China Economic Review 44 (2017) 241–252

Contents lists available at ScienceDirect

China Economic Review

Confucius Institutes and FDI flows from China to Africa

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A R T I C L E I N F O

Article history:
Received 13 June 2016
Received in revised form 18 September 2016
Accepted 12 February 2017
Available online 1 March 2017

JEL:
F14 (Empirical Studies of International Trade)
F53 (International Agreements and Observance International Organizations)
F55 (International Institutional Arrangements)

Keywords:
FDI
Foreign aid
Natural resources
Culture and trade
Soft power
Hanban
China

A B S T R A C T

Is the establishment of new Confucius Institutes (CIs) in African countries motivated by resource seeking? We focus on uncovering new empirical evidence about the establishment of CIs, whether they are related to natural resources, and the extent to which the establishment of new CIs and Chinese foreign aid flows affect one another. Whereas Chinese aid flows do indeed appear to be empirically associated with African countries' natural resources, the evidence we report suggests that CIs are established based on a distinct set of motives. We find that CIs, Chinese foreign aid flows to Africa and natural resources have joint predictive power on the subsequent year's Chinese FDI outflows. CIs are not, however, positively associated with the subsequent year's aid flows. And aid flows are not positively associated with the subsequent year's expected number of CIs. We interpret this as evidence that CIs reflect an economically significant expression of Chinese soft power. The goals underlying the expression of this soft power are not subsumed by natural resource seeking and are not easily compressed to a single dimension. The data show that CIs and aid flows are not positive predictors of each other and are not subsumed (i.e., made to disappear) by the inclusion of controls for natural resources. Thus, the presence of a CI reveals independent, novel, and economically significant information about future trade flows that cannot be explained away by differences in resources or other control variables commonly found in empirical models of trade flows. The empirical evidence suggests that CIs are indeed an effective instrument for increasing China's soft power but that this soft power is not motivated solely (if at all) by resource seeking.

1. Introduction

This paper addresses two broad empirical questions relating to debate about the Chinese government and its strategic use of Confucius Institutes (CIs) as an expression of soft power. Although debate over CIs located in the U.S. and U.K. receives considerable attention, our research question draws motivation from debate about the presence of CIs in Africa, which we interpret as an expression of Chinese soft power. Critics sometimes express suspicion that the proliferation of new CIs in Africa reflects ulterior motives of the Chinese government, namely, seeking African countries' natural resources.

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http://dx.doi.org/10.1016/j.chieco.2017.02.004

The first empirical question we address concerns the extent to which commonly used measures of natural resources across African countries can explain the effects of CIs on FDI outflows from China to Africa.[1] By controlling for foreign aid from China and natural resources in a particular African country and year, we undertake to measure the effect of the presence of a CI on FDI outflows from China to African country-years. A second, more broadly-framed empirical issue concerns how CIs, when interpreted as an expression of China's soft power, fit together within the large empirical literature on Chinese foreign aid flows into Africa (Taylor, 1998; Woods, 2008; Lum et al., 2009; Tan-Mullins, Mohan, and Power, 2010; Bräutigam, 2011; Dreher and Fuchs, 2011). Once again, critics of the Chinese government suggest a range of ulterior (and sometimes nefarious) motives which (at the risk of over-simplifying) follow the common narrative that Chinese aid to Africa reflects motives focused on expanding access to and control over African natural resources.[2]

To provide background and context for our empirical question regarding CIs in Africa, we group the extant literature into three broad themes relating to our work: (i) Chinese aid to Africa; (ii) the extent to which Chinese aid reflects soft power; and (iii) links between Chinese foreign aid and China's desire for Africa's natural resources. These questions have attracted the attention of many fine empirical researchers, precisely because the empirical record on these three themes contains interesting inconsistencies and sensitivities making it difficult to characterize with broad generalizations.

For example, Esteban (2010) argues that Chinese foreign aid to African countries can be interpreted as negative soft power, insofar as citizens in aid-receiving African countries regard those aid payments from China as bribes paid to unpopular African government officials. The evidence appears solid that Chinese aid is positively associated with FDI flows from China into aid-receiving African countries. The interpretation of Chinese aid to Africa as an expression of soft power (in the context of other potential mechanisms for expressing soft power), however, remains an open question.

We therefore focus on generating new evidence addressing the empirical question of how the presence of CIs and Chinese foreign aid flows jointly affect FDI outflows from China to Africa. In particular, we test whether controlling for foreign aid from China into African country-years causes the effect of CIs on Chinese FDI outflows to Africa to disappear. The data show that this effect does not disappear. Therefore, our analysis shows that the data contain evidence of an independent effect of CIs on FDI, net of the presence of foreign aid flows from China into Africa, by which the presence of CIs exerts a positive statistical influence on FDI outflows from China to Africa.

Our main empirical question draws motivation from the following four observations. First, China's FDI flows into Africa are, without doubt, resource related (Cheung and Qian, 2009; Sanfilippo, 2010; Kolstad and Wiig, 2012; Busse, Erdogan and Mühlen, 2014; Kaplinsky and Morris, 2009; Chen, Dollar and Tang, 2015). Second, the positive effect of the presence of CIs on subsequent FDI flows from China to the host country is already established empirically (Lien et al., 2012). Third, evidence suggests that the presence of CIs is positively correlated with foreign aid flows from China (Chen et al., 2015).[3] And fourth, hard evidence supports the view that Chinese aid to Africa is linked to natural resources (Sun, 2014).

Based on these four observations, we expect CIs, Chinese foreign aid, and the natural resources available in African country-years to each have positive effects on Chinese FDI outflows to African country-years. To the best of our knowledge, our empirical analysis is the first to measure these three effects simultaneously. Doing so enables us to address the two main empirical questions as stated above: (1) Is the spatial distribution of CIs measurably "resource-oriented," in the sense that including information about natural resources into empirical models of African country-years' FDI outflows from China makes the effects of CIs disappear?; and (2) How do the presence of CIs and foreign aid outflows from China into African country-years affect each other?

Our data speak rather clearly in answering those two questions. The empirical models we estimate suggest that CIs are established with their own distinct objectives which cannot be explained away completely by the presence of natural resources. Regarding the second question, CIs appear to exert strong effects on FDI after controlling for both the recipient country's natural resources and whether it is a recipient of Chinese foreign aid. Thus, previous studies together with our new evidence jointly support the interpretation that CIs serve to expand China's soft power and that decision making about where and when to establish new CIs reflects a larger set of *multiple* Chinese objectives that includes resource seeking while very clearly going beyond that single motive.

The paper is organized as follows. Section 2 provides contextualization with the overlapping but discursive literatures on Chinese FDI, Chinese aid, CIs, and soft power. Section 3 describes the data. Section 4 reports empirical results, and Section 5 concludes.

2. CIs, foreign aid from China to African countries, resource targeting, and FDI

2.1. Gap between objective magnitudes of FDI flows into Africa and anti-Chinese-FDI rhetoric

The recent rise of investment and trade flows between China and African countries suggests that new attitudes and behaviors, among both Chinese and Africans, could beneficially position both sides for a symbiotic relationship with multiple positive spill-

[1] Several studies precede ours concerning statistical associations between the presence of CIs (or number of CIs) in a particular country and year and various economic outcomes (Lien, Oh, and Selmier, 2012; Lien and Co, 2013; Lien, Ghosh, and Yamarik, 2014; Kim et al., 2015; Xiang and Huang, 2015; Xu, Yao, and Zhang, 2015).

[2] Sun's (2014) Brookings Institution article suggests that China's "tied aid" for infrastructure projects typically favors Chinese companies. In another study linking trade and popular political views, Hanusch (2012) finds that Africans' attitudes toward Chinese trade and FDI are equivalent to those they hold for Western countries.

[3] In our data (described in detail in the next section covering 41 countries over nine years), the pairwise correlation between the presence of CIs and being a recipient of Chinese foreign aid is 0.18 ($p = 0.00$) using China.AidData.org data and 0.20 ($p = 0.00$) using Rand aid data.