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Do authoritarian regimes receive more Chinese development finance than democratic ones? Empirical evidence for Africa

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ABSTRACT

This study is part of an emerging literature that aims to shed light on China's development finance activities in Africa using quantitative estimation techniques. This paper empirically investigates whether African authoritarian regimes receive more Chinese development finance than democratic ones. I use four different measures of democracy/autocracy which allows me to check whether my results depend on the specific indicator chosen. The OLS results suggest that Chinese development finance does not systematically flow to more authoritarian countries, controlling for strategic, economic, political, institutional and geographic confounding factors. The results are not driven by the specific democracy indicator used in the analysis. The findings remain virtually unchanged if I reduce the sample to Sub-Saharan Africa only. Furthermore, the results stand up to several robustness checks, including FE, RE and instrumental variable estimation.

1. Introduction

Since the beginning of the 21st century the rules of the international development finance game have slowly and quietly begun to change. Emerging economies from the Global South (such as China, United Arab Emirates, India, Brazil, Saudi-Arabia, Venezuela or Kuwait) increasingly strengthen their economic and political relationships with developing countries, including those in Africa. Recent qualitative and quantitative evidence suggests that China must be considered the biggest and most influential actor among the emerging donors (Bräutigam, 2009; Dreher & Fuchs, 2015).

A burgeoning literature has discussed the potential opportunities and challenges of China's economic embrace of Africa (Alden, 2005; Biggeri & Sanfilippo, 2009; He, 2013; Manning, 2006; Taylor, 2007a; Tull, 2006; Zhao, 2014). One specific strand of that increasing literature is qualitative work which labels Chinese development assistance as rogue aid that is guided merely by selfish motives and not by needs-based considerations (Naím, 2007; Taylor, 2007a, 2007b; Tull, 2006).

Sophisticated econometric work on the subject matter started only recently due to a lack of comprehensive aid statistics from numerous emerging (non-DAC) donors. The Chinese government treats its aid allocation as a state secret. A detailed geographic and sectoral breakdown of Beijing's foreign aid and other forms of state financing is therefore not publicly available (Bräutigam, 2009; Huse & Muyakwa, 2008). Very recently, Strange, Parks, Tierney, Fuchs, and Dreher (2013) have developed an open-source data collection technique that aims to provide a more complete picture of non-DAC development finance activities, including China. It

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may therefore not come as a surprise that the quantitative literature on China's development finance to developing countries is sparse (Bader, 2015; Dreher, Fuchs, Parks, Strange, & Tierney, 2017; Strange, Dreher, Fuchs, Parks, & Tierney, 2017; Strüver, 2016).

This study is among the first to shed light on China's development finance activities in Africa using quantitative estimation techniques. My study is similar to the study carried out by Dreher et al. (2017). The authors systematically analyse the determinants of China's official financing in Africa applying pooled Ordinary Least Squares (OLS) estimation methods. In contrast, my study is more specific and seeks to answer the research question: *Do African Authoritarian Regimes receive more Chinese Development Assistance than Democratic Ones*?

I use four different proxies for degree of democracy/autocracy in the recipient country, which allows me to check whether my results depend on the specific indicator chosen. Besides OLS estimation, I use fixed effects and random effects models to account for unobserved heterogeneity. I also perform a Two Stage Least Squares (2SLS) estimation model to account for the possibility of reverse causality.[1] I instrument the current day democracy level of a specific country with each country's year of independence drawing on the theory of institutional path dependence in economics (David, 1994; Greif, 1994; North, 1990) and historical institutionalism in political science (Hall & Taylor, 1996; Pierson & Skocpol, 2002; Putnam, 1993). The analysis includes 53 countries and covers the time period 2000–2011.[2]

My OLS results suggest that Chinese official development finance does not systematically flow to more authoritarian countries, controlling for strategic, economic, political, institutional and geographic confounding factors. The two major determinants of Chinese development finance that are almost always statistically significant are: (i) whether a country recognises the People's Republic of China (PRC) or Taiwan (Republic of China, ROC) and (ii) whether English is considered one of the three most common languages in the recipient country. When accounting for the possibility of reverse causality, the 2SLS results suggest that both population size and oil rents as a percentage of GDP have a strong positive relationship with the amount of absolute Chinese official finance a recipient country receives.

Furthermore, I do not find a strongly negative and highly statistically significant relationship between the institutional quality of a recipient country and Chinese official development finance. As a result, my findings provide further statistical evidence that equating Chinese development assistance with "rogue aid" (Naím, 2007) is unfounded.

The study is structured as follows. In the next section I briefly provide some background information with regard to the subject. Section 3 introduces the data and discusses the methodology. I present my main empirical results using OLS regressions in Section 4. Section 5 investigates the robustness of my results using FE and RE estimation as well as instrumental variable regression. Section 6 concludes.

2. Background information

2.1. Rise of development finance from non-DAC donors

While extensive literature exists on the determinants of aid allocation by the *traditional* Western (DAC) donors (Alesina & Dollar, 2000; Alesina & Weder, 2002; Dreher, Sturm, & Vreeland, 2009; Fleck & Kilby, 2006, 2010; Kuziemko & Werker, 2006; Neumayer, 2003a, 2005; Reynaud & Vauday, 2009), studies that have empirically examined the determinants of aid allocation by *emerging* donors is surprisingly sparse. With the arrival of better availability of foreign aid data for emerging donors, some scholars have recently started to analyse the aid allocation of non-DAC donors using quantitative estimation methods.[3] Neumayer (2003b, 2004) examines the factors that determine the aid allocation by Arab countries and multilateral agencies to recipient countries worldwide. Fuchs and Vadlamannati (2013) empirically assess India's foreign aid motives for a set of 125 countries over the 2008–2010 period. A study by Dreher, Nunnenkamp, and Thiele (2011) compares the allocation of aid between DAC and non-DAC donors. Bermeo (2011) compares differences in preferences between democratic donors and authoritarian donors (such as Kuwait, Saudi-Arabia or the United Arab Emirates).

In this study, I focus on *Chinese* development finance in Africa for three reasons. First, China can be regarded as the largest and possibly most influential emerging donor at the time of writing. Second, the African continent is by far the highest aid-dependent continent in the world. Third, data on Chinese aid has not been publicly available until recently. Strange et al. (2013) have developed an open-source data collection technique – AidData's Tracking Underreported Financial Flows (TUFF) methodology – that assembles a first-of-its-kind, project-level dataset on China's official financing activities in Africa from 2000 onwards.

Kitano and Harada (2016) estimate China's foreign aid between 2001 and 2013 that is comparable to net ODA figures. Using both OECD data and AidData, Kilama (2016) examines how aid flows of emerging donors, including China, affect the fiscal behaviour of African recipient governments. Two very recent studies have analysed the motivations behind China's increasing foreign aid and other forms of state financing (Dreher et al., 2017; Dreher & Fuchs, 2015). Dreher and Fuchs (2015) discuss the allocation and motivations of China's development aid for the 1956–2006 period. Moreover, they compare the allocation of China's project aid to that of the OECD-DAC and other emerging donor countries in a cross-section of 132 recipient countries over the 1996–2005 period.

A recent contribution by Dreher et al. (2017) studied the determinants of Chinese foreign aid and other official forms of state

[1] A vast amount of qualitative literature discusses to what extent Chinese development finance could deteriorate good governance and the democratization process in respective African recipient countries (Manning, 2006; Naím, 2007; Taylor, 2007a, 2007b; Tull, 2006; Zhao, 2014).

[2] The analysis therefore covers all African countries except for South Sudan.

[3] Here, I specifically refer to AidData, a new dataset of foreign assistance. AidData covers more bilateral and multilateral donors and more types of aid than existing datasets while also improving project-level information about the purposes and activities funded by aid (see Tierney et al., 2011).