China and DAC donors: The role of corruption and natural resources in the foreign aid allocation

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Abstract

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Reference

China and DAC Donors: The Role of Corruption and Natural Resources in the Foreign Aid Allocation

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List of abbreviation

BRICS: Brazil, Russia, India, China and South Africa
CIRR: Commercial Interest Reference Rates
CCP: Communist Party of China
DAC: Development Assistance Committee
DSF: Debt Sustainability Framework
EIBC: Export-Import Bank of China
FDI: Foreign Direct Investment
GDP PPP: Gross Domestic Product (purchasing power parity)
IMF: International Monetary Fund
NDRC: National Development and Reform Commission
OCDE: Organization for Economic Co-operation and Development
ODA: Official Developmental Assistance
OFF: Other Financial Flows
OLS: Ordinary Least Squares
TUFF: Tracking Underreported Financial Flow
UNCTAD: United Nations Conference on Trade and Development
UNSC: United Nations Security Council
USSR: Union of Soviet Socialist Republics
WTO: World Trade Organization
1 Introduction

1.1 China’s emergence

After the Cold War, some analysts thought it was the “end of history”. It was believed that the Western block, led by the United States, would have been able to take full control of the international order and to implement the liberal agenda all over the world (Fukuyama 1989). After thirty years of bipolarity, marked by a permanent conflictual context, time for a hegemonic order was due to come (Gilpin 1987). International specialists who studied the *Pax Britannica* were confident about this new power (un)balance. A Hegemon, in this case the United States, backed by his transatlantic allies, should be powerful enough to impose and lead his “universal” norms with the aim of a peaceful and prosperous world (Gilpin 1987) (Waltz, 2010).

But this speculation was quickly invalidated. This unilateral power balance illusion, which results from an anachronic Western-centered vision of international politics, was indeed misleading (Calleo 1987) (Keohane 2005) (Badie 2016). During the 50’s and 60’s, the decolonization process created an unprecedented number of new states; leading to a fragmented world composed of about two hundred countries. Some of these countries which gradually played a more significant role during the cold war had different economic and political trajectories (Badie 2016) (Badie 2018). After the end of the cold war and during the 90’s, they gained unprecedented economic and political power. The international specialists named these processes as a transition from a “third world” to an “emerging world”. Other terms were used to describe a specific group of countries that actually did “emerge”; emerging countries such as “Asian tigers” (Hong Kong, Singapour, Taiwan, and South Korea) or “Jaguar” (Mexico, Brazil, Argentina). But the most interesting term was BRICS (Brazil, Russia, India, China, and South Africa). These countries labeled as “emerging countries,” were soon named, as a sign of a transition from the field of economy to the field of international politics as “emerging powers” (Bourdieu 2002) (Hurrel 2013) (Chaouad 2016). This new label is a sign that the Western world, is finally becoming conscious of the fact, that “we are not anymore alone in the world” (Badie 2016). The BRICS countries that have a large population and a fast-growing economy are now able to weigh more on the international and economic system. In 1990, in terms of GDP in current US dollars, there were only 4 Southern countries in the top 20 economies of the world. Now, in 2019, 8 of these 20 economies are from South (China, India, Brazil, Korea, Mexico, Indonesia, Saudi Arabia, and Turkey) (World Bank 2018). In terms of share of the world growth
or GDP in PPP, the picture is even more explicit. Some forecasters estimate that in 2050, in term of GDP in PPP, 5 of the top 10 economies will be countries of the South (Hawksworth and all. 2017).

This trend leads to the so-called new multipolar system, where no country can take full control of the international power and economic system. But those new powerful countries are not equal and have different trajectories. There is one “South,” “emerging” or “non-OCDE” country that seems to be more inclined to play a new role in the international system, because of its both rhetoric and material resources: China (Meyer 2018).

1.1.1 From a developing country to an economic power

China was, at the begging of 1950, a poor agricultural country with no industrialization, and with a weak economy. It was at that time a so-called “Third World country” (Morck and all. 2008). However, it should be emphasized, for further development, that the Chinese government and the Chinese people viewed themselves anyway as a millennial civilization, a major power, and a flourishing culture. In the national narration, aside from the two centuries of “humiliation,” during which happened the internal destruction of the empire and his submission to external power, the Chinese economy has always been one of the biggest in the world. This self-perception, represented by the formula “middle kingdom” and by the ideogram 中, is one of the reasons why it is problematic, in the Western narrative of China, to address it as a miraculous country that when from poverty to prosperity. In the national imaginary, China has indeed always been a prosperous and powerful country, with only some centuries of exception (Meyer 2018).

What leads to the Western interpretation of the miraculous “rise” of China is the astonishing growth of his economy in less than thirty years (Meyer 2018). During 1949-1979, China was under the control of the communist party of Mao Zedong. In this period, the economy of China was kept outside of the growing economic integration of the West. During this period Mao Zedong pursued a political economy of protectionism of infant national industries and widespread modernization of the agriculture. With fully centralized control over the economy, he implemented “the heavy-industry-oriented strategy”. However, compared to the “Asian tigers,” that had consistent and stable growth during these years, China economy did not kick off significantly (Li 1998). After the death of Mao Zedong in 1979, Den Xiaoping led a deep structural reform of the Chinese economy. The reform aimed to gradually decentralize the
economic structure of the domestic economy. It started in rural areas, whose households could keep part of the outcome and profit of the production, and continued in urban areas, where decision of production and resources allocation were gradually delegated to individuals or firms. Productivity and overall output began to increase, as did the efficiency of industries (Li 1998) (Rawski1995). Later in the nineties, Den Xiaoping started to open the Chinese economy to the world. The significant change has been in terms of trade; the idea was to gradually liberalize the Chinese economy to enable massive exportations of their cheap competitive industrialized products to the rest of the world. From 1990 to 2000, the reforms allowed to lower the tariff rates on average from 40% to 18% (Ianchovichina and Martin 2001). These reforms, that combined successful development strategies in a good background, lead to an amazing growth. After twenty years of a 10% steady growth, China became in 2000 a semi-industrialized and diversified economy, and it is yet the second economy in the world, just after the United States (Rodrik 2001). China was named a “market socialist economy” that combines capitalist market mechanisms and big state-owned multinationalism firms, trade liberalism, and capital control (Li 1998).

1.1.2 China, an economic power that is “going global”.

As mentioned earlier, the Chinese economy has been for more than 40 years inward-oriented. With tight control of capital and international trade, all the developmental strategy was directed to the implementation of the domestic economy. With the opening of trade, thanks to the reduction of tariff and non-tariff barriers and to the entry into the WTO, the Chinese economy started to be integrated into the international trade flows. Because of his competitiveness in cheap low-added value industries, China began to be a net exporter of goods. Thanks to this consistent commercial surplus and good savings rates, China accessed to the status of “world’s largest capital-surplus economy” (Ianchovichina and Martin 2001) (Morck and all. 2008) (Yeung and Liu 2008) (Salidjanova 2011) (Yelery 2014) (Kaplan 2018).

At the beginning of 2000, China started its “going out” strategy. With all the capital surplus accumulated by the Chinese government and multinational firms, and with a new economic power due to a big share of the world GDP and international trade flows, China used his new power to “go global” (Morck and all. 2008). The first part of the “going out” strategy was to internationalize his state-owned firms. Because these firms were mainly inward driven, the plan was to expand them to new markets to penetrate supply and demand markets all over the world (Yeung and Liu 2008). The results of this strategy have been a consistent increase in outward
FDI (Christensen 2010). “Starting from near zero in the 1970s and early 1980s, Chinese outward FDI exceeds $17.6 billion in 2006” (Morck and all. 2008: 2). In 2018 the amount of FDI flow was nearly $130 billion (UNCTAD 2019).

Chinese FDI outflows are allocated worldwide. In developed countries, Chinese companies mostly engage into joint-ventures to gain technology and expand their exports market. The strategy in developing countries, the so-called “South-South FDI,” has however been quite different. Outward FDI appears to be driven by the need of securing the natural resources supply needed by the Chinese industrial economy (Pamlin and Baijin 2007) (UNCTAD 2007) (Salidjanova 2011). The second part of the “going global” strategy is to use the capital surplus to offer grants and loans to developing countries. In the early 2000’s, China became an increasingly important creditor. Through different credit modalities, from “credit supply line” to concessional loans, China has been a new source of “cheap capital” for many countries. One of the most known cases has been the significant increase in Chinese aid that favor the development of new infrastructure in sub-Saharan Africa.

1.2 China vs. West; competition between two models?

Considering this massive expansion of the Chinese economy and the finance backed by the Chinese willing to be a major actor of the world economy, what is the new place of China in the international economic and political system? And what’s the relation between Chinese foreign policy and Western foreign policy?

1.2.1 “West” developmental discourse: the “Washington consensus”.

After the Second World War, the world was divided into two great blocs; the Western block, led by the United States and the communist bloc, led by the USSR. During the frontal competition between the two superpowers, one of the issues was to integrate the newly independent countries. By a system of clientelism, each superpower tried to gain ideological and military influence through the cash transfer of developmental aid directly to recipient government of the developing countries (Morgenthau 1962) (Baldwin 1969). The Western block used the multilateral system of Bretton Woods in this purpose. The World Bank proposed concessional loans, channeled a large amount of “cheap money” to developing country all over the world. The idea was simple: grant a large amount of money to developing countries, to build infrastructure, and to modernize agriculture. With these cash transfer, the economy of the developing country would be able to “kick-off” and enter into a virtuous circle of growth.
During 1960-1970 there was a lot of hope that developmental aid would help countries of the “third world”. With a growing economy, poverty would be erased, and the opportunities of wealth would increase. With faith in economic growth, every problem would be solved; the “poor countries” would develop, gradually adopting democratic institutions, and would not fall into communist camp (Morgenthau 1962).

In 1980, the empirical evidence denied this hope. Many developing countries, mostly in Latin America and in Africa, didn’t grow and even actually worsened; their economy stagnated or regressed. Poverty and unemployment remained a burden that seemed impossible to solve. It was then that the neoliberalism paradigm gained ideological weight in the main Western countries; and give a paradigm shift: the so-called “Washington Consensus” (Hall 1993) (Diarra and Plane 2012) (Babb 2013).

This paradigm gave a new understanding of the reasons for the underdeveloped conditions of the “third world”. The reasons why these countries did not develop are related to the fact they were not using correctly the resources that they received. The first focus of the “Washington Consensus” was on the political economy: the recipient government was not using the right policy to improve the economic conditions of the country. To solve this problem the World Bank and the IMF, that found his new role after the end of the Bretton Wood system, attached condition to the transfer decision of loans and grants to the recipient country (Babb 2013). Thus, to access to the cash flow, they needed to sustain their economic activity, the recipient countries had to implement an imposed “structural adjustment”. In early 1980’s, the structural adjustment consisted in a multitude of internal and external liberalization measures. Internally the government had to limit its public expenditure, reduce ineffective taxes, and privatize public companies. Externally the government had to liberalize trade and capital flows (Williamson 2004) (Babb 2013).

But in 1990, because of the poor results of the measures recommended by the Washington consensus, the structural adjustment extended his conditions on institutional and political characteristics of the recipient government. At this point, the problem was neither the amount of money, nor the political economy, but the “bad governance” (Diarra and Plane 2012). Thus, the perceived reasons for these countries not to develop was the non-democracy, the absence of capable institutions, bad rule of law records and widespread corruption. From the Washington perspective, the money was mainly wasted by a corrupted elite which didn’t redistribute enough and kept rent-seeking behaviors which lead to an inefficient allocation of resources (Burnside and Dollar 2000) (Diarra and Plane 2012). What is important to understand
in this Western discourse is that recipient countries cannot develop alone. Not only they need financial assistance, but they need also coercive actions to change regime and institutional characteristics. This attitude of the Western donor countries has been widely criticized as being paternalist and “neo-colonialist”, which hypocritically denied the “sovereignty” of recipient countries.

1.2.2 The Chinese developmental discourse: the non-interference principle.

One of the countries that criticize the Western approach of foreign aid is China. China’s foreign policy discourse comes from its history of “colonized” developing country. Indeed, China was one of the countries who participated in the Bandung Conference and the Movement of Non-Aligned. The idea of this “South-South” cooperation that has been discussed during these years was to avoid the cold war superpower rivalry. This “Southern” 77 countries wanted to be out of the two ideological camps and to cooperate in the aim of a joint and inclusive development without the external pressure of a colonialist power. It was in this context that the Chinese government of Mao Zedong that didn’t have that many resources helped financially developing countries of the South for mainly ideological reasons. For example, China gave aid to Korea, or to “support African countries’ independence movements and used its aid to support resistance against colonial powers” (Dreher and Fuchs 2011: 8). For instance, in 1970, the Chinese government contributed to the funding and implementation of the railway between Zambia and Tanzania; the famous “TAZARA” (Dreher and Fuchs 2011) (Hirono and Suzuki 2014).

During the reform’s year of Den Xiaoping, the foreign policy has been more closed and pragmatic; China was receiving a large amount of aid and FDI from the West, and the ideological battle was nearly at the end. In this context, the government didn’t give much assistance to the other Southern countries and the cooperation and unity between the “third world” lower (Hirono and Suzuki 2014). It was after the Tiananmen Square incident in 1989 that the Chinese pragmatic partnership with the West has been seriously jeopardized. The West has widely criticized the army intervention and started to put real pressure on human rights and democratic records of China (Alden and Large 2011) (Tull 2006) (Dreher and Fuchs 2011). For the government, these incidents represented two major issues. The first one was the experience of the deep Western interference in the internal affairs of developing countries, that Latin American, Southeast Asian and African countries where experiencing through the “structural
adjustment program”. The second issue was that they needed renewal support of the other Southern countries to defend themselves in international institutions such as the UN (Alden and Large 2011).

It was at that point, and because China had started to be an economic power with a big capital reserve, that the government shifted his foreign policy discourse. This new policy discourse was constructed as the opposite of the Western one. Every foreign policy discourse that the CCP executives addressed were an occasion to explain the “exceptionalism” of China’s practice that came from the “Beijing Consensus”. First, China is a developing country that knows the struggle of development issues. It is for this reason that the Chinese government wants to help the other developing countries with the amount of investment and developmental aid (Alden and Large 2011). In this perspective, the Western donors, that have been industrializing and developing for centuries in a “vacuum” international economy, are not able to understand the specific issues of “late-comer development” (Morgenthau 1962). Second, China is a Southern country that has a history of being colonized and that struggled to take his independence back from colonial power. In doing so, China has a record of cooperation and solidarity with the other decolonized country. In this perspective, China is an ex-colonized country and not a colonizer like the other Western donors. Third China knows the problem and the difficulties of the interference of the Western power in the international affairs. They defend the fact that each country is sovereign and has the right to handle its internal issues without being shamed. Thus, they do not pretend to impose universal norms, which have a supposedly superior morality, as the Western powers always do (Alden and Large 2011).

To summarize, the Chinese discourse on foreign aid is the following. China is a Southern country that has a “successful” but still “developing” economy. Because of this status, China is in a better position to offer development aid and investment to the other developing countries. The relationship is “South-South” cooperation, where two developing countries engage in a win-win partnership (Alden and Large 2011). This status of “equality” leads to the “non-interference principle”: because China knows the problems of external interference from his past, it will never impose conditionality to grants, loans, and investment. China recognizes the fact that every country has the right to keep its sovereignty and should receive equal respect and recognition from the international community. It is for this reason that China will never criticize or try to change the regime or the policy of the recipient country (Alden and Large 2011).
1.2.3 Finance, a powerful tool

As mentioned earlier, the “West donors” and “China” (even though both donors consider that growth and development is an important issue and that their development aid and investment are crucial for the kick-off of the developing countries) have substantially different views about the international order and the lending and investment practices. Traditional donors consider that recipient countries must reform institutions and political regime to correctly use investments and foreign aid whereas China considers that every state is sovereign and should, as such, be treated as equal in the international order.

Beyond the discourse of the different actors, it is important to underline that being a capital provider, as an investor or as a foreign aid donor, is a way to shape and gain influence over the rest of the international system (Morgenthau 1962) (Baldwin 1969). Developmental aid and investments are known to be part of the “soft power”. Opposed to the “hard power” which indicate the military power, the soft “power” “is referred to the ability to affect the behaviors of other countries by attracting and persuading others to adopt one’s goals” (Lum and all. 2008: 2) (Nye 1990) (Nye 2004). In the case of China, “soft power” is referred to economic leverage and diplomacy rather than cultural and norm producer and imposer. Even if a lot of initiatives from the Chinese government have been taken, for example, to promote the Chinese language and his cultural heritage, the primary way to acquire influence on countries is through the economic ties. Indeed, in this new environment of multipolarity, China is giving an opportunity to developing countries (Alden and Large 2011) (Meyer 2018). The latter can choose between receiving aid and investment from China, that don’t require any institutional or policies change, or from the Western countries, that bypass the government or try to reform it (Dietrich 2013) (Dreher and all. 2016). The non-interference principle is giving “China a growing ability to affect the actions of state actors largely stems from its role as a major source of foreign aid, trade, and investment” (Lum and all. 2008: 2).

Thanks to the “soft power” derived by the economic leverage, China can benefit in multiple ways, as the traditional donors do, from its new role in the international system. First, investments and foreign aid can help to gain political influence in the international arena. For example, aid, and other economic agreements have always been tied, as the only political conditions, to the “One China” principle at the expense of the recognition of Taiwan (Christensen 2010) (Alden and Large 2011). It is also known in the literature that, in the case of traditional donors, development aid can help catching more votes in the United Nation
Security Council and overall alignment in the United Nations assembly and institutions (Kuziemko and Werker 2006) (Vreeland and Dreher 2014). Second, foreign aid can help to improve bilateral economic relations. In different ways, aid transfers can benefit mainland firms to expand their markets and activity (Berthelemy 2006). Third, foreign aid can help to improve the image of the donor. This branding activity, that doesn’t always lead to substantial results, try to link economic assistance with a good perception of the donor country (Dietrich and all. 2018). In the case of China, it can lead to “an admiration of China as a model for development and ancient culture” (Lum and all. 2008: 2).

1.3 Research question

1.3.1 We are not alone anymore in the world

The emergence of new providers of capital, in terms of investment and development aid, is a new trend that is going to change the “South-South” countries and the “North-South” countries relationships. This new competition between China, BRICS, and traditional donors is, going to increase due to the larger share of their economy in the global markets (Woods 2008). Considering that the new donors have a different discourse and practice about foreign aid, it is really interesting, in order to understand future trends about donor practice and their benefits and recipient countries reactions and outcome (in term of growth, institutions quality, state-building, environment issues, etc..), to address the subject of the so-called Non-DAC donors emergence as prominent donors. That’s why the argument of this work is part of the flourishing literature of the non-DAC donors in general and China in specific. As Bernand Badie named his Book, “We are not alone anymore in the world”. With this sentence, the author underlines the importance of realizing that the emerging countries will play a vital role in the future and that scholars should try to understand and analyze new trends with a holistic and comprehensive way. Indeed “enduring Eurocentrism in IR means that the rise of non-Western powers is under theorized” (Hirono and Suzuki 2014: 3). The idea of this work is not to fuel the ‘Yellow Peril’ thesis and the clash of civilization,” essentializing cultural groups with a eurocentric perspective, but instead to accurately test the difference between groups of donors and among them with the same analytical tools (Huntington 2000) (Hirono and Suzuki 2014).
1.3.2 Which recipient country?

The starting point of this work is an empirical evidence. China seems to give more aid to different countries than DAC donors do. As underlined in the literature, it seems that traditional and new donors favor different countries in the aim of giving developmental aid (see Table 1).

**Table 1:** Top ten recipient countries by total ODA amount (2001-2014) and by donor.

<table>
<thead>
<tr>
<th></th>
<th>Chinese ODA</th>
<th>DAC ODA</th>
</tr>
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<tbody>
<tr>
<td>1.</td>
<td>Cote D'Ivoire</td>
<td>Afghanistan</td>
</tr>
<tr>
<td>2.</td>
<td>Ethiopia</td>
<td>India</td>
</tr>
<tr>
<td>3.</td>
<td>Cameroon</td>
<td>Indonesia</td>
</tr>
<tr>
<td>4.</td>
<td>Tanzania</td>
<td>Viet Nam</td>
</tr>
<tr>
<td>5.</td>
<td>Zimbabwe</td>
<td>Pakistan</td>
</tr>
<tr>
<td>6.</td>
<td>Nigeria</td>
<td>Nigeria</td>
</tr>
<tr>
<td>8.</td>
<td>Cambodia</td>
<td>Tanzania</td>
</tr>
<tr>
<td>9.</td>
<td>Mozambique</td>
<td>Ethiopia</td>
</tr>
<tr>
<td>10.</td>
<td>Ghana</td>
<td>Bangladesh</td>
</tr>
</tbody>
</table>

Source: (Dreher and all. 2017), (OCDE 2019)

As Table 1 shows, apart from three recipient countries (Ethiopia, Tanzania and Nigeria), DAC donors and China allocated the most aid (between 2001 and 2014), to different recipient countries.

Both donors, in the discourse, give assistance with an explicit developmental purpose. In this perspective, there should not be too much difference between donors regarding the countries that needs developmental aid. Indeed, poorer countries should receive more support. But as said earlier, political and economic vested interests can be part of the decision of the aid allocation process (McKinlay and Little 1978) (Alesina and Dollar 2000). In this latter aspect, it is interesting to understand why China favor different developing countries than DAC donors. Understanding the determinants of aid allocation between the two groups of donors will allow us to penetrate more deeply the significant role and competition of soft power in a context of a multipolar world where “South-South” cooperation will increase at the expense of Northern donors.
The argument of this work will be, according to the literature review, on economic and institutional characteristics of the recipient government. Because, as mentioned earlier, foreign aid is used as a “soft power” tool that is used analyzing the practice of the donor country is interesting to understand if DAC donors and China give aid to countries that have specific characteristics. The allocation patterns reveal their interest in enhancing their relationships with the developing world. Because there is a substantial difference between the “Washington consensus”, that advocates interference and political accountability, and the “Beijing consensus” that prescribes an indifference regardless of the political and institutional characteristics of the recipient country, it is possible that DAC donors and China give aid to countries that have different kinds of institutions. This work will focus on “corruption” as it has been identified in the literature as a crucial and debatable question on whatever Chinese government favor or not more corrupted regime than the Western counterpart. The second determinant that will be examined by this work, that is crucial to understand the international economic competition between China and DAC donors, will be an economic factor of the recipient country: “natural resources”. As we will see further on, research on the subject has been highly controversial. China seems, in some statistical analysis, to be driven by their need for resources to maintain its economic-growth. But are traditional donors behaving in a different way?

The idea of this work is to do a systematic analysis using the new data on Chinese aid to compare the main determinants of aid allocation respectively from China and DAC donors. Does China give more aid to more corrupted and natural resources-rich’s countries than its Western counterpart? Is there any other significant difference in the determinants of aid allocation between China and traditional donors? Thanks to the new data on Chinese aid and to an integrated time-series analysis, this paper tries to go a step further in the debate between China as “Rouge donor” or as similar to DAC donors.

1.3.3 Thesis summary

The first part of the thesis is devoted to the theoretical framework. After briefly describing the Chinese aid characteristics, the theoretical section will explain the two hypotheses drawn from the literature on the subject. On one hand the “rogue donor” perspective, claims that China give more aid to corrupted and natural resources-rich countries in the aim of secure access to crucial resources supply. Conversely, DAC donors are viewed as more humanitarian oriented: they give foreign aid regardless the amount of resources and to less corrupted country. On the other
hand, the realist perspective of foreign aid claims that all major donor countries (China and DAC) behave following their own interest, therefore providing more aid to natural resources rich country regardless to the level of corruption.

The third section will explain the methodology used in this paper in order to confirm empirically the competing hypothesis. Section four provides the main descriptive statistic and results of the regression. In this section I will discuss the mixed results of the OLS analysis. DAC donors and China give more aid to natural resources-rich developing countries, but western donors favor less corrupted one and China the more corrupted one. The following sub-section try to explain this theoretical puzzle thanks to an innovative theoretical mechanism driven by foreign aid and FDI literature.

2 Theoretical framework

2.1 Chinese developmental aid characteristics

The first part of the thesis’ theoretical framework is devoted to the understanding of the Chinese foreign aid characteristics. This section will first explain what the Official Development Assistance (ODA) is, then it will specify how it is possible to compare developmental flows between DAC donors and China. Finally, it will briefly describe the main governmental actors of Chinese aid and the main modalities and practices, that are used to deliver aid. As we will see further, China does not provide systemic data on its practices, flows, and actors that are involved. Thus, this section is essential to clarify Chinese aid process and avoid past problems that led to wrong conclusion about Chinese practices.

2.1.1 What is Chinese ODA: do not “compare apple to dragon fruits”.

Foreign aid has been defined and standardized by the Development Assistance Committee (DAC). One of these OCDE institution missions is to monitor aid flows from the different member countries, to develop international standards, to monitor and gather reliable data and statistics about foreign aid flows and practice (OCDE 2019a). The DAC has defined developmental aid as “resource flows to countries and territories on the DAC List of ODA Recipients (developing countries) and to multilateral agencies which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective;
(c) at concessional financial terms. In addition to financial flows, technical co-operation is included in aid” (OCDE 2019b).

The literature on DAC donors foreign aid benefits of this systematic database. Thanks to precise database and classification, scholars and politicians can properly study the phenomenon and draw relevant conclusions. It is not the case for the non-traditional donor countries, especially for China. The first problem is that “Beijing discloses very little official information about its development finance activities, and there is a general lack of knowledge about the cross-national, sub-national, and sectoral distribution and impact of Chinese development finance” (Strange and all. 2013: 2). Because of the lack of data, it is a challenge to appropriately understand the phenomenon.

The second problem is that “China does not comply easily with DAC practice Overview of modalities of foreign aid” (Strange and all. 2013: 2). Indeed these “emerging donors,” such as China, Saudi Arabia, Venezuela, and Brazil use different modalities of foreign aid than the traditional donors (AIDDATA 2019). It is important to understand that this phenomenon is due to a lack of multilateral institutionalization of international standards on foreign aid. Because classification comes from the practice of traditional donors, it is evident that new donors that have new practices do not fit in a Western acceptance and classification.

These difficulties that combine lack of data and comparability among new and traditional donors has led scholars to misunderstand the non-traditional aid phenomenon and to draw misleading conclusions. The early literature on Chinese aid has been using data that overestimate the Chinese aid, often conflating financial flows that do not fit in the traditional category of Official Development aid. The main problem of this literature that fueled the “Yellow Peril” Thesis has been to aggregate different flow that appears to be ODA but that in fact, come from specific and new modalities. The work of a new wave of scholars has proven that aggregating such flow is a problem and that each of these cash transfers have a different process of allocation and different outcomes (Dreher and all. 2018).

2.1.2 Distinction between ODA, OFF and FDI

The work of Strange and all. (2013) has been particularly useful for establishing comparability between traditional and new donors. Their main contribution has been to collect precise data, through a media-based approach, and to classify all the development projects into the preexistent categories of the DAC donors and create new categories to respect the specificity
of Chinese aid (Strange and all. 2013) (Dreher and all. 2017). This contribution is an essential foundation of further studies that try to understand the quantity and quality of foreign aid flows and their comparability to the traditional donors.

In this seminal paper, the authors differentiate the official financial flows in three main categories, that have in turn different subcategories: Official Developmental Aid (ODA), Official Investment (FDI) and Other financial flow (OFF) (see figure 1).

**Figure 1.** Categorization of Chinese Official Finance

The first category is the well-known “ODA”. This category represents what Western scholars use to call foreign aid (see the definition above-mentioned). In this category, there are different modalities of finance: grants, loans with zero interest, loans at concessional rates, and debt relief. Moreover “Assistance to refugees, scholarships for developing country students, peaceful use of nuclear energy, and funding relevant research are also included in ODA as well as specific types of peacekeeping, civil police work, and social and cultural programs” (Strange and all. 2011: 13). For example, in 2007, China’s Eximbank has granted 270 million to the government of Ghana at an interest rate of 2%. This loan has been used to fund the project of the Bui Dam, a hydroelectric project constructed and led by Synohidro that furnish 400 MW of electricity. Loans of this kind are clearly under the “ODA” classification. Indeed, they have an official developmental purpose, in this case, to furnish “renewable” energy to sustain economic activities of Ghana, and a concessional element (below the interest market level) (Bräutigam 2011).
The second category is the so-called “Other Financial Flow”. This is a class of financial flow that has often be confused with ODA, but, after accurate analysis do not fall in the same category. Indeed, those OFF flows are categorized as not fulfilling the “ODA” standards, “either because they are not primarily aimed at development, or because they have a grant element of less than 25 percent” (Strange and all. 2011: 13). In this category, there are different modalities such as loans with no concessional term, grants without developmental purpose or trade enhancing strategic lines of credit. So, in this category there are official loans with interest at market rate or, in the case of export credits, concessional transfer that will help mainland companies to develop their activity abroad, thus not having a developmental purpose but rather a domestic-oriented goal. By way of illustration, along with the concessional loan for the Bui Dam in Ghana, China Eximbank granted “a commercial export buyers’ credit of US$292 million with 12 years’ maturity, a grace period of five years and an interest rate set at a margin of 1.075 per cent over the prevailing Commercial Interest Reference Rates (CIRR)” (Brautigam 2011 : 212) (Dreher and all. 2017).

The third category of official finance is the “official investment,” such as state-owned firms FDI and joint-ventures. Foreign Direct Investment (FDI) is an “investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor” (OCDE 2008). This category, included in “official finance” is not specific to China: for example, the company Elf-Aquitaine, whose main shareholder is the French state has been “highly politicized, building upon or even defining France’s policy in particular countries such as Gabon an Angola” (Alden 2005: 40). What is specific to China is the extent to which the government can control the share of FDI. Indeed 82% of FDI comes from state-owned multinationals firms, and as a matter of fact, the Chinese government controls the decision-making process of 28 of the 30 biggest Chinese multinationals firms (Yeung and Liu 2008) (Morck and all. 2008) (Kolstad and Wiig 2012). Even if FDI have been rarely confused with ODA flows, it is essential to note that they are financial flows that come from the same governmental actors and thus can be part of a broader strategy.

These new data and classification improve our knowledge about Chinese foreign aid flows and practices. The main contribution is to enable scholars not to confuse “Official Development aid” with “Other Financial flow,” to “not compare apple with dragon fruits” in the case of systematic analysis (Dreher and all. 2018). This paper uses the new data on Chinese aid that allows to compare the same financial modality (ODA) between China and traditional donors
and build part of the theoretical argument based on the assumption that ODA is linked to other financial flows that are integrated on a broader strategy.

2.2 Is China a “rogue donor”?

The main literature on the issue of Chinese foreign aid has been focusing on the difference in the new practices of China as a donor. For Western scholars the effectiveness of aid has always been evaluated in terms of outcomes such as “democratization,” “state-building,” good governance, inclusive growth, poverty reduction, redistribution, reduction of corruption, improvement of environmental standards and other “positive” outcomes. In this perspective, the main question that arises from scholar and politicians alike as an answer to the trend of new donors is the following: is China a “good” donor? Or is China hampering all the Western efforts to build a better world? This section will propose two competing answers to this question that will lead to the central hypothesis of this paper. Because these questions cover a wide range of issues, this paper will focus on two issues that are widely debated: corruption and natural resources. The first part of this section, which draws on the early literature on the subject, and which is the most popular thesis that also influences the public debate through politicians, journals, and civil society will explain the “rogue aid” perspective (The Economist 2008). The second part of this section will give the answer of some scholars to this debate that temper and criticize the idea of China as a “bad donor”.

2.2.1 “Rogue aid” perspective

In a classic article Moises Naim, referred to China as “rogue donor”. For this author, China is using aid in the aim of pursuing its foreign and economic interests without caring for “good governance” and improving the economic and social outcome of the developing countries. More specifically, “their goal is not to help other countries develop. Rather, they are motivated by a desire to further their own national interests, advance an ideological agenda, or sometimes line their own pockets. Rogue aid providers couldn’t care less about the long-term well-being of the population of the countries they “aid”. (Naim 2007: 96). Moreover, “If they continue to succeed in pushing their alternative development model, they will succeed in underwriting a world that is more corrupt, chaotic, and authoritarian” (Naim 2007: 96). In other words, Naim takes up the old debate of aid as a humanitarian tool or as a self-interested and foreign policy tool (McKinlay and Little 1977) (De Mesquita and Smith 2007). He settles the discussion arguing that Western donors use aid for humanitarian purpose and China and the other new
donors use assistance as an economic and foreign policy tool. More precisely, with these claims, the author is separating two categories of donors. The first category includes the “Western donors” that are good. Western donors use foreign aid in the aim to sustain the long-term economic development of the developing countries. With their strict conditionality and monitoring process, they try to influence recipient governments to improve their democratic institutions and limit corruption. Thanks to this ineluctable inference, recipient countries populations will benefit from new economic and social opportunities. The second category of donors, the “new donors” are defined as “rogue”. As said earlier, they don’t care about the well-being of the people of the developing countries; they use aid only with the aim of pursuing their own economic and political interests. But which economic interests?

As mentioned in the introduction, the economy of China is driven by export-led growth. More specifically, during the 1990, China exported low value-added industrialized products in which mainland companies are the most competitive in the international arena. Because such products are low value-added, Chinese companies are profitable thanks to the considerable volumes they produce and exports. Those industries range in all kind of sectors, such as “soft manufactures, such as textiles and apparel” (Amiti and Freund 2008: 2). Later in 2000, China began to export products that seem to be more capital intensive like “hard manufactures, such as consumer electronics, appliances, and computers” (Amiti and Freund 2008: 2). Studies have shown that this shift in intensive-good production is not a sign of technological evolution (even if progress have been made), but as a successful integration in the international supply chain, where China seems to play the role of the assembly line (Amiti and Freund 2008). This twofold evolution has propelled the Chinese economy has a top exporter. And second, the substantial industrial activity, whether in the first or second stage of his export structure, has integrated China in the global network of supply.

Therefore, in order to sustain its growing industry, essential to his developmental strategy, China needs to secure access to the supply of natural resources, both in term of raw material and energy-related products. More specifically, Chinese industries need a massive quantity of oil, natural gas, and raw materials such as aluminum, copper, nickel, iron, and plenty of other rare materials. The domestic supply market has been increasingly incapable of sustaining the industrial activity (Alden 2005) (Alden and Large 2011) (Couharde and all. 2017). China was already in 2003, a net importer of oil and have to import most of the materials the economy needs (see figure 2).
In 2018 the ministry website indicated that China is increasingly dependent on imports for 95 percent of chrome, 90 percent of cobalt, 79 percent of gold, 73 percent of copper, 73 percent of iron ore and 67 percent of oil (Zhang Hui 2018). The CCP does not hide the fact that part of their “going out” strategy is a mean to secure access to natural resources. Indeed, in October 2004 “the National Development and Reform Commission (NDRC) and the Export-Import Bank of China (EIBC) jointly issued a circular to encourage overseas investment in specific areas” in which one of the missions is the “resource exploration projects to mitigate the domestic shortage of natural resources” (Salidjanova 2011: 5).

For the perspective of the “rogue aid”, one of the strategies of China to pursue its economic goal of securing access to natural resources is to use foreign aid (Alden and Large 2011). As said earlier, the different modalities of finance seem to be correlated, and many scholars point out that “the aid reform of 1995 introduced market-oriented principles and emphasized the linkages between aid, trade and investment” (Dreher and Fuchs 2011: 9) (Brautigam 2010). But how does China use foreign aid to secure access to material supply? For many scholars, China secures access to natural resources by funding corrupted governments. Without entering too much into details, that will be further described in the analysis section, giving aid to corrupted countries help Chinese firms and government to secure contracts that Western companies would
never accept. Or to win contracts with “unfair conditions” that Western counterpart could not compete with. The following citations illustrate the whole “rogue donor” perspective that will be the first hypothesis of this paper. “The Nigerian government operates three railways, which are notoriously corrupt and inefficient. They are also falling apart. The World Bank proposed a project based on the common-sense observation that there was no point in loaning the Nigerians money without also tackling the corruption that had crippled the railways. After months of negotiation, the bank and Nigeria's government agreed on a $5 million project that would allow private companies to come in and help clean up the railways. But, just as the deal was about to be signed, the Chinese government offered Nigeria $9 billion to rebuild the entire rail network—no bids, no conditions, and no need to reform” (Naim 2007: 96). The perspective here is clear; the Chinese government fund corrupted and abundant natural resources countries at the expense of the traditional donors that care about diminishing corruption. Because China doesn’t have “moral scruple,” they can win huge contracts that will help them in their main economic interests: to secure resources supply.

It is also essential to underline that in the “rogue aid” perspective, and that would seem trivial but full of implications, traditional donors do not use aid as “rogue donors” do. In his article, Naim admits that during the cold war, DAC donors have been using aid for geopolitics purposes (Morgenthau 1962) (Naim 2007). But the author underlines that “beginning in the 1990s, this system slowly began to improve. With greater media scrutiny, many developed countries were shamed into curbing these practices. Today, the projects of organizations like the World Bank are meticulously inspected by watchdog groups” (Naim 2007: 96) (Tanzi 1998). Moreover, many scholars think that Western donors are more inclined to give aid to developing countries that have “good governance” records and less corruption. Some studies seem to prove that good governance conditionality is an incentive to diminishing corruption practices and other studies underline that DAC donors’ actors believe that aid is more effective when it is allocated in regime with good institutional quality (Burnside and Dollar 2000) (Dreher and all. 2011) (Öhler and all. 2012). Finally, “The rhetoric which accompanies these programs is that they serve the purpose not only of reducing poverty but also of rewarding good policies and efficient and honest governments. Donor countries and international organizations argue that their aid policies are meant to be selective and favor reforming government” (Alesina and Dollar 2000: 3).
These theoretical claims lead us to the first competing hypothesis.

**Hypothesis 1a**

- China gives more aid to developing countries that have more natural resources and that are more corrupted
- DAC donors give more aid to developing countries that have less corruption regardless of the amount of natural resources

### 2.2.2 Realist perspective of foreign aid

The “rogue aid” perspective tackle, with their claim, the underlying assumptions of realist theories of international relations. In the realist perspective, states are units that have the same goal: to survive in an anarchic system. In order to do so, a unit has to maximize his power, through military and economic means. A state that is already a power or middle power, ought to conserve its status in the international system as rational behavior. What is essential for this paper is that, following this perspective, every state act in a similar way if they are in the same position (Waltz 2010). With the “rogue donor” statement Naim says that China and DAC donors that have the same position (as donor country), act differently based on different ideologies.

For the realist perspective, foreign aid is an extension of power politics. As Morgenthau mentions in his classical paper; “in this respect, a policy of foreign aid is no different from diplomatic or military policy or propaganda. They are all weapons in the political armory of the nation (Morgenthau 1962: 309)”. More specifically, in the realist perspective, foreign aid is a tool that enables to maintain or maximize his power. Thanks to the amount of money they have, they can influence developing countries through the allocation process and during the implementation stage. The allocation process itself is driven by self-political interests. Thus, the donor country decides whether a state deserves to receive aid or not, and what amount. Following this perspective, China and DAC donors alike choose the amount of ODA favoring recipient countries depending on their political interest (Baldwin 1969) (Alesina and Dollar 2000).

The main quantitative studies on the subject have confirmed the fact that the leading Western donors use ODA for political self-interest. “Western powers use aid to reward allies, punish enemies, build coalitions, and influence public opinion in recipient countries” (Dreher and all. 2018: 184). If the main reasons are to maximize their power through resources transfers to
reward or punish countries, institutional characteristics of recipient countries should not matter in the process of allocation (Alesina and Dollar 2000) (Alesina and Weder 2002). Following this thesis, there is little reason why DAC donors should give aid to less corrupted countries than China.

Concerning the link between natural resources and aid allocation, it is interesting to underlines the fact there are very few studies that theorized it and tested it empirically (Dreher and Fuchs 2011) (Lee 2012) (Arezki and Banerjee 2014). Indeed, even if the topic is widely discussed, only a few authors address the issue theoretically and only a few studies have been made. Furthermore, the literature has begun to address the oil-aid nexus through the emergence of new donors (Dreher and Fuchs 2011). Thus, the “yellow peril thesis” and the “rogue aid” literature has highlighted the “bad” practices of the new donors and tried to assess the impact of the foreign aid policy to secure natural resources. But interestingly, the first studies that have scrutinized China have led “to realize that there remains some paucity in studies that provide empirical evidence that specifically addresses the importance of oil in aid allocation from traditional Western donors. Indeed, apart from some exceptions (Dreher and Fuchs 2011) (Lee 2012) (Arezki and Banerjee 2014), the strategic role of oil in aid allocation provided by Western countries is found to be absent” (Couharde and all. 2017: 2).

The paper of Couharde and all. (2017) tries to theorize and test a theoretical mechanism beyond the aid-oil nexus. For the authors, oil is a specific resource that cannot be reduced to a simple tradable economic commodity. Indeed, oil supply and demand are a crucial economic market that structures relations between states. On one hand, large consumers of natural resources, such as the United States or China, need to secure their supply to mitigate shortage that will hamper the domestic economy. On the other hand, natural resources-rich countries, that are mainly developing countries, rely financially on natural resources exports.

Thus, in the realist perspective the large consumer of oil and other natural resources, that are often the most powerful in the international arena must deploy a strategy to mitigate the dependency on other supply countries (Arezki and Banerjee 2014). Indeed, there are some risks that the state must avoid. First, an industrialized economy relies heavily on oil and natural resources as crucial input of the production. If the country cannot have regular access to natural resources, ergo paying a high price to obtain them, all the economy of the countries is at risk. Secondly, an international shortage of oil and natural resources supply can lead to a widely generalized economic crisis that affects all states as it was the case in the well-known oil crisis of 1971 (Couharde and all. 2017). In the aim of mitigating the risk of natural resources shortage,
a large consumer of natural resources uses different kind of strategies. First, it tries to develop the domestic market of energy and natural resources. For example, the United States have deployed funds to exploit the “natural gas” through fracking technique (Cohen and all. 2011). Second, large consumer countries tend to diversify their supply, securing contracts, trade and investment agreements with multiple states.

So, in the realist perspective, foreign aid is an excellent tool to secure access to natural resources. Indeed, foreign assistance can help large consumer countries to foster a relationship with oil and natural resources rich countries. Foreign aid can help to stabilize political fragile developing countries, assuring a constant “non-tax revenue”. Also, foreign aid is a tool to buy political and economic favor that can help to pursue trade and production contracts with the developing countries. In this perspective, China and DAC donors, that are large industrialized countries with a constant dependency on energy and natural resources import, use foreign policy to secure access to natural resources (Alden and Large 2011) (Arezki and Banerjee 2014). Thus, they are inclined to offer foreign aid in this purpose and to disburse more money transfers to natural resources developing countries than their counterpart.

That leads us to the second competing hypothesis.

**Hypothesis 1b**

- China gives more aid to developing countries that have more natural resources regardless of the amount of corruption
- DAC donors give more assistance to developing countries that have more natural resources regardless of the amount of corruption

### 3 Methods

#### 3.1 Statistical Model

To test the competing hypothesis, this paper will use a systematic analysis that investigates the impact of recipient countries level of natural resources and corruption on the decision of ODA allocation of both China and DAC donors. More specifically, the goal of this study is to test the same independent variables, with the same sample to compare the coefficient of both China and DAC donors. Doing so, enables to have a better understanding of the difference or similarity of
traditional and new donors. Only a few studies have integrated within the same model China and Western donors; most of the existing studies have been focusing solely on Western donors or China individually (Alesina and Dollar 2002) (Dreher and Fuchs 2011) (Dreher and all. 2018). The goal of this paper is to study bilateral aid allocation. Indeed, for the sake of comparability, multilateral organizations such as the World Bank, the IMF, or other official banks are not considered. Although these organizations are thought to be part of the broader Western program of development funding, the literature has shown that bilateral aid has different determinants and outcome than cash transfers that come from multilateral institutions (Maizels and Nissane 1984) (Frey and all. 1986). Thus, it would be inappropriate to compare China bilateral aid with cash transfers, which comes from multilateral institutions.

As mentioned earlier in the theoretical development, this study will use the dataset developed by Strange and all. (2016). This database, which will be described further in the method section, is the most accurate data that describes the Chinese aid phenomenon (Strange and all. 2013). Thanks to this dataset, it is possible to isolate the ODA-like cash transfers from the “Other financial Flows”. Using this database allows us to compare in a reliable manner Chinese ODA with DAC ODA without conflating other categories. In doing so, the result of the analysis is more accurate than the previous study that relies on different data.

The model focuses on the period 2000-2014. This temporal range is due to the availability of the data on Chinese ODA. However, there is a solid theoretical background that supports the choice of this range. Indeed, China has started the “going global” strategy since 2000. Given that the theoretical claim, on both “rogue donor” perspective and the realist point of view, underlines the use of foreign aid as part of the willingness of China to secure access to natural resources, early 2000 seems to be the critical juncture of this change of strategy. Finally, the empirical evidence shows a significant increase in projects of Chinese ODA in this period. Ideally, the temporal range should be until now (2019). Indeed, there are no theoretical reasons why the range should stop in 2014. Unfortunately, the time range will be a bit shorter because of the lack of data in the Chinese ODA database. It is also important to underline the fact that the time range is based on the China development aid. Thus, it is not theoretically based on a clear-cut trend of DAC donors. However, this choice can be justified for the sake of comparability between donors.

The geographical sample of the statistical analysis includes all the developing countries of the world (see annex 1). More specifically, the sample is selected based on the classification of lending groups of the World Bank. In this classification the countries are ranked into four
categories: “high-income economies” (more than 12’376$ of GDP/per capita), “upper-middle-income economies” (between 3’996$ to 12,375$ of GDP/per capita), “lower-middle-income economies” (between 1,026 $ to 3,995$ of GDP/per capita) and “low-income economies” (less than $1,025 of GDP/per capita) (World Bank 2019). The goal of this paper is to understand the determinants of foreign aid. Thus, it will only consider the least developed countries. The sample includes 83 countries that are under the category “lower-middle-income” or “low-income economies”. It is worth noting that the sample consists of only sovereign states, thus excluding regions that have an autonomous status while being integrated into a wider country.

To empirically test my two competing hypotheses, this paper will use a country-years OLS regression with regions years fixed effect and lag between the dependent and independent variables. The choice of using panel data arises from the need of having a more significant number of observations (from 83 in a cross-country analysis to about 600 observations). The OLS regression is used because the dependent variables, Chinese ODA and DAC ODA, are numerical. This paper will use “year fixed effect” and “region fixed effect” to control for the variation of the dependent variable through time and regions of the world. Although some authors and editors recommend using “country-fixed effect” to isolate the results from the specificity of the recipient countries, this paper will not use it. The relevant literature also takes this choice with the following explanation “we do not expect our explanatory variables to hold much power in explaining year-to-year changes in aid; rather, we stress the importance of retaining the between-recipient country variation for testing the observable implications of our theory” (Dreher and all. 2018: 187). Finally, in the statistical model, the independent and control variables are lagged from 1 year (t-1) of the dependent variable (t). Indeed, to control for endogeneity between the independent variable and the dependent variable, it is essential to control for the time lag. The hypothesis of the allocation process relies on the fact that governmental actors react to changing recipient countries characteristics (natural resources and level of corruption) and adapt the amount of ODA the following year. Lagging the explanatory variables is a well-known technique widely used in the literature of money allocation (Kolstad and Wiig 2012).

The method of this paper is innovative, and it has never been used in the past literature on this specific issue. First, including Chinese ODA and DAC donors ODA to explain the impact of the level of corruption and natural resources of recipient countries in the same analytical model has been done only a few times, and only as control variables (Dreher and Fuchs 2011) (Dreher and all. 2011) (Dreher and all. 2018). Second, this analysis relies on the new dataset developed
by Strange and all. (2013) which represents the most accurate dataset available. Finally, the only paper that uses the new dataset in a comparative manner has only countries of Africa as geographical sample (Dreher and all. 2018). It seems that the reason for using Africa as a sample is driven more for mediatic and political agenda reasons rather than founded on theoretical arguments. Indeed, the new development of China-Africa relations has been widely discussed in the media, political sphere and civil society, but more fueled by the “yellow peril” thesis rather than for objective reasons. There are little theoretical reasons to think that the Chinese “going global” strategy only focused on Africa or other regions of the world. More specifically, the need to secure access to natural resources is distributed in all the developing countries of the world and not just in Africa. In the same vein, there are no reasons why governmental actors should prefer a higher level of corruption in recipient countries of Africa and not in other regions of the world, such as Latin America. The analysis will include “region fixed effect” (Asia, Africa, Latin America, Europe and North America, Oceania) to account for regional specificity, but the main theoretical argument should be valid for all the developing countries of the world.

3.2 Data and operationalization

3.2.1 Dependent variable

As mentioned earlier, the analysis focuses on explaining two dependent variables. The first is the amount of “Official Development Assistance” allocated by China to the 83 developing countries for each year from 2001 to 2014. The second dependent variable is the amount of ODA allocated by the DAC donors in the same country-years. The operationalization of the concept of “foreign aid” is quite straightforward because it follows a precise definition that comes from the DAC, for the Western donors and China as well thanks to the work of Strange and all. (2013) (2016).

The data for Chinese ODA comes from the “AidData's Global Chinese Official Finance Dataset, 2000-2014” published in 2017 (Dreher and all. 2017). “This dataset captures the known universe of officially-financed Chinese projects in 5 regions of the world from 2000-2014 (including Africa, the Middle East, Asia and the Pacific, Latin America and the Caribbean, and Central and Eastern Europe). It includes concessional and non-concessional sources of funding from Chinese government institutions (including central, state or local government institutions) with development, commercial, or representational intent” (AIDDATA 2019). As said earlier,
the Chinese government does not publish information on their development projects and on the amount of aid. To get empirical data, the Aidata’s global Chinese dataset uses the Tracking Underreported Financial Flow (TUFF) methodology. The first stage of the method is to identify projects through extensive searching. The primary sources of information are official sources and media. More specifically the major sources are: “(1) aid information management systems (AIMS) in recipient countries; (2) Chinese Embassy and Economic and Commercial Counselor websites; (3) IMF staff country reports; and (4) Factiva, a Dow Jones owned media database that draws on approximately 33,000 media outlets worldwide in 23 languages, most of which are newspapers, radio and television transcripts” (Strange and all. 2017: 4). The second stage of the methodology is the “triangulation”. In this phase, an individual search is made to specify the project, the related amount of money, modalities, and other related information. The third stage of the methodology is the quality control. “The last and most critical stage in the TUFF methodology process is a series of rigorous, systematic quality assurance procedures. (...) this last stage of the methodology seeks to identify and eliminate potential errors, biases, and data holes wherever possible (Strange and all. 2017: 5). Only the amounts of projects that have been categorized as “true” have been used in this analysis. According to the methodology these projects “meet two criteria: 1) they are not umbrella projects, and 2) they have moved through the project cycle to at least the committed, implementation, or completed stages” (Strange and all. 2017: 11). The unit of analysis is the log of the ODA amount in current dollars. Logging the variable is widely used in the literature if the dependent variable is numerical and does not follow a normal distribution.

The data for the DAC donors ODA comes from the “Aid (ODA) commitments to countries and regions” dataset (OCDE 2019). The operationalization of this variable is the following: “A commitment is a firm written obligation by a government or official agency, backed by the appropriation or availability of the necessary funds, to provide resources of a specified amount under specified financial terms and conditions and for specified purposes for the benefit of a recipient country or a multilateral agency” (OCDE 2019). The DAC donors are the 23 OCDE countries that have been used in the literature as the leading Western donors (see annex 2) (Dietrich 2016). In the analysis, the country-years amount of ODA is the sum of all the bilateral aid from the 23 donor countries. The unit of analysis is the log of the aggregate amount in current dollars. This aggregate data help to compare “Western donors” with China in line with the hypothesis and theoretical argument. However, the model will also test non-aggregate bilateral aid, such as the US bilateral aid, to test the comparability between two countries.
Furthermore, the analysis will include a difference between major donors and minor donors. Indeed, the literature has identified that Western donors are not a homogenous actor, and thus should to be considered separately (Maizels and Nissanke 1984) (Berthélemy 2006).

### 3.2.2 Independent variables

The first independent variable is “natural resources”. As mentioned earlier, the few studies that have investigated the impact of natural resources on foreign aid allocation has been focus only on “oil” or energy-related resources (Dreher 2013) (Couharde and all. 2017) (Dreher and all. 2018). This paper argues that other minerals such as zinc, nickel, aluminum, iron, and other minerals are also a crucial input to the production of an industrialized country. In this respect, a good supply base of these minerals is a vital strategic asset that massive resources consumer countries, such as the US and China, pursue through foreign aid. Indeed, from the donor point of view, a generalized increase of mineral price could create severe economic problems and security related issues. The literature on the proxy of natural resources has been widely discussed and is controversial (Sachs and Warner 1995) (Stijns 2005) (Kolstad and Wiig 2008). The primary debate is between the proxy of natural resources “endowment,” in other words, the resources that lay on the ground, or the proxy “natural resources as a share of export”, in other words, the availability of the resources (Asiedu 2006) (Kolstad and Wiig 2008). The underlying theoretical mechanisms of the hypothesis should lead to the choice of the proxy. However, because the research design of this paper lay on a competing hypothesis, there is no clear-cut theoretical mechanism at this point, but there are different potential answers. However, the main argument of the hypothesis relies on the fact that China or DAC donors compete to secure privileged access to the natural resources market. Thus, in the short term, foreign aid is a way to compete over the natural resources availability. For example, through gaining contracts of exploitation of natural resources. According to Kolstad and Wiig (2008: 11), “what would be attractive to investors are natural resource rents rather than what is in the ground, which makes export shares a better proxy than resource endowments”. However, in the long term, foreign aid could be a way to pave good interstate relations that may lead to further natural resources extraction development, thus making the “resources endowment” a better proxy. In other words, there are reasons to think that China and DAC donors use the twofold strategy; using foreign aid to compete for available resources and competing on building long-term relationships with the aim of exploiting future disposable natural resources. Given that the time range of the analysis is short there are reasons to think that the earlier strategy of China is
to secure access to available resources, thus making the proxy of natural resources export share a better proxy to examine the potential competition between DAC donors and the new donor.

The data used in the statistical analysis come from the World Bank. The unit of measure is the sum of the fuel exports share, and mineral exports share on total merchandise export (World Bank 2019b) (World Bank 2019c).

The second independent variable is “corruption”. This concept is widely used but rarely defined. Also, “data on corruption (…) are imperfect by their nature” (Alesina and Weder 2002: 4) because the phenomenon is intrinsically linked to opacity. In this paper the concept of corruption is defined, following the conceptualization of the World Bank: “Perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests” (Kaufmann and all. 2011: 223). This definition is relevant from a theoretical point of view since it captures how the government, or the elite can use natural resources contracts and exploitation with the aim of incrementing “private” gains at the expense of widespread redistribution. In the case of the “rogue donor” perspective, China may use bribe during opaque negotiation to secure contracts. The Index of corruption that follows this definition is the “control of corruption” of the World Bank Indicators. This index measures the perception of corruption (since it is difficult to establish more objective measures). The perception is measured through “surveys of firms and households, as well as the subjective assessments of a variety of commercial business information providers, non-governmental organizations, and a number of multilateral organizations and other public-sector bodies” (Kaufmann and all. 2011: 224). The indicator range starts from -2.5 (more corrupt) to +2.5 (less corrupt).

3.2.3 Control variables

It is important to underline that the goal of this paper is not to prove that corruption and natural resources levels are the only determinants of foreign aid allocation. Indeed, there are many factors that influence the decision process. This paper will draw on the relevant literature that investigates the allocation process to control for previously identified important variables. Those variables are taken mainly from studies that investigate the determinants of Western donors, but there are good reasons to think that they are relevant for the Chinese governmental actors too. Besides, the analysis aims to compare Chinese ODA and DAC ODA within the same model. Thus, the analysis will include, in the sake of comparability, the same control variables for both donors without considering potential specificity.
The first control variable used in the model is the level of development of recipient countries. As mentioned earlier, the main official purpose of foreign aid is to finance developing countries. Thus, even if the sample is made of “developing countries,” there should be differences in terms of “need” within the recipient countries. In a “moral” and “idealistic” view of foreign aid allocation, we expect a negative correlation between foreign aid allocation and level of development (Lumsdaine 1993) (Alesina and Dollar 2000). The same relationship should hold in a realistic perspective too: the more a country is in need, the more it is easy to influence, thus yielding foreign aid an interesting tool (Dreher and all. 2018). To measure the “level of development,” I used the Log of GDP per capita in current US dollars. The data is available in the World Bank dataset (World Bank 2019).

The second control variable is the “population size”. This variable is also widely used in the literature to take the vast differences between recipient countries into account. Indeed, some states have less than 1 million and other more than 200 million inhabitants. Theoretically, it is difficult to assess the correlation of this variable that has mixed reasons and results. In an idealistic perspective of foreign aid, more populous countries should receive more aid. Thus, giving more aid pro capita. Conversely, in a realistic perspective, donor countries should favor smaller countries since it should be easier to gain influence in these countries. In this perspective, less populous countries should catch more aid transfer than biggest countries (Burnside and Dollar 2000) (Dreher and all. 2018). The data used is also available in the World Bank datasets (World Bank 2019).

Another control variable used in the analysis is the solvability proxy. The solvability of the recipient country is an important variable since traditional donors pay specific attention to the ability of repayment. Moreover, multilateral organizations such as the World Bank and IMF have the specific mission to coordinate and monitor bilateral foreign aid to avoid coupling and inflation of amount of foreign aid, thus mitigating the problem of inability of repayment. This variable is interesting because one of the arguments of the “rogue aid” perspective is that China and other non-DAC donors do not respect the multilateral agreements on solvability. These claims are enhanced by the fact that “Chinese authorities question the wisdom of the IMF/World Bank Debt Sustainability Framework (DSF) in particular, that (a) current economic indicators are good proxies for debt repayment capacity, and that (b) one must consider a project’s financial viability and its macroeconomic effects (Strange and all. 2013: 9) (Li 2006) (Christensen 2010). Thus, we expect that traditional donors are more sensitive to the proxy of solvability than Chinese foreign aid. One of the proxies used by the literature is the ratio
between the debt and the GDP. This indicator is available on the dataset of the World Bank. In the “rogue aid” perspective, we expect that DAC donors deliver more aid to less indebted countries, and we expect that China does not care about the Debt/GDP ratio in the allocation decision.

The primary control of institutional characteristics of recipient countries is the democracy level. Because “Western donors” firmly believe in democracy records, for ideological motives, there is a reason to think that they favor the transfer of foreign aid to more democratic countries. Moreover “although technical assistance specifically targeted at democracy promotion is a small fraction of all aid, the U.S. and other donors often condition grants or loans intended for general budget support on performance in the areas of civil liberties, the conduct of elections, and respect for the rule of law” (Knack 2004: 2). In the “rogue perspective” China favors more authoritarian countries, thus delivering aid to less democratic countries. To control for democracy, I draw on the Polity IV dataset. This broadly used data range countries from -10 (less democratic) to +10 (more democratic). Thus, we expect a positive relationship between the level of democracy and the ODA allocation from DAC donors’ countries.

The fifth control variable indicates if a country is in the United Nations Security Council or not. Studies have shown that developing countries who are part of the UNSC for two years receive a more substantial amount of ODA. Indeed, larger power such as the United States “buy” the vote of those countries in the UNSC to gain legitimacy in case of intervention of the United Nations. Vreeland and Dreher (2014) argue that China tries to counterbalance the influence of the United States, offering less foreign aid to the developing countries that stand in the UNSC. “One would expect China to reduce its ODA (and grants) to temporary members of the UNSC in order to punish countries for aligning with the Western powers” (Dreher and all. 2018: 186). The variable is a dummy variable that takes the value of 0 if the recipient is not part of the UNSC, and 1 when it is part of the UNSC.

Another important control variable is the distance between the donor and the recipient country. This dyadic variable is most used in the FDI or trade literature in order to assess the geographical distance between countries in economic relations. In the gravitational theories, the nearer the state is and the bigger its economy is, the more it attracts trade and FDI (Mayer and Zignago 2005). In the case of foreign aid, the underlying theory doesn’t fit. Yet the distance could be an important determinant of aid allocation. Indeed, it is reasonable to think that donor country favor nearer developing countries because they have more interest in the stability or
economic relationship with it. The data is available on the website of “Centre d'études prospectives et d'informations internationales” (Mayer and Zignago 2011).

Finally, the last control variable is the trade relationship between donor and recipient countries. The causal direction between aid and trade is not clear. “On the one hand, trade may be one indicator of economic ties between the donor and recipient. In this way, the trade will be a factor in aid allocation, that is trade flows determine aid flows. Alternatively, the causal link may be from aid to trade. This can happen directly when the aid is tied, or indirectly, if the aid contributes to growth and an increase” exports and import demand (Osei and all. 2004: 356) (Helble and all. 2009). What is essential in our concern is that trade is often correlated with aid, and thus must be controlled. Moreover, the positive correlation between aid and trade shows the importance of economic concerns in the foreign aid allocation process. The data is taken from the Direction of Trade Statistics database (IMF 2019). The unit of the variable is the Log of the sum of export and import between the donor and the recipient country in current US dollars.

4 Analysis

4.1 Descriptive analysis

Before presenting the results of the OLS, it is important to clarify the extent of the “Rise of China” in term of foreign aid. Many speculations have been made about the amount and the geographical distribution of the aid delivered by Chinese governmental actors. Following the most mediatic thesis about the emergence of China, that is the “rogue donor” argument, the CCP is delivering a comparable amount of aid with the other Western donors. With this statement, the public opinion and policy-maker, think that the competition is now at the apogee. However, without conflating Chinese ODA with other financial flows, are the amounts of foreign aid comparable? The second part of the “Yellow peril” thesis highlighted the fact that China is particularly interested in Asia and Africa through the “new silk road” investment projects and its appetite for natural resources. Some analysts especially talk about a “new scramble for Africa,” referring to the colonial repartition of Africa in 1890 (The Economist 2019). But what are the regions most favored by Chinese foreign aid?
Figure 3. Chinese and USA ODA in millions of dollars (2001-2014)

Figure 3 shows the amount of foreign aid in millions of current dollars delivered by the United States and China in the developing countries from 2001 to 2014. In 2001 China provided less than 1 billion of foreign aid in 80 countries. Thirteen years later, in 2014, the total amount of ODA was about 5 billion in current dollars. This trend shows a substantial increase of 5 times of foreign aid delivered and ten times more considering the peak in 2012. These facts underline the phenomena of the Chinese “going global” strategy, in which China is using its capital reserve to increase its influence and its projection in the developing world. However, it is interesting to note that until 2009, the amount of ODA delivered increase with a slower rhythm than in the second part. Most of the articles that has been written in this period have thus overestimated the phenomena. In 2001 the United States was delivering about 6 billion of foreign aid in developing countries. In 2014 they lent roughly 13 billion. Although the increase is not as spectacular as the Chinese ODA trend (about two times more), it is important to underline that even the United States is increasing its amount of ODA in the developing countries. Thus, the intensive scrutiny on China practice does not have to hide the fact that the United States is also increasing its effort to finance the developing world. The same increase also holds for the aggregate amount of ODA of all the 23 DAC donors. In 2001 they were delivering 32 billion of dollars, and 13 years later the amount of aid was about 50 billion (see annex 4).
Concerning the first question, the data underlines that China is not delivering as much as ODA as its rival superpower. Indeed, in 2009, the United States was still delivering 4.5 times more development assistance than China. Thus, the claim that China is competing with the United States in the international arena must be moderated by this fact. However, it is true that Chinese ODA is increasing faster than its Western counterpart. As a matter of fact, in 2014, the United States was delivering three times more ODA than China. Although this trend seems to give credit to the argument that China is changing the aid landscape, it is important to underline that the Chinese ODA has to be compared with the DAC donors. Indeed the thesis whereby China is threatening the debt sustainability, exploiting natural resources, violating environmental standards, have to be moderated (Strange and all. 2013). Indeed the DAC donors, that beyond their differences respect the same standards, account for more than ten times more ODA delivered in the world in 2014. Thus the “yellow peril” thesis, beyond the qualitative hypothesis,” relies on false quantitative assumption. As of now, the amount of ODA delivered is not enough to change the international landscape of foreign aid and its allocation and benefits.

However, the period between 2009 and 2012 has a really interesting trend. After the crisis of the 2008-2009, during the recovery phase of 2010-2012, the United States reduced its ODA efforts from 20 billion to 14 billion. In the same period, China has increased its amount of ODA from 3 billion to 10 billion matchings almost the US level. This fact is consistent with the Chinese rhetoric of being “a benevolent development partner, an ‘all-weather friend’ that can deliver irrespective of turmoil in international markets” (Alder and Large 2011: 2) (Kaplan 2018). Thus it is reasonable to think that the competitive landscape of foreign aid will benefit to China if the Western powers reduce their effort to offer a large amount of foreign aid.
Figure 4. China ODA share of regional distribution, weighted by number of developing countries

The second graph shows the regional distribution of Chinese ODA in developing countries in 2001 and 2014. The region score is weighted by the number of developing countries. In 2001, Africa received 68% of ODA and Asia accounted for 30%. Thus 98% of the ODA was delivered in 2 main regions of the world. In 2014 the picture is entirely different; the allocation of ODA is far more distributed along the five regions of the world. For example, Latin America accounted in 2014 for 31% of the ODA, thus more than in Africa. In this respect, the focus on Africa and Asia is justified regarding to the first part of the “going global” strategy. The regional distribution in 2014 depicts a much more global approach in which China channels its aid effort in every region of the world. What stands out from this graph is that China has successfully reached its ambition to finance and influence globally, thus confirming the fact that the geographical sample of the analysis should take into account all developing countries of the world. For comparison, in 2001, the United States was already allocating ODA in every region of the world, focusing 70% of the ODA in Latin America and Asia. In 2014 41% of the ODA were allocated in Asia and 28% in Africa (see annex 5). Although the five regions are not precise enough to draw conclusions about the allocation, it is possible that part of the trend of allocation (by region) is driven by the rivalry between the United States and the entry of China in the foreign aid arena. What is clear is that in 2014, China was already a power able to play in multiple regions, just as the United States. The resume of this first section is the following. China still delivers three times less of foreign aid than the United States, and the amount of ODA is not commensurable with the ODA aggregate amount provided by the DAC donors. Thus, China is not yet able to upset the international aid landscape. However, it is true that the
total amount of ODA is increasing faster and shows that China can take over the international aid effort during economic turndown. After an initial focus on Africa and Asia regions, in 2014, China delivers aid in all five regions of the world, especially in Latin America. Thus, it is an international player whose actions can potentially drive a change of allocation process of the other superpowers, such as the United States.

4.2 OLS model results

In this section, I will present the results of the OLS model in order to provide answers to the two-competing hypothesis. The first part of the chapter is devoted to the OLS model that explain the determinants of Chinese ODA allocation. The second part will explain the factors behind the DAC donors aid allocation. The final part will be devoted to the comparison between DAC and China and the main implications of the results in the answer to the research question and hypothesis.

4.2.1 Determinants of Chinese ODA

Table 2. OLS regression of Chinese ODA

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption</td>
<td>-1.718***</td>
<td>-1.778***</td>
<td>-1.735***</td>
</tr>
<tr>
<td>Natural resources</td>
<td>0.011*</td>
<td>0.018**</td>
<td>0.019**</td>
</tr>
<tr>
<td>LogGDP per capita</td>
<td>-3.122***</td>
<td>-3.078***</td>
<td></td>
</tr>
<tr>
<td>LogPopulation</td>
<td>-0.583</td>
<td>-0.625</td>
<td></td>
</tr>
<tr>
<td>DebtGDP</td>
<td>-0.004</td>
<td>-0.005</td>
<td></td>
</tr>
<tr>
<td>Democracy</td>
<td>0.129***</td>
<td>0.137***</td>
<td></td>
</tr>
<tr>
<td>UNSC Member</td>
<td>-0.664</td>
<td>-0.536</td>
<td></td>
</tr>
<tr>
<td>Distance</td>
<td>0.000</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>LogTrade</td>
<td>0.788*</td>
<td>0.711*</td>
<td></td>
</tr>
</tbody>
</table>

\[N=749\quad 676\quad 676\]

\[R^2=0.105\quad 0.173\]

Note: *p<0.05; **p<0.01; ***p<0.001

Source: Output SPSS

Table 2 shows the main results of the OLS, that calculate the determinates of the allocation of Chinese ODA in developing countries. All three models include the lag between the dependent
and the independent variables, region fixed effects (region reference is Europe) and time fixed effects (the reference year is 2000). Model 1 includes only the independent variable of interest for the hypothesis; “natural resources” and “corruption”. The model 2 also includes the control variable above-mentioned. Finally, model 3 shows all the independent variables and control variables performed in a Robust OLS. Although the N should be higher, above the 1000 observations, the missing data of the dependent variable and the independent (and control variable) have lowered the N till 676 (in the case of model 2 and model 3). The R adjusted squares indicate that the second model is the best in explaining the variation of the dependent variable. More specifically, the model can explain for above 20% of the variation of the amount of ODA.

As shown in Table 2, in all three models, the coefficient of the proxy of corruption is negative and highly significant. More specifically, the coefficient is higher in model 2 and the lowest in model 3. As mentioned earlier the corruption index ranges from -2.5 (more corrupt) to +2.5 (less corrupt), thus the negative signs indicate that Chinese ODA is allocated in developing countries with higher records of corruption. More specifically, because the dependent variable is logged, it means that an increase in one point of the proxy of corruption determines a reduction of 17% of foreign aid. Thus, the effect is strong. Indeed, comparing the effect of the different independent variable standardized coefficient, corruption is the second most powerful variable after the GDP per capita. These results are in contrast with the finding of Dreher (2018) that find no significant relationship between the level of corruption and Chinese ODA allocation in Africa.

As with the “corruption” variable, the “natural resources” proxy is significant and positive in all three models. Except for model 1, where the variable is significant at 5%, in model 2 and three, the variable is significant at 1% level. The coefficient is between 0.011 and 0.19. Thus, the variable indicates only a slight increase in foreign aid for natural resource-rich developing countries. However, given that the independent variable is a percentage and the DV is a log (between 0 and 10), the effect is still relevant. Indeed, an increase of 1% of natural resources as a share of merchandise export determines an increase of about 0.2% of Foreign aid. Furthermore, the standardized coefficient, that enables a comparison of the magnitude of the effect between the independent variables is 0.133. By contrast, the magnitude of the coefficient of “corruption” is -0.174. Thus, China delivers more foreign aid to developing countries that have more natural resources. Once again, this result is in contrast with the statistical analysis of
Dreher (2018), that use a proxy of oil endowment (a binary variable), without finding any relationship between oil and Chinese ODA.

Concerning the control variable, only a few have a significant role in explaining the variation of the Chinese ODA allocation. As expected, the Log GDP per capita have a strong negative relationship with the dependent variable. More specifically, an increase of 10% of GDP per capita determines a decrease of 31% of Foreign aid allocation. Thus, as mentioned earlier, the magnitude of the variable is substantial. The negative sign of the coefficient means that Chinese actors prefer to allocate aid in poorer countries than in richer ones, even in a sample of developing countries. These findings are consistent with the overall literature of foreign aid. Thus, the need of the developing countries seems to drive the decision of the allocation of foreign assistance. Also, because the population variable is not significant, it is not possible, in this analysis, to confirm the fact that China favors poorer countries because they are easier to influence.

The Log trade variable has a positive and barely significant role in explaining the dependent variable. More specifically, the unstandardized coefficient is 0.78, which means that a 10% increase of Trade relation between the donor and recipient countries, determines an increase of about 8% of foreign aid. Thus, China favors developing countries with which it trades more. This is consistent with the literature of foreign aid, which studies the aid-trade nexus. Thus, confirming the fact that foreign aid allocation is linked with economic ties (without specifying the direction of the causality).

The democracy coefficient is also positive and significant. The coefficient of 0.129 means that China favors more democratic countries in the allocation of foreign aid. Thus, an increase in one point in the democracy score of polity determines an increase of 1.35% of foreign aid. The goal of this paper is not to investigate the role of the regime type in the allocation process. However, this result should be taken seriously regarding the link between corruption and democracy. Furthermore, this result tends to disprove the argument whereby China, as an autocracy, tends to favor “rogue regimes” in order to promote an alternative legitimate regime model. All the others control variable, such as UNSC presence, LogPopulation, distance, and debt/GDP are not significant in this analysis. Thus, in this model these variables do not play a significant role in the allocation process. To sum up, the results of the OLS of Chinese ODA are the following: China favors developing countries that are more corrupt and that are natural resources’ rich.
4.2.2 Determinants of DAC ODA

Table 3. OLS regression of DAC ODA

<table>
<thead>
<tr>
<th></th>
<th>(1) DAC ODA</th>
<th>(2) Major DAC ODA</th>
<th>(3) US ODA</th>
<th>(4) Minor DAC ODA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption</td>
<td>0.519***</td>
<td>0.479***</td>
<td>0.241**</td>
<td>0.577***</td>
</tr>
<tr>
<td>Natural resources</td>
<td>0.002</td>
<td>0.002*</td>
<td>0.003**</td>
<td>0.002</td>
</tr>
<tr>
<td>LogGDPpercapita</td>
<td>-0.873***</td>
<td>-0.796***</td>
<td>-1.040***</td>
<td>-1.031***</td>
</tr>
<tr>
<td>LogPopulation</td>
<td>0.098</td>
<td>0.111</td>
<td>0.291***</td>
<td>0.101</td>
</tr>
<tr>
<td>DebtGDP</td>
<td>0.00</td>
<td>0.000</td>
<td>-0.02</td>
<td>-0.01</td>
</tr>
<tr>
<td>Democracy</td>
<td>-0.03</td>
<td>-0.004</td>
<td>0.24***</td>
<td>0.00</td>
</tr>
<tr>
<td>UNSC Member</td>
<td>-0.536</td>
<td>-0.96</td>
<td>-0.240</td>
<td>-0.1</td>
</tr>
<tr>
<td>Distance</td>
<td>+0.00005***</td>
<td>+0.00005**</td>
<td>+0.00004**</td>
<td>+0.00008**</td>
</tr>
<tr>
<td>LogTrade</td>
<td>0.742***</td>
<td>0.733***</td>
<td>0.488***</td>
<td>0.628***</td>
</tr>
<tr>
<td>N</td>
<td>687</td>
<td>687</td>
<td>687</td>
<td>687</td>
</tr>
<tr>
<td>R2</td>
<td>0.352</td>
<td>0.381</td>
<td>0.387</td>
<td>0.333</td>
</tr>
</tbody>
</table>

*Note: *p<0.05; **p<0.01; ***p<0.001

Source: Output SPSS

Table 3 shows the main results of the OLS, that calculate the determinants of the allocation of DAC ODA in developing countries. As with the OLS of Chinese ODA, all four models include the lag between the dependent and the independent variables, region fixed effects (region reference is Europe) and time fixed effects (the reference year is 2000). However, the models show the OLS without the robust effect (see annex 6). The goal of this table is to compare the difference of the determinant’s coefficient between the aggregate measure of DAC donors and other subcategories. As mentioned earlier, Western donors are not a homogenous actor, thus it’s worth to divide them in order to get a more precise picture of the foreign aid allocation. The first model, in column one, shows the results for the dependent variable DAC ODA (an aggregate measure of all 23 DAC donors). The second model is the OLS regression with major donors as the dependent variable (aggregate sum of foreign aid allocated by the United States, Japan, France, Germany, and the United Kingdom). The third model shows the results for the United States allocation of ODA (only bilateral aid). Finally, the fourth model accounts for the dependent variable of minor donors ODA (all the donors except for the five major Western power mentioned above).

It is important to note that this classification is driven by theoretical background. The DAC donors as an aggregate help us to understand the difference between “traditional donors” and
China. Then the difference between major donors and minor donors are based on the fact that there are driven by different motivations. Indeed, the major donors are truly international players that have the means and the interest to extend their influence in all the developing world. Conversely the minor DAC classification stands for “middle European” powers that do not have the same position in the international structure and thus have different motivations regarding the practice of foreign aid. Finally, it is important to isolate the United States from the other major donors since it is a country with means and an economy largely superior to the others. Indeed, the United States occupied a unique position in the international arena.

The number of observations (N) is similar to the model accounting for the Chinese ODA allocation. This is so because the independent variables used in the two competing models are drawn from the same databases. The models have a comparable adjusted R2, that ranges from 0.333 (model 4) to 0.387 (Model 3). Thus, the models can explain from 30% to 40% of the variation of the dependent variables. In comparison with the OLS of Chinese ODA, the power of explanation of the models are significantly higher. The reasons for this are not clear. However, there are two possible interpretations. First, the control variables used in the analysis are drawn from the literature on Western aid allocation. Thus, it may be possible that the specificity of Chinese foreign aid is not taken into account in the model. Second, the structure of the “AidData's Global Chinese Official Finance Dataset” is different from the dataset of the OCDE. Indeed, there are more “0” value observation in the Chinese Dataset. This is understandable because DAC donor’s data is aggregated, and the United States have more means to give foreign aid every year to all the developing countries. Thus, the variation of the Chinese ODA DV is more influenced by the 0-value inflated dataset.

The “corruption” variable is positive and highly significant in all four models. Thus, there is no substantial difference within the “traditional donors” regarding the level of corruption. The positive sign indicates that all the DAC donors favor countries with better records of corruption in the allocation process. These results are not consistent with the analysis of Alesina and Weder (2002) in which they found no relationship between aid allocation and corruption. The coefficient range is from 0.241 (model 3) to 0.577 (model 4). Although all the subcategories of DAC donors have a positive relationship with aid, there is still a substantial difference regarding the magnitude of the effect. Considering the range of coefficient, it seems that minor donors are more sensitive than the major donors with respect to the record of corruption. Moreover, the United States is the bilateral donor that is less sensitive to corruption. Thus, it seems that the more the donors are dominant in the international arena, the less they are sensitive regarding to
corruption of the developing recipient country. To illustrate the magnitude of the coefficient, DAC donors give about 5% more foreign aid to countries that have 1 point more in the corruption index.

Concerning the natural resources variable, the results are more mixed. Indeed, it seems that the importance of this variable in explaining the variation of the DV differs depending on the ODA classification. The coefficient is not significant for the aggregate data of DAC donors and minor donors. Thus, the allocation process is not influenced by the natural resources’ availability of the recipient countries for this group of donors. However, the coefficient is positive and significant for the United States and the major donor group. Moreover, the coefficient of the United States (0.003) is slightly higher and more significant than the coefficient of the aggregate of major donors (0.002). Even with this variable, it seems that the position in the power structure is relevant to understand the impact of natural resources in the foreign aid allocation. Indeed, it seems that the United States and major donors that are the most powerful economies and states are driven by the natural resources’ availability, while minor donors ODA seems not to be driven by oil and minerals. These results are consistent with the findings of Couharde and all. (2017). It is important to note that the coefficients have a low magnitude (0.002), thus the level of natural resources change slightly the amount of ODA received by a recipient country. The coefficient indicates that the increase of 1% of natural resources as a share of export merchandise, drives an increase of 0.03% of foreign aid. The unstandardized coefficient is of 0.108, which is at the same magnitude level of the “corruption” (0.99) and “democracy” (0.133) variables but far from the “trade” (590) and “GDP/per capita” (-423) variables. Although the coefficient is small and much lower than the coefficient in the model of Chinese ODA, the relationship is still significant, thus relevant.

Concerning the control variables, there are only small differences within the subcategories of DAC donors. Furthermore, the same variables seem to hold for China and DAC donors. More specifically, the GDP per capita is a powerful determinant of foreign aid allocation. The coefficient ranges from -0.796 (model 2) to -1.1040 (model 3). As in the model of Chinese ODA, the negative signs indicate that traditional donors prefer poorer countries in the allocation of foreign aid. Moreover, the trade variable is positive and significant in all four models. Thus, DAC donors favor developing countries with which they have more economic ties. Unlike in the statistical model of Chinese ODA, the variable distance is positive and significant too. The small coefficient (0.00005) is due to the unit of analysis of the independent variable (meter). The positive sign indicates that DAC donors and their subcategories favor more distant
countries. Finally, the other control variables seem not to play a significant role in explaining the aid allocation. However, the United States is the only donor that favor countries that are more democratic (0.24) and with more population (0.291). This positive coefficient shows that the United States is concerned with the democratic records, as consistent with the literature and their discourse beyond foreign aid, and the size of the countries. Giving more assistance to more populous countries may imply that part of their interest is driven by the need of the developing countries inhabitant.

4.2.3 Answering to the competing hypothesis

The results of the comparison of the allocation of aid between DAC donors and China provides a mixed answer regarding the two-competing hypothesis. The results of the corruption variable are in favor of the “rogue aid” hypothesis. Indeed, China gives more foreign aid to developing countries that are more corrupt. Whereas DAC donors and all the subcategories mentioned above, give more aid to less corrupted countries. Thus, the results seem to confirm the fact that Western donors tend do rewards countries with good institutional characteristics. Furthermore, China, giving aid to more corrupted countries, seems to hamper the efforts of Western donors to improve better governance abroad. Also, this different path of allocation tends to invalidate the fact that states that are in a similar position in the international arena act similarly. Indeed, this difference illustrates that the distribution of foreign aid seems to be driven by ideational factors. Thus, foreign policy paradigms, such as the “good governance” and the “non-interference” principle seem to play a significant role in the allocation. However, part of the results can mitigate this assessment. First, the control variable “Democracy” in the OLS model that explains Chinese ODA is positive and significant. Thus, the results show that China favors more democratic countries, thus rewarding political regimes that are not “rogue”. Moreover, the results of the DAC donors’ models show that the United States and major donors tend to be less sensitive regarding the “corruption”. Thus, the position in the international structure seems to play a role in the ideational factor magnitude. The more a country is powerful, and the less it will reward countries with good governance records.

The result of the variable “natural resources,” on the contrary, corroborate the realist hypothesis. Indeed China, major donors, and the United States give more aid to developing countries that have more natural resources. Thus, confirming the fact that a large natural resource consumer country uses foreign aid as part of the strategy of securing natural resources. As mentioned in Couharde and all. (2017: 6), “it seems reasonable to think that foreign aid in favor of oil-
producing countries can be considered as a way to cover energy interests of the (...) donors. Indeed, as foreign aid policy can help to secure several aspects linked to oil supply, such as foreign investment for exploration, state ownership of production companies, long-term nature of supply contracts, etc., (...) donors can be incited to distribute aid allocation in oil-rich countries as a policy option for coping with their dependence on external energy sources”. Furthermore, in contrast with the “rogue aid” claim, it is important to underline that China is not the only donor country whose foreign aid is driven by self-economic interests. As shown in the results, consistent with the analysis of Couharde and all, major power and in particular the United States, allocate aid with other determinants than ideational one. Moreover, the fact that minor donors are not driven by natural resources in the process of aid allocation, is consistent with the literature. Following this strand of academic research, minor donors are more “generous” and more oriented through the need of the recipient country. However, consistently with the realist perspective, minor donors have a smaller economy and thus have a reduced need for overall supply in oil and minerals. Therefore, it is not a priority for these countries to develop a big network of relations with the developing world to get the necessary supply. Also, they do not have the means to maintain massive foreign aid outflux in all countries as the major powers do. This interpretation is consistent with scholars that moderate the fact that “minor donor” are drive only by humanitarian purpose (Schraeder and all. 1988). In line with this argument, it could be interesting to empirically asses these statements. A proxy of absolute oil import or the size of the economy should be successful in explaining the difference between bilateral donor. The more a country imports natural resources, the more it should deliver aid to natural resource-rich developing country.

To wrap up the answer to the competing hypothesis is the following: China gives more aid to corrupted countries and natural resources-rich countries. Whereas major donors and the United States offer more aid to less corrupted countries and to natural resources-rich countries. These answers, in which the “rogue donor” statement and the realist perspective seems to have both part right and part false, leave us to an interesting theoretical puzzle. On one hand, major donors are driven by realist considerations such as self-economic and political interest. On another hand, DAC donors and China seems to be driven by different ideational factors, such as the “good governance” and the “non-interference principle”. The next section will try to propose one theoretical mechanism that will try to solve this puzzle.
4.3 Exploring the theoretical mechanism

As mentioned above, this section will explore one potential theoretical mechanism that would explain why, whereas both major traditional donors and China pursue their political and economic interest in the allocation of foreign aid (natural resources availability), DAC donors favor less corrupted country and China the more corrupted one. The starting point of the theoretical mechanism is that DAC donors prefer less corrupted countries because it is easier for them to build a suitable economic partnership with less corrupted countries. Indeed “theoretical studies argue that good host country institutions will reduce risk and costs of doing business and increase productivity” (Kolstad and Wiig 2012: 6) (Blonigen 2005) (Cuervo-Cazurra 2006). Moreover, corruption is known to “reduce growth rate, possibly as a result of reduced domestic investment (…). In political-economy terms, corruption often contributes to an unfair income or wealth distribution. In political terms, corruption can breed political instability” (Wei 2000: 3). Thus, all these negative effects of corruption hamper the FDI and successful economic partnership.

This starting point excludes the fact that Western donors are driven only by ideological factors, thus delivering foreign aid to “less corrupted” countries only because they think it is the better for their longstanding economic and social development. Indeed, while it is reasonable to believe that Western donors have humanistic values, an ideology that drive their foreign policy, it is problematic to have a theoretical framework in which one group of countries is analyzed by ideology and the other group is explained in a realistic perspective. The “rogue aid” claim justified this perspective saying that the civil society scrutinizes Western donors, and thus, they are morally constraint in their actions. However, there is not investigation and mention about how core values frame the Chinese government action. Therefore, pointing China as an autocratic power with no moral and intrinsic values to drives its policy is an analytical mistake. Plenty of researchers have explained what the discourse and the moral value behind the Chinese government are. Thus, if the analysis takes the discourse of an actor seriously, it should do the same with the competing one.

Following this starting point, why does China give foreign aid to more corrupted countries? To understand the actions of China, it is essential to resituate the broader context of its strategy of “going out”. China opened its economy in 2000 and started to use its capital reserve for investments and foreign aid. As shown in the analysis, one of the goals of this strategy is to secure access to natural resources. However, in 2000, all the Western powers were properly
installed in all the developing countries in the world. Thus, “the central challenge created by late entry is the fact these markets are characterized by relatively stable relations and long-term contracts between major exporting countries (in Africa and elsewhere) and the traditional powers (particularly the US, EU, and Japan). Furthermore, huge Western multinationals are engaged in almost every resource-rich region in the world and exercise great economic as well as political power (Pehnelt 2007: 7)”. Secondly, Chinese multinational firms do not have a competitive advantage in the energy and natural resources-related sectors. Indeed, they do not compete in terms of technological advantage, and thus, they cannot offer higher productivity than their Western counterparts. Therefore, China, that needs to secure extensive access to natural resources is a late-comer that does not have the technological efficiency required to gain access to the market in direct competition with its Western counterpart (Alden 2005) (Pehnelt 2007).

So, the main strategy of China is to fill a niche market in which they have a competitive advantage over the Western counterparts. Because Western firms and governments favor less corrupted countries because they embodied less risk, they left over some markets in which they can’t or do not want to invest (Alden and Large 2011). There are reasons to think that China has two main advantages in these niche markets.

First, Chinese firms and actors are more prone to do business in an opaque and corrupted market. Indeed, Chinese entrepreneur and businessman know how to deal in a corrupted environment because they learned it in their mainland country. Indeed, China has a rampant corruption. Thus, they are, by socialization, experts in “navigating complex patron-client relationships and personal and institutional favors in relatively opaque and difficult business environments” and “dealing with burdensome regulations and navigating around opaque political constraints” (Yeung and Liu 2008: 71) (Morck and all. 2008:346) (Tanzi 1998) (Habib and Zurawicki 2002) (Cuervo-Cazurra 2006) (Koldstad 2012). Moreover, corruption creates a distortion of the market, in which it is not the most competitive offeror that gains contracts and concessions but rather the offeror that wins in the opaque negotiation process through bribery and corruption. Thus, it is possible that Chinese actors gain contracts through the bribery channel (Habib and Zurawicki 2002) (Bräutigam 2009). This theoretical assumption is backed by some empirical evidence. Indeed, according to the Bribe Payer Index, which is based on a survey of “3000 business executives worldwide (...) on the extent to which companies from 28 of the leading economies engage in bribery when doing business abroad”, China is ranked 27 of the 28 countries examined (Transparency International 2011).
Second, Chinese multinational firms investments and credits are less risk-averse than their Western counterparts. Indeed, both direct investors and creditors are backed by the massive reserves of the Chinese government. “By implicitly guaranteeing their lending portfolios, the government helps insulate policy banks from their debtors’ financial distress, allowing them to extend a long-term lending horizon and endure business cycle risk” (Kaplan 2018: 6). Thus this “patient capital” allows Chinese actors to invest in a more corrupted and politically risky environment. In contrast, Western private investors and lenders need to provide a quicker return on investments to the shareholders. Thus, they tend to engage and invest in less risky and corrupted countries. So Chinese Firms have a competitive advantage in the niche market of corrupted countries.

To wrap up, through its “going global” strategy China “hopes to catalyze finance in risky credit environments, with the goal of bolstering global trade and investment, and creating opportunities for Chinese firms and goods internationally. To improve their global competitiveness, Chinese firms are often hoping to gain cheap assets, build their market share, gain valuable overseas experience in marketing and distribution, and improve key logistical skills and local engineering capabilities” (Kaplan 2018: 7). Foreign aid is driven by this strategy and thus is following the same allocation patterns. Indeed, they allocate grants and loans in order to construct demanded infrastructures and prestige buildings in which Chinese firms are competitive. In doing so, they can secure contracts and sustainable relationships in the long term that will help other sectors to increase their market share of the “natural resources availability” (Christensen 2010) (Alden and Large 2011).

These theoretical mechanisms help us to better understand the relationship between DAC donors and China as a donor. Both have a discourse which defends the idea that foreign aid will help developing countries do develop. However, DAC donors prone the conditionality for good governance in part because they need to influence the policy of the recipient country to continue to do business in a less risky environment. Doing so allows them to continue to secure access to natural resources in a secure environment. That is the main reason why major DAC donors give more foreign aid to natural resource’s rich-countries with less corruption. In contrast, China foreign policy prone the non-interference principle. They do so in part because their strategy is to invest in corrupted and risky developing countries that have been left over by the leading Western powers. The non-interference principle is a rational choice to justify the “opportunity moral cost” to sustain their activity in corrupted countries to secure access to
natural resources (Pehnelt 2007) (Alden and Large 2011). That is the reason why Chinese foreign aid is allocated more in corrupted developing countries. To wrap up, the foreign policy discourse and the self-interest are here a co-constitution of the foreign aid process allocation.

5 Conclusion

This paper investigates the implications of the rise of non-Western donors such as China. The topic is relevant since new emerging country of the “South” will play an increasing important role in the international arena. Therefore, one of the goals of this paper is to pursue the academic development which try to theorize a post western leaded international system. The main issue of this literature is to asess comparability of concepts and data, that have been created from the “Western” world, to other emerging country that are driven from a different context.

The introduction briefly explains the different rhetoric of China and DAC donors. Both international powers have a different vision and discourse about their foreign policy. However, China and DAC are similar in two points. Concerning the foreign aid allocation, China and DAC donors stress that their aid is driven by the need of development of the recipient countries. The empirical results of this analysis tend to confirm this fact, since both allocate more aid to country that are more in “need”. However, the donor countries are also driven by their political and economic interests. As shown in this paper, large natural resources consumer countries, such as DAC major donors, the United Stats and China, allocate more aid to natural resources-rich developing countries. Therefore, the results illustrate that foreign aid is a useful policy tool which enables powerful countries to pursue their national security objective such as securing the main supply of oil and minerals. In this perspective, the intense scrutiny of China foreign aid practice should not hide the fact that Western donors are also driven by realist goals.

Conversely, this analysis shows that China and DAC donors differ in terms of recipient countries institutional characteristic that they favor in the process of foreign aid allocation. Indeed, DAC donors favor countries with better records of corruption, and China favor more corrupted countries. Instead of interpreting this empirical evidence as driven by ideational factors, therefore condemning the “morality” of Chinese foreign policy, the proposed theoretical mechanism tries to insert these results in the wider international context. As mentioned in the introduction, China is an emerging country that entered in the international arena in the late 1990. As such, China is a late-comer that try to position itself in a Western-
centered international order. Indeed, major donors that come from the “West” have established long-term relationships with the developing world, and as such they benefit from widespread support, and important economic ties (that lead to a stable oil and minerals supply). Therefore, as an emerging power in the international order, China must find a way to compete in terms of “soft power” with the well-established Western actors. Part of this strategy could be to enhance their relationship with countries with which “western powers” do not have deep economic and diplomatic relations, such as highly corrupted countries. In these niches’ markets, China have a competitive advantage since their state capitalism, huge capital reserves and records of corruption in the mainland, help Chinese firms to navigate in a risky and corrupted environment.

Thus, DAC donors and China allocate foreign aid to improve the economic conditions of the developing countries and to pursue their national interest (such as securing their natural resources supply). The Western donor’s discourse, that prescribe institutional improvement and regime change, legitimate the coercive means to (re)shape the developing world in their image. Doing so enable “Western powers” to pursue their own economic and political interests. Conversely the Chinese discourse, that prescribe the “non-interference” principle, legitimate their strategy to enter in the niche markets of corrupted developing countries as a rational way to compete as a “late-comer” in the international arena. This interpretation allows us to use the same analytical and theoretical lenses in explaining China and DAC donors’ practices. Indeed, this perspective avoids a twofold explanation in which the Westerns actors’ discourse is taken seriously and Chinese actors’ discourse is seen as covering realist practices.

An important point of this work has been to construct a theoretical mechanism and a statistical model that include DAC donors and China. As mentioned earlier, it is vital to ask the same questions for different actors and provide a potential answer to the question in a comparable manner. Indeed, an effort have been made to avoid the “Rogue donor” claims in which a Eurocentric biased vision of China leads to different kind of questions and theoretical assumptions than those used to understand the DAC ODA phenomena (Hirono and Suzuki 2014). The oil-aid nexus is particularly emblematic of these twofold analytical lenses that drive different research questions regarding to the actors studied. Although plenty determinants of Western donors’ allocation have been studied, only recently scholars have been interested to the impact of oil endowment in the foreign aid allocation. Furthermore, this new interest is driven by the idea that China use foreign aid to secure access to natural resources (Couharde and all. 2017). In this paper some statistical evidence seems to prove than major Western donors are also driven by natural resources.
This paper also provides a potential theoretical mechanism that includes DAC donors and China through the same perspective. This perspective enables to consider the foreign policy discourse within a rationalist theory. More specifically although interests seem prominent into shaping the foreign policy discourse, they can be co-constitutive of the same phenomena. Also, an important part of the theoretical mechanism is to consider that China is not acting in an “void” international order in which every action is seen as a “first choice”. For example, Cuervo and Cazurra (2006) argues in their paper that corrupted countries invest more in other corrupted countries. However, new emerging countries that have the economic mean to provide outward FDI are all late-comer comparing to Western investors. Therefore, investing in corrupted countries may not be their optimal choice but rather the only viable alternative that MNF have.

However, this study has important limits. First, although the correlations of the determinants of Chinese and DAC donors ODA are proven by the statistical analysis, the theoretical mechanism is not. Indeed, the statistical evidence cannot confirm the fact that Chinese foreign aid is allocated in more corrupted countries because they provide a niche market in which Chinese firms are more competitive. Thus, it would be interesting to implement a research design which is able to test this specific topic.

Second, although the theoretical background links the need to secure the natural resources supply in the developing country with the variable of corruption, the statistical analysis cannot empirically confirm this link. Indeed, the interaction between the “natural resources” and “corruption” variables were not significant. However, it would be interesting to further examine this potential link with a different research design.

Third, as mentioned in the method section, the proxy of natural resources used in the statistical analysis indicate the “resources availability” and not the “resources endowment”. However, “resources” endowment should also drive the foreign aid allocation. Indeed, China and DAC donors should favor more developing countries with resources on the ground, as a mean to secure access to future available resources. Therefore, it would be interesting to test the same hypothesis with a different proxy.

Fourth, the statistical analysis is possibly biased by the 0 inflated dataset. Indeed, because of the structure of the data, many observations are equal to “0”. That means that no foreign aid has been given in a developing country in a specific year. Thus, the dependent variables do not follow a normal distribution. A potential solution for this problem can be a tobit analysis which lower the effect of the 0 in the model.
Finally, the control variables have been chosen in the aim of assess a perfect comparability between DAC donors and China. Thus, the same variables have been used in the OLS model of China and DAC donors. However, it is possible that some specificity from group of donors, that cannot be extended to the other donor, are not controlled in the statistical analysis. For example, the control variable of “ex colony” have not been included since China has never colonized another country. Conversely the variable “Taiwan recognition” have not been used as well, since it is specific for China. The absence of these important variables may also skew the results.

This paper has revealed some interesting insight that could lead to further investigations. Interestingly the results of the OLS of DAC and China ODA are similar to the results of the analysis that investigate the determinants of the FDI allocation. Indeed, Kolstad and Wiig (2012) find that Chinese investors favor more corrupted and natural resources-rich countries. Conversely western donors FDI are allocated in less corrupted countries and in natural resources-rich countries (Asiedu 2006) (Alesina and Dollar 2002). Therefore, it seems that foreign aid and FDI are driven by the same recipient countries institutions and natural resource characteristics for both China and DAC donors. These empirical evidences seem to support the main argument of this paper, since foreign aid is viewed as a tool to implement economic and the economic and political self-interest of the donors (of which FDI can be a proxy). However, this correlation between FDI and foreign aid leave us a theoretical puzzle.

Indeed, in the case of China, most of the FDI comes from state-owned multinational firms, credits come from state-owned international banks and concessional loans come from the Chinese government itself. Even if China is not a monolithic actor, and the executive of the PCC does not entirely control all the allocation processes of the different actors, the boundaries between the various uses of capital are unclear (Kolstad and Wiig 2012) (Kernen 2014). This relationship between political and economic motives can be labeled as “economic diplomacy”. Indeed, these financial flows “have distinctive political and diplomatic overtones and thus cannot be viewed as pure market-based transactions of the kind often described in prevailing economic theories of FDI”. So “they should be viewed as institutionally mediated interactions between different nation-states that extend beyond the profit motive and economic efficiency” (Yeung and Liu 2008: 60). Therefore the “going out” strategy can be construed as a coherent and synergetic strategy which involves different actors and different modalities. In the case of China there is a theoretical mechanism which explain why foreign aid and FDI can be related.
Conversely Western countries FDI flows come usually from private companies that are market-driven, and credits are from private international banking. Whereas concessional loans come from multilateral institutions or from the government. Therefore, FDI and foreign aid are allocated by different actors. In this case there is not an explicit theoretical mechanism that would explain that different actors which have different goals allocate investment and foreign aid following a similar pattern. Thus, it would be interesting to understand the reasons why different actors behave in a similar way. More generally, especially in the case of China, which does not have a clear-cut difference of goals of the actors beyond foreign aid and FDI, it is important to integrate these financial flows in a broader theoretical framework.

Lastly these findings have implications in terms of growth of the developing countries. Given that both DAC donors and China use foreign aid to favor the development of poor countries, the outcome of foreign aid should be taken seriously. Many studies have confirmed the fact that corruption hamper the growth of countries (Wei 2000). Therefore, offering more foreign aid to corrupted countries without conditionality on institutional reforms may hamper the efforts of building a sustainable framework for development. However, if the strategy of China is a not optimal choice, ergo the only mean to secure natural resources access in a competitive environment, the phenomena may continue. Thus, a broader multilateral cooperation that include non-DAC donors would be preferable to coordinate all the donor’s efforts in securing their main national interests and the development of the poorest countries. However, a cooperation can be possible only if major powers have a mutual understanding of their core values and main interests, thus avoiding analytical and ideological bias such as the “rogue donor” or “yellow peril” thesis.
6 Bibliography

6.1 Academic Literature


6.2 Web sources:


6.3 Databases


### Annex 1. Sample of developing countries (following the World Bank lending groups)

<table>
<thead>
<tr>
<th>Afghanistan</th>
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<th>Liberia</th>
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### Annex 2. DAC Donors

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### Annex 3. Major Donors

France
Germany
Japan
United Kingdom
United States
**Annex 4.** Total DAC ODA amount in developing countries (2001-2014)

![Graph showing DAC ODA in developing countries (2001-2014)](image)

*Source: (OCDE 2019)*

**Annex 5.** US ODA regional distribution, weighted by number of developing countries 2001-2014

![Pie charts showing US ODA regional distribution in 2001 and 2014](image)

*Source: (OCDE 2019)*
Annex 6. Robust OLS model of DAC Donors

<table>
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<tr>
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Note: *p<0.05; **p<0.01; ***p<0.001

Source: output SPSS

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