

Is China Winning?

Chinese Aid as Effective Soft Power Instrument

Lukas Wellner ^{1,2} Axel Dreher ^{1,2} Andreas Fuchs ¹
Bradley C. Parks ³ Austin M. Strange ⁴ Michael J. Tierney ⁵

¹University of Goettingen ²Heidelberg University

³AidData ⁴University of Hong Kong ⁵The College of William and Mary

Introduction

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Figure 1: Mansa-Luwingu Road Project, Zambia

▶ Map

Photo: Chinese Embassy in Zambia

Introduction

June 18, 2016: Road officially opened



Figure 2: Ambassador Youming



Figure 3: President Lungu

Photo: Lusakatimes.com

Win-Win Cooperation?

Chinese Ambassador Yang Youming:

- *The Mansa-Luwingu Road [...] will improve the road network [...], facilitate easy travel for the local people, and inject vitality into the economy of this region.*
- *...improved the economic development of Zambia and the livelihood of Zambian people, but also further promoted the China-Zambia economic cooperation.*

President Lungu:

- *...especial thanks to the Chinese government for the consistent support and assistance to the social and economic development of Zambia.*
- *...the Mansa-Luwingu Road will bring great convenience to the travel of the local people, and stimulate the economic development.*

What is the impact of the Mansa-Luwingu Road?

- Growth and regional spread of economic activity
Civellia et al. 2018, Bluhm et al. 2020, Dreher et al. 2020
- Lower chance of lethal conflicts Gehring et al. 2019
- Increase in local corruption in project regions
Isaksson & Kotsadam 2018
- Higher child mortality rates near project sights
Cruzatti et al. 2020

How does the population perceive the Mansa-Luwingu Road?

- Approval of the government
 - Conventional wisdom: foreign aid undermining state legitimacy
North & Weingast 1989, Djankov et al. 2008, Smith 2008,
Bueno de Mesquita & Smith 2009, 2010, Morrison 2009
 - No impact on government approval or incumbent votes
Blair & Roessler 2018, Knutsen & Kotsadam 2020

How does the population perceive the Mansa-Luwingu Road?

- Approval of the donor
 - Money & development finance key element of Chinese soft power
Kurlantzick 2007, Shambaugh 2015
 - Positive perception of Chinese aid on African continent
Afrobarometer 2016
 - Negative local impact of aid in Africa, no impact in Latin America
Jones 2018, Eichenauer et al. 2018, Blair et al. 2019

Contribution

Worldwide analysis.

Global data on Chinese aid projects and the approval of China.

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Country level.

Soft power as interaction between states.

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Collection of project commitment, implementation, and completion dates.

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Causal identification.

Identification via Event Study and Instrumental Variable approach.

Data

Chinese Official Finance

- Aiddata's Global Chinese Official Finance Data
Bluhm et al. 2020, Dreher et al. 2020
- 3,485 projects worth USD 273.6bn implemented between 2000 and 2014
- 2,092 geocoded projects at least on the province level
- Includes both concessional and non-concessional official financing
- We collected information on project level dates

[▶ Map](#)[▶ Details](#)[▶ Example](#)

Gallup World Poll

- Survey data covering 140 countries from 2006 to 2018
- Repeated cross-section, 1.5m respondents
- Representative of the resident population of 15 years and older
- Question on approval of China:
Do you approve of the job performance of the leadership of China?
- Tagged with exact interview date
- Data includes spatial identifier, we coded on province level

▶ Map

Empirical Strategy

Gallup World Poll

- Interview waves per country and year
- All provinces interviewed within consecutive weeks
- 1100 individuals per country and year
- Average time window of 4 - 6 weeks

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Chinese development projects

- We analyze the opinion on China around project completion
- Compare individuals interviewed one month before to after completion
- Timing of the survey relative to project completion is random
- Use high dimensional fixed effects to control confounding factors

Event Study Results

Table 1: Project Completion and Approval of China

VARIABLES	All Projects	Large Projects
Post	0.0348* (0.0205)	0.0558** (0.0268)
Observations	15,465	7,865
R-squared	0.210	0.157
Individual Controls	yes	yes
Survey Controls	yes	yes
Region-Year FE	yes	yes

SE clustered by province-year

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

► Commitment

► Implementation

► By Flow

► Heterogeneity

► By Project

► Robustness

Summary

- Advantages
 - Random treatment: interviews independent of project completion
 - Fixed effects allow us to control for confounding factors
 - Allows us to identify average positive effect of aid on opinion
- Disadvantages
 - Limited number of projects that fall in GWP interview period
 - Throw away many observations
 - Few projects drive results

Instrumental Variable

Instrument Variable Approach

Following Bluhm et al. (2020) and Dreher et al. (2020)

- Shift-share instrument Werker et al. 2009, Nunn & Qian 2014
- Indicator of foreign aid that varies over time:
- Input factors
 - Chinese raw material production as main input of aid
 - Aluminum, cement, glass, iron, steel, and timber
 - Time series lagged, detrended and combined by first common factor
- Interacted with variable varying between countries:
the country-specific probability of receiving aid: $\mu_c = 1/15 \sum_{t=1}^{15}$

► Regression Equation

IV Results

Table 2: Project Implementation and Approval of China

VARIABLES	(1) Country panel	(2) Country panel
Aid	0.00733 (0.0117)	0.00206** (0.000973)
Observations	452	452
F-stat	3.210	11.375
Country FE	yes	yes
Year FE	yes	yes
Country level predictions	yes	no
Province level predictions	no	yes

SE clustered by country

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

► First Stage

► Amounts

► Sectors

Conclusion

Findings

- Event Study approach based on months around project date
 - Chinese development project has positive impact of approval of China
 - Project completion increases likelihood to approve China by 5.6 pp
 - Effect driven by large projects and young, male, poor, & rural population
- Instrumental variable estimation
 - Positive impact of aid on approval of China confirmed
 - Additional project increases likelihood to approve China by 0.2 pp
 - Effect grows with project size
- Chinese aid is an effective soft power instrument