

**Vindicating China, the "Rogue Donor":
The Effect of China's Foreign Aid on African Countries' Governance**

By

HONG, Yurah

THESIS

Submitted to

KDI School of Public Policy and Management

In Partial Fulfillment of the Requirements

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Abstract

China has shifted from a recipient to donor of foreign aid, emerging as one of the major sources of development finance. Due to its non-interference policy of recipient countries' domestic politics, combined with lack of standard definition and dataset of its foreign aid, China is often criticized as being a "rouge donor". However, claims of China being a "rogue donor" are often without empirical evidence, and some studies suggest more conditional conclusions.

Hence, this paper tries to show if such criticism is empirically valid using alternative dataset of China's foreign aid collected by the Tracking Underreported Financial Flows methodology which tracks project-level investment by China in approximately 200 countries from 2000 to 2014. Analysis suggests that China's foreign aid improves rather than undermines recipient countries' governance quality when ODA- and OOF-like flows are combined. Each flow category, however, yields diverging conclusion with the ODA-like flow having positive impact at statistically significant level, while the OOF-like flow having the opposite result. Also, ODA from the Development Association Committee (DAC) member states have found to have a higher, positive impact on improving recipient countries' governance.

Thus, conventional criticism of China being the "rogue donor" is found to be partly attributable to failure to distinguish ODA- and OOF-like flow. Considering diverging conclusions of the impact of China's finance, analysis of the mechanism of the impact of China's financing to governance is needed rather than accusing China of being the "rogue donor".

Dedicated to Juhyung

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“If they—states like China—continue to succeed in pushing their alternative development model, they will succeed in underwriting a world that is more corrupt, chaotic, and authoritarian. That is no one’s interests, except the rogues.”
(Naím 2007)

I. Introduction

This study attempts to empirically verify whether China's "aid" in Africa actually undermines the recipient countries' governance as claimed by Western policy makers and researchers. Non-Western donors outside the Development Assistance Committee (DAC) at the Organization for Economic Cooperation and Development (OECD) have been subject to criticism for being self-interested and less "development-oriented". Among the non-DAC members, China has particularly been accused of being a "rogue donor" for allegedly leveraging its economic power in developing countries, namely Africa, for its national interests, often at the expense of the recipients' governance.

With its unprecedented economic growth for past decades, China has shifted from a recipient to donor of foreign aid, changing the dynamics of a development finance community. Due to its non-interference policy of recipient countries' domestic politics, combined with lack of standard definition and dataset of its foreign aid, China is often criticized as being a "rouge donor". Previous research on China's development finance has pointed out that foreign aid is used to win political favor from developing countries, gain exclusive commercial interests from recipients' domestic firms, and secure access to natural resources in exchange of supporting authoritarian regimes.

China's such less development-oriented aid has allegedly undermined sustainable development and governance that conventional Western donors have attempted to promote through conditional aid. Since good governance is a prerequisite to economic growth, the international development community has put emphasis on ensuring good governance. Thus, if criticism against China's aid

is true about it undermining recipient countries' governance quality at the expense of their citizens, then its foreign aid is better not given, or at least, needs closer attention as to how it is allocated.

However, claims of China being a “rogue donor” are often without empirical evidence, and some studies suggest more conditional conclusions. Hence, this paper tries to show if such criticism is empirically valid using alternative dataset of China's foreign aid collected by the Tracking Underreported Financial Flows (TUFF) methodology tracking development projects funded by China in 43 African countries from 2000 to 2014. Analysis suggests that China's foreign aid improves—rather than undermines—recipient countries' governance quality unlike conventional criticism. This highlights the need for more rigorous definition and distinction of China's foreign aid.

The remaining part of this paper proceeds as follows: II. Literature Review reviews former studies on aid-governance nexus and Chinese development finance; III. Data, Variables and Empirical Strategy outlines the alternative data for China's foreign aid, variable specifications and empirical strategy used to address the endogeneity problem; IV. Findings and Analysis shows the result of empirical analysis and what they indicate regarding Chinese development finance; and lastly, V. Conclusion provides general implication of this paper and room for future research.

II. Literature Review

Increasing research on “emerging donors” found that donors outside the OECD DAC are changing the dynamics of the international development architecture formerly led by Western donors. (Dreher & Fuchs 2015; Fuchs & Vadlamannati 2013; Dreher et al. 2011; Neumayer 2003) Due to its size and scope, China has particularly been the focus as to how Beijing’s increasing presence in international development affects existing donors and recipients. China’s increasing engagement in Africa, as the “South-South relation” slogan indicates, has increased curiosity as to if its partnership with Africa is not merely rhetoric, and if it really brings about mutual benefit to both the donor and recipients (Davies 2007; Jackson 2012).

There are diverging evaluations vis-à-vis impact of China’s foreign aid: some criticize China for being a “rogue donor” as its development finance allegedly hinders the growth of the recipient countries in the long-term (Naím 2007; Halper 2010; Alden 2005; Tull 2006), while some claim that China allocates foreign aid for reasons no more self-interested compared to those of traditional donors DAC (Bader 2015; Dreher and Fuchs 2015). Naím (2007, p.94) defines “rogue aid” as “development assistance that is nondemocratic in origin and nontransparent in practice” whose effect impedes virtual progress of recipient countries. He charges China for exploiting the foreign aid program to obtain access to natural resources and international support which leads to undermining democracy due to an absence of institutional conditionalities. Halper (2010) also notes that Chinese largesse to the global south reminisces the Soviet Union during the Cold War as it also utilized “development aid” to win over more allies. He shows how China’s

economic statecraft is working by listing a number of African countries that severed diplomatic ties with Taiwan after receiving a financial assistance—often undisclosed amount of “aid”—from China. Alden (2005) also expresses concern that China’s development assistance to authoritarian regimes without any conditionalities would come at a cost to recipient countries’ democracy. Tull (2006) further assesses the deleterious impact of China’s engagement in Africa by categorizing three groups of recipients. More specifically, he asserts that China’s non-interference policy in providing development assistance impedes political liberalization in democratizing countries; overlooks fiscal transparency in mineral-rich countries; and prolongs civil war in post-conflict states. Above all, China’s economic engagement in Africa is deemed to serve for its national interests at the expense of ordinary citizens of the recipients, and thus, China is often referred to as the “rogue donor”.

However, the “rogue donor” narrative is seldom corroborated by empirical evidence. Indeed, there have been conditional conclusions regarding the effect of China’s development assistance, claiming that its economic engagement in Africa does not necessarily undermine recipients’ democratic progress. For example, Bader (2015) shows that Chinese bilateral engagement in the form of aid projects and economic cooperation does not have any meaningful impact on prolonging the duration of autocratic regimes. She comments that accusation of China being a patron for autocratic states via development aid is exaggerated, and that there is no systematic correlation between autocratic survival and Chinese aid. Dreher and Fuchs (2015) also claim that it is unjust to denote China as the “rogue donor” by proving with data that China does not pay more attention to political consideration compared to its Western counterparts.

What is the reason that assessment on Chinese foreign aid is so diverging? Dreher et al. (2018) attribute it largely to data scarcity and conceptual confusion:

“The absence of common definitions and consistent measurements across DAC and non-DAC donors has led many analysts to [...] arrive at wildly different estimates of ‘Chinese foreign aid’, which makes it difficult to [...] draw meaningful inferences about the nature and scope of Beijing’s development program.”

They argue that since Beijing does not publicly disclose its development finance at project levels, it is hard to empirically verify whether its impact is deleterious. Furthermore, they point out that attempts to put China’s aid and that of DAC member states on the same line are, from the first place, meaningless comparison.

Aside from lack of access to official data and absence of universal definition on China’s “aid”, Hirono and Suzuki (2014, p.458) suggest that the “rogue donor” narrative may also be “deeply influenced by the Eurocentrism and the ‘Yellow Peril’ discourse that continue to linger in IR”. In other words, study on China-Africa relations may be strewn with geostrategic interests of Western governments, often yielding negative evaluation without empirical basis.

In the meantime, governance, or “traditions and institutions by which authority in a country is exercised” (Kaufmann et al. 2011), has long been emphasized as a prerequisite for sustainable development (Hall & Jones 1999; Acemoglu 2001; Acemoglu 2002; Rodrik et al. 2004). While there is no universal consensus on the meaning of governance, Kaufmann et al. (2011) suggest the following characteristics constitute governance: openness in the process of

selecting public officials, capacity of the policymakers to implement relevant policy tools, and interaction between the government and the citizens. Since criticism against China's aid in Africa focuses on development of democracy, it is imperative to explore aid – governance nexus.

Burnside and Dollar (2004) studied the relationships between economic policies and foreign aid, concluding that aid is effective only on the basis of good fiscal, monetary, and trade policies. Brautigam and Knack (2004) suggest that high levels of aid may have ambivalent impact on recipient countries' governance. They give South Korea, Taiwan and Botswana as good examples of how aid with specific development agendas improved the quality of institutions. While high levels of aid may impede institutional development due to high transaction costs and the collective action problem, they acknowledge that foreign aid at around 40% to 45% of recipient countries' GDP stimulate growth with good macroeconomic policies. As can be seen from how the United Nations included strong institution as part of the Sustainable Development Goals, quality social infrastructure is the basis of development. Thus, if China's foreign aid is deleterious to governance of recipient countries, its aid is better not given.

III. Data, Variables and Empirical Strategy

3.1. Data

The biggest obstacle when assessing the impact of China's foreign aid is its lack of transparency. China does not disclose data on centrally collected development projects, which makes it difficult to estimate the distribution of Chinese aid by multiple players such as the State Council, the Ministry of Commerce, the Ministry of Foreign Affairs, China Exim Bank, the China Development Bank, and the Chinese embassies. Among many attempts to collect widely dispersed data (OECD 1987; Bartke 1989; Hawkins et al. 2010), I used the most recent alternative dataset by the AidData, which tracks Chinese official aid into Africa from 2000 to 2014 amounting to \$121 billion (Strage et al. 2017). Using the media-based database such as the Factiva, the Dow Jones owned media that draws from more than 33,000 media sources, the AidData refines and categorizes Chinese official flow by the Tracking Underreported Financial Flows methodology, following three steps from project identification, source triangulation to quality control (Strage et al. 2017).

To see the impact of China's development programs on recipient countries' governance, I used the Worldwide Governance Indicators (WGI) collected by the World Bank, which include six dimensions of governance of 200 countries from 1996 to 2019. Collected from over 30 data sources, the World Bank (2020) provides quantitative measures to capture the level of governance concerning contexts of different countries in six dimensions.

Since the focus of this study is to evaluate the effect of Chinese foreign aid on African countries' governance quality, I have limited data to 48 countries listed in the Table 1.

Table 1. The list of Recipient Countries in Africa

1	Algeria	16	Eritrea	31	Morocco
2	Angola	17	Ethiopia	32	Mozambique
3	Benin	18	Gabon	33	Namibia
4	Botswana	19	Ghana	34	Niger
5	Burundi	20	Guinea	35	Nigeria
6	Cameroon	21	Guinea-Bissau	36	Rwanda
7	Cape Verde	22	Kenya	37	Senegal
8	Central Africa	23	Lesotho	38	Seychelles
9	Chad	24	Liberia	39	Sierra Leone
10	Comoros	25	Libya	40	Somalia
11	Congo, Rep.	26	Madagascar	41	South Africa
12	Cote D'Ivoire	27	Malawi	42	Sudan
13	Djibouti	28	Mali	43	Tanzania
14	Egypt	29	Mauritania	44	Togo
15	Equatorial Guinea	30	Mauritius	45	Tunisia
				46	Uganda
				47	Zambia
				48	Zimbabwe

3.2. Variables

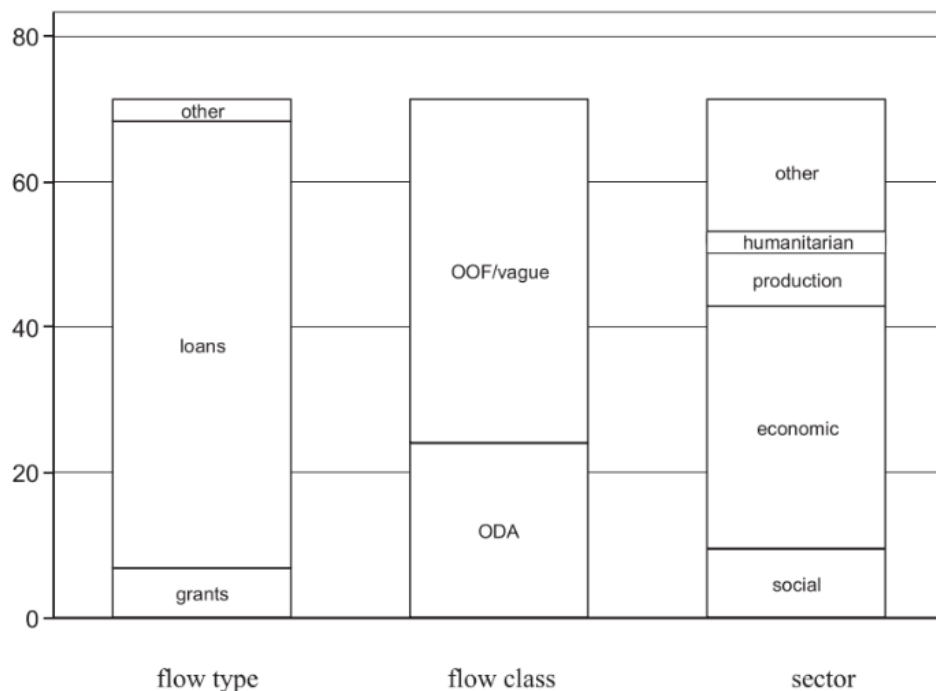
China's 'foreign aid' does not have a strictly defined consensus. Thus, in order to make comparison with that of DAC member states, I employed standards of OECD. Official Development Assistance, or ODA, is "government aid that promotes and specifically targets the economic development and welfare of developing countries" (OECD 2020). In order for government aid to qualify as DAC-standard-ODA, the following conditions should be met: the provider of the aid should be official agencies, and it should be provided mainly to promote development and welfare of the recipient countries (OECD 2020).

Following Dreher et al. (2018), I distinguished Chinese development finance by flow: (1) "ODA-like flow" for aid that is distributed by government agencies with development intent, and (2) "OOF-like flow" or "Other Official flow", for aid that is

allocated by government agencies, but without development purpose. Aid whose intent is not clear is categorized with “OOF-like flow”, and was named “vague”. “Total OF” or “Total Official Flow” are the combination of both “ODA-like flow” and “OOF-like flow”. All explanatory variables are lagged five years, to allow least amount of time for the impact of aid to be fully reflected in governance index.

As can be seen from Figure 1, China’s development projects may also be categorized into grants, loans, and others according to flow type, and social, economic, production, humanitarian, and others according to the sector. It is noteworthy that majority of Chinese development finance is distributed in forms of grants, which lead to higher percentage OOF that is non-concessional.

Figure 1. The Financial Value of Chinese Development Projects
(in billions of constant 2009 US\$, 2000–12)



Source: Dreher et al. (2018)

As for independent variables, in addition to six indices constituting WGA, I

used the average of all the indicators to see the general level of governance. Each indicator ranges from -2.5 (weak) to 2.5 (strong), with higher value reflecting relatively good governance performance. The definition of each indicator is as follows.

Table 2. The Definition of WGI Indices

Voice and Accountability	Perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and the free media
Political Stability & Absence of Violence	Perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism
Government Effectiveness	Perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies
Regulatory Quality	Perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development
Rule of Law	Perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence
Control of Corruption	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

Source: World Bank (2020)

To control for other factors that might influence governance of recipient countries, I added the logged average GDP per capita and logged population size since they may reflect the need for foreign aid. Aside from national characteristics, trade openness and aid from DAC member states were deemed influential since conventional donors are known to provide aid with political conditionalities that lead to higher governance performance. Thus, logged value of China's existing trade with recipient country (in constant 2009 US\$), and that of DAC countries,

and official financing by DAC countries were included as control variables.

3.3. Empirical Strategy

Allocation of Chinese aid and recipient countries' governance is not random across African states, leading to an endogeneity problem. For instance, China may prefer providing aid to more corrupt or authoritative regimes, as it may be easier for Chinese companies to obtain business opportunities compared to more transparent countries. On the other hand, country-specific variables such as the population and economic size may be decisive in determining China's aid allocation. Thus, estimating the causal effect of aid on governance through testing direct correlation between aid amount and governance index is highly likely spurious. To address this problem, aside from adding control variables, I employ fixed effect to address the endogeneity problem caused by time-constant factors. The regression model is as follows:

$$Gov_{it} = \alpha + \beta Aid_{it-\tau} + \delta X + \varepsilon$$

Gov_{it} indicates the governance performance of country i in year t whose variables include the six indicators of governance and average of all the indices. $Aid_{it-\tau}$ refers to logged financial value of Chinese official finance committed to country i in year $t - \tau$ in constant 2009 US\$. τ is a number of years lagged from year t . In this paper, I only included the result whose time lag is 5 years ($\tau=5$) to see the impact of aid allocation to the governance performance of recipient countries. X is a vector of control variables such as population size, GDP per capita, trade openness, and official finance from the DAC countries. ε is an error term.

IV. Findings and Analysis

4.1. Main result: ODA and OOF combined

According to Table 3, Chinese development projects generally have positive impact on governance index when GDP per capita and population size are controlled. An increase in total official flow by increases averaged governance level of recipient countries by 3% (Table 3 Column 1). While statistically insignificant, all the individual governance indicators are found to have positive ranging from approximately 2% to 9 % increase in governance quality compared to 5 years ago. It is noteworthy that among the 6 indicators, the Political Stability and Absence of Violence has the highest and statistically significant impact (Table 3 Column 3). It suggests that inflow of Chinese aid decreases the possibility of political disturbances, as Chinese aid often precedes the influx of Chinese workers and companies building infrastructure. It may lead to China demanding higher political stability and security for the sake of its citizens.

4.2. Main result: ODA and OOF combined with control variables

Taking into account variables that might influence China's aid allocation or recipient countries' governance, I added more control variables, namely Trade with China and OECD Development Assistance Committee (DAC) member state, and ODA and OOF from the DAC member states. The Trad variables are added to control donors' intent of distributing aid for more commercial opportunities. ODA and OOF by the DAC member states are supposed to account for possible competition among donors.

With more controls, Chinese aid allocation is found to have stronger and positive impact on improving the governance quality (Table 4 Row 1). Meanwhile,

it is noteworthy that most of the governance indicators are found to have improved due to the influx of ODA from DAC countries, with the impact of Total Official Financing marking 6.9% which is slightly less twice the impact of Chinese aid (3.6%). This shows that aid by the DAC countries with political conditionalities is, indeed, effective in improving governance performance of recipient countries. In other words, conventional criticism that Chinese aid aggravates recipient countries' governance is partly correct only as an opportunity cost of ODA from DAC countries.

Table 3. The Effect of China's Aid on Recipient Countries' Governance

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Governance Average	Voice & Accountability	Political Stability & Absence of Violence	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Total OF (log amount)	0.0305* (0.015)	0.0212 (0.020)	0.0946** (0.032)	0.0293 (0.021)	0.0203 (0.019)	0.0055 (0.019)	0.0122 (0.018)
GDP per capita (log)	0.0964 (0.052)	-0.0171 (0.079)	0.194 (0.115)	0.0544 (0.072)	0.135* (0.056)	0.123* (0.057)	0.0895 (0.0054)
Population (log)	0.322 (0.427)	0.284 (0.500)	0.491 (0.982)	0.148 (0.525)	0.346 (0.535)	0.665 (0.478)	0.0006 (0.502)
Year FE	Y	Y	Y	Y	Y	Y	Y
Adjusted R-squared	0.045	-0.011	0.026	0.071	0.058	0.051	0.012
Number of countries	48	48	48	48	48	48	48
Number of observations	709	709	709	709	709	709	709

Note: Standard errors in parentheses * p<0.05, ** p<0.01, *** p<0.00

Table 4. The Effect of China's Aid on Recipient Countries' Governance with Controls

	(1) Governance Average	(2) Voice & Accountability	(3) Political Stability & Absence of Violence	(4) Government Effectiveness	(5) Regulatory Quality	(6) Rule of Law	(7) Control of Corruption
Total OF (log amount)	0.0360* (0.016)	0.0254 (0.02)	0.103** (0.035)	0.0374 (0.022)	0.0273 (0.019)	0.0110 (0.019)	0.0119 (0.018)
GDP per capita (log)	0.0713 (0.049)	-0.0244 (0.072)	0.0769 (0.134)	0.0906 (0.066)	0.0813 (0.065)	0.102 (0.055)	0.102 (0.061)
Population (log)	0.469 (0.448)	0.748 (0.503)	0.501 (1.033)	0.313 (0.530)	0.471 (0.574)	0.740 (0.513)	0.043 (0.558)
Trade with China (log)	0.00128 (0.026)	0.0263 (0.031)	0.0149 (0.049)	-0.0166 (0.031)	-0.0169 (0.026)	0.00151 (0.031)	-0.0164 (0.022)
Trade with DAC (log)	0.0262 (0.055)	-0.0316 (0.061)	0.112 (0.099)	0.0233 (0.067)	0.0896 (0.081)	0.0157 (0.069)	-0.0526 (0.075)
ODA from DAC (log)	0.0694** (0.026)	0.0873** (0.027)	0.0298 (0.053)	0.0809*** (0.022)	0.0812** (0.029)	0.0699* (0.028)	0.0675* (0.03)
OOF from DAC (log)	0.000895 (0.001)	0.00198 (0.002)	0.00285 (0.003)	-0.00167 (0.002)	0.00171 (0.001)	0.000421 (0.001)	0.000078 (0.002)
Year FE	Y	Y	Y	Y	Y	Y	Y
Adjusted R-squared	0.114	0.062	0.036	0.121	0.139	0.091	0.044
Number of countries	48	48	48	48	48	48	48
Number of observations	709	709	709	709	709	709	709

Note: Standard errors in parentheses * p<0.05, ** p<0.01, *** p<0.00

4.3. ODA only

The impact of official financing by the DAC member states are diverging between ODA- and OOF-like flow. As previously mentioned, official financing could be categorized into two: official 'development' assistance and other official flow depending on whether it meets the DAC criteria or not. It is noteworthy that while positive, none of the other official flow from the DAC member states have found to positively affect governance indices at statistically significant level. This implies that donors' intent, and possibly whether it is targeted to improve governance quality plays a decisive role in political maturity. Thus, I conducted regression with ODA-like flow and OOF-like flow to see the respective impact (Table 5& 6).

When Chinese aid allocation is limited to ODA-like flow, it is found to have generally positive, albeit statistically insignificant, impact on governance (0.19%, Table 5 Column 1). Among the individual indicators, Government Effectiveness and Control of Corruption have statistically meaningful impact. They refer to quality of public services, or citizens' credibility of the government in policy implementation, and perception of how the public official's rent-seeking activity is curbed. Since ODA-like flow is distributed by official government agencies with specific development intent, bureaucrats in recipient countries are left with relatively limited room to utilize it for pursuing self-interest.

Table 5. The Effect of China's Aid (ODA) on Recipient Countries' Governance with Controls

	(1) Governance Average	(2) Voice & Accountability	(3) Political Stability & Absence of Violence	(4) Government Effectiveness	(5) Regulatory Quality	(6) Rule of Law	(7) Control of Corruption
ODA (log amount)	0.00185 (0.001)	-0.000501 (0.002)	0.00296 (0.003)	0.00320* (0.001)	0.00207 (0.001)	0.000343 (0.001)	0.00304* (0.001)
GDP per capita (log)	0.0540 (0.045)	-0.0505 (0.080)	0.0931 (0.117)	0.0507 (0.066)	0.0796 (0.061)	0.0556 (0.057)	0.0957 (0.056)
Population (log)	0.252 (0.417)	0.492 (0.604)	0.238 (1.139)	0.0863 (0.502)	0.506 (0.533)	0.567 (0.479)	-0.38 (0.482)
Trade with China (log)	-0.00961 (0.029)	0.0172 (0.033)	-0.00412 (0.052)	-0.0264 (0.033)	-0.0413 (0.027)	-0.00632 (0.033)	0.00328 (0.026)
Trade with DAC (log)	0.0403 (0.046)	-0.0268 (0.057)	0.128 (0.090)	0.0242 (0.060)	0.0744 (0.065)	0.0289 (0.062)	0.0132 (0.058)
ODA from DAC (log)	0.0575* (0.025)	0.0689* (0.029)	0.0178 (0.054)	0.0694** (0.021)	0.0693 (0.030)	0.0590* (0.028)	0.0605* (0.027)
OOF from DAC (log)	0.00173 (0.001)	0.00264 (0.002)	0.00440 (0.003)	-0.00132 (0.002)	0.00224 (0.001)	0.00179 (0.001)	0.000663 (0.002)
Year FE	Y	Y	Y	Y	Y	Y	Y
Adjusted R-squared	0.095	0.034	0.017	0.126	0.142	0.070	0.072
Number of countries	48	48	48	48	48	48	48
Number of observations	599	599	599	599	599	599	599

Note: Standard errors in parentheses * p<0.05, ** p<0.01, *** p<0.00

4.4. OOF only

When aid allocation is limited to other official flow and financing with vague purpose, it is found to have generally negative, yet statistically insignificant, impact on recipient countries' governance (-0.1%, Table 6 Column 1). Specifically, the Voice & Accountability index has negative impact at statistically significant level, decreasing citizens' perception of free media and openness for political participation by -0.38% (Table 6 Column 2). Considering that previous regression all yielded positive result regarding this index, it is safe to say that ODA-like flow contributed to raising the transparency of the media and citizen participation. Since it is easier for public officials to pursue rent-seeking activities using foreign finance that is not specifically designated for development projects, OOF-like flow is found to have negative impact on recipient countries' governance. Thus, conventional criticism of China being the rogue donor is partly correct only when limiting the financing to OOF-like flow.

All in all, the diverging conclusions depending on flow class suggest that accusation against China for impeding the political development of recipient countries stems from a failure to distinguish between ODA-like flow and OOF-like flow. Chinese development aid rather has positive effect on governance, which belies the conventional criticism against China for deteriorating recipient countries' governance and requires vindication of China being the "rogue donor". While Chinese official financing may not have as strong positive impact as ODA from DAC countries on improving governance indices, its ODA-like flow is not deleterious to governance of recipient countries, to say the least.

Table 6. The Effect of China's Aid (OOF) on Recipient Countries' Governance with Controls

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Governance Average	Voice & Accountability	Political Stability & Absence of Violence	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
OOF/vague (log amount)	-0.00102 (0.001)	-0.00376** (0.001)	-0.00220 (0.003)	0.000753 (0.001)	0.000541 (0.002)	-0.00122 (0.001)	-0.000246 (0.001)
GDP per capita (log)	0.0583 (0.044)	-0.0326 (0.075)	0.103 (0.118)	0.0462 (0.068)	0.0765 (0.062)	0.0613 (0.055)	0.0959 (0.057)
Population (log)	0.239 (0.413)	0.477 (0.587)	0.216 (1.129)	0.0766 (0.509)	0.500 (0.534)	0.559 (0.472)	-0.394 (0.490)
Trade with China (log)	-0.0107 (0.030)	0.0168 (0.033)	-0.00598 (0.053)	-0.0279 (0.035)	-0.0423 (0.027)	-0.00670 (0.033)	0.00174 (0.027)
Trade with DAC (log)	0.0414 (0.046)	-0.0297 (0.053)	0.130 (0.093)	0.0277 (0.062)	0.0767 (0.067)	0.0284 (0.060)	0.0160 (0.058)
ODA from DAC (log)	0.0583* (0.025)	0.0691* (0.029)	0.0191 (0.055)	0.0705** (0.021)	0.0700* (0.031)	0.0592* (0.028)	0.0617* (0.027)
OOF from DAC (log)	0.00198 (0.001)	0.00270 (0.002)	0.00481 (0.003)	-0.000979 (0.002)	0.00246 (0.001)	0.00186 (0.001)	0.00102 (0.002)
Year FE	Y	Y	Y	Y	Y	Y	Y
Adjusted R-squared	0.088	0.053	0.015	0.108	0.135	0.072	0.055
Number of countries	48	48	48	48	48	48	48
Number of observations	599	599	599	599	599	599	599

Note: Standard errors in parentheses * p<0.05, ** p<0.01, *** p<0.00

V. Conclusion

Along with the rise of China as a major donor in the development community, there has been criticism against China for being a “rogue donor”. Since China is not a member state of DAC, without necessity to follow conditionality standards of the OECD when allocating “aid”, it is often accused of forging international alliance or taking advantage of commercial interests, which may lead to prolonging the autocratic regime or deter development of democracy. However, due to lack of transparent data and consensus on the definition of China’s “aid”, such claims have often been without empirical evidence, which lead to diverging assessment on the impact of Chinese development programs on recipient countries. Also, previous studies with empirical analysis have focused on motives of Chinese aid allocation (Dreher & Fuchs 2015; Oh 2016), rather than its actual impact. Thus, I attempted to empirically verify whether the “rogue donor” narrative is indeed true—that Chinese development finance actually deteriorates recipient countries’ governance.

Using the alternative dataset collected by Dreher et al. (2017), I was able to obtain data on Chinese development finance according to flow type, flow class, and sector, capturing 4,373 records totaling \$354.4 billion from 2000 to 2014. I merged the dataset with the Worldwide Governance Indicators (WGI) published by the World Bank, which reports six dimensions of governance of 200 countries from 2000 to 2014. With a total financial value of Chinese development finance committed to recipient countries in 5 years prior to a given year as the main explanatory variable, I found a statistically significant and positive impact of Chinese development finance on governance, when ODA- and OOF-like flows are

combined.

To control for other variables that might affect recipients' need, competition among donors, or existing economic relations, I added controls including GDP per capita, population, trade with China and DAC countries, and ODA and OOF from DAC member states. Even with controls, China's overall finance allocation has found to have positive impact, increasing governance index by 3.6% compared to 5 years ago. It is noteworthy that ODA from DAC member states had almost double the impact of China, amounting to 6.9% in the increase of overall governance index. Thus, the higher degree of impact by the DAC countries shows where the "rogue donor" narrative might have stemmed from: recipient country may have higher governance index should it receive development finance from DAC member states than China. However, this conclusion does not necessarily mean Chinese aid worsens governance, debuting the accusation of China being the "rogue donor".

It is noteworthy, however, that results were different according to flow class: ODA-like flow has statistically significant and positive impact on one of governance indices, while OOF-like flow has statistically significant and negative impact. This suggest that existing criticism against Chinese aid was grounded in the misconception of the definition of ODA. In other words, "ODA-like flow" which is a counterpart of ODA by DAC definition improves governance, while "OOF-like flow", China's financing not specifically designated for development projects impedes governance. Thus, researchers blaming China's aid for impeding political maturity may highly likely have failed to distinguish between ODA- and OOF- like flow. All in all, China should be vindicated of being a "rogue donor" since its development finance, at least that matches ODA standards, improves, rather than

impedes, governance of recipient countries in Africa.

This study adds value in that it tracks down the effect of China's aid on recipient countries' governance, compared to how previous literature has focused on the motivation of Chinese aid. Also, it distinguishes Official Development Finance (ODA) as defined by the OECD DAC and Other Official Flows (OOF) which does not qualify as "ODA" but still disbursed by government agency. This addresses the problem of aggregating Chinese economic engagement without paying close attention to different objective, which may highly likely lead to a misleading conclusion.

Suggestions for future study include mechanism as to how and why China's ODA- and OOF-like flow yield diverging impact on recipient countries' governance, what makes DAC member states' ODA more effective in improving governance quality, and how China could improve at least when allocating ODA-like flow, and detailed analysis on what makes statistically significant impact on a certain individual governance indicator.

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Appendix

Table 1. Summary Statistics

Variable name	Obs	Mean	Std. Dev.	Min	Max
<i>Dependent variables</i>					
Governance Average	582	-0.62917	0.562804	-1.65688	0.879893
Voice and Accountability	582	-0.65914	0.710725	-2.22605	0.982518
Political Stability & Absence of Violence	582	-0.48224	0.845209	-2.66528	1.219244
Government Effectiveness	582	-0.69907	0.57331	-1.77554	0.98169
Regulatory Quality	582	-0.64757	0.594	-2.24367	0.990625
Rule of Law	582	-0.67037	0.60528	-1.8523	1.07713
Control of Corruption	582	-0.61661	0.560274	-1.6627	1.216737
<i>Explanatory variables</i>					
Total OF (log amount)	644	10.51	8.52	0.00	22.69
ODA (log amount)	644	8.81	8.24	0.00	21.11
OOF/vague (log amount)	644	5.22	8.11	0.00	22.69
Trade with China (log)	644	19.08	2.14	12.62	24.51
Trade with DAC (log)	644	21.32	1.70	17.73	25.37
GDP per capita (log)	644	6.77	1.10	4.81	10.07
Population (log)	644	15.91	1.39	12.97	18.91
DAC OF (log, residuals)	644	0.00	1.71	-17.31	3.07

Table 2. Variables, Definitions and Sources

Variable name	Definition	Source
<i>Dependent variables</i>		
Voice and Accountability	Perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media	World Bank (2020)
Political Stability & Absence of Violence	Perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism	
Government Effectiveness	Perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies	
Regulatory Quality	Perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development	
Rule of Law	Perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence	
Control of Corruption	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	
<i>Explanatory variables</i>		
Total OF (log amount)	(log) OF amount in constant 2009 US\$	AidData (Strange et al. 2017)
ODA (log amount)	(log) ODA amount in constant 2009 US\$	
OOF/vague (log amount)	(log) OOF/vague amount in constant 2009 US\$	
Trade with China (log)	(log) Bilateral trade (exports plus imports) with China (constant 2009 US\$), lag	UN Comtrade via WITS
Trade with DAC (log)	(log) Bilateral trade (exports plus imports) with DAC countries (constant 2009 US\$), lag	
GDP per capita (log)	(log) GDP per capita (constant 2009 US\$), lag	World Bank (2016)
Population (log)	(log) Total population size, lag	
ODA from DAC (log)	DAC ODA commitments (in current USD)	Dreher et al. (2018)
OOF from DAC (log)	DAC OOF gross disbursements (in current USD)	