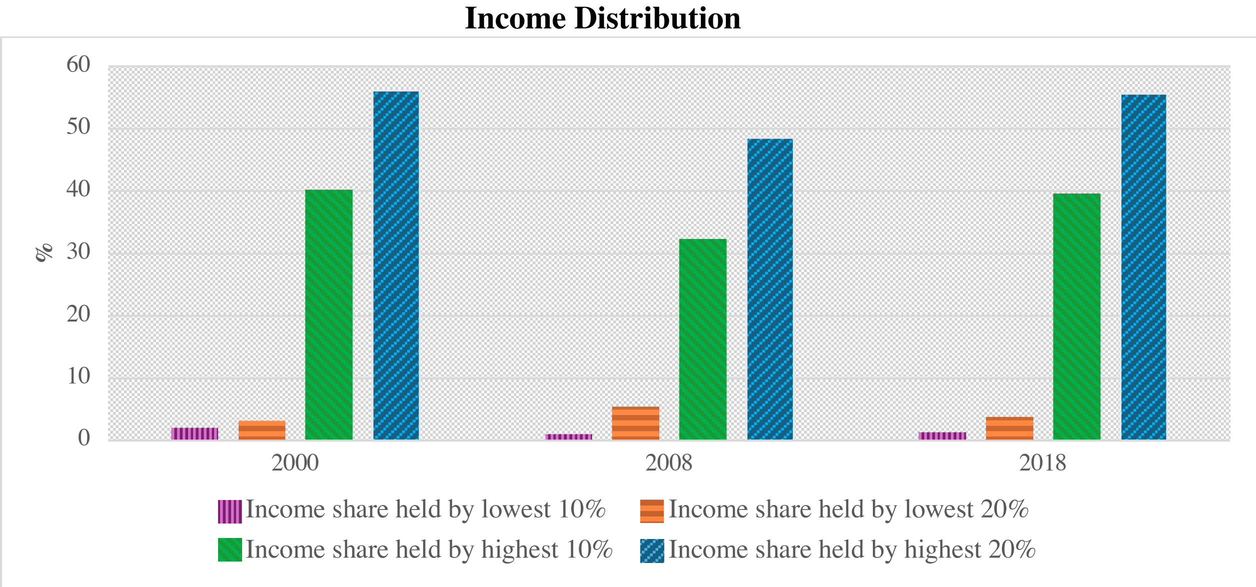

Figure 3: *Income share held by % of the population (World Bank, 2024)*

There has been little improvement in absolute terms in terms of poverty reduction and inclusive growth. The Gini index shows a slight improvement from 52 in 2000 to 51.3 in 2018, indicating a marginal decrease in income inequality (World Bank, 2024). However, the poverty headcount ratio at the societal poverty line (as a percentage of the population) has increased from 37.2 to 42.2 over the same period (DataBank, 2024). Moreover, figure 3, presenting income share by population, shows how most of the income remains concentrated in the top 20% of the population, with a significant number of Angolans not experiencing substantial economic benefits from growth.

Openness to entry, another aspect of inclusion, includes the economy's openness to entry, specifically outside of agriculture, to increase household income in the rural population.

Despite the inflow of 400 private and 50 state-owned Chinese companies since the RFI agreements commencement in 2004 (Jureńczyk, 2020), there has been a lack of integration within the local economies since the initial agreement outlined the 70% of engineering contracts were mandated to Chinese companies and workers, limiting opportunities for local business and workers (Corkin, 2012). Moreover, the growth in the agricultural sector mainly represents a recovery following the war rather than genuine development, and the growth in the manufacturing sector is predominantly in oil and gas-related activities (Amundsen, 2014). The booming oil industry has resulted in higher prices, making goods and running businesses more expensive, while agriculture and other industries have been adversely affected by competition from cheap imports (Amundsen, 2014). Additionally, despite significant investments in post-war reconstruction, employment opportunities for Angolans have been limited. The partnership with China has been characterized by exclusive interactions between elite state and commercial entities, with little emphasis on public participation or consultation (Power, 2012). Social capabilities theory highlights that improvements in agricultural productivity should lower food prices and labor costs, which seems to not be the case in this context.

Significant RFI loan funds have been allocated to education and health, with several projects to build and renovate schools and hospitals (Begu et al., 2018). In 2004, nearly 23% of Exim Bank's loans were specifically aimed at aiding the construction of education and health projects, with planned further investments (Kiala, 2010). These funds helped Chinese companies construct and renovate schools and hospitals and were supplemented by higher education through scholarships by the Chinese government (Begu et al., 2018). However, the impact on Angola's social development has been limited despite these investments since they failed to adapt to local needs (Murgui, 2004). An example of this is the ghost town of Kilamba, which was built near Luanda. There, they built apartments priced between $70,000 and $190,000, which was far beyond the means of most Angolans, who live below the poverty line of $1.25 a day (Murgui, 2004)

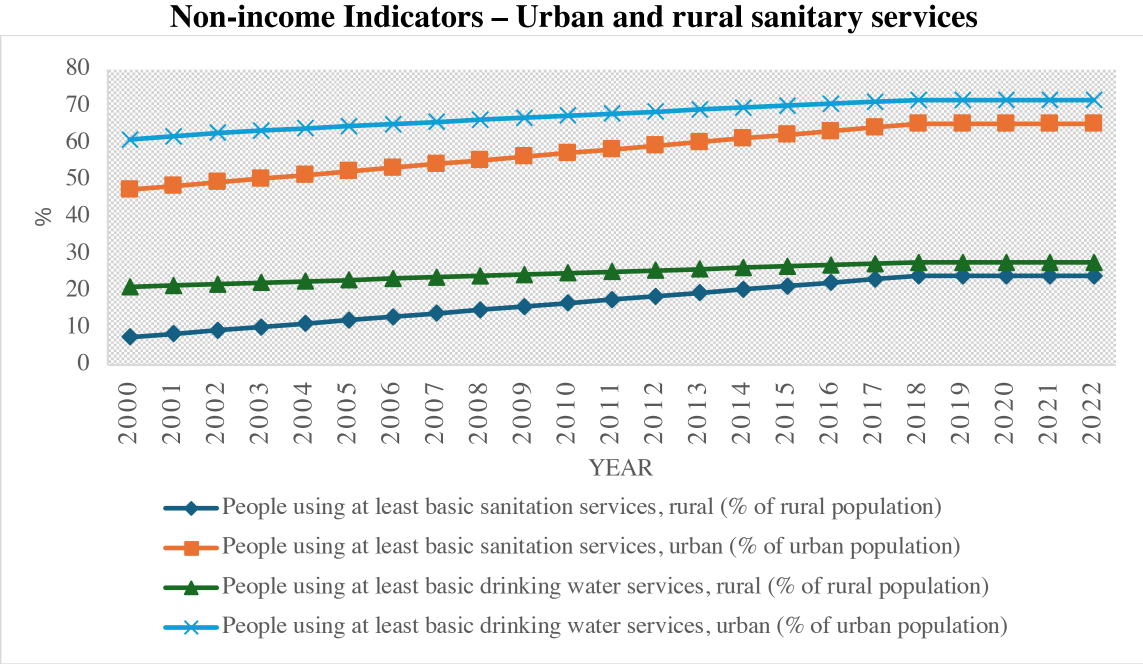

***Figure 4**: Usage of basic sanitary services and basic drinking water services in rural and urban areas 2000-2021 (World Bank, 2024)*

Non-income health measures have shown improvements in access to basic sanitary services and drinking water, but with a clear disparity between urban and rural areas, as seen in Figure 4. This uneven distribution effect from the investments and subsequent economic growth underscores a partial approach to inclusive and pro-poor growth, where infrastructure developments do not benefit all geographical areas to the same extent. Data on financial inclusion, measured through access to banking and formal credit, remains limited. While the proportion of the population with bank accounts has increased twofold since 2010 and is projected to continue growing until 2029 (Statista, 2023), access to formal credit is limited, with only 16% of adults having access to formal credit as of early 2020 (Banco Nacional de Angola & World Bank & Angolan Financial Stability Council, 2020). Moreover, the lack of strategic corporate social responsibility (CSR) in sectors heavily involved in RFI loans, such as construction and banking, has hindered any substantial financial integration (Mihić et al., 2019).

The limited impact of RFI loans on poverty reduction and inclusive growth in Angola might be influenced by labor market dynamics shaped by Chinese firms. These firms primarily employ less-educated, poor migrant workers under informal conditions and lacking formal contracts (Calabrese, 2020). Often housed in company dormitories, these workers do not benefit from the more formal employment arrangements typical of domestic and foreign non-

Chinese firms, which tend to employ more skilled, urban workers with written contracts (Calabrese, 2020). This segmentation within the labor market could contribute to increased socioeconomic divisions, potentially limiting the distribution of benefits from Chinese investments.

Additionally, the strategic partnership between Angola and China has been critiqued for its focus on making the elite richer rather than inclusive and pro-poor economic development (Konijn & Tuder, 2015; Power, 2012). Investments have disproportionately benefited the Angolan elite, strengthening undemocratic mechanisms and leaving the general population out of the economic gains from oil sales, with social protests often being suppressed by security forces (Hess and Aidoo, 2015). Furthermore, the lack of comprehensive policy conditions and stipulations in the agreements regarding employment creation or poverty alleviation, as explored in several studies, underscores the absence of a structured approach to ensure that investments translate into tangible developmental benefits for the general population (Corkin, 2012; Jureńczyk, 2020; Alves, 2013).

Overall, there have been improvements in infrastructure development in some sectors highlighted in the inclusion dimension, i.e., education and health. However, the commitment to meet broader goals of inclusive economic growth remains somewhat lacking. The data suggests that growth following the RFI loans has not been inclusive enough to favor Angola's poorest, nor has it fostered a competitive market environment that benefits the entirety of the population. The labor market dynamics, particularly the employment practices of Chinese firms, which predominantly employ poor migrant workers under informal conditions, might exacerbate socio-economic divisions. This may have resulted in growth following the RFI loans failing to significantly benefit Angola's poorest or foster a competitive market environment that benefits society as a whole. The findings indicate that more targeted and inclusive policies are necessary to ensure that the benefits of foreign investments and loans are more evenly distributed across Angolan society.

5.3 Autonomy

Autonomy within the context of social capabilities theory highlights a few key elements: the state's capacity to impose taxation effectively, manage public wealth, and maintain autonomy in economic trade policymaking through various instruments. Analyzing Angola's economic autonomy under its Resource-for-Infrastructure (RFI) loans involves assessing how these elements align with the RFI framework. This evaluation helps understand whether Angola has autonomy over its economic decisions and to what extent it can leverage these loans to support its long-term development goals.

The theory states that one way to measure autonomy is to look at the State's ability to impose direct and progressive taxation on the non-poor, which is usually uncommon in the tax systems of developing economies (Andersson & Palacio, 2017). In 2012, Angola started the process of significant tax reforms aimed at increasing non-oil revenues by broadening the tax base and rationalizing incentives (Fjeldstad et al., 2012). This transformation process was driven by the overdependency on oil revenues, which became evident by the 2008/2009 economic decline (Angola & IMF, 2012). In RFI agreements with China, oil often served as collateral, which could exasperate the economic difficulties and debt burdens (Marques & Deusterberg, 2023). In line with the theory, these reforms are crucial for effectively leveraging RFI loans to support sustainable development and ensure financial gains are not lost to inefficiency or corruption. Despite progress, challenges remain, and fiscal autonomy is limited (Fjeldstad et al., 2012). The Angolan government and the IMF collaborated in 2023 to modernize and evaluate the Angolan tax system and identified further weaknesses, such as disparities in tax rates and tax incentives that decrease the tax base (Kelmm et al., 2024). The sustainability of these taxation schemes remains dependent on Angola's political and economic climate, including oil price volatility. Taxation politics generally involve only a few specialized interest groups and usually occur in non-public settings, often receiving low priority on the domestic political agenda (Fjeldstad & Rakner, 2003). The main obstacles to effective taxation in Angola are the dominance of oil revenues and foreign aid, which create autonomous financial streams, i.e., sources of income that the government receives independently of its domestic economy's typical taxation systems (Anderson, 2013). These streams disconnect state finances from societal needs, impeding equitable revenue generation and redistribution. This situation complicates tax system reforms to link tax collection with social equity. The introduction of a progressive tax rate, both outlined in the theory and recommended by the IMF, is crucial for Angola's long-term economic stability and the successful utilization of RFI loans for economic transformation (Kelmm et al., 2024; Andersson & Palacio, 2017).

Public wealth, the balance between public assets and debt, is crucial in Angola, particularly regarding RFI loans. According to the theory, health, education, and land expenditure help mitigate inequality and effectively redistribute income (Andersson & Palacio, 2017). Assessing the government's ability to use economic gains from RFI loans for meaningful reforms could depend on the government's ability to balance public wealth. Angola's economic landscape is significantly shaped by its reliance on oil, which, while improving economic growth in terms of GDP, has perpetuated high levels of poverty, inequality, and debt accumulation (World Bank, 2023; Marques & Deusterberg, 2023). The nation's fiscal revenues are heavily dependent on oil, leading to substantial fluctuations driven mostly by changes in oil prices (World Bank, 2023; IMF, 2023b). This volatility presents substantial challenges, as unpredictable revenues often result in equally unpredictable public spending, which typically increases with rising oil prices and drastically decreases when revenues decline (World Bank, 2023). For instance, the global oil crisis in the mid-2010s prompted substantial cuts in public expenditure, with the budgeted public expenditure falling from 50.6% to -36.7% in nominal terms between 2014 and 2017 (Muzima, 2018). Efforts to save large and unexpected revenues, i.e., windfall revenues, have been made through sovereign wealth funds, but they have been limited and suffered from governance issues (World Bank, 2023).

Recently, Angola has implemented the Fiscal Responsibility Law to ensure fiscal sustainability and efficiently use its diminishing oil resources (AFRITAC South, 2020; World Bank, 2023). This new law includes provisions for a non-oil primary balance (NOPB) rule and plans to establish a fiscal stabilization fund (World Bank, 2023). The stabilization fund is designed to be capitalized only in years when Angola's gross financing needs are less than 5% of GDP. This approach aims to prioritize debt reduction, which indirectly serves as a savings mechanism, offering potential high returns through direct interest savings and by reducing fiscal vulnerability (World Bank, 2023). However, the World Banks (2023) report that the implementation details, such as specific rules for deposits to and withdrawals from the new savings fund, remain unspecified. Moreover, the World Bank (2023) claims that it is unclear whether this new fund will operate alongside or replace the existing funds. With expected declines in oil production, effectively managing and transforming these resources into lasting infrastructure and human capital is crucial (IMF, 2024). This situation underscores the importance of continued work to establish robust mechanisms to stabilize public spending and mitigate the financial instability caused by oil revenue volatility.

The theory highlights the significance of a nation's autonomy in policy-making to foster economic development, thus making Angola's ability to manage its exports through policy instruments relevant. China's duty-free, quota-free (DFQF) scheme for Least least-developed countries with diplomatic ties to China, which was established in 2010, applies to Angola but there appears to be limited awareness and utilization of this scheme by Angolan firms (BKP Development Research and Consulting, 2019). This indicates a gap in knowledge and application that could be bridged through targeted educational and promotional efforts (BKP Development Research and Consulting, 2019). China's ideological framing of its commitments in Africa presents itself as a partnership aimed at mutual benefits. According to the Five Principles of Peaceful Coexistence, which form the ideological foundation of Beijing's foreign policy, the relationship emphasizes mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in internal affairs, equality and mutual benefit, and peaceful coexistence (Ministry of Foreign Affairs of the People's Republic of China, n.d.). These principles, highlighted by Nathan and Ross (1997), underscore China's strategic communication efforts to position itself as a supportive ally in developing African nations, including Angola. This ideological stance could support Angola's efforts to leverage trade agreements like the DFQF scheme, promoting more diversified economic ties that align with its economic autonomy and development goals.

In essence, Angola has implemented significant tax reforms to increase non-oil revenues and decrease oil dependency, which are important when attempting to RFI loans to achieve sustainable development. However, Angola's heavy reliance on oil complicates its fiscal stability, as government revenues and public spending fluctuate significantly with oil prices. Additionally, Angola's ability to manage exports through policy instruments, like the duty-free, quota-free (DFQF) scheme with China, has the potential to promote economic diversification in exports.

5.4 Accountability

Accountability in this context refers to the mechanisms that ensure government actions are transparent and align with public interests, which can be analyzed through the quality of governance and provision of public goods. This can be observed in how resources are distributed across various sectors, indicating which are prioritized for their productivity or potential for higher social returns. For example, lower investment in sectors critical for future growth, like education and infrastructure, especially for younger generations, while favoring established groups, suggests weak accountability. Additionally, the theory underscores that in market economies, effective accountability aligns spending with economic fluctuations to uphold social contracts. When a government maintains its commitment to these contracts despite economic ups and downs, it stands a better chance of achieving long-term economic catch-up and stability.

In Angola, the link between taxation levels and public involvement in governmental decisions is weak because governments often utilize oil revenues to provide social welfare (Begu et al, 2018). This strategy minimizes democratic control and accountability in policy decisions, essentially reducing citizens' influence on policymaking (Begu et al, 2018). Additionally, RFI loans in Angola have been involved in corruption and embezzlement accusations. Notably, in 2005, allegations came to light that Angolan officials misused a USD$2 billion of the RFI credit line from Chinese MNEs, leading to President Dos Santos's dismissal of a key cabinet secretary (Konijn & Tuder, 2015). The China International Fund has also been criticized for its close ties with the Angolan political elite and for corruption through complex offshore corporate structures (Konijn & Tuder, 2015).

Despite these issues, there has been limited progress toward greater openness or democratic reforms in Angola until recently (Hess and Aidoo, 2015; Bye, Inglês & Orre, 2021). Efforts to reform the electoral system or liberalize the media have been limited to maintain the ruling party's control over power and its privileged access to the country's oil wealth, reflecting a reluctance to introduce changes that could undermine the political status quo (Hess & Aidoo, 2015). However, since taking office in 2017, João Lourenço has initiated reforms in Angola, aimed at steering away from the autocratic governance of his predecessor, José Eduardo dos Santos (Bye, Inglês & Orre, 2021). The economic challenges from falling oil prices and production have influenced Lourenço to pledge to combat corruption and pursue broader development (Bye, Inglês & Orre, 2021). These efforts mark a significant change, aiming to transition Angola from an oil-dependent economy to a more diversified and transparent one.
Moreover, Chinese entities that manage the financial aspects of RFI agreements have tried to mitigate financial risks such as non-payment, corruption, and embezzlement (Konijn & Tuder, 2015). The Exim Bank directly pays contractors in China and receives payments from Angolan National Oil Companies through an escrow account (Brautigam, 2011; Shaxson, 2009). This system is designed to reduce the likelihood of embezzlement by keeping financial control away from potentially corrupt public officials in the host country, suggesting an attempt to manage corruption risks associated with RFI agreements (Brautigam, 2011; Shaxson, 2009).

To summarize, weak linkages between taxation and democratic participation due to reliance on oil revenues minimize public influence and accountability. Despite allegations of corruption and misuse of RFI loans, recent reforms under President João Lourenço aim to reduce oil dependency and increase transparency, marking a significant shift towards a more diversified and accountable governance.

5.5 Summary

In this analysis, using Andersson and Palacio's (2017) social capabilities framework, I assess the implications of RFI loans on Angola's economic transformation and catch-up process. This theoretical framework highlights the importance of economic diversification from agriculture to manufacturing and services, alongside inclusive growth that especially benefits those who are the least well-off in society.

Empirical data from the World Bank indicates that Angola has not seen a significant labor shift from agriculture to more diverse economic sectors. The data shows that employment in the service sector has declined as a share of total employment, manufacturing has stagnated, and relative employment in agriculture has increased. This suggests that the RFI agreements may not align with the social capabilities required to cope with economic shrinking and drive catch-up. Since the start of the China-Angola RFI agreements, Angola's economic diversification remains in the lowest quartile globally, highlighting a continuing over-reliance on oil and minimal economic diversification. However, there are some positive aspects related to RFI loans, notably in specific manufacturing growth driven by infrastructural improvements, which suggest some sector-specific benefits. The limited transformation in terms of labor movement could be partly attributed to the segmentation in the labor market fostered by the RFI agreements, predominantly employing low-skilled migrant workers under informal conditions. Regarding inclusion, the equitable distribution of economic growth remains limited despite infrastructure investments in education and health. Increases in poverty rates and skewed income distribution indicate failure to properly achieve pro-poor growth, which is imperative in the catch-up process. This could be due to the lack of enforceable stipulations or conditions aimed at inclusive growth within the loan agreements. Angola's efforts in tax reform to reduce dependency on oil revenues further illustrate the challenges in maintaining fiscal stability and public spending in a society heavily impacted by debt following the RFI loans.

In summary, while RFI loans offer certain gains related to economic growth, their overall impact does not fully align with the requirements of social capabilities theory to withstand economic shrinking and drive economic catch-up in Angola. The persistent oil dependency and the limited impact of economic gains on the population as a whole highlight the necessity for more targeted and inclusive policies to ensure sustainable and equitable growth. Ultimately, the limited success of RFI loans in driving structural transformation and sustained growth could be attributed to a lack of a comprehensive approach to development. Such an approach could include guidelines and enforcement of development-focused actions, as the current agreements fail to consider the dimensions of social capability adequately. In line with the theory, an approach that is not adequately pro-poor and focused on aspects beyond infrastructure development can perpetuate growth that disproportionately benefits the elite and those in power. Recently, some strides have been made, i.e., discussions of tax reforms and fiscal responsibility legislation, which may signal the beginnings of a move towards broader structural transformation and catch-up, but the historical trend of the RFI loans shows how a small section of society has benefitted the most.

6 Conclusion

This thesis examines the implications of Chinese RFI loans on Angola's structural transformation process and economic development through the lens of Social Capabilities Theory, which offers a new perspective on the topic. Despite significant financial and infrastructural inputs, economic transformation in Angola has been limited. This thesis evaluates how these loans align with the four dimensions of social capabilities—transformation, inclusion, autonomy, and accountability—and explores the implications of China-Angola RFI agreements on these dimensions.

The analysis's findings suggest that Angola has not experienced a significant structural transformation. Most of the labor force remains in a less productive agricultural sector, and the agricultural gap has failed to converge. This indicates that the RFI agreements may not significantly promote the social capabilities necessary to foster economic transformation. This view is strengthed by the continued economic reliance on oil, suggesting little progress in the diversification of the economy. While RFI loans have some positive outcomes, particularly in specific manufacturing sectors driven by infrastructure improvements, the overall impact on equitable growth has been limited, and infrastructure projects often fail to meet local needs.

The rising poverty rates and unequal income distribution highlight the failure to achieve pro-poor growth, a crucial aspect of the catch-up process that might result from the lack of stipulations and conditions of the loans. These findings highlight the need for a more targeted and inclusive RFI approach to ensure sustainable and equitable economic growth in Angola. It also emphasizes the need to overcome challenges in fiscal stability and public spending, which are also heavily impacted by oil dependency and rising debts from RFI loans.

Potential practical implications include evaluating and enhancing social capabilities in resource-rich developing nations. Policymakers could use these insights to argue for a diversification of economies beyond sectors such as oil and ensure that economic benefits reach underprivileged groups through targeted educational and healthcare programs. Additionally, this thesis's findings highlight the need for improved autonomy and accountability in managing international loans, emphasizing that transparent governance is essential to effectively use funds for sustainable development. By considering community feedback for infrastructure projects and aligning international financial cooperation with national development agendas, Angola could better ensure that such initiatives support inclusive growth and contribute positively to the global discourse on development.

Various focused studies could benefit future research on the implications of RFI loans. For instance, a comparative analysis of other resource-rich countries that have entered this type of loan agreement could help better understand how RFI loans impact economic and social indicators within a diverse setting. Field studies examining the real-life implementation of specific RFI projects could provide valuable insights into other specific challenges. Accessing and analyzing specific terms of the RFI agreements, which are often not publicly available, would allow researchers to assess specific stipulations in more detail and better understand how these loans impact transformation and growth and comply with international standards of development finance. This could involve collaborating with governments and international organizations to gain access to relevant documents. Moreover, this field could benefit from more quantitative analysis of the impacts of RFI loans on the local economy, economic diversification, and income distribution, providing a more comprehensive view of the effects of the loans. Such research could impact policymaking in developing resource-rich countries.

In summary, this thesis applies social capabilities theory to analyze the implications of Chinese RFI loans on economic transformation and catch in Angola. Despite significant infrastructure improvements, the findings suggest limited progress in terms of structural transformation and growth, with a remaining reliance on agriculture and oil. The findings also suggest the need for policies that enhance these social capabilities to foster equitable and sustainable economic growth. Future research could further explore the implications of RFI loans in other resource-rich countries and attempt to improve transparency and literature regarding details of the conditions and stipulations of the RFI loans.

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