

Without Strings: Chinese Foreign Aid and Regime Stability in Energy Exporting Countries

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Research question

Does China's foreign aid reduce the democracy-promotion effect of Western aid in recipient countries?



Does aid promote democracy?



Paradigm shift: from alliance politics to democracy-promotion

With the disappearance of Soviet influence, Western donors began to attach political conditionality to aid allocation.

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- OECD Accra Agenda for Action
- Western aid becomes more effective at inducing democratic reforms in Sub-Saharan African states in the post-Cold War period ([Dunning 2004](#)).



The State of the Literature

Empirical evidences can be found that both *support* or *refute* the alleged positive political conditionality effect of Western aid.

- Western aid tends to promote democratic reforms in recipient countries: Crawford (2001), Goldsmith (2001), Dunning (2004), Finkel and Seligson (2007), Hyde and Boulding (2089), Lebovic and Voeten (2009).



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- Western aid has no or negative effect on recipients' democratic development: Van de Walle (2001), Bräutigam and Knack (2004), BDM and Smith (2007), Rajan and Subramanian (2007), Djankov (2008), Morrison (2007, 2009), Moyo (2009), Scott and Steele (2011).



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- Conditional effect (Good governance): Williams (1996), Alesina and Dollar (2000), Armah and Nelson (2008), Djankov (2008).
- Conditional effect (Donor attributes): Neumayer (2003), Bermeo (2011).



More recent findings

Suggest the *endogeneity* between donors' and recipients' regime types and the implications for regime change.

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- Democratic donors allocate more aid to democratic recipients ([Nielson and Nielson 2010](#)).
- Aid tends to amplify the democratic (authoritarian) tendency of democratic (authoritarian) recipients ([Dutta et al. 2011](#))



- Will the presence of other rising donors affect the political conditionality effect of Western aid and, subsequently, democratic development in recipient countries?



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- Any endogenous, (recipient) country-level attributes at work in influencing this relationship?



China as a rising aid donor

In keeping with its rising political and economic prowess, China has emerged as a rising international aid donor.

- China's FAGIA spanned across 161 countries and 30 int'l organizations, totalling RMB 256.29 billion. The geographical distribution shows a "comparatively even coverage".



Scope and Trends: “Comparatively even coverage” revisited

According to [Kobayashi \(2008\)](#), [Lum et al. \(2009\)](#), [Wolf et al. \(2013\)](#), and AidData project:

- Geographic distribution: Africa (over 50%)



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- China's FAGIA are concentrated in recipients' **energy** and **infrastructure** sectors.
- Most significantly in **Africa**.



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China as an authoritarian financier



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No significant effect

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No significant effect

- China's aid allocation is independent of recipients' regime types ([Dreher and Fuchs, 2011](#)).
- Actually helps to promote development ([Davies et al., 2008](#); [Foster et al., 2009](#); [Bräutigam](#)).



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- We argue that China's FAGIA are driven primarily by its desire for energy resources acquisition.
- This aid allocation pattern may be more observable in recipients whose economies depend heavily on energy resources export.



Hypotheses



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- H1 Unlike Western aid (which is often often attached to some political and economic reform agenda), China's aid allocation is associated with recipients' energy resource wealth but does not come with political conditionality.
- H2a By reducing recipients' financial dependence on Western aid, China's aid attenuates the positive political conditionality effect of Western aid on recipients' democracy.
- H2b This effect is more likely to be identified in more resource-dependent recipient countries.



Conceptualization of causal paths.

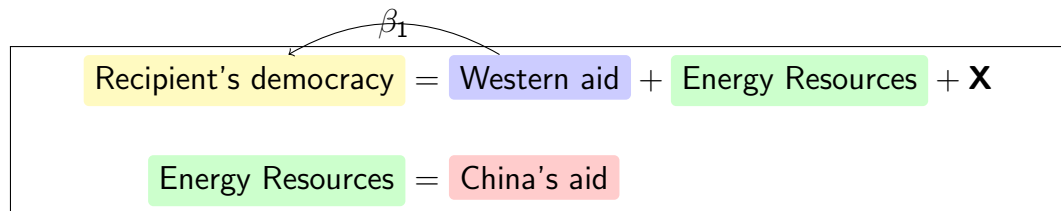
$$\text{Recipient's democracy} = \text{Western aid} + \text{Energy Resources} + \mathbf{X}$$

$$\text{Energy Resources} = \text{China's aid}$$

- β_1 : Political conditionality effect (+)
- β_2 : resource curse (-)
- π : Determinant of China's aid flows (+)
- t : Amplification effect (of π) on β_2



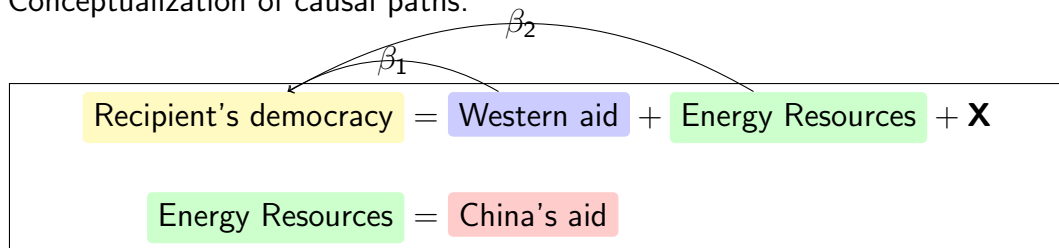
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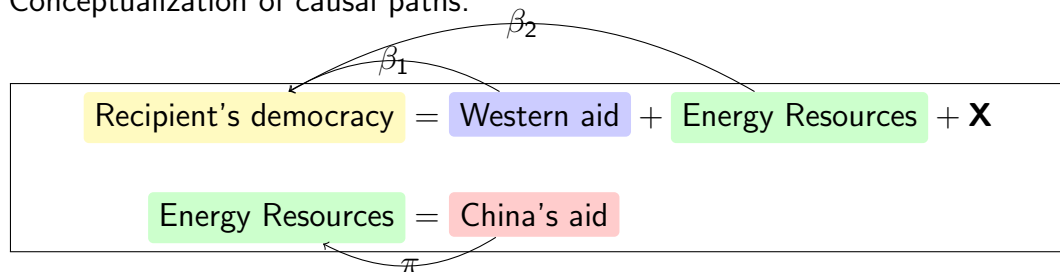
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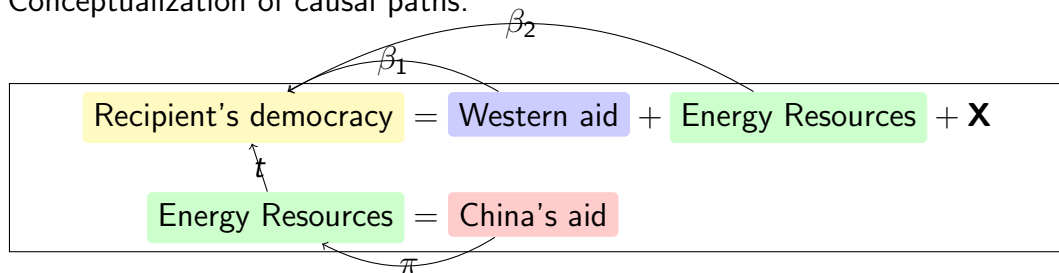
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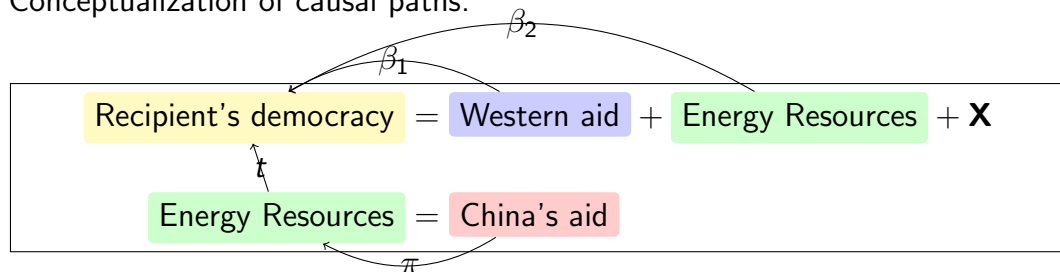
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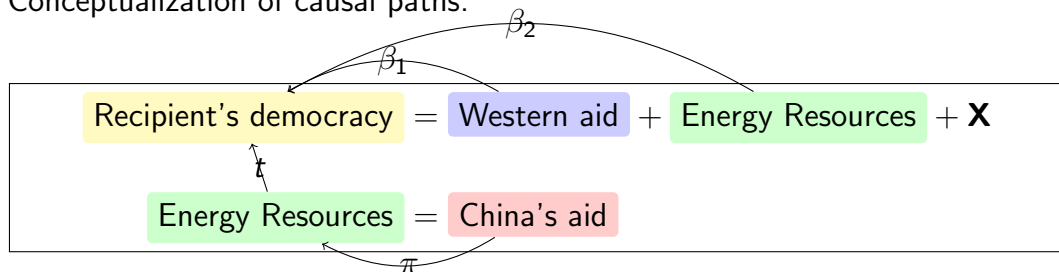
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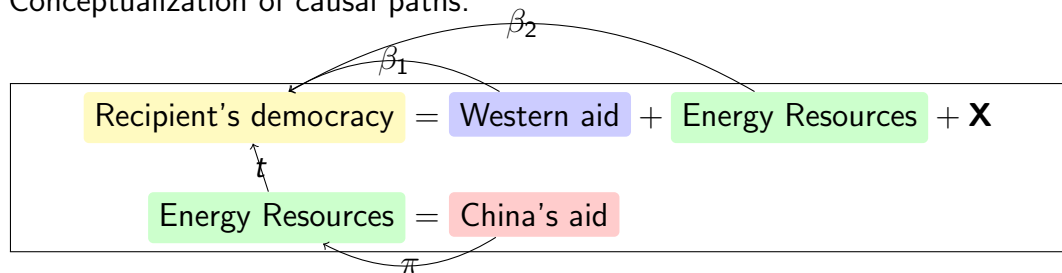
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- Data: AidData, Polity IV, SWIID, Oil-Gas Rent
- Data preparation
- Methods: SUR, ATET, Endogenous Treatment Effects Model



SUR: Identifying the determinants of Western and China's aid

Table 1 : SUR results

Variable	Western aid		China's aid	
	Coef.	(Std. Err.)	Coef.	(Std. Err.)
Δ Polity	3.17***	(0.731)	-2.08	(6.55)
Δ GDP	0.003	(0.002)	-0.005	(0.014)
Resource-dependence	-1.52	(1.16)	4.29***	(1.04)
Subsample	(North & Sub-Saharan Africa)			
Δ Polity	-2.55	(3.48)	-1.12	(1.81)
Δ GDP	0.0516***	(0.006)	0.016	(0.003)
Resource-dependence	-8.35	(4.24)	5.75**	(2.21)



Putting the causal paths of the theoretical model into perspective.



Probing the “political” effect of China’s aid

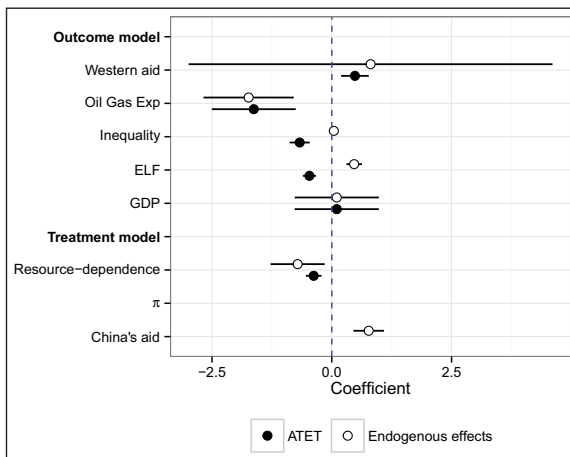
Table 2 : Results. DV: Polity Score

Variable	ATET		Endogenous π : China's aid	
	Coef.	(Std. Err.)	Coef.	(Std. Err.)
Western aid	0.483**	(0.1751)	0.810***	(2.302)
Oil Gas Exp	-1.628***	(0.531)	-1.736***	(0.571)
Inequality	-0.670***	(0.127)	0.043	(0.030)
ELF	0.4661***	(0.084)	0.467***	(0.098)
GDP	0.104	(0.532)	0.104	(0.532)
$t(\text{Resource-} \\ \text{dependence} = 1)$	-0.378***	(0.099)	-0.713**	(0.3425)
China's aid			0.771***	(0.193)



The *real* political effect of China's aid

Figure 1 : Coefficient Plot



When and where do China's aid hinder recipients' democracy

The sign of ρ ($= 0.444$) indicates the effect of the endogenous variable (China's aid) on recipients' democracy tends to occur when China's aid *increases* resource-dependence of recipient countries.



Thank You

- Contributions
- Direction for future research
- Questions/Comments

