Master's program in Economic Growth, Population, and Development (First Year)

Governance and Control

The Legal Architecture of Chinese Sovereign Lending in Africa

By

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This thesis examines how governance quality influences the legal and financial terms of Chinese sovereign loan contracts in Africa. With a qualitative approach, using a comparative case study of Ghana, Uganda, the Republic of Congo, and Botswana, it examines the presence and severity of clauses such as confidentiality, sovereign immunity waivers, governing law, collateralization, and dispute resolution mechanisms. By linking contract terms to World Governance Indicators, the study finds a correlation between lower governance scores and more creditor-favoring legal structures. Drawing on bargaining theory, institutional theory, and legal asymmetry, the analysis reveals that countries with weaker institutions and limited oversight are more likely to accept restrictive contractual terms. However, it also highlights that this relationship is correlational, not causational, and shaped by broader politics and economics, including limited access to alternative funding and China's evolving role as a lender. This study contributes to existing literature by offering clause-level comparisons and showing how governance context shapes legal outcomes in sovereign borrowing.

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List of Abbreviations

BRI - Belt and Road Initiative

CIETAC - China International Economic and Trade Arbitration Commission

FDI - Foreign Direct Investment

GE - Government Effectiveness

IMF - International Monetary Fund

PV - Political Stability and Absence of Violence/Terrorism

RL - Rule of Law

RQ - Regulatory Quality

SOE - State Owned Enterprises

VA - Voice and Accountability

WGI - Worldwide Governance Indicators

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1. Introduction

From the beginning of the 21st century, China has grown to become a leading provider of development finance to the Global South, leading to significant changes in the structure of international lending. This transformation is particularly evident in Africa, where Chinese development finance has become a key contributor to the continent's infrastructure expansion and economic modernization efforts. China has funded roads, railways, power stations, dams, and government buildings through state-owned banks and enterprises, often under the Belt and Road Initiative (BRI) umbrella. Between 2000 and 2020, Chinese policy banks provided over $150 billion in loan commitments to African countries, positioning China as Africa's largest bilateral creditor. (Brautigam & Hwang, 2016; Horn, Reinhart & Trebesch, 2019)

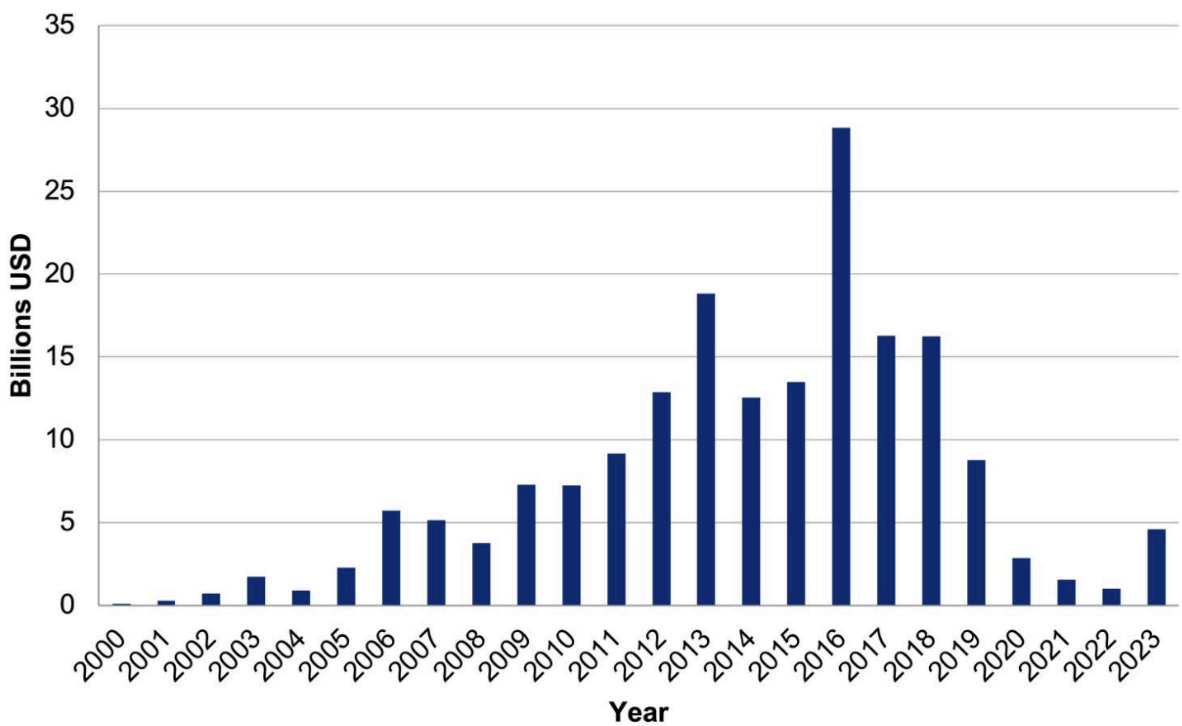

Figure 1: Chinese loans to Africa, 2000-2003 (Chinese Loans to Africa Database, 2024)

The Chinese financial engagement in Africa is praised for addressing urgent development gaps, particularly in infrastructure. However, China's lending practices have also raised questions about transparency, sustainability, and the legal structures underpinning sovereign debt. Unlike loans from traditional institutions such as the International Monetary Fund (IMF) and the World Bank, which typically adhere to standardized guidelines and are subject to public examination, Chinese loan contracts are negotiated bilaterally and often include confidentiality clauses that prevent public disclosure (Gelpern et al., 2021). This lack of transparency has raised concerns about "hidden debt", unforeseen fiscal liabilities, and the destruction of natural sovereignty (Debt Justice, 2018).

Recent research on Chinese loan contracts has studied the characteristics and shown that these contracts contain provisions that differ significantly from the norms observed in Western lending (Gamboa-Arbelaez, 2023). These include confidentiality clauses, escrow arrangements, cross-default terms, and waiver of sovereign immunity, as well as the use of foreign legal jurisdictions for dispute resolution (Gelpern et al., 2021; Jones & Hameiri, 2020). These legal mechanisms can have significant implications, especially in countries with weak governance systems where institutional checks and balances are limited and where the capacity to evaluate and negotiate complicated loan agreements may be constrained.

At the same time, governance quality has emerged as a critical factor in shaping development outcomes. In the broader aid and finance literature, there is growing recognition that the effectiveness and consequences of external finance are conditioned by the institutional environment of the recipient country (Alesina & Tabellini, 1989; Bird & Rowlands, 2002; 2009). Yet, while some research has explored how governance affects aid allocation and the likelihood of debt distress, far less is known about how governance influences the actual design of loan contracts, particularly in the case of Chinese financing (Dreher et al., 2018)

This thesis seeks to fill that gap by investigating whether and how the quality of governance in African countries shapes the legal and financial terms of their loan agreements with Chinese lenders. It will focus specifically on whether restrictive or creditor-favorable clauses, such as confidentiality, collateral requirements, sovereign immunity waivers, and foreign governing law, are more likely to be included in contracts with countries exhibiting weaker governance indicators.

1.1 Aim and Scope:

This study employs a qualitative, comparative case study methodology to address this research. It draws on a dataset of Chinese loan contracts compiled by AidData (Gelpern et al., 2021), which includes detailed legal and financial information from agreements signed with sovereign borrowers across Africa. Together with the framework of theories, including bargaining theory and institutional theories, these contracts will be analyzed in relation to governance indicators from the World Bank Worldwide Governance Indicators (WGI). Four countries in different regions with different indicators have been studied to reach a generalizable result in Africa. The countries examined are Botswana, Ghana, Uganda, and the Republic of Congo, where Botswana and Uganda are on the higher spectrum of the governance level of the region, and Uganda and Congo are on the lower. To reach an applicable result, the study aims to find a correlation between the governance indicators and the clauses of contracts, analyzing whether the terms of the loans are less favorable for countries with lower indicators. The following research question will guide the thesis:

RQ: How do variations in governance quality across African countries shape the contractual terms of Chinese sovereign loans?

1.2 Thesis Outline

This thesis, exploring the contractual terms of Chinese loan contracts in relation to Worldwide Governance Indicators, will begin by introducing the history of Chinese lending in Africa, explaining the clauses found in contracts, and the different dimensions of the WGI. The background is followed by a theoretical framework, synthesizing bargaining power and sovereign debt theories with institutional frameworks that will guide the discussion of the results. Next is the literature review that discusses existing research on Chinese lending projects in Africa. Then the results are presented, analyzed, and discussed in the guidance of the research question as well as the theoretical framework. Then the methodology is presented, including research design, data collection, and limitations. Lastly, the thesis will be concluded, generalizability will be discussed, and suggestions for possible future research will be provided.

2. Background

This chapter provides the necessary background for understanding the legal and institutional frameworks of Chinese lending. It introduces the changing global debt landscape, China's growing role as a lender, and the features distinguishing Chinese loan contracts from traditional lenders. The chapter also frames the central argument of this thesis: that the legal content of sovereign debt contracts is not consistent but varies in ways that reflect borrower governance. This understanding has direct implications for transparency, institutional accountability, and the long-term development strategies of borrowing countries. With the establishments made, this chapter sets the groundwork for the following empirical and theoretical analysis.

2.1 Development Finance in Africa - China's role

China's financial engagement in Africa began in the 1960s and accelerated following the establishment of the Forum on China-Africa Cooperation in 2000 (Mukete, 2021). Today, Chinese institutions are involved in funding infrastructure projects ranging from roads and railways to telecommunications and urban development. This significant increase in funding was formalized further under the Belt and Road Initiative (BRI), launched by Xi Jinping in 2013, which has become the flagship of China's global connectivity strategy (Anwar, 2019).

Unlike traditional Western lenders, China promotes a model of "non-interference" in domestic politics, emphasizing mutual benefit and strategic partnerships. As Van Dijk (2009) argues, China's investments often blur the line between FDI, aid, and loans. Chinese finance is frequently tied to procurement by Chinese firms, with concessional loans usually backed by resources such as oil or minerals. The China Exim Bank and China Development Bank are the primary conduits for these flows, often working alongside Chinese SOEs

This form of finance has appealed to African governments frustrated by the conditionalities imposed by Western donors. According to Were (2018), many African countries turned to China as traditional sources of aid declined and infrastructure needs remained acute. At the same time, Anwar (2019) and Hanauer and Morris (2014) highlight how China's motivations also include addressing internal economic pressures, exporting surplus industrial capacity, and securing access to resources and sea ports.

2.2 Features of Chinese Loan Contracts

What defines Chinese Development Finance is the complicated strategic design of sovereign loan contracts, which often differs significantly from traditional lending. Chinese contributions to developing countries are therefore seldom named as aid or contributions. The legal and financial instruments of the loans not only serve to protect Chinese commercial and strategic interests but also to assert control over risk in high-volatility lending environments. The Gelpern et al. (2021) analysis of over 100 Chinese sovereign loan contracts found a recurring set of provisions significantly more forceful than those found in World Bank or Paris Club lending frameworks.

- *Confidentiality Clauses*: Almost all Chinese contracts include strict confidentiality requirements that hinder the borrower from disclosing the existence or content of the agreement without explicit written permission from the lender. These clauses limit transparency and public accountability, preventing scrutiny by domestic parliaments, civil society, or international financial institutions.
- *Cross-default and Cross-Cancellation Clauses:* These provisions permit China to accelerate repayment or cancel a loan if the borrower defaults on another unrelated loan or if a change in national policy or legislation is deemed harmful to the lender's interest. This effectively links multiple financial obligations across different projects and discourages policy changes by sovereign borrowers that might undermine Chinese contracts.
- *Collateralization and Revenue Escrow Arrangements:* In cases like Angola and Chad, Chinese loans are backed by export revenues from commodities like oil. These loans often establish escrow accounts - controlled or monitored by Chinese banks - into which export earnings are deposited to secure repayment. This practice prioritizes Chinese repayment over other sovereign expenditures and limits the fiscal flexibility of the borrowing government (Mukete, 2021)
- *Sovereign Immunity Waivers and Legal Jurisdiction:* Many Chinese loan contracts include clauses in which the borrowers waive sovereign immunity from jurisdiction and

execution, meaning China can sue or seize sovereign assets in case of default. These contracts often designate foreign jurisdictions - frequently in Hong Kong, Beijing, or English courts - as the legal forum for dispute resolution. Bradlow (2024) and Gelpern et al. (2021) argue that this increases China's legal leverage in disputes and complicates multilateral debt restructuring.

- *Escrow and Material Adverse Change Clauses:* Some contracts contain provisions that allow China to withdraw from the agreement if the borrower experiences a material adverse change in economic or political conditions. This increases China's flexibility while reducing that of the borrower, often leaving developing country governments exposed to the unpredictability of global markets and domestic instability.

In contrast to loans from institutions like the IMF or the World Bank, which are governed by clearly defined multilateral frameworks and are subject to external oversight, Chinese loan contracts are constructed to be highly confidential and customized. The consequence is agreements that may be more difficult to renegotiate or restructure in the event of financial distress. Furthermore, the asymmetry in legal expertise, negotiation experience, and institutional resources between Chinese lenders and African borrowers frequently tilts the contractual relationship in China's favor (Were, 2018; Mukete, 2021).

This legal architecture suggests that Chinese finance is not simply for capital flow; it also leads China to shape debt governance and state-market relations in borrowing countries. As Anwar (2019) and Van Dijk (2009) suggest, the legal terms of these contracts show China's deeper strategic objectives: to secure repayment, mitigate enforcement risk, and, where possible, exercise informal political influence through legal and financial leverage.

2.3 Debt Transparency, Sovereignty, and Governance Concerns

Confidentiality in Chinese lending has led to transparency gaps. Countries like Zambia and Mozambique have faced debt crises partly due to undisclosed liabilities (Were, 2018; Debt Justice, 2018). These "hidden debts" complicate multilateral support and raise borrowing costs. Governance quality is a key variable in understanding how countries manage and negotiate Chinese finance. Countries with weak public financial management systems and low bureaucratic capacity are more susceptible to opaque, poorly negotiated agreements. Dreher et al. (2018) find that Chinese finance is less responsive to governance indicators, while Mukete (2021) shows that poorly governed countries are more likely to experience fiscal distress under Chinese debt.

Moreover, Van Dijk (2009) and Hanauer and Morris (2014) argue that Chinese investments can reinforce authoritarian regimes by providing unconditional financial support, sometimes in exchange for strategic concessions. However, Anwar (2019) and Were (2018) emphasize that African governments are not passive actors. They actively seek Chinese loans to finance infrastructure agendas, often as part of a broader diversification strategy away from Western aid conditionalities.

2.4 China's Strategic Motives and the Dependency Debate (and BRI)

The Belt and Road Initiative (BRI), launched by China in 2013, has become one of the most ambitious infrastructure and development programs in modern history. Its goals include enhancing regional connectivity and promoting economic cooperation across Asia, Africa, and Europe. However, the BRI has also drawn significant scholarly attention for its geopolitical implications and the potential creation of new forms of dependency among participating countries (Hurley, Morris & Portelance, 2018; Li et al., 2022).

Several studies emphasize the strategic motivations behind BRI. Economically, the initiative allows China to export surplus industrial capacity, promote international use of the Chinese Yuan, and secure access to energy and natural resources. Politically, it has been interpreted as a path for China to extend its sphere of influence and offer an alternative dependent model to the liberal international order dominated by Western institutions (Madeira, Ferreira & Cardoso, 2023). The literature also critically assesses the consequences of Chinese lending under the BRI framework. Scholars have drawn parallels between Chinese loans and the risks of "debt-trap diplomacy" - a term often used to describe scenarios in which countries incur unsustainable debt that ultimately results in the surrender of strategic assets or political concessions. While this claim is debated, the example of Sri Lanka's Hambantota Port and discussions around Kenya's

Standard Gauge Railway have intensified concerns regarding sovereignty and economic dependency (Hurley et al., 2018; The Times, 2024).

China’s approach has been praised for providing urgent infrastructure financing in low-income countries. Still, its opacity and creditor-favored legal clauses have led to debates about accountability and borrower autonomy. In Africa, countries such as Djibouti, Kenya, and Zambia have experienced rising debt service obligations that have prompted domestic and international scrutiny (AP News, 2023; The Times, 2024).

However, literature also notes an evolving dynamic. Recent studies indicate that China is adapting the BRI model in response to criticism, emphasizing project sustainability, environmental standards, and debt restructuring mechanisms (Li et al., 2022). Moreover, borrowing countries have increasingly begun to assert themselves in negotiations, pushing back on clauses deemed too restrictive or opaque, and seeking greater alignment between infrastructure projects and national development goals.

This debate aligns closely with dependency theory, which posits that international financial relations often reinforce structural inequalities between core and peripheral states. Although Chinese lending may be distinct in form from traditional Western finance, some scholars argue that it similarly risks reproducing unequal power dynamics under the guise of South-South cooperation (Madeira et al., 2023). This dual perspective - between agency and dependence - frames much of the current scholarly discourse on China’s strategic motives and the long-term implications of the BRI.

2.5 Implications

Understanding the legal terms embedded in sovereign loan contracts, especially those signed with non-traditional lenders like China, has significant implications for debt sustainability, fiscal sovereignty, and the broader policy of developing countries (Bradlow, 2024). This study contributes beyond the research of debt and interest rates by moving to the contractual structures of external borrowing. The relevance of this study lies in the fact that contract clauses can fundamentally alter a country's development trajectory, even if borrowing terms may appear concessional. Confidentiality clauses may restrict transparency, hindering the general population’s oversight and democratic accountability. Sovereign immunity waivers and foreign arbitration venues may reduce a country’s ability to defend its legal interests in the case of a crisis. Collateral and escrow clauses can lock up critical revenue streams, limiting health, education, and infrastructure investments.

Moreover, the contractual asymmetry between lender and borrower may reproduce or even increase governance challenges in low- and middle-income countries. When contracts are structured in ways that sideline domestic institutions, they risk weakening long-term institutional development. In this way, legal terms in debt agreements are not only financial instruments but also political economy instruments (Hanauer & Morris, 2014; Mukete, 2021).

By focusing on how legal clauses correlate with governance quality, this study informs three distinct policy debates:

- For borrower governments, it highlights the need to strengthen legal and institutional capacity in debt negotiations.
- It underscores the importance of transparent debt practices for development partners and multilateral institutions and advocates for standardization and public disclosure.
- For scholars, it offers empirical evidence to asses opaque legal agreements that weakens accountability, even in countries with some governance strength.

This study shows that development finance is not only about the flow of capital but also about its form. Without understanding the legal conditions under which debt is concentrated, policy responses to debt stress, transparency, and governance will remain incomplete.

3. Theoretical Framework

This chapter lays out the theoretical foundations that guide the analysis of how governance affects the legal and financial terms of Chinese sovereign loan contracts in Africa. It combines insights from bargaining theory, institutional theory, legal asymmetry in sovereign debt, and, to a limited extent, dependency theory to provide a deep understanding of power and contract design in international finance.

3.1 Bargaining Theory of Sovereign Debt

At the core of this study is the assumption that loan contracts are negotiated outcomes, shaped by the relative bargaining power of creditors and borrowers. Bargaining power, particularly as applied to sovereign debt (Pitchford & Wright, 2012; Tomz, 2007), views debt negotiations as interactions shaped by asymmetric power, information asymmetries, and enforcement limitations.

Sovereign borrowers with stronger governance frameworks, fiscal health, and alternative funding options are more likely to have bargaining leverage. This allows them to push back against restrictive clauses such as confidentiality requirements, collateral-backed loans, or waivers of sovereign immunity. In contrast, countries with weak institutions or urgent financial needs may find themselves compelled to accept unfavorable terms. This theory helps explain why Chinese loan contracts vary significantly across countries. Lenders depend on contractual clauses to enforce compliance without an overarching enforcement mechanism in the sovereign lending arena (Were, 2018). Bargaining theory, therefore, provides a framework for understanding why riskier borrowers receive more assertive or creditor-friendly contracts. Tomz (2007) also emphasizes the importance of reputational capital, where repeated interactions and reputational concerns may influence both the borrowing and lending sides.

3.2 Institutional Theory and Governance Capacity

Institutional theory states that economic outcomes, including the quality of public debt management and legal contracting, are shaped by domestic institutions' underlying strength and structure (North, 1990). Strong institutions typically enforce property rights, support fiscal policy, and uphold the rule of law, enabling governments to negotiate international loan contracts more equitably. In contrast, states with fragile institutions may lack the legal expertise, technical capacity, or internal checks to resist opaque or creditor-favored clauses. Institutional theory is relevant to this study because it explains how the strength and structure of a country's political and legal institutions influence its capacity to negotiate.

This perspective is also reinforced by Acemoglu, Johnson, and Robinson's argument that economic institutions are endogenous and shaped by underlying political power structures (Acemoglu et al., 2001; 2004). In countries where political elites face few constraints, institutions are more likely to evolve in ways that benefit themselves rather than promoting long-term collective outcomes such as transparency or debt sustainability. In this context, contractual asymmetries, such as broad sovereign immunity waivers or opaque dispute resolution terms, can be seen as legal expressions of institutional weakness or elite bargaining misalignment. In applying this to sovereign borrowing, Acemoglu's model suggests that governments with concentrated political power may accept long-term fiscal constraints in loan agreements because the consequences do not affect them directly. Political leaders may prioritize short-term access to capital or project support, knowing that the risks will be put on future administrations or the general population, a classic principal-agent misalignment (Acemoglu et al., 2002).

Similarly, North, Wallis, and Weingast's (2006) framework distinguishes between limited access orders (typical of many developing countries) and open access orders (characteristics of advanced democracies). In restricted access systems, governments maintain political stability by distributing rents and limiting competition, including in economic and legal terms. The logic of this system aligns closely with the kind of discretionary, non-transparent bilateral contracts found in Chinese lending. Such arrangements may function as tools of elite rent distribution and are less subject to institutional scrutiny or competitive bidding systems, characteristics that would be less tolerable in open access systems.

In this sense, the variation in Chinese loan contracts across African countries can be seen as a result of lender strategy and borrower institutional type. Where countries exhibit limited access characteristics: weak legal checks, restricted press freedom, or politicized fiscal institutions, loan terms will likely reflect greater financial risk shifted to the borrower. Thus, both AJR and NWW frameworks help explain why contract-level features vary not only by lender but crucially by the borrower’s institutional context. These insights build on the classical institutionalist argument (North, 1990), but shift the focus to how power and distributional incentives shape contractual behavior in international lending.

The institutional theories can also be tied to the principal-agent theory, which provides an important behavioral complement. It posits that when authority is delegated from principals (the public or parliament) to agents (politicians or bureaucrats), the agents may act in ways that serve their own interests rather than the collective good (Jensen & Meckling, 1976). In the context of sovereign lending, this can mean negotiating contracts that are politically expedient in the short term but fiscally damaging in the long term.

In low-governance settings, the principal-agent problem is often urgent: opaque institutions, weak oversight, and limited civil society participation reduce accountability, allowing agents to sign contracts that lack transparency or embed creditor-friendly terms. As Tanzi and Davoodi (1997) suggest, public investment decisions in corrupt or opaque systems often fail to meet development goals. Applied to Chinese loan contracts, principal-agent theory helps explain why countries with governance deficiencies may agree to clauses that would be politically or fiscally unacceptable in better-governed states.

This theory connects the dots between governance quality, political incentives, and contractual vulnerability, making it particularly valuable in understanding why restrictive clauses may proliferate in some environments but not others.

3.3 Legal Asymmetry

Legal asymmetry theory highlights how international lenders, particularly non-Paris Club creditors like China, strategically design contracts to maximize their legal and enforcement power (Gelpern et al., 2021). Without a universal legal regime for sovereign debt restructuring, creditors insert clauses - such as sovereign immunity waivers, foreign jurisdiction, stabilization provisions, and cross-default triggers - that provide greater enforcement leverage.

These clauses are not neutral. They operate as instruments of legal control, especially in contexts where the borrower's legal infrastructure is weak or where domestic courts are unlikely to challenge such terms. Bradlow (2024) and Guzman et al. (2016) argue that these mechanisms represent a privatization of sovereign enforcement through contracts. While ostensibly framed as risk mitigation tools, these clauses reflect asymmetrical access to legal expertise and international legal forums. Legal asymmetry interacts with bargaining and institutional capacity in significant ways. Countries with weak governance are often those most affected by the consequences of legal asymmetry, facing the highest risk of asset seizures, jurisdictional entanglements, or the inability to restructure debt during crises.

3.4 Synthesis and Conceptual Framework

This thesis adopts a layered theoretical approach. Bargaining theory serves as the primary framework, explaining how power asymmetries influence contract outcomes. Institutional and principal-agent theory, and legal asymmetry offer mechanisms through which governance shapes bargaining strength and legal vulnerability. Dependency theory informs a critical reflection on the macro-political implications of creditor-dominated contract design.

Governance is thus understood as a multifaceted variable affecting technical capacity, political incentives, bargaining strength, and ultimately, the sovereignty embedded in legal agreements. The conceptual framework guiding this research is visualized here:

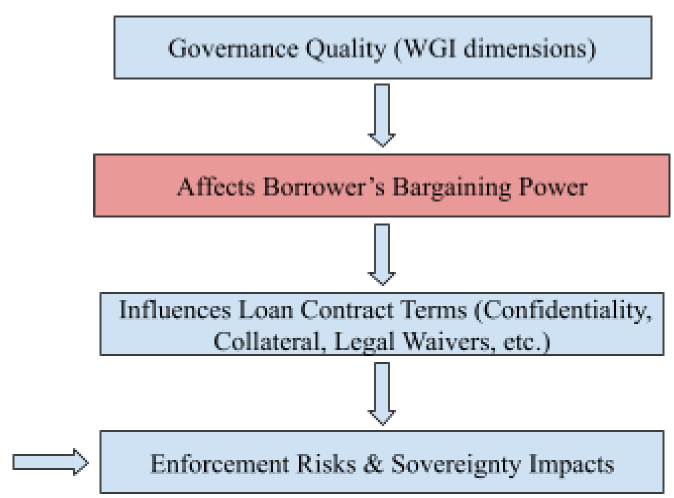

Figure 2: Synthesis of conceptual framework showing the steps where governance quality influences the terms of loan contracts.

4. Literature Review

This chapter reviews the academic literature and empirical research relevant to studying Chinese sovereign lending, governance quality, and the design of international loan contracts. It positions this thesis within the broader field of global development finance and identifies key debates, empirical findings, and theoretical gaps that inform the research questions.

The review is structured thematically. It begins with an overview of China's emergence as a major player in sovereign lending and development finance, particularly in Africa. It then examines Chinese loan contracts' unique legal and financial characteristics and discusses the role of governance and institutional quality in shaping borrowing behavior and contractual outcomes. Further sections address the empirical findings of debt management capability and legal asymmetry in sovereign debt.

While a growing number of studies have explored volume, allocation, and developmental impact of Chinese aid and loans, few studies have engaged in detailed, contract-level analysis of the terms embedded in these agreements. Fewer still have analyzed how governance quality conditions the nature of loan terms, particularly concerning legal features such as collateralization, confidentiality, or waiver of sovereign immunity. This research contributes to that emerging field by bridging the gap between political economy, governance studies, and international law.

4.1 The Rise of Chinese Sovereign Lending

China's ascent as a global development financier has significantly changed the international lending landscape. Unlike traditional donors and lenders, whose practices are institutionalized through the Paris Club, the World Bank, or the International Monetary Fund (IMF), China operates through bilateral relationships, often favoring confidentiality and policy non-conditionally (Brautigam, 2009). This bilateralism allows China greater flexibility, but also raises questions about accountability, enforcement, and long-term debt sustainability.

The Forum on China-Africa Cooperation (FOCAC) launch in 2000 marked a turning point in Beijing's engagement with Africa. China expanded its development finance toolkit through this platform, offering infrastructure loans, export credits, and concessional financing. According to Brautigam and Hwang (2016), between 2000 and 2014 alone, Chinese lenders signed over 86 billion US dollars in loans to African governments. More recent studies suggest that by 2020, China had become the most significant bilateral creditor to the continent (Gelpern et al., 2021; Hown, Reinhard & Trebesch, 2019).

Much of this financing is delivered through Chinese policy banks, notably the Export-Import Bank of China and the China Development Bank, as well as SOEs. These institutions typically structure loans to align with China's strategic and commercial interests. Loan agreements often include requirements for using Chinese contractors, and in many cases, projects are embedded in larger diplomatic initiatives such as the Belt and Road Initiative (Anwar, 2019). China's approach has been praised for addressing Africa's infrastructure gap without the political conditionalities imposed by Western lenders. However, it has also been criticized for fostering opaque financial relationships, over-indebtedness, and the erosion of borrower autonomy (Debt Justice, 2018). A central concern in the literature is the lack of standardized practices in Chinese lending. Without a multilateral framework, Chinese loans vary widely in legal structure, enforcement terms, and dispute resolution mechanisms (Brawlow, 2024). This variation makes it essential to analyze case-by-case to understand how lender and borrower conditions shape outcomes.

The motivations behind China's lending practices are also debated. Some scholars emphasize China's economic interests - securing access to natural resources, exporting industrial capacity, and supporting domestic enterprises abroad (Hanauer & Morris, 2014). Others highlight geopolitical objectives, arguing that China uses infrastructure finance to build influence, secure strategic footholds, and offer an alternative development model to Western liberalism (Van Dijk, 2009). While these motivations are not mutually exclusive, they underscore the complex nature of China-Africa financial ties and the importance of examining contracts as more than technical instruments, but as reflections of deeper political and economic dynamics.

4.2 Characteristics of Chinese Loan Contracts

In several key structural and legal aspects, Chinese sovereign loan contracts differ from traditional loan agreements from multilateral institutions or Paris Club members. These differences are legal technicalities and represent strategic tools through which China imposes creditor leverage, maintains information asymmetries, and protects its financial interests.

One of the most predominant features distinguishing Chinese loan contracts is the opacity found in confidentiality clauses, which became more systematic after 2014. Gamboa-Arbelaez (2023) has found that while confidentiality clauses are standard in private lending, they usually bind the lender rather than the borrower. In Chinese contracts, however, the borrower is prohibited from disclosing terms, which obscures fiscal risks and impairs debt transparency efforts by institutions such as the IMF and World Bank. Another divergence lies in the enforcement mechanisms found in the contracts. Chinese loan agreements that often contain sovereign immunity waivers, arbitration in Chinese jurisdictions, and foreign governing law, usually Chinese. These features differ significantly from Paris Club conventions, where dispute resolution typically relies on international arbitration or the borrower's domestic legal systems. Moreover, Gamboa-Arbelaez (2023) also argues that the clauses in Chinese contracts tend to be more broadly defined, where the borrower can change its policies due to unrelated political events.

In terms of collateralization, Chinese contracts use escrow or revenue accounts instead of physical assets. Gelpern et al. (2021) found that over 70% of such agreements required borrower governments to direct revenues, even from unrelated projects, through specially designated accounts controlled or monitored by Chinese lenders. This method of securing repayment has raised concerns about sovereignty and debt sustainability (Gelpern et al. 2021).

These features collectively contribute to the so-called “hidden debt” phenomenon, where liabilities are not reported in public datasets or debt sustainability frameworks. This often affects fiscal planning and coordination with other creditors (Horn et al. 2021). Horn et al. (2021) have shown that the non-disclosure and collateral structure can complicate crisis response efforts, especially when debt restructuring is needed.

Many Chinese contracts also contain clauses that exclude them from multilateral restructuring mechanisms, especially those involving the Paris Club. This ensures that China remains outside collective renegotiation efforts (Gamboa-Arbelaez, 2023). The lack of standardization across contracts contrasts with traditional creditors, who often use templates with minor country-level adjustments. In Chinese lending, legal terms are customized based on the country, project, and sometimes even the political context. As Mukete (2021) noted, this flexibility allows Chinese lenders to adapt to the governance environments and prioritize political or commercial goals over ethical lending practices.

This contract structure aligns closely with what Gelpern et al. (2021) and Bradlow (2024) call legal asymmetry, where the creditor designs contracts to maximize its legal measures while minimizing the borrower's ability to dispute or restructure. This reflects a growing divergence in sovereign lending practices and challenges the assumptions about transparency and cooperation in global finance. While these studies provide valuable and extensive insights into the structure of Chinese loan contracts, most focus on aggregated datasets and summaries based on quantitative methods. There is still limited research that combines the governance characteristics and conducts comparative clause-level analysis across borrower countries. Furthermore, the specific ways in which legal design interacts with institutional quality remain unstudied. This study, therefore, contributes to filling that gap by linking the content of Chinese sovereign loan agreements to governance indicators.

While these contracts have been studied significantly, the gap this research aims to fill is the comparative study between governance quality and clause severity.

4.3 Governance and Debt Management Capability

The role of governance in sovereign debt management is a central concern in both theoretical and empirical literature. Governance influences the quality of debt management institutions, borrowing practices' transparency, and fiscal accountability enforcement. Numerous studies have shown that governance quality significantly correlates with borrowing practices and fiscal outcomes (Presbitero, 2012; Pescatori et al., 2014). In well-governed countries, stronger legal institutions and accountability mechanisms tend to improve debt transparency, reduce the risk of hidden debt, and facilitate better terms in borrowing.

Presbitero (2012), using panel data from low- and middle-income countries, found that countries with stronger governance indicators were less likely to experience negative debts. Similarly, Pattanayak and Fainbom (2011) argue that efficient public financial management (PFM) depends critically on the institutional framework governing budget execution, debt reporting, and fiscal oversight. Weak institutions undermine technical capacity and open the door to political opportunism in debt contracting, especially in contexts where executive power is unchecked.

In the African context, governance challenges are particularly urgent. Were (2018) has observed that in Kenya, for example, secrecy around Chinese loan agreements was aggravated by weak parliamentary oversight and limited public access to information. A similar pattern was found by Horn, Reinhart, and Trebesch (2024), who documented how off-balance-sheet borrowing has flourished in countries with low transparency standards, highlighting that hidden debts are more common where PFM systems are underdeveloped. These studies are particularly significant for the purpose of this thesis as they have studied similar cases in other developing countries. The arguments made by these scholars can be used to benchmark the results of this study.

Furthermore, the Collaborative Africa Budget Reform Initiative (CABRI, 2021) found that most African governments do not maintain accurate records of their public debt stock, especially for non-Paris Club creditors like China. Many countries fail to report contingent liabilities or provide updated information about collateralized loans, impeding debt sustainability analysis. Tarek and Zidi (2017) from the African Development Bank argue that the legal framework for public debt management in many countries is either incomplete or inadequately enforced, leaving gaps that external creditors can exploit. Specific case studies also reinforce the institutional connection. In Ghana, for example, Lang (2021) shows that the post-HIPC improvement in debt transparency deteriorated in the 2010s as Chinese loans increased and parliamentary scrutiny declined. In Uganda, Atabongwoung (2022) finds that while a legal framework for debt management exists on paper, executive dominance over fiscal decisions has allowed large infrastructure loans to be signed without proper public disclosure or “ex ante” parliamentary approval.

One key concern in recent research is the interaction between legal structure and institutional quality. Gelpern et al. (2021) and Bradlow (2024) emphasize that the inclusion of legally aggressive clauses, such as broad sovereign immunity waivers, cross-default triggers, and confidentiality terms, is not uniform but varies based on borrower capacity. This implies that creditors, including China, may customize contracts to the borrowing country's perceived institutional strength or weakness. Yet, few studies perform clause-level comparisons across countries or connect these legal differences to governance metrics.

While institutional and principal-agent theories are often invoked to explain poor borrowing outcomes, empirical work linking these frameworks to contract design remains limited. Research similar to this thesis, examining how governance indicators like the WGI correlate with the severity of contract terms, is absent.

4.4 Legal Power and Asymmetry in Sovereign Debt

Legal asymmetry in foreign debt refers to the unequal distribution of legal power in lending relationships, typically favoring the creditor. In the context of Chinese sovereign lending, this asymmetry is signified in contracts that grant Chinese lenders legal protection through clauses on sovereign immunity waivers, broad default triggers, and creditor-friendly dispute resolution procedures.

Gelpern et al. (2021) have found that nearly three-quarters of Chinese loan contracts in their dataset include waivers of sovereign immunity, even for non-commercial assets. This approach differs from traditional multilateral and Paris Club lenders. Combined with foreign governing law and arbitration under institutions such as CIETAC in Beijing, these waivers minimize borrower control over dispute resolution. Bradlow (2024) argues that these clauses create a privatized enforcement regime in place of multilateral frameworks, especially in jurisdictions with weak domestic institutions. The research by Gelpern et al. (2021) has enabled scholars to begin the work of analyzing the Chinese contracts, even though the field is still in the early stages.

Gamboa-Arbelaez (2023) supports this view through the empirical work showing that legal discretion built into Chinese contracts is more expansive in countries with low governance, suggesting a calculated adjustment of legal risk. Congo's contracts, for instance, regularly include full waiver of immunity, cross-default clauses, and material adverse change (MAC) provisions that allow lenders to trigger default based on loosely defined criteria. In contrast, Botswana's older and institutionally stronger agreements lack many of these features (Gelpern et al. 2021). As these studies are directly related to the aim of this thesis by studying the same contracts, they are of particular relevance. Cross-country comparison is lacking in this case, and this research needs to fill the gap.

4.5 Empirical Studies on Chinese Lending Outcomes in Africa

The empirical literature on Chinese lending in Africa increasingly highlights the heterogeneity of outcomes and the importance of borrower agency in shaping those outcomes. While earlier scholars often portrayed China as a dominant creditor in imposing opaque terms, more recent research shows that African governments are not only passive recipients but also strategic actors whose political choices and institutions affect loan outcomes.

Lang (2021) shows that despite relatively stronger governance structures compared to some peers, the government in Ghana has developed some control over external borrowing decisions. This has led to Chinese loan agreements that bypass parliamentary oversight and include confidentiality clauses and sovereign immunity waivers, which are enabled by domestic governance gaps. In Uganda, Atabongwoung (2022) similarly finds that weak institutional checks and centralized fiscal authority have facilitated the acceptance of contracts with limited transparency and broad default triggers.

Conversely, Botswana has demonstrated that strong borrower institutions can shape the terms of engagement. Brautigam (2020) and Shinn (2013) note that Botswana's more transparent procurement procedure and legal safeguards have allowed it to avoid many of the restrictive legal terms standard in Chinese loan contracts, suggesting that borrower capacity plays a decisive role in determining outcomes.

Despite the growing empirical attention to this subject, most studies focus on macrolevel outcomes or quantitative studies. Comparative, clause-level research that ties the legal design directly to governance quality is yet limited. This thesis contributed to addressing that gap.

4.6 Conclusion of Literature Review

The reviewed literature has outlined the scholarly debate surrounding Chinese sovereign lending, governance, and international contract design. It has also shown that Chinese lending is neither homogenous nor uniformly imposed, but rather shaped by the interaction between creditors and borrower institutions. Studies on legal asymmetry, governance quality, and sovereign debt management consistently show that the structure and implications of Chinese loan contracts vary significantly across contexts. While the rise of China as a major creditor has challenged traditional lending norms, African states show different capacities to influence loan terms, depending on their institutional strength, legal infrastructure, and fiscal governance.

The key takeaway from this literature is the need to understand how legal design and governance quality interact at the country level. While scholars have mapped out aggregate trends and institutional weaknesses, few have studied the contractual structures through which power and risk are embedded in loan agreements. This thesis contributed to that by linking clause-level features to governance indicators across different African borrowers.

5. Methodology

This chapter outlines the research methodology used to investigate how governance quality affects the legal content of Chinese sovereign loan contracts in African countries. It presents the rationale for the selected research design, details the case selection process, identifies the data sources, and explains the analysis methods. It also addresses issues of temporal alignment, analytical strategy, and ethical considerations. By providing transparency about the research process, this chapter ensures that the findings and interpretations presented in subsequent chapters are grounded in a transparent and replicable framework.

The primary aim of this research is to explore the relationship between borrower governance and the presence of creditor-favored legal clauses in loan agreements between African states and Chinese state-owned lenders. This objective necessitates a methodological approach that allows for both systematic comparison and contextual interpretation. Therefore, the study adopts a qualitative, comparative case study design, drawing on a content analysis of sovereign loan contracts on matched governance indicators from the time of contract signing.

The chapter begins by justifying the research's qualitative and comparative nature. It then outlines the rationale for case selection, describes the data collection procedures, and details the approach to contract analysis and thematic coding. It concludes with a discussion of the study's limitations and ethical considerations.

5.1 Research Design

This research employs a qualitative comparative case study design, selected for its ability to draw out patterns from variation in specific contexts (Clark et al., 2021). Given the central research question -*How do variations in governance quality across African countries shape the contractual terms of Chinese sovereign loans?*- a comparative approach allows for identifying recurring themes and contrasts across different governance environments.

Qualitative case studies are well-suited to explicitly analyzing legal texts and political institutional conditions, where interpretive depth is required. Focusing on four African countries with varying governance scores and regional representation—Botswana, Ghana, the Republic of Congo, and Uganda—this study combined within-region and between-region comparisons. This design enhances the validity of cross-case findings by controlling for contextual factors such as colonial history, language, and regional development norms (Clark et al., 2021).

The unit of analysis is the individual loan contract, and the primary comparison lies in the presence and framing of legal clauses, such as confidentiality, sovereign immunity waivers, collateralization, and dispute resolution. By analyzing these contracts in relation to governance scores from the WGI, the study aims to find whether and how differences in institutional quality influence the legal architecture of international finance agreements.

5.2. Case Selection Criteria

Case selection is an essential step in comparative case study research. The countries included in this study, Ghana, Botswana, the Republic of Congo, and Uganda, were selected through a comparative case selection to maximize variation in governance quality while ensuring comparability in geographic and contextual terms.

The primary criterion for case selection was variation in governance quality. Drawing on the WGI, the study examines six dimensions of governance: Voice and Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption (Kaufmann et al., 2010). Countries were chosen to represent a spectrum from relatively strong institutional frameworks (e.g., Botswana) to weak governance environments (e.g., Republic of Congo), with intermediate cases such as Ghana and Uganda providing additional contrast.

The selected countries also provide regional diversity within Africa, fitting the aim of comparing countries in separate regions. Ghana and the Republic of Congo are in western/central Africa, while Botswana and Uganda are in southern Africa. This allows for a comparison between one higher-income country and one lower-income country in each region, but also controls for region-specific economic or political dynamics. This ensures that findings are not driven solely by shared regional characteristics.

A practical consideration in case selection was the availability of Chinese loan contracts for each country in the AidData "How China Lends" dataset (Gelpern et al., 2021). The dataset includes contract-level information for all four countries, including English and French Language agreements. Countries with no accessible contracts or only partial excerpts were excluded to maintain analytical consistency.

The countries were also selected to reflect variation in income levels, resource endowments, and strategic importance. Botswana, a resource-rich middle-income country with a stable governance record, contrasts with the Republic of Congo, a low-income, oil-dependent state with fragile institutions and a history of opaque borrowing practices. Uganda, a rapidly growing East African economy with moderate governance scores and strong Chinese engagement in energy and infrastructure, offers further contrast to Ghana, a relatively transparent and balanced borrower. This diversity enhances the external validity of the findings and provides insight into how China tailors its legal strategies based on borrower characteristics.

5.3 Data Sources

This study draws on both primary and secondary data sources to explore the relationship between governance quality and the legal structure of Chinese sovereign loan contracts in Africa. Combining textual contract analysis with governance metrics enables a grounded and comparative approach to understanding variation in contractual design (Clark et al., 2021).

5.3.1 Primary Data: Chinese Loan Contracts

The core empirical material for this research consists of sovereign loan contracts between Chinese state-owned lenders and African governments, sourced from the "How China Lends" dataset curated by AidData (Gelpern et al., 2021). This dataset provides full-text access to 100 Chinese loan agreements with 24 developing countries, including the four cases selected for this study. Contracts were obtained through public registers, debt information systems, and parliamentary archives, and have been digitized and coded using a standardized template. The dataset includes key legal terms such as governing law, confidentiality collateral, waiver of sovereign immunity, and dispute resolution mechanisms.

Where necessary, contracts originally published in French were translated into English using DeepL translator, which was best suited for these types of technical translations. These translations were then carefully reviewed for consistency and accuracy.

5.3.2 Secondary Data: Governance Indicators

This study uses the Worldwide Governance Indicators (WGI) as a framework for assessing the governance environment in borrower countries at the time each contract was signed. The WGI dataset, developed by the World Bank, compiles a range of data sources to produce six governance performance indicators, reported annually for over 200 countries. Each indicator is expressed on a scale from -2.5 (weak governance) to +2.5 (strong governance)

The indicators most relevant to this study include:

- **Voice and Accountability** (VA) measures the extent to which a country's citizens can participate in selecting their governments and the degree of freedom of expression, freedom of association, and freedom of the press. This indicator is especially relevant when examining the inclusion of *confidentiality clauses* and the level of public oversight in loan agreements.
- **Rule of law** (RL)**:** This captures perceptions of the extent to which agents have confidence in and act under the rules of society, including contract enforcement, property rights, the police, and the courts. This is central to understanding how Chinese lenders may assess legal risk and whether *sovereign immunity waivers* or other enforcement-enhancing measures are taken.
- **Government Effectiveness** (GE): This indicator reflects the quality of public services, the independence and competence of the civil service, and the quality of policy formulation and implementation. It helps interpret the presence of legal structures, *collateral mechanisms,* and the borrower's capacity to manage international obligations.

Additional indicators such as Control of Corruption (CC) and Regulatory Quality (RQ) are also considered where relevant, particularly in relation to risk mitigation, enforcement, and the creditor's perception of the borrower's institutional environment.

It is important to note that this study does not attempt to establish a causal relationship between governance scores and contract terms. Instead, it aims to identify correlations between legal clauses' structure and governance quality variation across borrower countries. The WGI scores are used as a reference point to explore whether key creditor-favoring clauses, such as governing law provisions, escrow account requirements, and sovereign immunity waivers, appear more frequently in contracts formed with weaker institutions.

By aligning each contract with its corresponding WGI data for the year of signature, the study assesses whether these clauses coincide with a lower rule of law, accountability, or institutional effectiveness. This method supports a theory-informed investigation of how legal asymmetry and institutional variation shape the architecture of sovereign debt agreements.

These governance indicators were matched to each contract by country and year using Microsoft Excel and later imported into NVivo alongside the contract text for joint analysis.

5.4 Temporal Alignment

A key methodological consideration in this study is aligning governance indicators with the timing of loan contract signing. Governance quality can fluctuate over time, and using non-contemporaneous data risks misrepresenting the institutional context in which contracts were negotiated and concluded.

To ensure temporal validity, governance scores from the WGI dataset were extracted for the same year in which each loan contract was signed. For instance, if a loan agreement was finalized in 2012, the WGI data from that same year were used to evaluate the borrower's governance performance. This approach allows the analysis to more accurately asses how governance conditions at the time of contract formation may have influenced the legal terms embedded in the agreement.

5.5 Analytical Method

This study employs a qualitative analytical method grounded in thematic content analysis of Chinese loan contracts. The analysis uses qualitative research traditions (Clark et al., 2021), emphasizing identifying patterns in legal clauses and interpreting their significance in relation to governance indicators. The goal is to understand the legal terms in these contracts and how their presence or absence reflects differences in borrower governance environments.

The first stage in the research process was document collection and preparation. Full-length publicly accessible Chinese loan contracts were collected from the AidData dataset (Gelpern et al., 2021) for the four African countries: Botswana, Ghana, Uganda, and the Republic of Congo. Where possible, multiple contracts were gathered per country across different years. Each contract was converted into a digital format compatible with NVivo 15 and manually reviewed to ensure comparability.

Then, the codebook was created based on the theoretical framework and prior literature to establish six thematic categories in NVivo as a guide to the coding. These are the clauses discussed previously: Confidentiality Clauses, Sovereign immunity waivers, collateral or escrow provisions, governing law, dispute resolution mechanisms, and cross default clauses. In addition to the clause-specific categories, a cross-cutting code was created and named “creditor-favored” to capture the structure. These categories reflect the themes derived from legal asymmetry theory and institutional theory. All codes were applied manually to ensure interpretive depth.

Each contract was imported into NVivo 15, where clauses were systematically coded using the established framework. Relevant text passages were highlighted and tagged with one or more thematic codes. For example, a passage requiring the borrower to submit disputes to CIETAC arbitration in Beijing was coded as “dispute resolution mechanisms” and “creditor-favored.” A memo was created in NVivo as a note to record the absence of a clause. This allowed for consistency across cases even when structural variation existed.

A memo was created for each contract, summarizing its legal structure and noting the presence or absence of key clauses. These memos included brief interpretations of context and legal observations. Each memo also linked the legal features to the WGI scores of the corresponding country-year.

To sort and integrate WGI indicators, the scores were compiled for each country and matched with the year the contract was signed with the four prioritized categories (VA, RL, GE, CC). These indicators were entered into a master spreadsheet alongside clause presence/absence for each contract. The results allowed for a systematic comparison of legal content against governance scores. While the analysis does not aim to establish statistical causation, as mentioned, it enables a structure correlation-based interpretation with the empirical coding.

The coding and data alignment allowed for thematic analysis for the interpretive analysis. For each clause type, cross-country comparisons were made to assess whether low-governance environments were associated with greater legal exposure. These findings were interpreted using the theoretical framework of institutional theories, legal asymmetry, and principal-agent theory.

This analytical method ensures that the legal complexity of sovereign contracts was studied in detail, while allowing for broader institutional comparisons to highlight how governance affects debt outcomes.

5.6 Limitations

This study is subject to several limitations that may influence its findings' generalizability and interpretive depth, which are essential to address. These limitations relate ot data availability, language barriers, methodological constraints, and broader issues of inference in qualitative research.

Although the "How China Lends" dataset provides new access to sovereign loan contracts, which has not been possible before, the available documents are not exhaustive. Some contracts remain confidential, and there may be selection bias toward agreements made public through parliamentary or legal disclosure processes. As a result, the sample may underrepresent highly sensitive or strategically significant contracts. As Gelpern et al. (2021) mention in their report, China still does not participate in the OECD's creditor reporting system or the Paris Club, and its lending remains opaque. The contracts in this project have been identified by Gelpern et al. (2021) in collaboration with AidData to mitigate the gap in evidence. All publicly accessible loan agreements from Chinese institutions, state-owned banks, and sovereign borrowers from low- and middle-income countries are available in this dataset.

Several contracts, particularly those involving Francophone African countries like the Republic of Congo, were initially drafted in French. Machine translation tools such as DeepL were used to produce English versions of these contracts, but there is a risk of losing legal nuance or misinterpreting terms.

The process of qualitative content analysis, while systematic, is inherently interpretive. Decisions regarding how to code clauses, especially this tone, complexity, or strategic intent, involve researcher judgment. Although a structured coding framework was applied, inconsistency or bias in interpreting legal language is possible. The use of NVivo helped mitigate this by allowing transparent and replicable coding, but it cannot entirely eliminate subjectivity.

As a case study-based project focused on four African countries, the findings are not intended to be statistically generalizable. Instead, the goal is to generate theoretical insights and grounded comparisons enlightening how governance quality may condition the content of international loan contracts.

The WGI presents a standardized method for assessing governance quality. However, WGI scores are aggregated and perception-based and may not capture all political or legal capability dimensions relevant to contract negotiation. Despite their wide acceptance, these indicators must be treated as proxies rather than definitive measures.

6. Empirical Analysis

This chapter presents the research results, adopting a comparative analysis of the Chinese loan contracts from the four countries chosen. The first section presents the WGI scores of each country and explains the purpose of the contracts given. The following section and subsections present the thematic analysis results, followed by an empirical discussion of the findings.

6.1 Governance Profile and Purpose of Contracts

Below is the compiled table of governance indicators by each country. This table has been used throughout the analysis of the results to identify the WGI score for the given year of the contract signing. These numbers have been extracted from the WGI dataset. According to these measures, the Republic of Congo has the lowest governance scores across all indicators. With the range from -2.5 to 2.5, Congo is consistently at the lower end of the range, with scores that are not improving across the measured years. For example, control of corruption has gone from -1.06 to -1.37 in this sample, and governance effectiveness has remained around -1.25. Botswana has the highest score in the sample, with all scores in the positive range of the indicators.

Ghana						
Contract year					indicator	estimate
2015	GHAcc2015	GHA	Ghana	2015	cc	-0.21
	GHAge2015	GHA	Ghana	2015	ge	-0.32
	GHApv2015	GHA	Ghana	2015	pv	-0.04
	GHArl2015	GHA	Ghana	2015	rl	0.12
	GHArq2015	GHA	Ghana	2015	rq	-0.11
	GHAva2015	GHA	Ghana	2015	va	0.49
2017	GHAcc2017	GHA	Ghana	2017	cc	-0.25
	GHAge2017	GHA	Ghana	2017	ge	-0.19
	GHApv2017	GHA	Ghana	2017	pv	0.08
	GHArl2017	GHA	Ghana	2017	rl	0.11
	GHArq2017	GHA	Ghana	2017	rq	-0.19
	GHAva2017	GHA	Ghana	2017	va	0.60
2018	GHAcc2018	GHA	Ghana	2018	cc	-0.14
	GHAge2018	GHA	Ghana	2018	ge	-0.32
	GHApv2018	GHA	Ghana	2018	pv	-0.04
	GHArl2018	GHA	Ghana	2018	rl	0.05
	GHArq2018	GHA	Ghana	2018	rq	-0.14
	GHAva2018	GHA	Ghana	2018	va	0.56
2019	GHAcc2019	GHA	Ghana	2019	cc	-0.11
	GHAge2019	GHA	Ghana	2019	ge	-0.29
	GHApv2019	GHA	Ghana	2019	pv	0.12
	GHArl2019	GHA	Ghana	2019	rl	0.01
	GHArq2019	GHA	Ghana	2019	rq	-0.19
	GHAva2019	GHA	Ghana	2019	va	0.55
Botswana						
Contract year						
2003	BWAcc2003	BWA	Botswana	2003	cc	1.24
	BWAge2003	BWA	Botswana	2003	ge	0.62
	BWApv2003	BWA	Botswana	2003	pv	1.10
	BWArl2003	BWA	Botswana	2003	rl	0.67
	BWArq2003	BWA	Botswana	2003	rq	0.84
	BWAva2003	BWA	Botswana	2003	va	0.71

Republic of Congo						
Contract year						
2005	COGcc2005	COG	Congo, Rep	2005	cc	-1.06
	COGge2005	COG	Congo, Rep	2005	ge	-1.28
	COGpv2005	COG	Congo, Rep	2005	pv	-1.17
	COGrl2005	COG	Congo, Rep	2005	rl	-1.47
	COGrq2005	COG	Congo, Rep	2005	rq	-1.30
	COGva2005	COG	Congo, Rep	2005	va	-1.08
2006	COGcc2006	COG	Congo, Rep	2006	cc	-1.11
	COGge2006	COG	Congo, Rep	2006	ge	-1.24
	COGpv2006	COG	Congo, Rep	2006	pv	-0.92
	COGrl2006	COG	Congo, Rep	2006	rl	-1.27
	COGrq2006	COG	Congo, Rep	2006	rq	-1.17
	COGva2006	COG	Congo, Rep	2006	va	-1.21
2017	COGcc2017	COG	Congo, Rep	2017	cc	-1.37
	COGge2017	COG	Congo, Rep	2017	ge	-1.24
	COGpv2017	COG	Congo, Rep	2017	pv	-0.53
	COGrl2017	COG	Congo, Rep	2017	rl	-1.16
	COGrq2017	COG	Congo, Rep	2017	rq	-1.41
	COGva2017	COG	Congo, Rep	2017	va	-1.12
Uganda						
Contract Year						
2016	UGAcc2016	UGA	Uganda	2016	cc	-1.09
	UGAge2016	UGA	Uganda	2016	ge	-0.63
	UGApv2016	UGA	Uganda	2016	pv	-0.72
	UGArl2016	UGA	Uganda	2016	rl	-0.27
	UGArq2016	UGA	Uganda	2016	rq	-0.27
	UGAva2016	UGA	Uganda	2016	va	-0.65
2019	UGAcc2019	UGA	Uganda	2019	cc	-1.17
	UGAge2019	UGA	Uganda	2019	ge	-0.65
	UGApv2019	UGA	Uganda	2019	pv	-0.69
	UGArl2019	UGA	Uganda	2019	rl	-0.35
	UGArq2019	UGA	Uganda	2019	rq	-0.41
	UGAva2019	UGA	Uganda	2019	va	-0.65

Figure 3. Table of World Governance Indicators (World Bank, 2023)

The findings originate from the AidData dataset "How China Lends", which has compiled over 100 Chinese sovereign loan contracts to developing countries. Many contracts differ in purpose; some are defined as loans, and others target specific projects. It is important to provide an overview of the contracts reviewed in this study, including their stated purpose and the economic and political context at the time of signing. While the structure and legal terms of the agreements do not appear to vary significantly based on project type, understanding the background helps contextualize why certain countries may have accepted specific provisions.

Ghana (2015, 2018, 2019)

Ghana's contracts primarily support infrastructure and energy-related projects. The 2015 agreement funded a power transmission upgrade, while the 2018 Sinohydro Master Agreement involved a barter infrastructure arrangement for refined bauxite. The 2019 contract supported road development. These loans were signed during periods of rising public debt and constrained fiscal space, which may have reduced Ghana's negotiation power (Acquah, 2021; CEPA, 2015; Kirchherr et al., 2016).

Uganda (2016, 2019)

Both contracts support transport infrastructure, specifically the development of major expressways and bridges. Uganda pursued these loans to expand national connectivity and support oil infrastructure. The projects were launched during an economic expansion phase, but with concerns over increasing debt levels and weak parliamentary oversight (Odota, 2024; Wingo, 2019)

The Republic of Congo (2006, 2017, 2017b)

Congo's contracts focus primarily on public infrastructure, including road rehabilitation, hospitals, and public utilities. They were signed under conditions of oil price fluctuations and recurring debt distress. Many of these loans coincided with limited IMF oversight, raising concerns about debt transparency and long-term repayment capability (Landry, 2018; Shirambere, 2020; Xu, 2020)

Botswana 2003

Botswana's loan supported a vocational training center and falls under concessional social development finance. The agreement was signed at a time when Botswana maintained strong fiscal discipline and had low public debt (John et al., 2013).

6.2 Results and findings

The following six sections will analyze and discuss the results of comparing the contract clauses to the respective country's WGI scores. The results will be interpreted through a theoretical lens, using the established framework of this thesis. Where applicable, the discussions will also be tied to previous findings of the themes and topics.

6.2.1 Confidentiality Clauses

In the loan contracts, confidentiality clauses typically prohibit borrowers from disclosing terms, conditions, or even the existence of the agreement to third parties, including the public. In the context of Chinese lending, these clauses have been significantly studied for limiting public accountability and legislative oversight. From a governance perspective, such restrictions may disproportionately affect countries with weaker transparency, as governments may be less likely to resist these provisions or face domestic checks (Gelpern et al. 2021).

It is important to note that confidentiality clauses are generally absent in traditional loan agreements between developing countries and multilateral institutions or Paris Club creditors. While lenders typically adhere to principles of transparency, debt sustainability frameworks, and open disclosure standards, these clauses suggest that there could be a strategy by China to limit external scrutiny and rein in control over the bilateral loan relationships (Gamboa, 2023; Horn et al., 2024; Yue, 2022)

This section analyzes the presence and strength of confidentiality clauses in Botswana, Ghana, the Republic of Congo, and Uganda, considering the results in light of the WGI's Voice and Accountability (VA) scores.

In Ghana’s loan contracts, there is a consistent pattern of confidentiality clauses. In the 2015 agreement, Article 8.7 states:

> *The borrower shall keep all the terms, conditions, and the standard of fees hereunder or in connection with this agreement strictly confidential. Without the prior written consent of the lender, the borrower shall not disclose any information hereunder or in connection with this agreement to any third party unless required by applicable law.*

Similarly, the 2018 Sinohydro Master Agreement includes broad confidentiality provisions in Clause 9:

> *Each party agrees that, except as compelled by law, rule or regulation, it will not disclose the terms of this Agreement publicly or to any third party without the prior written approval of the other party.*

In the 2019 loan contract, Article 11 restates this norm:

> *Each party agrees to keep all information regarding this agreement confidential and not to disclose it to anyone, save to the extent permitted in this agreement: (i) persons who, in the ordinary course of the lender’s business have access to its papers or records; (2) a court of component jurisdiction; and (iii) any other regulatory body having juridsiction over the lender.*

These repeated confidentiality clauses are shown to be standard in Ghana's borrowings from Chinese lenders. Yet, Ghana’s WGI VA scores are relatively high compared to the other countries studied, with 0.49 in 2015, 0.56 in 2018, and 0.55 in 2019. These scores did not prevent the acceptance of restrictive clauses, which reflects limited institutional negotiation power where political actors might have prioritized loan access over transparency.

Uganda’s contracts from 2016 and 2019 both include confidentiality clauses and specify the same agreements as Ghana's in 2015. However, Uganda's Voice and Accountability scores during these years were -0.65. The presence of such clauses supports the view that legal discretion by creditors is more likely where borrower institutions lack transparency.

Similarly, the Republic of Congo’s contracts consistently enforce confidentiality. In both contracts from 2017, it is stated:

> *The Borrower shall keep all the terms, conditions, and fees standard hereunder or in connection with this Agreement strictly confidential. Without the Lender's prior written consent, the Borrower shall not disclose any information hereunder or in connection with this Agreement to any third party unless required by applicable law.*

In 2017, the country’s VA stood at -1.12, amongst the lowest in the dataset. These indicators suggest a political system where an elite holds most of the power and has limited opportunity for public or parliamentary influence. In such settings, it is easier for governments to accept strict contract terms without challenge.

Botswana's contract from 2003 does not include a confidentiality clause, which presents a contrast. This year, the country’s VA score was 0.71, the highest among the study countries. According to the indicators, Botswana’s governance framework model shows transparency and legal order, and the absence of a confidentiality clause reflects an ability to avoid restrictive terms.

Across the four countries, there is a clear pattern of present confidentiality clauses, where three out of the four studied countries' contracts include them. This could indicate a relationship between bargaining power from the borrower’s side and asymmetries in favor of the lender. Confidentiality clauses reduce transparency, weaken democratic oversight, and shift information; their inclusion supports the established theoretical framework. As Gamboa (2023) argues, confidentiality clauses restrict borrowers from reporting these contracts, which hides the fiscal and financial conditions of the countries.

6.2.2 Sovereign Immunity Waivers

Sovereign immunity waivers are provisions in loan agreements that limit a borrower's ability to claim immunity from legal action or the enforceability of judgments, and they protect the state from being sued or having its assets seized. Many Chinese loan contracts now include broad waivers of immunity, allowing Chinese lenders to enforce claims in foreign jurisdictions or through asset seizure if the borrower defaults (Bradlow, 2024; Horn et al, 2019). While sovereign immunity is a foundational principle in international law, these waivers allow creditors to pursue legal remedies, which reduces the legal protection of borrower states and can have serious consequences if disputes arise. The presence of these waivers can signal a significant shift in the legal balance of power between lender and borrower. This section examines how sovereign immunity waivers appear across the contracts and links their presence to WGI indicators like rule of law (RL) and Government Effectiveness (GE) (Kaufmann et al., 2010).

In Ghana's loan contracts, sovereign immunity waivers appear as standard clauses, but are relatively moderate. For example, the 2015 agreement includes the following:

> *Neither the borrower nor any of its assets, except those assets prohibited from the waiver of immunity under the laws of the republic of Ghana which have entered into force before the signing date of this agreement, is entitled to any right of immunity on the grounds of sovereign or otherwise from arbitration, suit, execution or any other legal process with respect to its obligations under this agreement, as the case may be, in any jurisdiction.*

This clause contains a carve-out for assets already protected under Ghana's law, suggesting some control over legal sovereignty. Ghana's rule of law score in 2015 was 0.12, which shows some institutional strength. With the waiver only being partial, this suggests that Ghana has some legal safeguards or negotiation leverage, though the clause still grants significant enforcement rights to the lender.

Uganda's 2016 agreement contains one of the most comprehensive waivers:

The borrower irrevocably and unconditionally waives, any immunity to which it or its property may at any time be or become entitled, whether characterized as sovereign immunity or otherwise, from any suit, jurisdiction of any arbitral institution or arbitral tribunal, judgement, arbitral award, service of process upon it or any agent, execution on judgment, attachment of aid of execution to which it or its assets may be entitled in any legal action or proceedings or arbitral proceedings with respect to to this agreement or any of the transactions contemplated hereby or hereunder.

This inclusive language waives nearly all sovereign protections, extending jurisdiction, arbitration, execution, and even service of process. Uganda's rule of law score in 2016 was -0.27, lower than Ghana's and reflecting a weaker institutional and legal structure. This clause aligns with the assumption that lower governance is more susceptible to strict legal terms.

In contrast, Ghana's contract from 2019 is more targeted, even though its rule of law score was lower: -0.35.

The borrower hereby irrevocably waives any immunity on the grounds of sovereign or otherwise for itself or its property in connection with any arbitration proceeding pursuant to Article 8.5 (dispute resolution) hereof or with the enforcement of any arbitral award pursuant thereto.

The strongest and most binding waiver is found in Congo's contracts, for example, the statement from 2006:

Neither borrower nor any of its proceedings or revenues shall be entitled to any immunity or privilege (sovereign or otherwise) from any set-off, arbitral award, extrajudicial measure, sale, or other legal process. The borrower represents and warrants to the lender that the foregoing representations and warranties shall be accurate throughout the term of maturity with respect to facts and circumstances as may from time to time arise.

This language not only waives broad sovereign immunity, including revenues and enforcement, but also constitutes a contractual guarantee that Congo will uphold the waiver for the full term. In 2006, Congo's rule of law scored -1.27 and has remained low, with -1.16 in 2017. The severity of this waiver with full immunity and binding representation strongly suggests that these clauses are consistent with low legal and institutional capacity, where creditors may push for maximum protection and enforcement options.

Similar to the confidentiality clauses, Botswana's loan from 2003 does not include a sovereign immunity waiver, and the country's rule of law score was 0.67, the highest of all studied countries. The absence of this clause suggests that Botswana had sufficient institutional strength and negotiating leverage to reject or exclude the inclusion.

The pattern here shows that countries with weaker rule of law scores received more comprehensive and severe waivers of sovereign immunity. In contrast, countries with stronger legal systems avoided the term altogether or negotiated less severe penalties.

6.2.3 Collateralization and Escrow Arrangements

Collateral and escrow provisions require the borrower to set aside assets or revenues, often in designated accounts, to secure loan repayment. These clauses can limit a borrower's financial autonomy by marking revenue streams for debt servicing, and could potentially be at the expense of domestic policy priorities. While these clauses are not unique to Chinese loan contracts, they are especially significant in bilateral lending where legal enforcement options are limited, such as in developing countries, making them the preferred risk mitigation tool for creditors (Brautigam & Hwang, 2016). This section compares the presence, structure, and implications of collateral-related clauses across the case countries and connects them to government effectiveness (GI) indicators.

None of the reviewed contracts in Ghana contains explicit collateral or escrow arrangements. While Ghana's 2015, 2018, and 2019 contracts include provisions for repayment and reporting obligations, they do not assign specific assets or accounts as security. Ghana's Government Effectiveness scores ranged from -0.32 to -0.29 over these years, which are pretty low. However, the absence of the clauses may reflect Ghana's institutional ability to resist such terms or efforts to retain fiscal sovereignty.

The 2016 Uganda agreement does not include an explicit collateral or escrow clause. However, the 2019 contract introduces a form of revenue dedication. While not labeled as collateral, it states:

> *The borrower shall ensure that project-generated revenues are deposited in a designated account overseen by the lender.*

This arrangement is softer than a formal escrow but reflects some structure of creditor control. Uganda's Government Effectiveness score was -0.63 and -0.65 in 2016 and 2019, respectively. This indicates that escrow clauses are less significant than others in Chinese contracts. In contrast, collateral and escrow may only be in place in extremely low government effectiveness cases.

Congo's contracts, for example, feature some of the most assertive collateral structures in several of their contracts. In the 2017 agreement, the contract includes an escrow clause with a specific financial trigger:

> *The borrower undertakes that the repayment principal and payment of interest and fees under this agreement shall be secured through establishing Escrow Accounts according to the Escrow Account Agreement, which should be opened and maintained by the Owner and supervised by the Borrower… The escrow accounts should be used to deposit the revenue generated by the project's operation, assets transaction and commercial services.*

This clause reflects a significant loss of financial autonomy, with revenue directly controlled or monitored by the creditor. Congo's government effectiveness scores during the years of the contracts have been -1.24, which is the lowest in the sample and among the lowest in the entire region. The presence of these provisions in both earlier and later contracts aligns with institutional theory's prediction that weaker financial governance results in greater legal exposure and reduced fiscal flexibility.

Botswana's 2003 agreement does not include a collateral or escrow clause. Its government effectiveness score was 0.62 that year, the highest in the sample. The absence of these clauses reflects the contract's early timing and Botswana's stronger fiscal institutions.

Based on the analysis of these contracts, collateral and escrow clauses are most prevalent in countries with low government effectiveness scores. Congo presents the most extreme example, with contracts directly linked to revenue and debt enforcement. Uganda's contracts show a trend that could lead to increased escrow-like structures, while Ghana and Botswana have avoided such terms completely.

6.2.4 Governing Law

Governing law determines which country's legal system will be used to resolve contract disputes. Chinese loan contracts often specify Chinese law or, less commonly, English law (Gelpern et al., 2021). Choosing the creditor's home law can disadvantage borrowers, especially if they lack experience or influence in that legal system. According to Horn et al. (2019), the choice of law is a subtle but powerful method of retaining control over enforcing debt obligations. In countries with stronger legal systems, there may be more negotiation over governing law provisions.

This section analyzes how governing law was determined using the sample of contracts and whether this varied depending on the Rule of Law (RL) and Regulatory Quality (RQ) scores.

Ghana's contracts reviewed for 2015, 2018, and 2019 all designate Chinese law as the governing legal framework. For example, the 2015 agreement states:

> *This Agreement as well as the rights and obligations of the parties hereunder, shall be governed by and construed in accordance with the laws of China.*

Ghana's rule of law score in 2015 was 0.12, which is in the moderate range. The decision to accept Chinese law despite this institutional capacity reflects limited negotiating power or a desire to maintain a good relationship with the lender. It also aligns with the broader trend of Chinese lending, where governing law increasingly defaults to Chinese jurisdiction regardless of borrower profile (Gelpern et al. 2021)

Similarly, Uganda's contracts from 2016 and 2019 also have Chinese law as the applicable legal framework. For instance, the 2016 agreement states:

> *This agreement and the rights and obligations of the parties hereunder shall, in all respects, be governed and construed in accordance with the laws of China.*

Uganda's rule of law score in 2016 was -0.27. In this context, the use of Chinese law could reflect both limited legal negotiation capacity and a lack of familiarity with international dispute norms.

Moving on to the Republic of Congo, their contracts also specify Chinese law, where the 2017 agreement includes:

> *This agreement as well as the rights and obligations hereunder, shall be governed and construed in accordance with the laws of China.*

Congo's rule of law score ranged from -1.47 to -1.16 in the contract years. These are the lowest scores in the sample, highlighting a lack of effective legal institutions capable of independently analyzing such provisions. Including Chinese law underscores creditor dominance in jurisdictions with weak local enforcement systems, allowing China to standardize its legal template across poor government institutions.

Finally, Botswana's contract differs significantly from the previous contracts. It specifies English law as the governing framework, stating:

The Agreement, as well as all rights and obligations arising hereunder shall be governed by and construed in accordance with English Law.

This reflects a preference for neutral and international legal standards. Botswana's rule of law in 2003 was 0.67, which is also the highest among the studied countries. This supports the view that countries with strong legal institutions are better positioned to secure more balanced legal terms. Using English law likely provided greater legal certainty and institutional credibility, as Botswana avoided lender-dictated legal systems.

Governing law clauses in more recent and lower-governance contracts show a strong tendency toward standardization under Chinese law. Despite differences in governance, Congo, Uganda, and Ghana accepted Chinese law as the governing legal framework. Botswana, with the strongest institutions and earliest contract, avoided such specification. This trend reflects a growing normalization of legal regimes from the creditor in Chinese lending.

6.2.5 Dispute Resolution Mechanisms

Dispute resolution clauses define how disagreements will be settled. Chinese loan contracts commonly require arbitration in Chinese forums such as CIETAC in Beijing, rather than in neutral international courts (Bradlow, 2024). The arbitration location can significantly affect borrower rights. Studies suggest that holding arbitration in the lender's home country can tilt proceedings in favor of the creditor (Gelpern et al., 2021; Hanauer & Morris, 2014). Countries with stronger governance might secure more neutral forums.

Uganda's contracts contain a standard Chinese dispute resolution model. For example, the 2016 contract states:

Any dispute arising out of or in connection with this agreement shall be resolved through friendly consultation. If no settlement can be reached through such consultation, each party shall have the right to submit such dispute to the China International Economic and Trade Arbitration Commission (CIETAC) for arbitration. The arbitration shall be

> *conducted in accordance with the CIETAC's arbitration rules… The arbitration shall take place in Beijing.*

Uganda's rule of law score in 2016 was -0.27, which reflects a moderately low level of legal enforcement. This clause places all control of disputes with the lender, Chinese institution, jurisdiction, and rules, making it a highly creditor-favoring provision.

Moving on to Ghana, their contracts contain similar language to Uganda's, with the 2015 contract stating:

> *Any dispute… shall be submitted to the China International Economic and Trade Arbitration Commission (CIETAC)... The arbitration shall take place in Beijing.*

In 2015, Ghana's rule of law score was 0.12, higher than Uganda's. Yet the use of CIETAC suggests limited negotiation from Ghana's side, or a standardization of Chinese templates. In contrast, the 2018 contract reflects some deviation from the standards:

> *The dispute shall be submitted to arbitration in London, United Kingdom. It shall be conducted in accordance with the UNIITRAL Rules. The arbitration process will be administered by the London Court of International Arbitration (LCIA).*

This clause shows a shift to a neutral location under internationally recognized rules and a respected independent administrator (LCIA). While Ghana's rule of law score in 2018 was 0.05, slightly lower than in 2015, this clause reflects increased legal neutrality and potential borrower influence.

Similarly, the Republic of Congo's contract from 2017 uses the same clauses as Uganda from 2016 and Ghana from 2015: "*Any dispute shall be submitted to CIETAC… the arbitration shall take place in Beijing.*"

Congo's rule of law score was -1.16, one of the lowest in the sample. This reflects both weak bargaining power and institutional asymmetry and reinforces the pattern that countries with lower governance quality face stricter dispute resolution terms.

Finally, Botswana's contract from 2003 differs from the sample. It lacks details on procedural rules, arbitration language, and location. With a rule of law score of 0.67, Botswana is the strongest of all cases studied:

> *All disputes arising in connection with this agreement shall be settled by friendly negotiations. If no solution is found through negotiations, the disputes shall be settled by arbitration. Arbitration shall be submitted to the China International Economic and Trade Arbitration Commission.*

Despite the use of CIETAC, the lack of Beijing as the place of arbitration, and the lack of the standard features seen in the other contracts in the sample, these contracts reflect a less structured arrangement or early-stage standardization. Botswana's legal strength could also be connected with avoiding stricter formulations.

When comparing all countries and contracts in the sample, the most restrictive are Uganda (2016), Congo (2017), and Ghana (2015), which use CIETAC and Beijing under Chinese rules. The most neutral is Ghana (2018), which has its arbitration based in London under UNCITRAL, administered by LCIA. Botswana, with the highest rule of law score, has an ambiguous but moderate contract, stating CIETAC, but without procedural details.

6.2.6 Cross-Default and Material Adverse Change Clauses

Cross-default and Material Adverse Change (MAC) clauses give the lender leverage over the borrower's broader financial situation (Horn et al., 2019). A cross-default clause allows the lender to declare a default if the borrower defaults on any other loan, not just the one in question. A MAC clause enabled the lender to call a default or renegotiate the contract if a significant change occurs in the borrower's economic or political environment. These clauses introduce a high level of conditionality and can be used to trigger early repayment or renegotiation under shifting circumstances.

Ghana's 2015 contract includes a typical cross-default clause with a broad right to acceleration:

> *Upon the occurrence of any of the aforesaid Event of Default, the Lender may… declare all the principal and accrued interest and all other sums payable hereunder to be immediately due and payable by the Borrower without further demand, notice or other legal formality of any kind.*

Looking at Ghana's 2018 contract, it also introduces a defined MAC clause:

> *Any event or circumstance occurs that, in the reasonable opinion of the Creditor, may impose a material adverse effect on the Debtor's ability to meet its repayment obligations under the Definitive Agreement.*

During the time of both of these contracts, Ghana's government effectiveness score was -0.32. Uganda's contract from 2019 contains a combination of clauses, for example, it repeats the acceleration clause from Ghana:

> *Upon the occurrence of any of the aforesaid Event of Default… declare all the principal and accrued interest… to be immediately due.*

It also includes a MAC clause tied to policy changes:

> *Where there occurs any change of the laws or government policies… which makes it impossible… to perform its obligations… the lender may… declare all sums due.*

These provisions allow the lender to react to Uganda's performance and changes in either country's policy. Uganda's Government Effectiveness in 2019 was -0.65, lower than Ghana's. This reflects limited institutional safeguards.

The Republic of Congo's contracts reflect the most extensive clauses on default and MAC. For example, their 2017 contract includes:

> *Cross default… default of the borrower occurs in respect of any other agreement involving the borrower of money… Any significant change which, in the opinion of the lender, may have a material adverse effect… any change in the laws or government policies which makes it impossible to perform obligations.*

The language here is wide and covers political, financial, and legal changes, with assessment in the lender's hands. Like the other WGI scores, Congo was also the lowest here, with a GE of -1.24.

Botswana's contract from 2003 includes some protective clauses, despite the high governance score of 0.62. The contract specifies events including default on any debt, misrepresentation, breach of terms, material financial deterioration, force majeure, and MAC:

> *Material deterioration of the financial conditions… or significant change with respect to the Project… may have material adverse effect…*

However, Botswana's contract specifies a 30-day remedy period and more concrete definitions of breach and materiality. With its GE score, this broader range may reflect early contract standardization rather than creditor overreach.

To compare the countries, Congo's contract stands out for its scope and ambiguity, giving the creditor wide margins. Uganda and Ghana's recent contracts include extensive MAC clauses with Unrestricted language. Botswana's clause is broad but mitigated by several safeguards.

Cross-default and MAC clauses are not just contract instruments; they also represent hidden legal leverage, allowing creditors to reshape the repayment structure in their favor. Their prevalence in low-governance settings highlights the importance of institutional scrutiny in sovereign borrowing.

6.3 Discussion of Findings

6.3.1 Theoretical Perspectives

The findings from this study illustrate how the legal and financial terms of Chinese loan contracts vary with governance quality, aligning with the theoretical framework laid out for the research. Countries with weaker governance indicators consistently accept more creditor-friendly terms across all thematic categories, such as confidentiality, sovereign immunity, collateralization, governing law, dispute resolution, and default clauses. These outcomes align with the expectations of bargaining theory, institutional theory, principal-agent theory, and legal asymmetry.

Bargaining theory assumes that the relative power of the negotiating parties shapes contract outcomes. In this study, countries like the Republic of Congo and Uganda, characterized by weak institutions, limited fiscal alternatives, and lower WGI scores, accepted confidentiality obligations, broad sovereign immunity waivers, and dispute resolution clauses favoring the creditor. Governments with stronger institutions or more access to alternative lenders would have likely resisted these terms. Botswana's more neutral contract supports this, with higher governance scores and better fiscal management, it avoided confidentiality clauses and enforced English law rather than Chinese jurisdiction. These differences reflect asymmetries in bargaining power.

The results also affirm institutional theory. North et al. (2006) argue that countries with weak rule of law, limited bureaucratic oversight, and non-transparent public finance systems are less capable of resisting creditor leverage. For example, Congo's extensive escrow and collateral clauses directly reflect its governance profile: the country had the lowest rule of law scores and government effectiveness among the sample. Such restrictive terms illustrate the limited institutional capacity to negotiate contracts. In contrast, Ghana's partial immunity waivers and variation in arbitration forums show how moderately stronger institutions can mitigate, but not always prevent, exposure to legal risk.

Principal-agent theory, which is connected with institutional theory, helps explain why such contracts are accepted even when they carry significant long-term risk. In countries with weak parliamentary oversight and limited transparency, for example, Uganda and Congo, executive actors can negotiate contracts with little domestic accountability. These agents may prioritize short-term financing or political gains over fiscal sustainability, especially when they will not be affected by the long-term consequences. Ghana's shift from Beijing-based arbitration in 2015 to London and LCIA in 2018 reflects internal institutional learning and political shifts that increased public voice.

The study also supports legal asymmetry theory. The choice of Chinese law and arbitration in Beijing, which was standard in most contracts except Botswana's and Ghana's 2018 agreement, demonstrates how lenders embed legal advantage in jurisdiction procedures. These clauses mainly refer to cases in Uganda and Congo and function as instruments of creditor control. Cross-default and MAC clauses further align with this asymmetry; they give lenders the judgment over enforcement, often in creditor-favored criteria. These mechanisms differ from international enforcement norms, enabling China to secure compliance through contracts rather than international courts.

Together, the findings show that Chinese contracts not only reflect creditor preference by favoring the lending country but also shape the negotiated outcomes by institutional capacity and governance context. Legal asymmetries are embedded more aggressively where borrower states lack the capabilities to resist.

6.3.2 Implications and limitations of findings

The findings of this study indicate a correlation between borrower governance quality and the legal and financial terms embedded in Chinese sovereign loan contracts. However, it is essential to emphasize that this relationship is not causational. While weaker institutional indicators often align with more restrictive contract clauses, numerous other political and economic factors also shape these agreements. As scholars argue, countries frequently turn to China as a lender of last resort (Horn et al., 2024; Brautigam, 2020). In many cases, including aggressive legal terms may reflect the borrower’s constrained options, urgent financing needs, or limited access to lending from traditional sources. Thus, while governance quality provides a practical explanatory framework, it is only one part of the complicated picture.

China’s legal strategy must also be within its evolving political and economic priorities. Including confidentiality clauses, broad sovereign immunity waivers, and Chinese governing law may reflect not only opportunism in dealing with low-capacity states but also institutional standardization and legal risk management by China. As China’s global lending has expanded, so has its interest in creating enforceable and consistent legal frameworks, especially in the absence of enforcement tools. This mirrors aspects of traditional commercial lending but deviates from the norms typically followed by the Paris Club or multilateral institutions, which often prioritize transparency and creditor coordination over unified enforcement.

The variation in contract terms from the borrowing countries' side suggests that political agency also plays a role. Ghana’s deviation toward a more neutral arbitration process in 2018, for example, may indicate an internal evolution in debt governance. These differences highlight that legal asymmetries are not imposed uniformly but arise through negotiation.

Methodologically, one key limitation of the study is the temporal variation across contracts. The Botswana agreement from 2003, while valuable for its governance contrast, took place before the full development of China’s current lending model. It may therefore reflect early-stage lending practices that were less formalized, as Gelpern et al. (2021) discuss, with some clauses only being found in later contracts. While its absence of aggressive clauses supports the governance hypothesis, its age could also make it function as a benchmark or control contract. It is helpful for comparison but not necessarily representative of China’s later legal strategies. For greater consistency, future research (or if this project were to be done again) should ideally focus on contracts signed within a narrower time window to isolate governance effects from China’s lending policy's evolution.

To sum up, the results support a strong association between governance quality and the restrictiveness of loan terms, but with caution in interpreting this link as deterministic. Sovereign debt contracts are shaped by broader financial geopolitics, lender strategy, and borrower necessity, all of which must be considered to understand their structure and implications fully.

7. Conclusion

In a world of conflict, poverty, and uncertainty, this thesis began with the aim of evaluating a country supporting the developing world, namely China. The project specifically involved analyzing Chinese sovereign loans given to a few chosen countries and attempting to find a relationship between borrower governance quality and the legal and financial terms of the contracts. Drawing on theories of bargaining, institutional capacity, principal-agent, and legal asymmetry, the study analyzed how contract design varies across the four countries, Ghana, Uganda, the Republic of Congo, and Botswana, each with different governance profiles. By using qualitative analysis, this study aimed to determine whether governance quality correlates with the restrictiveness of contractual terms. The research question guiding the study was:

RQ: *How do variations in governance quality across African countries shape the contractual terms of Chinese sovereign loans?*

The findings reveal patterns that lower governance scores are associated with more restrictive loan clauses. Confidentiality requirements, broad sovereign immunity waivers, dispute resolution in the creditor's jurisdiction, and collateral arrangements were most prevalent in states with limited institutional oversight, a weak legal system, and concentrated executive power. In contrast, countries with higher governance scores, such as Botswana, avoided the most aggressive clauses. These outcomes support the predictions of bargaining theory and institutional theory, showing that creditor-friendly clauses tend to grow where borrower capacity to resist them is weakest.

Theoretically, this thesis contributes to the literature by connecting the analysis of contracts with governance metrics. It found that the creditor's strategy shapes sovereign lending, as well as the political context of the borrower. While Chinese loan contracts have been criticized for their opacity and creditor bias, this study suggests that variation in terms reflects both lender preferences and borrower vulnerability. In this context, legal asymmetry embedded in these contracts reflects governance gaps.

However, it is important to stress that this relationship is correlational rather than causational. Many other factors may explain why governments accept strict loan terms, including urgent financing needs, limited access to alternative financing, and geopolitical considerations. As scholars have noted, China often acts as a lender of last resort, and the choice many African governments have to make may not be between good and bad terms, but rather between getting a loan or not at all. Moreover, China’s lending practices have evolved over time. Later contracts' more assertive legal clauses may reflect a shift toward standardization, legal risk mitigation, and political strategy.

Future research should build on this foundation by expanding the sample of contracts across countries and over the years. A deeper look at how different clauses are negotiated and the role of domestic institutions would deepen our understanding of how power and accountability function in practice. Further studies could also examine the long-term fiscal impact of these clauses on debt sustainability and democratic governance.

In conclusion, this thesis demonstrates that governance matters not only for how loans are spent but also for how they are structured at the deeper legal level. Sovereign loan contracts are not only financial documents but sources of political negotiation, institutional weakness, and international strategy. Understanding them requires economic insight and close attention to legal language, institutional structure, and changes in global finance.

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Appendices

Appendix 1 - Usage of AI

In writing this thesis, Grammarly was used to correct errors in spelling and grammar. For the translation of contracts from French to English, the software DeepL was used. Further, ChatGPT was used in the beginning phases of the idea generation to provide samples of structures and research scopes. The structure provided by the software has been changed and modified manually to fit the aim of this project. ChatGPT has been consulted in the research literature by providing examples of empirical research and search prompts to use in databases such as JSTOR and Google Scholar. Lastly, ChatGPT was used in the early stages of coding by assisting in using the software NVivo and navigating the contracts. The chapters most affected by this usage are the methodology and literature review.