

Isaksson, Ann-Sofie; Kotsadam, Andreas

Working Paper

Chinese Aid to Africa: Distinguishing Features and Local Effects

IFN Working Paper, No. 1337

Provided in Cooperation with:

Research Institute of Industrial Economics (IFN), Stockholm

Suggested Citation: Isaksson, Ann-Sofie; Kotsadam, Andreas (2020) : Chinese Aid to Africa: Distinguishing Features and Local Effects, IFN Working Paper, No. 1337, Research Institute of Industrial Economics (IFN), Stockholm

This Version is available at:

<https://hdl.handle.net/10419/240480>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

IFN Working Paper No. 1337, 2020

Chinese Aid to Africa: Distinguishing Features and Local Effects

Ann-Sofie Isaksson and Andreas Kotsadam

Chinese aid to Africa: Distinguishing features and local effects

Ann-Sofie Isaksson* and Andreas Kotsadam**

Research Institute of Industrial Economics (IFN), Box 55665, SE-102 15, Stockholm, Sweden

May 5, 2020

Abstract: Drawing on our recent work on local effects of Chinese development projects in Africa, this review article highlights a number of distinguishing features of Chinese aid, and discusses how these may translate into local aid impacts that differ from those of other donors. Unlike aid from other major donors, Chinese aid projects were found to fuel local corruption, discourage trade union involvement, to not increase political incumbency support, and to make ethnic identities more salient in the local areas. As such, our findings highlight important donor heterogeneities as well as the need to consider not only to what extent aid achieves its explicit objectives, but also its potential unintended effects, or externalities.

Keywords: China; Africa; Foreign aid

JEL-codes: F35, O19, O55

* Ann-sofie.isaksson@economics.gu.se

** The Frisch Centre. Andreas.Kotsadam@frisch.uio.no Ragnar Frisch Centre for Economic Research, Gaustadalleen 21 0349 Oslo Norway. Phone: +4740338176 Fax: +4740338176.

We gratefully acknowledge financial support from the Swedish Research Council.

1 Introduction

The global economic landscape has changed dramatically since the turn of the millennium: low and middle income countries have been driving global economic growth, new sources of development finance have emerged and the development cooperation arena has seen continued diversification of actors, instruments and delivery mechanisms (Kharas and Rogerson, 2012; Mawdsley et al, 2014). Largest among the ‘new’ donors is China, and with the explosion of Chinese funds, concerns over its donor practices have followed.

Critics claim that Beijing uses their development finance to create alliances with the leaders of developing countries, to secure commercial advantages for their domestic firms, and to prop up corrupt and undemocratic regimes in order to gain access to their natural resource endowments (see the discussion in e.g. Tull, 2006; Naím, 2007; Penhelt, 2007; Brazys et al. 2017). Others praise China for its responsiveness to recipient needs and its ability to get things done in a timely manner without placing an extensive administrative burden on strained public bureaucracies in the developing world (see the discussion in e.g. Bräutigam, 2009; Dreher et al., 2019).

In the 2018 Forum on China-Africa Cooperation, China made a \$60 billion pledge for new projects in Africa (Washington Post, 2018). Despite its massive scale, until recently, studying the motivations behind and effects of Chinese development finance has been very difficult. Unlike the OECD-DAC donors, the Chinese government does not routinely publish information on its foreign assistance. This lack of transparency has made evaluation of Chinese aid notoriously difficult, and as a result, China’s aid to Africa is the subject of much speculation. However, with a new comprehensive dataset on Chinese Official Finance to Africa issued by the AidData research laboratory (AidData, 2017), systematic quantitative analysis of Chinese aid flows is now possible.

This article draws on our recent work on Chinese development finance to Africa. We highlight a number of distinguishing features of Chinese aid, and how these may translate into local aid impacts that differ from those of other donors. In particular, we discuss the arguments and findings in Isaksson and Kotsadam (2018a, 2018b), Isaksson (2019) and Knutsen and Kotsadam (2020). In these studies, we geographically match the new geo-referenced dataset on the subnational allocation of Chinese development finance projects to Africa with comprehensive survey data for a broad range of African countries, and evaluate the local effects of Chinese aid on corruption, trade union involvement, ethnic identities, and incumbency support, respectively.

2 Distinguishing features of Chinese aid

A number of features make Chinese aid stand out from that of western donors. First, China is well-known for its policy of non-interference in the domestic affairs of recipient countries (see e.g. Tull, 2006; Bräutigam, 2009). The principle is explicitly spelled out in official Chinese documents: “When providing foreign assistance, China adheres to the principles of not imposing any political conditions, not interfering in the internal affairs of the recipient countries and fully respecting their right to independently choosing their own paths and models of development” (State Council, 2014). While recipient country governments tend to see the principle as a sign of China respecting their countries’ sovereignty, critics view it as a convenient rationale for economic involvement in undemocratic and corrupt regimes and suggest that it makes Chinese aid easy to exploit for politicians.

Second, Chinese development finance tends to mix commercial interests with concessional flows (see e.g. Tull, 2006; Bräutigam, 2009). As with the non-interference principle, China explicitly states that their development policy should result in a win-win situation for both sides (Tull, 2006). The blurring of concessional finance with other financial flows means that it is difficult to distinguish between China’s commercial interests and transfers with a development intent; their projects tend to contain elements of both.

Next, the Chinese aid allocation process tends to be demand driven (see e.g. Brautigam, 2011). As described in detail in Dreher et al. (2019), China’s aid allocation is often based on requests from recipient-country governments. Their aid packages and projects tend to be negotiated in high-level meetings with political leaders rather than publicly outlined in country development assistance strategies, with the initiative generally coming from the recipient side. Interpreted favorably, this could again be seen as a sign of ensuring partner country ownership of development policy. At the same time, however, a request-based system of aid project delivery may provide opportunities for recipient country governments to use funds strategically by promoting a subnational distribution of funds that favors their patronage network.

Finally, China stands out in terms of their degree of control over aid project implementation. Unlike other donors that often use local implementing agencies, China tends to maintain control over the projects they fund from the project initiation phase to the project completion phase, often using Chinese contractors for work performed in the recipient countries (see e.g. Bräutigam, 2009).

3 Possible empirical implications

In light of these distinguishing features of Chinese development finance, the studies reviewed in this article explore whether the local effects of Chinese aid stand out from those of other donors.

In one study (Isaksson and Kotsadam, 2018a) we investigate whether Chinese development projects affect local corruption in Africa. A potential effect could work both via economic incentives, i.e. through the presence of donors affecting the costs and benefits of engaging in corrupt activity, and by means of norm transmission. Two of the above features of Chinese aid are particularly relevant in this respect. First, China's policy of non-interference in the domestic affairs of recipient countries suggests that they are unlikely to take an active role in fighting corruption in the same. Unlike donors with a clear anti-corruption policy, such as the World Bank, it thus seems unlikely that the Chinese presence should involve increased monitoring and de-legitimization of corrupt practices. Second, and conversely, considering reports of corruption among Chinese firms operating abroad (Transparency International, 2011), their tendency to maintain control over development projects throughout the entire implementation phase implies that Chinese development projects may stand out in terms of the use of corrupt practices. The Chinese presence could thus affect descriptive corruption norms for the worse.

In another study, we examine the impact of Chinese development projects on labour union involvement in African recipient countries (Isaksson and Kotsadam, 2018b). Anecdotal evidence points to violations of international labour standards at Chinese investment sites in Africa (e.g. Human Rights Watch, 2011; and Akorsu and Cooke, 2011). Again, the distinguishing features of Chinese development finance are relevant to consider. Since China tends to maintain control over development projects throughout the implementation phase, their presence could reasonably exert an influence on local labour market institutions. Considering that Chinese firms have little tradition of unions and organized labour at home (ITUC, 2010), this could mean that Chinese labour relations are transplanted to the recipient countries. Furthermore, and related, the fact that Chinese development finance tends to mix commercial interests with concessional flows likely implies that cost cutting, e.g. with respect to labour expenses, is an important dimension at the project implementation phase.

Based partly on the results from these previous studies we also examine the effects of aid on incumbency support at the local level (Knutzen and Kotsadam, 2020). If aid affects corruption, unionization, and local economic conditions differently it is reasonable to expect

that it also affects incumbency advantage differently. If aid has overall positive effects at the local level, voters may reward incumbent leaders who locate aid to their area. Aid may also lead to lower support for the incumbent leader if it has negative effects at the local level or undermines the capacity and legitimacy of recipient governments. One can also expect Chinese aid to be different with respect to incumbency effects due to the stated non-interference of Chinese aid in combination with its demand driven nature.

Our most recent study explores whether Chinese development projects fuel local ethnic identities in African recipient countries (Isaksson, 2019). In line with the findings of Eifert et al. (2010), who find that ethnic identities are mobilized in the struggle for political power and economic resources, competition for the inflow of resources that aid constitutes could mobilize ethnic identities across the board. A second possible mechanism, in line with a ‘reactive ethnicity’ approach (Çelik, 2015), is that perceived ethnic bias in the delivery of aid gives rise to ethnic grievances, and thereby more salient ethnic identities, in groups that perceive themselves as disadvantaged. Recent empirical evidence suggest that Chinese aid may be particularly easy to exploit for politicians who are engaged in patronage politics (Dreher et al., 2019). Both the demand-driven nature of the Chinese aid allocation process and China’s policy of non-interference in the domestic affairs of partner countries arguably make Chinese development funds prone to elite capture, and thus to possible ethnic bias. The next section provides an account of how we evaluate these questions empirically.

4 Data and empirical strategy

To explore the local effects of Chinese development projects in Africa, we geographically match spatial data on China’s official financial flows to the continent over the period 2000-2012 with Afrobarometer survey data for a large sample of respondents from a broad range of African countries². The data on Chinese aid projects is obtained from geo-referenced project-level data of AidData’s Geocoded Global Chinese Official Finance Version 1.1.1 dataset (AidData, 2017). Since the Chinese government does not release official, project-level financial information about its foreign aid activities, this data is based on an open-source media

² In the corruption paper, 98,449 respondents from 4 Afrobarometer survey waves in 29 African countries; in the trade union paper, 41,902 respondents from 18 African countries obtained from rounds 2 and 3 of the Afrobarometer survey; in the incumbency paper, 101,792 from 5 rounds; and in the ethnic identities paper, 50,527 respondents from 11 African countries obtained from rounds 3-6 of the Afrobarometer survey.

based data collection technique, synthesizing and standardizing a large amount of information on Chinese development finance to African countries (described in detail in Strange et al., 2015). The coordinates of the surveyed Afrobarometer clusters are used to match individuals to aid project sites with precise point coordinates. We measure the distance from the cluster centre points to the aid project sites and identify the clusters located within a cut-off distance – e.g. 50 km – of at least one project site.

Since the distribution of aid within countries is not random, implying that some individuals and sub-national areas, with certain characteristics, will be more likely than others to be targeted by aid, we use a spatial-temporal estimation strategy resembling that in Knutsen et al. (2017). While the fact that the Afrobarometer is not a panel hinders us from following specific localities over time, before and after a project was initiated, with this estimation strategy we can still make use of the time variation in the data. In particular, we compare the estimated effect of living near sites where a Chinese development project is currently under implementation with the estimated effect of living near sites where a project will be opened but where implementation had not yet been initiated at the time the Afrobarometer covered that particular area. The baseline regression takes the form:

$$(1) \quad Y_{ivt} = \beta_1 \cdot Ongoing_{it} + \beta_2 \cdot Future_{it} + \alpha_s + \delta_t + \gamma \cdot \mathbf{X}_i + \varepsilon_{ivt}$$

where the outcome variable Y for an individual i in cluster v at year t is regressed – in the benchmark setup using linear probability models – on a dummy variable *Ongoing* capturing whether the individual lives within the specified cut-off distance of an ongoing Chinese development project, and a dummy *Future* for living close to a site where a Chinese project is planned but not yet implemented at the time of the survey (those with no Chinese project site within the cut-off distance are the omitted reference category). The regressions include spatial (country or sub-national region) fixed effects (α_s) and year fixed effects (δ_t), and a vector (\mathbf{X}_i) of individual-level controls (age, age squared, gender and urban/rural residence). The standard errors are clustered at the geographical clusters.

The coefficient on *Ongoing* (β_1) captures any causal effect of aid plus potential selection effects. The coefficient on *Future* (β_2), on the other hand, captures only a selection effect, as the concerned aid projects had not yet started at the time of the survey and so cannot have had a causal effect. The idea is that by taking the difference between these two parameters we subtract the selection effect from the combined selection and causal effect, leaving behind the

causal effect of aid on the outcome variable in focus. The parameter difference between *Ongoing* and *Future* ($\beta_1 - \beta_2$) thus gives a difference-in-difference type of measure that controls for unobservable time-invariant characteristics that may influence selection into being a Chinese project site. The key assumption behind this approach is that the selection process relevant for ongoing and future projects sites is the same. We evaluate this assumption in a range of robustness tests. The incumbency paper uses a different approach whereby area fixed effects are added so that the coefficient on *Ongoing* captures differences only in areas before and after aid projects start.

5 Empirical findings

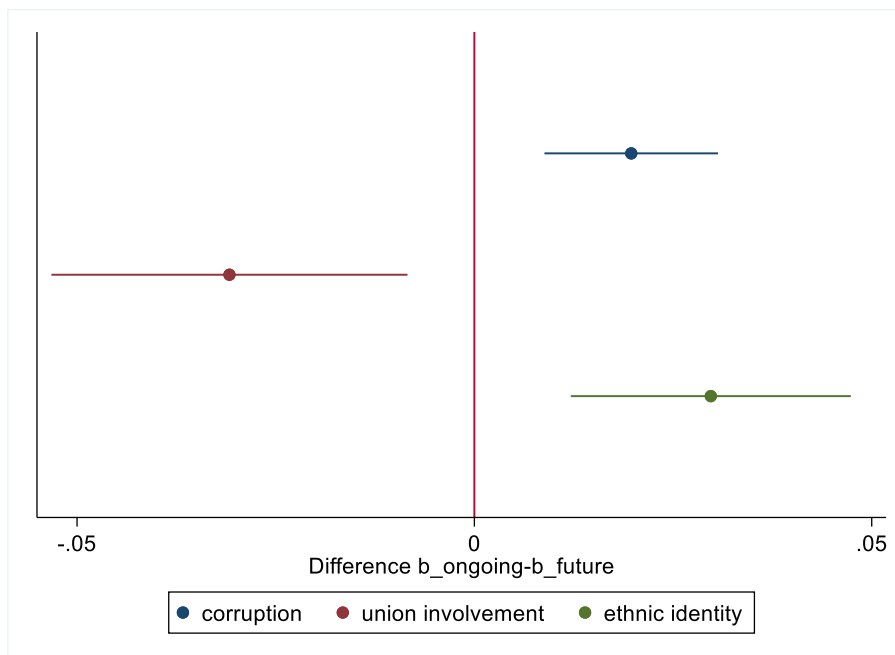
Figure 1 provides a brief summary of the main empirical findings.³ It shows the parameter difference between *ongoing* and *future* from estimations like that in equation (1), with citizen experiences with corruption, union involvement, and ethnic identities as the respective dependent variables.⁴

To begin with, the results consistently indicate that Chinese aid projects fuel local corruption. Respondents with an ongoing rather than a future Chinese project within 50 km are, for instance, significantly more likely to report that they have been asked for a bribe when dealing with the police. Investigating possible underlying theoretical mechanisms, the effect does not appear to be driven simply by an increase in economic activity. Rather, suggestive evidence seems to suggest that the Chinese presence impacts local norms. Running equivalent estimations for World Bank aid projects, for which there is also geo-referenced data available for a large multicountry African sample, the estimations provide no consistent evidence of a corresponding increase in local corruption around project sites. In particular, whereas the results indicate that Chinese aid projects fuel local corruption but have no observable impact on local economic activity, they suggest that World Bank aid projects stimulate local economic activity without any consistent evidence of it fuelling local corruption.

³ As Knutsen and Kotsadam (2020) employ a different estimation strategy we do not include the estimates in this figure.

⁴ For detailed results, sensitivity estimations, and comparisons with other donors see the original studies.

Figure 1: Summary of empirical findings



Also in line with predictions, the results suggest that Chinese development projects discourage trade union involvement in the surrounding areas. These results do not translate to other forms of citizen participation not directly connected to the workplace, seemingly indicating that the lower unionization rates observed near ongoing as compared to future Chinese project sites stem from direct anti-union policies rather than from more general institutional change. Again, China clearly diverges from other donors in this respect. In particular, in line with World Bank efforts to promote civil society development and community participation, World Bank projects are found to stimulate rather than to discourage union involvement.

Based on the previous findings it is interesting to see whether the effects on incumbency support also differ for Chinese aid versus aid from other donors. Knutsen and Kotsadam (2020) find that aid from the World Bank increases incumbency support whereas there is no robust evidence that this is the case for Chinese aid. A possible explanation for the differential impact of aid on incumbency support is the negative effects described above. In addition, we find that aid from the World Bank increases trust in politicians whereas we do not find an effect for Chinese aid.

Finally, the empirical results indeed suggest that living near an ongoing Chinese project makes ethnic identities more salient. The effect is not uniform though, but driven by people who belong to the out-group – i.e. who are not co-ethnics of the country president at the time – arguably signaling that it is driven by ethnic grievances originating in perceived ethnic bias rather than ethnic competition for resources more generally. Furthermore, a comparison across

donors reveals that Chinese development projects stand out from those of other influential donors in this respect. Replicating the key analysis for World Bank projects, the results in fact indicate the reverse, i.e. that living near an ongoing as opposed to a future project comes with weaker ethnic identification. This too seemingly speaks against the general ethnic competition mechanism.

6 Conclusions

This article drew on our recent work on local effects of Chinese development projects in Africa. We highlighted a number of distinguishing features of Chinese aid – their non-interference principle, their tendency to mix commercial interests with concessional flows, the demand driven aid allocation process, and their control over projects throughout the implementation phase – and discussed how these may translate into local aid impacts that differ from those of other donors.

Our empirical findings indeed indicated that important local effects of Chinese aid stand out from those of other donors. Unlike aid from other major donors, Chinese aid projects were found to fuel local corruption, discourage trade union involvement, to not increase political incumbency support, and to make ethnic identities more salient in the local areas. As such, our findings highlight important donor heterogeneities as well as the need to consider not only to what extent aid achieves its explicit objectives, but also its potential unintended effects, or externalities.

References

- AidData Research and Evaluation Unit (2017) Geocoding Methodology, Version 2.0. Williamsburg, VA: AidData at William & Mary. <https://www.aiddata.org/publications/geocoding-methodology-version-2-0>
- Akorsu, D. A. and F. L. Cooke (2011) “Labour standards application among Chinese and Indian firms in Ghana: typical or atypical?”, *The International Journal of Human Resource Management*, 22(13), pp. 2730-2748.
- Brautigam, D. (2009) *The Dragon’s Gift: The Real Story of China in Africa*, Oxford, UK: Oxford University Press.

- Brautigam, D. (2011) "Aid 'with Chinese characteristics': Chinese foreign aid and development finance meet the oecd-dac aid regime", *Journal of International Development*, vol. 23, pp. 752-764.
- Brazys, S., Elkind, J. A., & Kelly, G. (2017). Bad neighbors? How co-located Chinese and World Bank development projects impact local corruption in Tanzania. *The Review of International Organizations*, 12(2), 227-253.
- Çetin Çelik (2015) 'Having a German passport will not make me German': reactive ethnicity and oppositional identity among disadvantaged male Turkish second-generation youth in Germany, *Ethnic and Racial Studies*, 38:9, 1646-1662
- Dreher, A., Fuchs, A., Hodler, R., Parks, B. C., Raschky, P. A., and M. J. Tierney (2019) "African leaders and the geography of China's foreign assistance", *Journal of Development Economics*, 140, pp. 44–71.
- Eifert, B., Miguel, E. and D. N. Posner (2010) "Political competition and ethnic identification in Africa", *American Journal of Political Science*, 54(2), pp. 494-510.
- Human Rights Watch (2011) "'You'll Be Fired if You Refuse' Labour Abuses in Zambia's Chinese State-owned Copper Mines", Human Rights Watch, November 2011.
- Isaksson, A. and A. Kotsadam (2018a) "Chinese aid and local corruption", *Journal of Public Economics*, vol. 159, pp. 146-159.
- Isaksson, A. and A. Kotsadam (2018b) "Racing to the bottom? Chinese development projects and trade union involvement in Africa", *World Development*, vol. 106, pp. 284-298.
- Isaksson, A. (2019) "Chinese aid and local ethnic identification", Working Papers in Economics no. 761, University of Gothenburg, Department of Economics.
- ITUC (2010) "Internationally recognised core labour standards in the people's republic of China", International Trade Union Confederation (ITUC), report for the WTO general council review of the trade policies of the people's republic of China, Geneva May 2010.
- Kharas, H. and A. Rogerson (2012) "Horizon 2025: Creative destruction in the aid industry", Overseas Development Institute, July 2012.
- Knutsen, C. H., Kotsadam, A., Hammersmark Olsen, and T. Wig (2017) "Mining and local corruption in Africa", forthcoming in *American Journal of Political Science*, 61(2), pp. 320-334.
- Knutsen, T., & Kotsadam, A. (2020). The political economy of aid allocation: Aid and incumbency at the local level in Sub Saharan Africa. *World Development*, 127, 104729.

- Mawdsley, E., L. Savage, and K. Sung-Mi (2014), “A ‘post-aid world’? Paradigm shift in foreign aid and development cooperation at the 2011 Busan High Level Forum”, *The Geographical Journal*, pp. 27–38.
- Naím, M (2007) “Rogue Aid”, *Foreign Policy*, No. 159, March/April 2007.
- Pehnelt, G. (2007) “The Political Economy of China’s Aid Policy in Africa”, Jena Economic Research Papers no. 051. University of Jena, Germany, available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1022868
- State Council (2014) “White Paper on China’s Foreign Aid”, Information Office of the State Council, The People’s Republic of China, July 2014, Beijing, available at: http://english.gov.cn/archive/white_paper/2014/08/23/content_281474982986592.htm (accessed: March 2020)
- Strange, A. M., Parks, B., Tierney, M. J., Fuchs, A. and A. Dreher, (2015), “Tracking under-reported financial flows: China's development finance and the aid-conflict nexus revisited”, *Journal of Conflict Resolution*, pp. 1-29.
- Transparency International (2011) “Bribe Payers Index 2011”, available at: https://issuu.com/transparencyinternational/docs/bribe_payers_index_2011?mode=window&backgroundcolor=%23222222 (accessed: March 2020).
- Tull, D. M. (2006) “China’s Engagement in Africa: Scope, Significance and Consequences”, *Journal of Modern African Studies*, 44(3), pp. 459-479.
- Washington Post (2018) “Xi Jinping pledged \$60 billion for Africa. Where will the money go?”, L. Benabdallah and W. Robertson, *The Washington Post*, September 17, 2018.