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

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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.

- USAID, U.K., and France: Political freedom and democratic reforms as important aid allocation criteria.
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- USAID, U.K., and France: Political freedom and democratic reforms as important aid allocation criteria.
- 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.

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More recent findings

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

- Democratic donors allocate more aid to democratic recipients ([Nielson and Nielson 2010](#)).
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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?
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”.

Title: China as a rising aid donor
According to Kobayashi (2008), Lum et al. (2009), Wolf et al. (2013), and AidData project:

- Geographic distribution: Africa (over 50%)
Scope and Trends: “Comparatively even coverage” revisited

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Implications

Trade and overseas investment are the primary driving forces behind China’s recent FAGIA: **commercial incentive** dominates **political objective**.
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- China’s FAGIA are concentrated in recipients’ **energy** and **infrastructure** sectors.
- Most significantly in **Africa**.
Is China using its aid to promote authoritarianism?

China as an authoritarian financier

China is using aid to promote its own version of authoritarianism in neighboring countries (Diamond, 2008; Koesel and Bunce, 2013). Rogue aid (Naím, 2007).

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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Previous analysts failed to consider the competing relationship between Western and Chinese aid and their arguments have not been rigorously tested.
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We argue that China’s FAGIA are driven primarily by its desire for energy resources acquisition.
Argument

- Previous analysts failed to consider the competing relationship between Western and Chinese aid and their arguments have not been rigorously tested.
- 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

H1 Unlike Western aid (which is 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.
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**H2b** This effect is more likely to be identified in more resource-dependent recipient countries.
Conceptualization of causal paths.

\[
\text{Recipient’s democracy} = \text{Western aid} + \text{Energy Resources} + \mathbf{X}
\]

\[
\text{Energy Resources} = \text{China’s aid}
\]

- \(\beta_1\): Political conditionality effect (+)
- \(\beta_2\): resource curse (–)
- \(\pi\): Determinant of China’s aid flows (+)
- \(t\): Amplification effect (of \(\pi\)) on \(\beta_2\)
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- Data: AidData, Polity IV, SWIID, Oil-Gas Rent
- Data preparation
- Methods: SUR, ATET, Endogenous Treatment Effects Model
### Table 1: SUR results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Western aid Coef. (Std. Err.)</th>
<th>China’s aid Coef. (Std. Err.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>△Polity</td>
<td>3.17*** (0.731)</td>
<td>-2.08 (6.55)</td>
</tr>
<tr>
<td>△GDP</td>
<td>0.003 (0.002)</td>
<td>-0.005 (0.014)</td>
</tr>
<tr>
<td>Resource-dependence</td>
<td>-1.52 (1.16)</td>
<td>4.29*** (1.04)</td>
</tr>
<tr>
<td><strong>Subsample</strong></td>
<td><strong>(North &amp; Sub-Saharan Africa)</strong></td>
<td></td>
</tr>
<tr>
<td>△Polity</td>
<td>-2.55 (3.48)</td>
<td>-1.12 (1.81)</td>
</tr>
<tr>
<td>△GDP</td>
<td>0.0516*** (0.006)</td>
<td>0.016 (0.003)</td>
</tr>
<tr>
<td>Resource-dependence</td>
<td>-8.35 (4.24)</td>
<td>5.75** (2.21)</td>
</tr>
</tbody>
</table>
Putting the causal paths of the theoretical model into perspective.
### Table 2: Results. DV: Polity Score

<table>
<thead>
<tr>
<th>Variable</th>
<th>ATET Coef.</th>
<th>(Std. Err.)</th>
<th>Endogenous Coef.</th>
<th>(Std. Err.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western aid</td>
<td>0.483**</td>
<td>(0.1751)</td>
<td>0.810***</td>
<td>(2.302)</td>
</tr>
<tr>
<td>Oil Gas Exp</td>
<td>-1.628***</td>
<td>(0.531)</td>
<td>-1.736***</td>
<td>(0.571)</td>
</tr>
<tr>
<td>Inequality</td>
<td>-0.670***</td>
<td>(0.127)</td>
<td>0.043</td>
<td>(0.030)</td>
</tr>
<tr>
<td>ELF</td>
<td>0.4661***</td>
<td>(0.084)</td>
<td>0.467***</td>
<td>(0.098)</td>
</tr>
<tr>
<td>GDP</td>
<td>0.104</td>
<td>(0.532)</td>
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<td>(0.532)</td>
</tr>
<tr>
<td>(t(\text{Resource-}))</td>
<td>-0.378***</td>
<td>(0.099)</td>
<td>-0.713**</td>
<td>(0.3425)</td>
</tr>
<tr>
<td>(\text{dependence} = 1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China’s aid</td>
<td></td>
<td></td>
<td>0.771***</td>
<td>(0.193)</td>
</tr>
</tbody>
</table>
The *real* political effect of China’s aid

Figure 1: Coefficient Plot

![Coefficient Plot](chart.png)
When and where do China’s aid hinder recipients’ democracy

The sign of $\rho$ (= 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