Aid on Demand: African Leaders and the Geography of China's Foreign Assistance

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Introduction

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- "Why would anyone want to build a wonderful school in the middle of what Africans call 'the bush'?"
- "Here is a hint: Yoni is the home village of Sierra Leone's president, Ernest Bai Koroma."

Introduction

What we do:

- We introduce new geo-referenced data on the allocation of Chinese development projects across Africa from 2000–2011.
- We study the allocation of Chinese development assistance *within* African countries.
- We document more generous Chinese development assistance to the political leaders' birth region, suggesting favoritism.
- We compare the subnational allocation of Chinese and World Bank development assistance.

Introduction

Structure of the presentation:

1. Literature
2. Background on Chinese aid
3. Data
4. Empirical specification
5. Empirical findings
6. Concluding remarks

Literature

Aid allocation at the country level:

- McKinlay and Little (1977), Maizels and Nissanke (1984), Alesina and Dollar (2000), Kuziemko and Werker (2006), Dreher et al. (2011), Faye and Niehaus (2012), and many more.
- Dreher and Fuchs (forthcoming): Mixed findings on the allocation of Chinese foreign aid projects:
  - China's aid allocation is not influenced by democracy and governance in recipient countries.
  - China's aid allocation is not dominated by the countries' natural resource endowments.
  - Overall, Chinese aid does not seem to be allocated very differently than Western aid.

Literature

Aid allocation at the subnational level:

- Single-country studies: Dionne et al. (2013), Briggs (2014), Franken et al. (2012), Jablonski (2014), and Nunnenkamp et al. (2012).
- Cross-sectional studies: Öhler and Nunnenkamp (2014), and Powell and Findlay (2012).
- Main differences of our study:
  1. Focus on Chinese aid.
  2. Panel of subnational regions from 47 African countries and 12 years.

Literature

Ethnic and regional favoritism:

- Bates (1974), Posner (2005), Franck and Rainer (2012), Kramon and Posner (2012/2013), Golden and Min (2013), Burgess et al. (2014), De Luca et al. (2015), and some more.
- Hodler and Raschky (2014): Evidence for regional favoritism in a large sample of subnational administrative regions from all over the world.
  - Satellite data on nighttime light intensity, and information on the birth places of political leaders.
  - Subnational regions have more intense nighttime light when being the current political leader's birth region.
  - This effect increases in (country-level) foreign aid inflows, in particular in weakly institutionalized recipient countries.

Background on Chinese aid

- Official principle of Chinese aid: Non-interference in internal affairs and respect for sovereignty
  - "In providing aid to other countries, the Chinese Government strictly respects the sovereignty of the recipient countries, and never attaches any conditions or asks for any privileges."
- Chinese aid allocation is demand-driven, i.e., based on requests from recipient country governments:
  - The aid process formally begins when the host government proposes a project to the Chinese Economic and Commercial Counselor's office.
  - This office submits the host government's application to the Ministry of Commerce and the Ministry of Foreign Affairs in Beijing.
    - MOFCOM: "The initiative generally comes from the recipient side."
    - MOH: "We send medical teams to the areas [. . .] selected by the host government."

Data

Units of observation: Subnational administrative regions

- GADM database on Global Administrative Areas provides information on subnational administrative regions and their boundaries using geographic information systems (GIS).
- Focus on administrative regions at the first and second subnational level (ADM1 and ADM2).
- There are 709 ADM1 regions and 5,835 ADM2 regions in "our" 47 African countries.

Data

Data on Chinese foreign aid:

- Difficulties:
  - Official data on the amount of Chinese aid do not exist.
  - The boundary between investment and aid is often blurred due to China's involvement in large-scale investment projects.
  - China does not follow the reporting guidelines of the OECD's Development Assistance Committee (DAC).
    - DAC defines ODA as "[g]rants or loans to [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 (if a loan, having a grant element of at least 25 per cent)."

Data

- AidData's China in Africa Dataset:
  - Project-level dataset of Chinese official financing to Africa.
  - Open source data collection and triangulation methodology that draws on media reports, recipient government documents and databases, NGO reports, scholarly articles, and MOFCOM/Chinese Embassy websites.
  - Development projects are split into the following three categories:
    - ODA-like projects
    - OOF-like projects
    - Vague ODA- or OOF-like projects
  - Dataset includes more than 1,500 development projects committed to 50 African countries from 2000-2011, amounting to more than USD 70 billion.
    - Largest recipients: Ghana, DRC, and Ethiopia.

Data

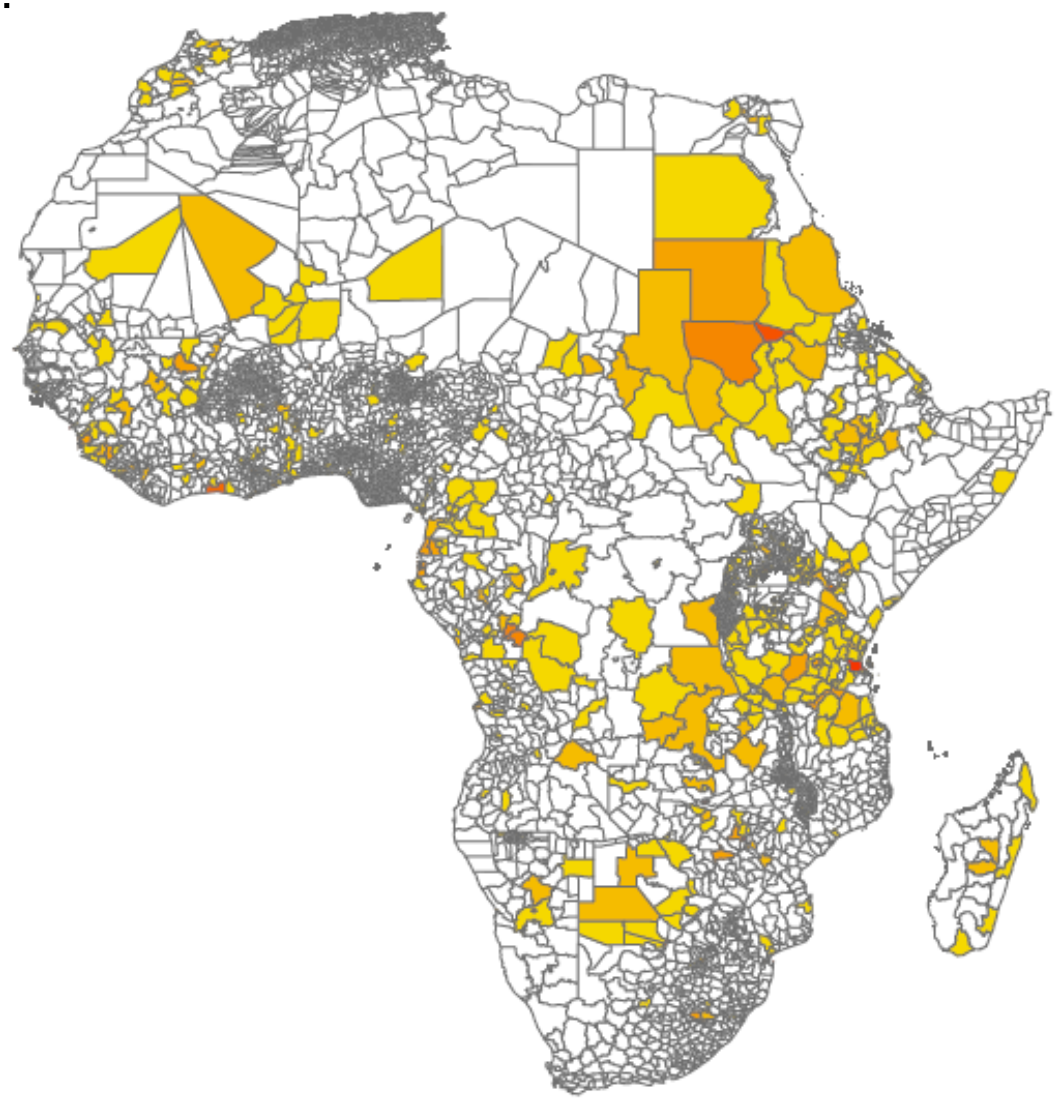
- Geo-coded data on Chinese official financing projects:
  - Geocoded dataset of Chinese official financing projects produced using the Strandow et al. (2011) methodology (and employing more than 60 RAs at AidData).
  - Some projects cannot be geo-referenced because of missing information.
  - All other projects are geo-referenced and come with a precision code.
  - We use GIS to assign geo-referenced projects to ADM1 and ADM2 regions (where feasible).
  - For projects with more than one location, we assign each location to the respective region, and we *assume* that the funding is equally distributed across locations.
  - In our sample, there are 1,898 (1,575) project-locations at the ADM1 (ADM2) level.

Data

- World Bank aid:
  - Geo-coded dataset by AidData containing all IDA and IBRD projects approved between 2000 and 2011.
    - IDA: International Development Association
    - IBRD: International Bank for Reconstruction and Development
- Dependent variables:
  - Total flow from Chinese development projects per region (in logs)
  - Total flow from Chinese ODA-like projects per region (in logs)
  - Total World Bank commitments per region (in logs)
  - Total IDA commitments per region (in logs)

Data

- Distribution of Chinese development projects across ADM2 regions:



Data

Data on political leaders:

- The Archigos database identifies the effective political leader of each country for many years up to 2011.
- For all African leaders, we add the subnational administrative region in which they were born (Hodler and Raschky 2014).
- We code $Birthregion_{ict} = 1$ iff the political leader of country c in year t was born in region i.

Data

Summary statistics at ADM1 level, 2000-2011

Variable	Obs.	Mean	Std. Dev.	Min	Max
Total flows (in levels)	8,327	6.5m	86.8m	0	5.2b
ODA-like flows (in levels)	8,375	1.5m	29.1m	0	1.5b
WB commitments (in levels)	8,508	5.86m	31.31m	0	2.06b
IDA commitments (in levels)	8,508	4.63m	16.39m	0	297m
Birthregion	8,508	0.067	0.249	0	1

Empirical strategy

$$Aid_{ict} = \alpha_{ct} + \delta_{ic} + \gamma Birthregion_{ict} + \epsilon_{ict}$$

Empirical findings

Birth regions and Chinese aid I

	(1)	(2)	(3)	(4)
Units of obs.	ADM1	ADM2	ADM1	ADM2
Dependent variables	Total flows (in logs)	Total flows (in logs)	ODA-like flows (in logs)	ODA-like flows (in logs)
Birthregion	1.082***	0.277	0.569*	0.281
	(0.369)	(0.257)	(0.301)	(0.221)
Country-year FE	yes	yes	yes	yes
Region FE	yes	yes	yes	yes
R-squared	0.296	0.098	0.277	0.068
Observations	8,327	69,817	8,375	69,880
Regions	709	5,835	709	5,835

Note: Standard errors (in parentheses) clustered at the leader level.

Empirical findings

Birth regions and Chinese aid II

	(1)	(2)	(3)	(4)
Units of obs.	ADM1	ADM2	ADM1	ADM2
Dependent variables	Total flows (in logs)	Total flows (in logs)	ODA-like flows (in logs)	ODA-like flows (in logs)
Birthregion	1.309***	0.330	0.593*	0.181
	(0.378)	(0.254)	(0.307)	(0.224)
Prebirth	0.467	-0.088	-0.772	-0.589
	(0.893)	(0.589)	(0.562)	(0.430)
Postbirth	1.471*	0.527	0.836	-0.294
	(0.816)	(0.612)	(0.731)	(0.539)
Country-year FE	yes	yes	yes	yes
Region FE	yes	yes	yes	yes
R-squared	0.297	0.098	0.278	0.069
Observations	8,327	69,817	8,375	69,880
Regions	709	5,835	709	5,835

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Empirical findings

Birth regions and World Bank aid I

	(1)	(2)	(3)	(4)
Units of obs.	ADM1	ADM2	ADM1	ADM2
Dependent variables	Total flows (in logs)	Total flows (in logs)	IDA flows (in logs)	IDA flows (in logs)
Birthregion	-0.127	0.114	-0.061	0.169
	(0.160)	(0.387)	(0.156)	(0.384)
Country-year FE	yes	yes	yes	yes
Region FE	yes	yes	yes	yes
R-squared	0.407	0.241	0.420	0.250
Observations	8,508	70,020	8,508	70,020
Regions	709	5,835	709	5,835

Note: Standard errors (in parentheses) clustered at the leader level.

Empirical findings

Some robustness checks:

- Results very similar when lagging the leader region dummies.
- No heterogeneity of the effect w.r.t to political institutions and UNGA voting.
- No effect of the political leaders' ethnicity when using sub-national ethnographic regions (but based on fewer project locations and fewer "useful" political transitions).

Cross-sectional within-country specifications (i.e., country-year FE, but no region FE):

- No evidence for more Chinese aid to resource-rich regions.
- Less Chinese aid to poor/rural regions.

Conclusions

Main finding:

- More generous Chinese aid to the political leaders' birth region, while the same does not hold true for World Bank aid.

Our interpretation:

- China's demand-driven aid allocation allows African leaders to (mis)use Chinese aid for regional favoritism and patronage.