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Struggle for Sway: Chinese Aid as Determinant of World Bank Aid Allocations in Sub-Saharan Africa

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Abstract

This paper examines the effects from Chinese development aid on World Bank project approval ratios and World Bank aid disbursements to countries in Sub-Saharan Africa. The increased Chinese presence in Sub-Saharan Africa may trigger a US response in the form of World Bank aid allocations. I put this theoretical argument to an empirical test on a panel of 43 Sub-Saharan countries covering the period from 2004 to 2012. I find World Bank development aid to be increasing as an effect of Chinese aid receipts, while no effect is found from Chinese aid on World Bank project approval ratios.

Contents

1 Introduction

1.1 The Growing Influence of China

The rise of China as a global economic and political great power is a striking feature of changes currently happening in the world we live in. Having achieved unprecedented economic growth rates for decades, the developing Chinese economy is now second only to the US in size. With China in the forefront, newly industrialized countries are becoming more important actors on the global stage of politics, challenging the predominance of countries that have shaped much of world politics and globalization processes throughout modern times. The relative decline of older industrialized countries is not confined to measures of economic productivity, but is rather visible with regards to a whole range of indicators. One such indicator is development aid[1]. The Development Assistance Committee (DAC), a donor group comprised of countries member to the Organization of Economic Cooperation and Development (OECD), has been the primary source of aid flows for decades. The DAC remains by far the biggest donor of international aid, but emerging economies – most notably China – are rapidly increasing their share of international aid donations. According to some, Chinas role as an aid donor to Africa is beginning to overshadow that of many traditional Western donors[2]. The government of China has long cultivated good relations with governments of African states, manifest in a 25 year old annual tradition where the Chinese Foreign Minister visits African countries on a diplomatic tour of the region every month of January[3]. Chinese firms are deeply invested in Sub-Saharan Africa, and trade is booming, with China surpassing the US as the sub-continent's biggest trading partner[4]. In addition, it would seem that China has good diplomatic relations in SSA, and receives more consistent political support in multilateral fora from SSA countries compared with the US. In their dealings with governments of African countries, the Chinese government follows an outspoken policy of non-interference in political issues internal to their African counterparts. This doctrine is known as the Beijing consensus, and is converse to the political conditionality of economic liberalization

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[1] Woods 2008

[2] Zafar 2007: 23

[3] Brautigam 2008: 206-7

[4] US Department of Commerce 2015; World Bank 2015d

and political democratization associated to the Washington Consensus[5]. The fundamental ideological differences between these doctrines have added an ideological dimension to the US – China competition for political influence and market access in the countries of Sub-Saharan Africa. Sceptics argue that Chinas economic engagement with African countries enables corrupt and inefficient regimes to survive, thus undermining the development of democratic institutions in these countries[6]. Economic incentives such as resource extraction are commonly used to explain the motivations of the Chinese government, and observers frequently claim Chinese aid to be directed toward countries with natural resources necessary for the continued rapid economic growth of China[7]. Top US officials hardly help to improve this image of Chinese engagement in the region; during a tour of government visits to African countries in 2012, US Secretary of State Hillary Clinton repeatedly criticised and warned against the engagement of China as a new form of colonialism[8]. The official Chinese news agency Xinhua dismissed the critique as an attempt to curb Chinas influence in the region[9]. More recently, President Obama repeated this criticism at a summit for African countries held in Washington[10].

China's economic and political engagement in Africa has not gone unnoticed in academic circles. Available studies indicate that the determinants of Chinese development aid differs little from determinants of aid from DAC[11]. Neither do they differ much from determinants of aid from international financial institutions like the International Monetary Fund and the World Bank. Previous studies on these convincingly show the activities of these institutions to be heavily influenced by the interests of the US[12]. To my knowledge, no previous study has investigated the US response to Chinese aid. My thesis attempts to fill this gap in the established literature. By

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[5] Woods 2008

[6] Naim 2007; Bader 2015

[7] Brautigam 2008: 207

[8] Huffington Post 2011; Reuters 2011; The Guardian 2012

[9] Xinhua 2014b

[10] The Guardian 2014a; The Guardian 2014b

[11] Dreher & Fuchs 2011; Dreher, Fuchs, Parks, Strange & Thierney 2015

[12] Harrigan, Wang & Said 2004; Andersen, Hansen & Markussen 2005; Fleck & Kilby 2006; Kuziemko & Werker; 2006; Dreher, Sturm & Vreeland 2009; Kilby 2009

posing the question of whether aid from China is being countered by increases in aid from the World Bank, the thesis will shed light on the mechanisms of the competition between great powers for influence in the most impoverished region of the world. If World Bank activity is indeed influenced by Chinese aid allocation, this would be a potential problem for the Bank's legitimacy as an apolitical institution. As the World Bank takes on growing responsibilities with regards to governing the world economy, an image of political neutrality may be more important now than ever in order to bolster the legitimacy of policies prompted by the Bank. It would also be a potential problem for future generations in developing countries, who might have to deal with the many negative consequences that may result from careless aid policies. Apart from propping up inviable regimes and thus inhibiting economic growth and political reform, such a competition for influence would likely cause aid dependency issues and vulnerability to macroeconomic shocks for developing countries.

In the following section, I present theory on why and how the World Bank is responding to increases in Chinese aid, and present my two hypotheses. Thereafter, Section 3 on data and methods shows how the variables have been operationalized, provides an overview of the empirical models included in the analysis, and gives an overview of the expected impacts from respective independent variables. Section 4 presents the findings from FGLS and Tobit regression analysis, and interprets the results in context with the methodological framework. Section 5 concludes.

2.0 Theory & Hypotheses

In the following sections, I account for the theoretical framework from which I deduct my empirical models. Section 2.1 outlines three models of World Bank lending, before elaborating these models in three separate sections. Section 2.5 presents theory on why the US would prefer indirect lending. Section 2.6 explains how the US is able to influence World Bank decisions. Section 2.7 concerns why the US would respond to increased Chinese aid to Sub-Saharan Africa, and Section 2.8 presents my two hypotheses.

2.1 Three Models of World Bank Aid Allocation

As Frey & Schneider (1986) argue, World Bank officials are plausibly extending credits based on the financial need of recipient countries. Also, credits are plausibly extended to countries that are

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expected to put aid money efficiently to use. However, World Bank top officials need not be extending credits strictly on the basis of criteria stipulated by official policy. They are more plausibly attempting to further their own utility while subject to political-economic constraints. The most important of such constraints are imposed on voting, by the political signals sent from shareholder countries. It is likely that World Bank top officials are casting their votes partly in response to political pressures from their respective governments, hoping it will further their personal careers, and well knowing that resulting aid allocations might be relatively inefficient[13]. Explaining US influence over World Bank lending decisions, Fleck & Kilby (2006) apply a donor-agency model where the agency (World Bank) bargains with donor countries that hold varying degrees of influence over lending decisions[14]. Indeed, World Bank officials are reported to lament political pressure influencing boardroom decisions[15]. Dudley & Montmarquette (1976) argue that donors of aid are motivated by factors arising from three dimensions; an expectation of recipient countries supporting donors' political interests, a desire to increase trade with recipient countries, and an expectation that aid will better the standard of living for the peoples of recipient countries[16]. Numerous studies explain aid allocations as a result of donor interests on the one hand, and recipient need for aid on the other. McKinlay & Little (1979) model aid allocation as a result of foreign policy interests and development interests, the latter focusing not only on economic needs but also on indicators of recipient performance capabilities[17]. Later studies have broadened the scope of performance indicators beyond the economic framework proposed by McKinlay & Little, to include a range of socio-political and institutional factors[18]. I follow this lead, and model the allocation of aid as explained by donor interests, recipient need, and recipient development performance. Each of these models are theoretically grounded in different traditions of international relations theory. The recipient need model corresponds to arguments associated with the liberal tradition of international relations theory, focusing on idealism and benefits of

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[13] Frey & Schneider 1986

[14] Fleck & Kilby 2006: 226

[15] Woods 2008

[16] Dudley & Montmarquette 1976: 133

[17] McKinlay & Little 1979: 68

[18] McKinlay & Little 1979; Maizels & Nissanke 1984;

international cooperation. In this view, the World Bank should be allocating aid where it is most needed. The recipient performance model draws on the constructivist tradition of international relations theory, which argues that states are principal actors in the international political arena, and that the responsibility for well-functioning societies rests with them. Constructivism theory argues that the World Bank should target aid based on performance, thereby providing incentives for recipient country governments to improve domestic conditions. Finally, the donor interest model connects to the realism tradition by focusing on international competition and the pursuit of selfish interests. Realism theory argues that World Bank aid allocations are unlikely to reflect anything else than the interests of major shareholders. The following paragraphs provide a broader theoretical background for my three models of World Bank aid allocation.

2.2 Recipient Need Model

The allocation of aid is likely influenced by the need for aid in recipient countries. Although this may be most obvious for emergency aid in the events of disasters, it is likely also with regards to alleviation of persistent poverty. Governments may behave altruistic because they believe that this will benefit all in the long run. This line of reasoning is supported by a theoretical argument that resonates in the idealism paradigm of international relations theory; instead of competing over a limited pie, it makes more sense to expand the pie. Altruistic motives may very well be the only plausible explanation as to why voters in developed countries agree to transfer aid in the first place. Studies framed by public choice theory claim that aid is a good provided by donor country governments in response to the demand for aid from own constituencies[19]. One implication is that voters would not condone governments giving away their tax money to foreigners unless they perceived those foreigners to be in need of aid[20].

There is also good reason to believe, a priori, that need influences the allocation of aid regardless of the demand for aid from voters in donor countries. As a legacy of European revolutions and their associated philosophers, humanistic principles form an important basis for the constitutions of many donor countries. This focus on the ethical conduct of government spills over into international relations in multiple ways, one of them being an acceptance of the principle that

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[19] Mosley 1985; Wall 1995

[20] Mosley 1985: 375

citizens of developed countries have moral obligations towards peoples and events beyond their borders. This is the type of behaviour coined by Olsen (1998) as humane internationalism[21], and is anecdotally evidenced in documents where developed countries pledge to combat persistent poverty. One of the targets set out in The United Nations Millennium Development Goals in 2000, agreed upon by all member countries, was reduction of extreme poverty by half within 2015[22]. The World Bank ambitiously aims to end extreme poverty within 2030[23].

The scholarly debate on aid fatigue provides anecdotal evidence that the perceived efficiency of aid is an important determinant of aid flows[24]. Perceptions of inefficient aid have been found to predicate decreased public support for US aid expenditures[25]. A study by Boschini & Olofsgård (2007) find World Bank shareholder countries providing less aid to recipients that are unable to spend aid money efficiently. They proxy aid effectiveness by the share of World Bank projects with an outcome evaluated by the World Bank as successful, and find this success rate to be a statistically significant determinant of donors' aid budgets[26]. Based on this part of the theoretical framework, I deduct an empirical model that tests for the effects of relevant indicators for recipient need.

2.3 Recipient Performance Model

The performance criteria is closely related to the criteria of recipient need, as the latter implies donor countries taking an interest in the efficiency of aid[27]. If governments and voters in donor countries are motivated by the needs of peoples beyond their borders, one might assume donors wanting conditions to improve in recipient countries. And, as Cline & Sargen (1975) argues, the allocation of aid should provide positive incentives for recipient country policy by rewarding

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[21] Olsen 1998: 608

[22] United Nations 2016

[23] World Bank 2013

[24] Fuchs, Dreher & Nunnenkamp 2014; Boschini & Olofsgård 2007

[25] Mosley 1985

[26] Boschini & Olofsgård 2007

[27] Berthelemy 2006: 184

good performance instead of punishing it[28]. Apart from exogenous factors, this leads to a consideration of recipient country policies relevant for aid efficiency.

The 1980's witnessed a decline in per capita income for Sub-Saharan countries, following a period of economic stagnation that lasted throughout most of the 1970's. The region also witnessed surging government debt, falling industrial output, and disappointing performance in the export sector[29]. With poverty reduction widely seen as a central concern for aid policy, the trend in Sub-Saharan countries gave cause for growing scepticism regarding the supposedly beneficial economic effects of aid[30]. This situation stimulated research on the effects of aid. A number of studies showed that aid had little or no positive effect on poverty reduction and other measures of well-being[31]. Later studies found effects of aid to be conditioned upon the socio-political environment in recipient countries, and consensus has gradually emerged around the claim that aid can have positive effects as long as conditions are right[32]. In the words of Dollar & Burnstein (2000); aid works in good environments only. A range of policy performance indicators has subsequently been tested as predictors of aid efficiency, attempting to uncover the exact makings of this "good environment". Some degree of consensus has also emerged around the policy areas that impact aid efficiency. By operationalizing and measuring impacts from institutional qualities and political stability in a variety of ways, studies have identified levels of democratic governance and different forms of violence as two principal determinants of aid efficiency.

There is good reason to assume that World Bank aid allocations are influenced by the past and present performance of recipient countries. The World Bank has embraced "good governance" as a set of principles to guide their work with member countries. In a report on sub- Saharan Africa published in 1989, the World Bank defines good governance based on institutional arrangements and socio-political conditions conducive to stable societies that uphold human rights and are

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[28] Cline & Sargen 1975

[29] World Bank 1989: 2

[30] World Bank 1989: 186

[31] Boone 1995

[32] Alesina & Rodrik 1994; Burnside & Dollar 2000; Collier & Dollar 2002; Guillamont & Chavet 2010;

governed by inclusive democratic institutions[33]. The World Bank has increasingly emphasized the issue of governance, underlining in the 1997 World Development Report that "an effective state is vital for the provision of the goods and services and the rules and institutions that allow markets to flourish and people to lead healthier, happier lives"[34]. Subsequently, the Bank has attempted to propound standards which are in keeping with their constitutional mandates and might improve the effectiveness of aid, and disburses funds partly on the basis of performance as measured by the Country Policy and Institutions Index[35]. Additionally, there are legal obligations toward the international community. The World Bank has entered into a Relationship Agreement with the UN where, as defined by UN Charter Article 63[36], the Bank is obliged to take responsibility of the human rights effects of their policies, and ensure that the human rights records of recipient governments are considered when allocating aid. At a UN conference held in Monterrey, 2002, member states formally agreed on the idea that aid efficiency is contingent upon policy performance. The Monterrey Consensus on Finance for Development states: "Sound economic policies, solid democratic institutions responsive to the needs of the people and improved infrastructure are the basis for sustained economic growth, poverty eradication and employment creation… Sound policies and good governance at all levels are necessary to ensure ODA effectiveness"[37]. Based on this part of the theoretical framework, I deduct an empirical model that tests for the effects of relevant performance indicators on World Bank aid allocation.

2.4 Donor Interest Model

The self-interest of donor countries as perceived by their respective governments is also likely to influence the allocation of aid. As mentioned, a number of studies convincingly show that World Bank aid allocations are influenced by the interests of major shareholders. International development aid has constituted a substantial part of global capital flows ever since the US Congress voted in favour of the Economic Cooperation Act in 1948. Famously known as the Marshall Plan, the act was attributed Secretary of State George C. Marshall who publicly

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[33] World Bank 1989

[34] World Bank 1997

[35] Andersen, Hansen & Markussen 2005: 5

[36] United Nations 1945

[37] United Nations 2003

proposed a plan for the reconstruction of Europe aided by the US government. These events precipitated the formation of the World Bank, which was initially known as the International Bank of Reconstruction and Development (IBRD), now one of several World Bank affiliates. The need for aid in post-war Europe provided the US government with an impetus for financial aid-transfers, and likely also influenced the allocation of aid strongly. However, perceptions of strategic interests in the US government did also play an important part when the decision to donate aid was made. Official US documents attest to the fact that issues of national security and economy were key motivational factors in this context[38]. The World Bank openly admits that its' allocation of aid was politically motivated during this period[39]. As tensions between the super-powers grew and the cold war subsequently emerged, development aid for the reconstruction of European countries was ultimately tied to NATO membership. Western Europe became a booming market for US exports, due to commercial agreements and increased purchase power (because foreign aid from the US enabled European countries to pay for imports). As such, aid donations were successfully used as a tool by the US government for attaining foreign policy objectives, explicitly motivated by strategic interests with regards to economy and security. The pattern repeated itself on a global scale during the course of the cold war era, as development aid was disproportionately directed towards recipient countries considered to be allies of donor country governments[40]. Countries of greater strategical importance received relatively more aid, as witnessed by the prominent examples of Egypt and Israel as recipients of aid from the US[41], or was not cut off from aid despite abhorrent government track-records. Examples of the latter include Zimbabwe and Angola, to mention a few. According to McKinley & Little (1979), aid donations enable donor countries to form relationships of commitment and dependency with recipient countries. The provision of foreign aid thus affords donor countries with foreign policy utilities, which in turn can be used to promote and protect the foreign policy objectives of donor countries[42]. A proponent of the realism paradigm of international relations theory might even

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[38] Bandyopadhay & Vermann 2013: 1

[39] World Bank 2016

[40] McKinley & Little 1979, Schraeder, Hook & Taylor 1998: 311, Poe 1992

[41] Poe 1992: 161, Berthelemy 2006: 187

[42] McKinley & Little 1979: 62

argue that such behaviour is necessary in principle, because the selfish use of differing power-capabilities ensures stability through a balance of power. Based on this part of the theoretical framework, I deduct an empirical model that tests for the effects of relevant donor interest indicators on World Bank aid allocation.

2.5 Why Not Bilateral Aid?

If aid is motivated by foreign policy interests, one would expect policymakers wanting full control with the decision-making process. US policymakers have no guarantee that World Bank aid will be distributed according to their wishes, and it would thus seem more efficient for aid to be distributed bilaterally in order to work in favour of US interests. Plausibly, this is because policymakers prefer to cloak US foreign policy in the guise of international consensus. Morgenthau (1962) correctly predicted that international aid would be increasingly distributed by multilateral organizations, and explained the predicted development as a result of US hegemony in the international state system[43]. In the absence of Cold War antagonism, Nye claims, the legitimacy of providing strong unilateral leadership is weakened in favour of building international consensus[44]. As hegemon, the US has strong incentives to govern the world system and is more capable at this task than anyone other state. But forcing one's will on others has rarely been an efficient way of governing, rather it is preferable to enlist the voluntary cooperation of others. Soft power-capabilities provide a hegemon with particularly good preconditions for enlisting cooperation in multilateral institutions. US foreign policy have more legitimacy for parties involved if it is sanctioned by consensual agreement in multilateral organizations. Indeed, international consensus allows elevation of US foreign policy to the level where it represents the policies of the world community. In this respect, it is noteworthy that World Bank aid often come with strings attached; aid is disbursed to recipients only after certain conditions are met. If the policies prompted in recipient countries by aid conditionality were to reinforce US foreign policy, then the cost of getting others to comply with US policies would decrease, and governing the world system becomes easier. Aid conditionality also provides a way for US policymakers to reward allies. Meeting the varying conditions set by the World Bank

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[43] Morgenthau 1962

[44] Nye 1990

entail political and economic costs for recipient country policymakers. US policymakers have the opportunity to reward their allies by reducing these costs[45]. Also, if the US wants to respond to increased Chinese presence, they will necessarily have to engage with some of the less reputable countries in the world. US policymakers are likely to be cautious of the potential political costs associated with providing bilateral aid to politically marginalized countries. Consider the example of a potential recipient that is condemned by the international community for human rights violations. If US policymakers responded to Chinese presence in such a country by increasing bilateral support, they might face negative reactions both domestically and internationally. This political cost could be shifted onto the World Bank in order to avoid negative political consequences. Indicative of this, studies show that donors reduce or withhold aid to a greater extent if human rights violations receive attention from the media and international non-governmental organizations[46]. Additionally, the monetary costs of aid involved for the US decreases when aid is distributed through the World Bank. For every dollar the US spends on aid in the World Bank, the remaining shareholders contribute more than four dollars. As such, US policymakers are incentivized to use the World Bank for political cover, helping their allies secure more World Bank loans and projects at some form of discounted costs in return for continued allegiance.

2.6 US Influence in the World Bank

The US is capable of exerting strong influence over the World Bank Board of Executive Directors through both formal and informal power-capabilities. Formal leadership, permanent representation and weighted voting are the factors that contribute to US formal influence over boardroom decisions. The World Bank Group consists of four affiliations; IBRD, IDA, MIGA and IFC. The Executive Board of Directors approves all development projects, and decides on the general policies of the World Bank. Votes are allocated differently between these affiliations, and relative country voting power thus varies some. Voting powers are however weighted by subscription to capital for all World Bank affiliations, crudely meaning that countries are

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[45] Kilby 2009

[46] Payaslian 1996; Nilsen 2013

allocated votes on the basis of their share of asset contribution. Accordingly, countries that contribute with more money than others will also have more votes. Seeing as the US government provides more funds for the World Bank than any other country, it also controls the largest share of votes. For the most important affiliations, the IBRD and the IDA, the US currently controls respectively 16 percent[47] and 10 percent[48] of total votes. However, as the voting power analysis by Leech & Leech (2004) show, the voting power of the US exceeds that of its voting share[49]. There are five big shareholders in the World Bank Group (US, Japan, UK, France and Germany), and these are represented with permanent members on the boards. The Executive Board consists of the president of the World Bank Group and 25 executive directors representing all 188 member states. It is customary that the president of the board is from the US, following the Bretton Woods agreements[50]. The formal workings of the World Bank thus provides the US with more influence over decisions than any other country.

Anecdotal evidence additionally suggest that the informal workings of the World Bank provides the US with significantly more influence over decisions than suggested by its' share of votes and other formal arrangements. The US has reportedly become increasingly more willing to exercise its power in World Bank boardrooms, and Kapur (2002) argues that this willingness to provide leadership is in itself an important cause for US dominance over the decision-making process because there are few countervailing pressures from other shareholders[51]. Also, if the US government links issues of World Bank policy with other foreign policy issues, its influence on decisions can greatly exceed that which springs directly from its share of funds[52]. As a great power with economic, political and military engagement on a global scale, the possibility for such linking of policies is always present. Further, the World Bank is located in Washington D.C., and this geographical location of headquarters augments the informal influence of the US. Actors within the development community have privileged access to the staff if they have a

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[47] World Bank 2015b

[48] World Bank 2015c

[49] Leech & Leech 2004: 14

[50] World Bank 2015a,b,c

[51] Kapur 2002

[52] Andersen, Hansen & Markussen 2005: 7

physical presence in Washington, which is true mostly for US actors alone. Most of the professional staff employed by the bank is also educated in the US[53]. These factors combined – voting power, US presidency, geopolitical influence, willingness to provide leadership, physical proximity, and sympathetic staff members - create an environment where US ideology and interests have a very strong influence over policies.

Empirical evidence suggest that World Bank development aid is disproportionately directed toward recipients important for US foreign policy interests. Andersen, Hanssen & Markussen (2005) report a positive effect from voting alignment, with more World Bank aid money going to countries that vote similarly to the US in the UN General Assembly[54]. Likewise, Kilby (2009) find enforcement of ex post conditionality to be laxer when a country is aligned with the US in the UN General Assembly; disbursements of loans are less dependent on conditions being met if the recipient votes with the US in the UN General Assembly[55]. Dreher, Sturm & Vreeland (2009) find more World Bank development projects going to countries who serve as rotating members on the United Nations Security Council[56]. Fleck & Kilby (2006) report that countries favoured in US bilateral aid allocations receive more World Bank funds[57]. Frey & Schneider (1986) find more World Bank aid money going to countries that are important to US commercial interests[58].

2.7 US Response to Increasing Chinese Presence in Sub-Saharan Africa

Economic concerns, political concerns, and security concerns explain why US policymakers will likely use their influence in the World Bank, provided by formal and informal channels described above, in order to bolster its support and influence in Sub-Saharan Africa.

The economic stakes involved for China and the US are high. Sub-Saharan Africa already constitutes an important market for exports and investment, and the future size of this market is likely bigger both in absolute and relative terms. With the fastest growing regional economy in

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[53] Woods 2000: 833

[54] Andersen, Hanssen & Markussen 2005

[55] Kilby 2009: 59

[56] Dreher, Sturm & Vreeland 2009

[57] Fleck & Kilby 2006

[58] Frey & Schneider 1986; Fleck & Kilby 2006

the world, the sub-continent already supports a bourgeoning economic middle class. Currently populated by roughly a billion people, and with the bulk of global population growth expected to take place in Africa for the remainder of the century, the economic potential of market access is vast. SSA is also an important source destination for raw materials needed as inputs for industrial production by US multinational corporations. China's increasing presence in the region undermines US commercial interests by threatening the access to raw-materials for US multinationals. In 2000, China reformed its' economic policy under the slogan "going out", thereby incentivizing Chinese firms to conduct more of their affairs abroad[59]. The going-out policy has been most notably felt in Sub-Saharan Africa, where China has surpassed the US as the continents biggest trading partner. The Chinese governments' presence is characterized by a mix of commercial agreements and aid projects[60], as is suggested by official Chinese policies[61], and US policymakers are therefore likely to respond in a competitive manner by doling out more aid.

Nearly a quarter of all sovereign countries are located in Sub-Saharan Africa, and holding political sway in this region is important for global governance. Votes from Sub-Saharan countries can be decisive for issues resolved in multilateral bodies. This is most obvious for issues put to vote in multilateral bodies where each country has one vote. The Doha round of WTO negotiations has procrastinated for years because countries south of Sahara have aligned their votes with Brazil, India and China in opposition to the western bloc of countries. These trade negotiations provide an example of the incentive for US policymakers to pursue more political influence in SSA. Even when the vote is without practical effect, US policymakers may want to seek international approval in order to bolster foreign policy legitimacy. Attesting to this claim is the run-up to the Iraq war. The US government attempted to enlist the approval of the UN General Assembly for invading Iraq in 2003, although fully aware that a resolution on the issue would be blocked by France in the UN Security Council. The ability to influence multilateral bodies is important for China as well. Chinese policymakers have succeeded in blocking Taiwan as a full member to most multilateral organizations, with the help of votes from

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[59] Yeleri 2014: 3

[60] Brautigam 2008: 202, Zafar 2007: 106

[61] Xinhua 2014a

Sub-Saharan countries in these organizations. Likewise, these votes have bolstered the legitimacy of the Chinese government by blocking criticism for human rights abuses from the UN Human Rights Council.

The US Africa Command was established in 2008 to coordinate military activities in Africa, of which there has been an increasing frequency for the last decade. The rise in military activity goes to show the growing geopolitical importance of Sub-Saharan Africa for US policymakers, and brings a further incentive for increasing political influence in the region. The US Africa Command was established around the same time that Chinese forces intervened on the ground in Sudan as part of the UN taskforce, also coinciding with Chinese war ships starting to patrol the coast of East Africa. Recently, Chinese officials announced ongoing talks with the government of Djibouti, concerning the establishment of a permanent Chinese military base there[62]. The decision by the US to expand its military operations in Africa, along with increasing Chinese military presence, indicates rivalry for geostrategic influence.

The Sub-Saharan region is prone to violent conflict, another issue central for global governance. Repercussions of conflicts are felt throughout the world economy, disturbing economic growth and political stability, and political influence in this region thus becomes pivotal for the global leadership role assumed by the US government. Apart from implications for US economy and prestige, conflicts in this part of the world is perceived by policymakers to pose a potential security threat for the US. The despair brought by violent conflict is seen by policymakers to cause conditions conducive to the formation and growth of terrorist organizations[63]. The bulk of conflicts are internal and, in the official US view, most commonly caused by political-economic exclusion of groups due to undemocratic institutions of governance. The following quote attests to this claim;

> *"Strong, accountable, and democratic institutions, sustained by a deep commitment to the rule of law, generate greater prosperity and stability, and meet with greater success in mitigating conflict and ensuring security[64]."*

> *US President Barack Obama, 2012*

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[62] Wall Street Journal 2015

[63] White House 2012; USAID 2011; USAID 2013

[64] White House Strategy on Sub-Saharan Africa 2012

The Chinese policy of non-interference (Beijing Consensus) have caused concerns among US policymakers that increasing Chinese presence will serve to prop up dysfunctional authoritarian regimes. Top US officials as Secretary Clinton and President Obama have criticized China's engagement in SSA, and declared continued US support for democratic institutions in the region[65]. Because US Policymakers see oppressive regimes as providing fertile conditions for the formation of terrorist groups, and because China is seen to be sponsoring oppressive regimes, US policymakers are likely to perceive Chinese aid money as undermining US security interests.

It is therefore plausible that the US will increase aid to authoritarian states in SSA as means of countering negative impacts on democratic forces and democratization processes from increased Chinese presence. Following the same line of reasoning, it is also likely that the US would increase aid to democratic states. This because doing the former but not the latter would in effect be to reward authoritarianism, and thus provide perverse incentives for democratic countries. Such a scenario is counter to the stated US policy of bolstering positive democratic models in Sub-Saharan Africa[66].

US interests in the region are entrenched, as compared with Chinese interests, mostly because of a longer history of political influence in modern times. China is the challenger, having more recently decided to secure raw material access and export markets by extensive cooperation directly with governments in Sub-Saharan Africa, resulting in a mix of commercial agreements and aid projects[67]. US policymakers are likely to respond to increases in Chinese aid amounts, because increased Chinese influence in the region will plausibly come at the expense of US interests with regards to economy, security and influence in world politics. Reverse causality, i.e. the notion that high levels of World Bank aid would cause increasing Chinese aid amounts, is much less likely. Chinese aid amounts will therefore be my main independent variable. It is likely that US policymakers will dole out more aid in order to defend US security, economic interests and international hegemony, by making it easier for countries to get project proposals approved

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[65] The Guardian 2014a, The Guardian 2014b

[66] White House Strategy on Sub-Saharan Africa 2012: 2

[67] Xinhua 2014a

by the World Bank Board of Executives. Arguably, the US response may be stronger in terms of actual aid amounts. It may be easier and more efficient to increase the aid amounts provided compared with making it easier to receive those funds in the first place. If the US does not respond by making it easier for countries to get project approvals, they are at least likely to increase the aid amounts that countries receive from the World Bank via these projects. Project approval ratio and aid amounts will thus be my dependent variables. Additionally, the impact from Chinese aid on World Bank aid is likely to vary at different stages of the aid allocation process[68]. This leads to my two hypotheses.

2.8 Hypotheses

Hypotheses 1:

Chinese aid amounts will have a positive impact on World Bank project approval ratio. The more Chinese aid money a country receives, ceteris paribus, the higher its share of approved projects.

Hypotheses 2:

Chinese aid amounts will have a positive impact on World Bank aid amounts. The more Chinese aid money a country receives, ceteris paribus, the more aid money it will receive from the World Bank.

Holding all else equal (ceteris paribus) is however, as anyone would know, possible only in theory. To better approach reality, relevant controls for differences between countries must be added.

3.0 Data & Methods

The following sections give an account of estimation techniques and data operationalization. Additionally, they show from which part of the literature I have sourced control variables, and which direction of impact I expect to observe from these variables. The estimation of Hypotheses 1 and 2 is accounted for in sections 3.1 and 3.2 respectively. Section 3.3 accounts for the estimation of control variables for both hypotheses, and following subsections show the operationalization of - as well as empirical coverage of - these control variables.

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[68] Cingranelli & Pasquarello 1985: 540

3.1 World Bank Projects

To test my first hypothesis, I examine panel data covering 43 countries (see Table 1, Appendix) over the period 2004 to 2012 (8 years) to investigate the effects of Chinese aid allocation on World Bank project approval ratios.

Estimating the impact of Chinese aid allocation on World Bank project approval ratios is not straightforward, because targeting a country for aid by the World Bank is not a random event. Rather, countries are screened based on their economic need and development performance, and some countries are consequentially excluded from the pool of recipients. This affects the data distribution of the dependent variable in equation (1) by creating a cluster of countries whose proposed projects are categorically being rejected by the World Bank. Because of these outlier countries causing data skewness, errors are not distributed around mean value of World Bank project approval ratio. Absent of a normal data distribution, OLS estimation would produce misleading estimates. To circumvent this problem, I employ a Feasible Generalized Least Squares (FGLS) estimator to examine the impact of Chinese development aid on World Bank project approval ratios. Moreover, there could be an overlap in unobserved characteristics that determine both World Bank project approval ratios and Chinese aid flows, leading to spurious causal inferences. Such unobserved heterogeneity could imply time invariant factors explaining the variation in my independent variables as well as in my dependent variable. Addressing this concern, the FGLS estimator includes time-specific effects (v_i) to control for various unobserved time-invariant factors and country-specific effects (λ_t) to control for unobserved factors which remain constant across countries. I include robust standard errors to address heteroscedasticity concerns. Hence, to measure the impact from Chinese aid amounts on World Bank project approval ratios, I specify my first regression equation as follows:

$$Y_{it} = \Phi_i + \beta_1 X_{it} + \beta_2 Z_{it} + v_i + \lambda_t \quad (1)$$

Wherein Y_{it} is my dependent variable, measuring the ratio of World Bank project approvals to World Bank project declinations for country i in the year t. I use voting records of U.S. Executive

Directors on projects proposed to the World Bank affiliates IBRD, IDA and AFDB. Data is sourced from the US Treasury Department[69]. The approval ratio reflects the propensity of US Executive Directors to grant development projects to a given country, or conversely, their propensity to reject a given country as aid recipients. The measure ranges from 0 to 1, with the latter value reflecting all projects being approved for a given country.

3.2 World Bank Aid

To test my second hypothesis, I examine panel data covering 41 countries (see Table 1, Appendix) over the period 2004 to 2012 (8 years) to investigate the effects of Chinese development aid on World Bank aid amounts.

The data for my dependent variable in equation (2) does not have a normal error distribution around mean value. Rather, there is a large cluster of observations with zero aid. These zero observations could mean that aid was not disbursed (most probably due to ex poste conditions not being met), or they could mean that aid was of a non-monetary character, e.g. technical personnel. Thus, the characteristics for the dependent variable in equation (2) constitute what is known as a limited dependent variable, censored from below[70]. The data is not suited for linear regression techniques like OLS, because a critical assumption for such techniques is the normal distribution of errors around the mean value. According to McGillivray (2003), OLS estimation will consistently produce misleading regression lines if observations for which the aid variable equals zero are included in the sample. Following others[71], I circumvent this problem by employing a Tobit estimator, also known in the econometrics literature as a censored regression model[72]. The regression line produced by this estimator tells us what negative amounts countries would receive if one could observe negative aid allocations. These amounts (like the non-zero observations) are treated as latent potential aid amounts, which are only observed if the actual

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[69] US Department of the Treasury 2014

[70] Jöreskog 2002: 2

[71] Alesina & Weder 2002; McGillivray 2003; Berthelemy & Tichit 2004; Dollar & Levin 2006;

[72] Greene 1997: 764

amounts are greater than zero[73]. Because some outlier recipient countries receive very much World Bank development aid, the dependent variable in equation (2) has been logged in order to circumvent data skewness problems. The Tobit estimator includes time-fixed (v_i) effects only. I do not control for country-fixed effects in equation (2), due to the incidental parameters problem which is associated with introducing country-fixed effects to non-linear estimation techniques[74]. I specify the equation for examining the impact of Chinese aid amounts on World Bank aid amounts as follows;

$$Y_{it} = \Phi_i + \beta_1 X + \beta_2 Z_{it} + \lambda_t \quad (2)$$

Wherein Y_{it} is my dependant variable, measuring the amount of aid received by country i from the World Bank in the year t. The value of World Bank aid for a given country-year is measured in US dollars, with 2010 as base year. Data sourced from the World Bank.

In equations (1) and (2),

X_{it} denotes my key independent (hypotheses-testing) variable, which is the amount of Chinese aid inflows (logged) to country i in year t. The value of Chinese aid for a given country-year is measured in US dollars, with 2010 as base year. This data was sourced from the "Chinese Official Finance to Africa Dataset" published by AidData[75].

3.3 Control Variables

In equation (1), the vector Z_{it} includes control variables deducted from the theoretical framework. I derive these variables from previous literature on World Bank aid allocation. All continuous variables have been logged. These include World Bank Aid Amounts, Chinese Aid, Income, Population, and US Trade. Logging allows for interpretation in terms of percentages[76]. Income

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[73] McGillivray 2006: 6

[74] Lancaster 2000, Wooldridge 2002, Berthelemy 2006

[75] Findleu, Powers, Fuchs, Wilson & Hicks 2011

[76] Dollar & Levin 2006: 2037

and Population proxy for recipient need. Human Rights, Democracy and Conflict proxy for recipient development performance. UNGA Voting, UNSC Membership and US Trade proxy for donor interests.

In equation (2), the vector Z_{it} includes control variables which are identical to those included in equation (1), but count variables have not been logged.

3.3.1 Income

Income is operationalized as gross domestic production per capita. Sums are given in US dollars, with 2010 as the base year. Data is sourced from the World Development Indicators, published by the World Bank. Some studies have conceptualized income as proxy for the economic potential of a country, reasoning that donors promote their own interests by favouring recipient countries that represent large economies[77]. This realist view implies a negative relationship between income and aid allocation. However, I follow the more commonly used approach of including income as a needs-based variable. According to this approach, donors aim to optimize the development effects from aid transfers, and donors will direct aid toward poorer countries because the marginal utility of aid is a decreasing function of income[78]. In a much cited study, Dudley & Montmarquette (1976) report the probability of being granted aid negatively associated with income per capita. They contribute this finding to the fact that poorer countries are more in need of aid, and donor countries are responsive to this need[79]. Questioning their findings, Isenman (1976) refines this model and finds per capita income in a curvilinear relationship with aid; aid increases with income per capita until a certain threshold level where aid starts decreasing with income per capita. This threshold level is found at mid income level, and aid is thus disproportionately directed toward middle-income countries[80]. Wall (1995) finds per capita income to impact negatively with aid flows, whereas impacts from infant mortality rates along with political and civil rights were found statistically not significant. Time-series analysis shows

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[77] McKinley & Little 1979; Schraeder, Hook & Taylor 1998: 30

[78] Collier & Dollar 2001

[79] Dudley & Montmarquette 1976: 142

[80] Isenman 1976: 636

the effect of per capita income growing stronger over time[81]. Thacker (1999) finds per capita income in recipient countries to impact negatively with IMF loans, and time-series design shows the strength of this effect to increase substantially after the Cold War era[82]. In a similar study, Meernik, Krueger & Poe (1998) find a negative impact from per capita income increasing markedly after the Cold War era[83]. They conclude the passing of the Cold War era having induced recipient country need, as measured by per capita income, to become an increasingly more important determinant of aid flows[84]. Schraeder, Hook & Taylor (1998) examines the determinants of aid flowing from four major donor countries, and find a negative and significant relationship between per capita income and aid flows. Their proxy of recipient need by measures of caloric intake and life expectancy as indicators give more ambiguous results[85]. Frey & Schneider (1986) find a negative impact from per capita income in recipient countries on World Bank credits and loans [86]. Examining determinants of aid flows from UN agencies and regional development banks, Neumayer (2003a) finds a greater share of multilateral aid flowing toward poorer recipient countries, as per capita income negatively predicts aid flows[87]. Another study by Neumayer (2003c) shows this association to be stronger for multilateral aid compared with bilateral aid, with a ten percent increase in per capita income being followed by a 2.7 percent reduction in multilateral aid, while the corresponding effect on bilateral aid is 1.2 percent[88]. Conducting a probit regression analysis of IMF loan agreement determinants, Harrigan et al (2004) find relatively poorer countries being more likely to receive an IMF loan[89], while others report a decreasing number of new World Bank projects with increasing per capita income[90].

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[81] Wall 1995: 311

[82] Thacker 1999: 62

[83] Meernik, Krueger & Poe 1998: 76

[84] Meernik, Krueger & Poe 1998: 79

[85] Schraeder, Hook & Taylor 1998: 308

[86] Frey & Schneider 1986: 234

[87] Neumayer 2003a:

[88] Neumayer 2003c: 524

[89] Harrigan et al 2004: 37

[90] Dreher, Sturm and Vreeland 2009: 9

Following these studies, I proxy for recipient country need by measuring gross domestic production divided by population, and treat the level of development in a country as analogous to the economic needs of inhabitants there. The association between per capita income and aid allocation is therefore expected to be negative at both level- and gatekeeping stage, with poorer countries receiving more both in terms of aid amounts and projects. The less wealthy a country, ceteris paribus, the more likely it will be to receive World Bank development projects, and the higher aid amounts it will receive.

3.3.2 Population

To further proxy for recipient country need, I include a measure of population size. Population census figures are sourced from the World Development Indicators, published by the World Bank. The population variable shows population size denoted in thousands, i.e. increasing the value of Population with one unit will correspond to a population increase of one thousand inhabitants. Population size is employed as proxy for recipient need because developing countries with large populations require more foreign aid in absolute terms compared with smaller countries at the same level of development. In a seminal study titled "Biases in aid allocations against poorer and larger countries", Isenman (1976) examine aid amounts from DAC member countries and multilateral donors including the World Bank. He includes population as a measure of country size, the hypothesis being that aid increases with population but that aid per capita declines[91]. Results support this hypotheses, and the study thus concludes aid (in per capita terms) to be disproportionately directed toward countries with small populations[92]. Trumbull & Wall (1994) likewise find a considerable country-size bias[93], while Wall (1995) reports a population increase of ten percent to be associated with a 6.5 percent reduction in per capita aid[94]. Similar such results can be found in the case of aid allocation by even new donors like India[95], for aid allocation by China[96] and six other so-called new donors (Dreher et al. 2011). In their analysis of

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[91] Isenman 1976: 638

[92] Isenman 1976: 635-7

[93] Trumbull & Wall 1994: 880

[94] Wall 1995: 312

[95] Fuchs and Vadlamannati 2013:

[96] Dreher and Fuchs 2011: 35

bilateral aid allocation, Dudley & Montmarquette (1979) consider two theoretical models; one with- and one without administration costs. In the first model, the effect of a given amount of aid is a decreasing function of recipient country population, as the sum will be divided on more people, and the probability of granting aid thus decreases with the potential recipient's population. In the second model, however, because of varying administrative costs, the probability of granting aid increases with larger populations in potential recipient countries and decreases with rising income[97]. If administrative costs are positive (increasing less rapidly than the amount of aid granted, because the decreasing function of income is in effect stronger than the increasing function of population), then larger populations would predict a larger probability of receiving aid. If administrative costs are negative (increasing more rapidly than the amount of aid granted, because the decreasing function of income is in effect weaker than the increasing function of population), then larger populations would predict a decreasing probability of receiving aid. As for aid amounts, the second model implies that per capita aid will rise with the beneficiary's population up to a threshold where the effect is reversed, and aid amounts start to decrease with larger populations. Results show the probability of granting aid to be increasing with the potential recipient country's population, lending support to the model that includes positive administration costs[98]. Neumayer (2003a) study of US bilateral aid shows that the impact from population on aid projects differs to that of aid amounts. Larger populations in recipient countries predicate a decreasing share of new US aid projects, but an increasing share of US aid amounts[99]. Neumayer's findings contradict those of Dudley & Marquette (1976), but seem consistent with their alternative model of negative administration costs. The assumption that aid will increase with falling income levels is grounded in the liberalism approach to international relations. Alternatively, a realist would argue that population size proxies donor interests. The population size of a recipient country could be taken as an indicator of the political, economic and military potential for this recipient country, and donor countries may wish to augment their influence regionally and globally by strengthening ties with potentially powerful, developing

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[97] Dudley & Montmarquette 1976: 134

[98] Dudley & Montmarquette 1976: 142

[99] Neumayer 2003a: 656-7

countries[100]. If this was the case, the direction of impact should be positive at both stages of aid allocation. However, I apply the more commonly used approach of employing population as proxy for recipient need. I expect population size to impact positively associated with World Bank project approvals and World Bank aid amounts. The more populous a country is, ceteris paribus, the higher its' approval ratio for development projects proposed to the World Bank, and the higher the aid amounts it will receive from the World Bank. However, following the small-country bias established in the literature, I expect aid amounts to increase at a slower rate than population.

3.3.3 Democracy

The Democracy variable was sourced from the Polity IV Dataset. I prefer this measure over the more commonly used Freedom House Index of Political Rights and Civil Liberties because of conflation issues associated with the latter. According to Munck & Verkuilen (2002), the analytical usefulness of the Freedom House index is severely limited due to the inclusion of indicators better seen as attributes of other concepts, such as socioeconomic rights, socioeconomic inequality, property rights, and occurence of war[101]. The Polity project examines concomitant qualities of democratic and autocratic authority in the governing institutions of countries, for purposes of quantitative analysis. The data consists of six component measures that record key qualities of executive recruitment, constraints on executive authority and political competition. It also records changes in the institutionalized qualities of governing authorities. Data resources were prepared using open source information, by researchers associated with the Centre for Systemic Peace. All data resources have reportedly been cross-checked with other data resources to ensure, as far as possible, that the information recorded is accurate, reliable, and comprehensive. Authority characteristics are coded on a 21-point scale ranging from -10 (denoting a fully autocratic regime) to +10 (denoting consolidated liberal democracy). There are several reasons as to why levels of democratic governance would predict aid allocation. Democratic governance is associated with better performance on a wide array of economic and

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[100] McKinley & Little 1979: 70; Maizels and Nissanke 1984: 881

[101] Munck & Verkuilen 2002: 9

socio-political indicators. These include income equality[102], education levels, gender equality, and loan repayment rates. Crucially, democratic governance is associated with higher aid efficiency, as measured by the impact on economic growth[103]. Accordingly, the World Bank has evaluated the quality of aid projects to improve with higher levels of political accountability. Wane (2004) explains this phenomenon as an interaction effect between donor and recipient, where low accountability causes recipient country governments to accept badly designed development projects for their own benefit and to the detriment of their populations. Accountable governments can better resist tempting personal gains in such instances, because they are deterred by the political consequences of project failure[104]. The overarching goal of USAID's Strategy on Democracy, Human Rights and Governance (2013) is to support the establishment and consolidation of inclusive and accountable democracies[105]. Williamson coined the term "Washington Consensus" to describe ten specific economic policy prescriptions that he claimed policymakers in Washington to widely agree upon. These policies are advocated for developing countries by international financial institutions based in Washington, primarily the International Monetary Fund and the World Bank[106]. Rodrik (2002) shows this consensus to be influenced by neoliberal ideology. His expanded list of consensually agreed-upon policy prescriptions further includes political reforms, with an emphasis on institutional reform[107]. The conditionality of aid associated with the Washington Consensus is contrasted by the political non-interference of the Beijing Consensus; while the former aims to promote democracy and human rights in developing countries, the latter aims to promote development without engaging in politics internal to recipient countries. Omitting the democracy variable would thus likely produce downward-biased estimates for the dependant variable, since the World Bank plausibly discriminates more on the basis of democracy levels among recipients, as compared with China. Also, the US could plausibly be rewarding democratic governance in order to bolster its own security. The concept of

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[102] Alesina & Rodrik 1994: 482

[103] Svensson 1999: 285

[104] Wane 2004: 23

[105] USAID 2013: 13

[106] Williamson 2004

[107] Rodrik 2002: 9

democratic peace, and its' widespread recognition with US policymakers, is telling in this regard. Additionally, studies show that aid can be an effective tool for avoiding the formation of terrorist groups[108], and the White House Strategy on Sub-Saharan Africa explicitly states that this is an integral part of US aid policy[109]. The US could be propping up democracies with aid money, in order to avoid unfavourable regime change and fertile conditions for political extremism and terrorism. It is commonly reported in the literature on aid determinants that, ceteris paribus, developing countries with more democratic institutions of governance receive more development aid. Trumbull & Wall (1994) test for effects from democratic governance on bilateral and multilateral aid for the period 1984 to 1989, and report a positive relationship, with more aid money going to relatively more democratic developing countries[110]. Meernik, Krueger and Poe (1998) find the level of democracy to positively predict aid flows from the US, and their time-series design show this effect growing stronger after the end of the Cold War era[111]. Alesina & Dollar (2000: 20) find the process of democratization, as measured by movement on the Freedom House democracy index, to be positively associated with aid[112]. In a study investigating the effects of corruption on bilateral aid flows, Alesina & Weder (2002) find US aid to be increasing with more corruption, but decreasing with less democratic institutions of governance[113]. For the period 1984 – 2003, Dollar & Levin (2006) report bilateral and multilateral donors providing more aid to relatively more democratic countries. Berthelemy (2006) find a similar effect from democracy levels on bilateral aid allocation, as do Boschini & Olofsgård (2007), Bandyopadhay & Wall (2007) and Younas (2008)[114]. Examining panel data on bilateral and multilateral aid for the period 1984 to 1995, Neumayer (2003b, 2003c) finds the level of democracy positively associated with bilateral aid amounts[115], and multilateral aid

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[108] Young & Findley 2011

[109] White House Strategy Toward Sub-Saharan Africa 2012

[110] Trumbull & Wall 1994: 880

[111] Meernik, Krueger and Poe 1998

[112] Alesina & Dollar 2000

[113] Alesina & Weder 2002: 1135

[114] Berthelemy 2006: 187, Boschini & Olofsgård 2007: 639, Bandyopadhay & Wall 2007: 539, Younas 2008: 669

[115] Neumayer 2003c: 519, 523

amounts[116], as do Dollar & Levin (2006). I expect democracy levels to impact positively with World Bank approval ratios. The more democratic a country, ceteris paribus, the more aid money it receive from the World Bank. Expectations for the impact on approval ratios are less straightforward. Countries that are not particularly important for US interests may be excluded from the pool of aid recipients because the US does not stand to lose much from this action. However, countries that are more central to the achievement of US foreign policy goals will likely not be excluded. Once granted aid projects, these important countries are likely to receive more aid as compared with others, not less. Hence, I expect to find either a statistically insignificant relationship between democracy and aid amounts, or a weaker positive impact as compared with the level stage.

3.3.4 Human Rights

To further test for the impact of recipient country performance, I test the effect from human rights on World Bank aid allocation. The human rights variable is measured by employing The Perdue Political Terror Scale (PTS), developed in the early eighties at Perdue University. The PTS measures levels of political violence and terror that a country experiences in a particular year, and assigns country values ranging from 1 to 5, where 5 equals the most human rights violations (for a precise definition of values on the PTS scale, see Table 5, Appendix). The data used in compiling this index comes from three different sources: the yearly country reports of Amnesty International, the US State Department Country Reports on Human Rights Practices, and Human Rights Watch's World Reports. A minimum of two coders read these reports and separately assign PTS scores to each country. The scores are then compared. In approximately 80% of the cases, the scores that each coder comes up with are exactly the same. Disagreement is resolved by an informal discussion between several coders to determine how a particular score was assigned. Abiding by human rights law is the only criteria which is officially stated to be more important than recipient need for the distribution of US bilateral aid. Consequentially, USAID's Strategy for Democracy, Human Rights and Governance (2013) aims to support the establishment and consolidation of inclusive and accountable democracies[117]. According to USAID's Development

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[116] Neumayer 2003b: 112

[117] USAID 2013: 7

Response to Violent Extremism and Insurgency (2011), government repression of human rights may lead to violent extremism and civil conflict[118]. Two implications can be drawn from this perception. Firstly, human rights violations could adversely affect development, since civil conflict and armed insurgency will increase the need for aid. Secondly, violent extremist groups may have anti-US sympathies i.e. Islamic fundamentalist groups, and therefore represent a threat against US security interests. The pioneering work of Cingranelli & Pasquarello (1985) introduces the two-stage analytical framework (gatekeeping stage and level stage), and investigates the effects of human rights practices on US economic and military aid to Latin America in 1982. Results from OLS regression show economic aid positively associated with human rights at the level stage: when US policymakers decided upon amounts of aid, higher amounts were provided to countries with relatively better human rights practices. While there were no discernible impact from human rights on economic aid in the gatekeeping stage, the study reports a positive association for military aid; countries with the worst human rights records tended to be excluded from the pool of recipient countries. However, when policymakers did provide military aid for such countries, the amounts received by these countries were not affected by human rights violations[119]. The study indicates some countries being excluded from the pool of aid recipients on the basis of human rights violations, while other governments with as bad or worse human rights records receive more aid than average because of their perceived importance for US foreign policy agendas. Poe (1992) report similar such results with regards to US bilateral aid[120]. Neumayer (2003a) examine human rights as a determinant for bilateral and multilateral aid on a panel of the 21 DAC member countries. His results likewise show this measure impacting differently at the two stages of aid allocation[121]. Andersen, Hansen & Markussen (2005) report human rights in a positive association with aid commitments from the IDA, an affiliation of the World Bank[122]. Expectations for the human rights variable are thus similar to that of democracy levels. I expect to see a positive impact from human rights on World Bank approval ratios. The

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[118] USAID 2011: 3

[119] Cingranelli & Pasquarello 1989: 557

[120] Poe 1992: 156-7

[121] Neumayer 2003a: 660

[122] Andersen, Hansen & Markussen 2005: 14

better human rights record a country has, the more likely it will be to receive aid projects from the World Bank. With regards to World Bank aid amounts, this positive effect is expected to decrease in strength or to be rendered statistically insignificant.

3.3.5 Conflict

Additional to democracy and human rights measures, I include a measure of conflict as proxy for recipient performance. The data for the conflict variable was obtained from the UCDP/PRIO Armed Conflict Dataset. It captures the occurrence of armed conflicts, defined as "a contested incompatibility that concerns government and/or territory where the use of armed force between two parties, of which at least one is the government of a state, results in at least 25 battle-related deaths"[123]. The dataset is a collaborative project between the Department of Peace and Conflict Research at Uppsala University and the Centre for the Study of Civil War at PRIO. Operationalized as a dummy variable, the value 1 captures the occurrence of such conflict for a given country-year. A World Development Report (2011) notes that 1.5 billion people live in countries experiencing cycles of violent conflict, and that all of these countries have yet to achieve a single UN Millennium Development Goal. Civil conflict is an appropriate proxy for development performance, because poverty reduction is strongly inhibited by such occurrences, as studies have reported economic growth negatively associated with conflict[124]. Also, perhaps the most important predictor to conflict is prior experience of conflict. Illustrative of this is the fact that all civil wars that erupted after 2003 have been continuations of past civil wars[125]. The tendency for countries to relapse into violence after periods of stability lends creed to operationalizing conflict as a performance-based variable. Several studies show that conflict deters development aid. Berthelemy (2006) report negative impacts from conflict on aid amounts[126]. Kuziemko & Werker (2006) report the occurrence of armed conflict to impact negatively with aid amounts from UN agencies[127]. Alternatively, conflict could be interpreted as

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[123] Gleditsch, Wallensteen, Eriksson, Sollenberg & Strand 2002

[124] Venieris & Gupta 1986; Boone 1996; Alesina & Perrotti 1994; Collier & Dollar 2002; Guillaumont & Chauvet 2010

[125] World Bank 2011: 57

[126] Berthelemy 2006: 187

[127] Kuziemko & Werker 2006: 22

a needs-based variable because the need for aid increases with civil conflict. Aid can have a politically stabilizing effect on the executive, because developing country governments may spend a considerable portion of aid on political campaigns geared at increasing popular support. Yet another possibility would be the realist assumption of interpreting conflict as a donor interest variable. Such a position would entail that the expected impact from conflict on aid allocation is positive. Balla & Reinhardt (2008) report such a direction of impact from conflict, and infer this finding to reflect donor interests[128]. According to Chauvet (2002), a desire to protect commercial or geopolitical interests could explain why conflict would predicate more aid money. Faced with instability in recipient countries with which they have ties, donors might seek to safeguard their interests by increasing aid in an attempt to stabilize unstable regimes[129]. Aid could thus increase in response to escalations of civil conflict. Indicative of this, USAID reports 60 percent of US foreign assistance going to 50 countries that are in the midst of, or trying to prevent conflict or state failure[130]. Contrary to this is the practical implications of allocating aid. Intense civil conflict may render difficulties for the distribution of aid on the ground., and development projects often require that the World Bank has staff present in the recipient country. Wane (2004) finds political stability in a positive relationship with the quality of World Bank development projects; the more stable a country, the more successful are projects[131]. Furthermore, studies show that conflict increases the marginal cost of poverty reduction[132]. If the World Bank wishes to optimize the effect from aid on poverty reduction, it may therefore plausibly decide to allocate fewer projects and lesser aid amounts to countries experiencing conflict. I expect civil conflict to impact negatively with World Bank aid amounts and World Bank project approval ratios. A country that is experiencing civil conflict, ceteris paribus, has a lower approval ratio for projects proposed to the World Bank and receives less aid money from the World Bank.

3.3.6 UNGA Voting Alignment

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[128] Balla & Reinahardt 2008: 2573-25

[129] Chauvet 2002: 40

[130] USAID 2011: ii

[131] Wane 2004: 30

[132] Collier & Dollar 2001

I include a measure of voting alignment in the United Nations General Assembly (UNGA) in the donor interest model, as proxy for political interests. The UNGA Voting variable captures the degree of similarity between recipient country votes and US votes by correlation. Ranging from 0 to 1, the latter value reflects identical casting of votes, and hence full agreement with the US on issues voted over in the UNGA. Data on voting patterns in the United Nations General Assembly (UNGA) was obtained from the United Nations. Voting alignment in the UNGA reflects the extent of agreement on issues of international importance, and the measure is thereby suited to distinguish between friends and foes in international politics. Aid receipts constitute a large part of gross domestic production (and an even larger part of government revenue) for many countries in Sub-Saharan Africa, and aid allocation would as such be a potentially effective means for rewarding a friend or punishing a foe. Alesina & Dollar's (1998) study includes a correlative measure of voting patterns in the United Nations General Assembly (UNGA) as a determinant of US bilateral aid. They report one standard deviation increase in UNGA voting alignment to be associated with a 65% increase in US aid transfers[133]. The study also shows distinguishable voting blocs, further indicating that voting behaviour in the UNGA is motivated by strategic interests[134]. Alesina & Weder (2002) report voting similarity with the US on issues raised in the UNGA in a positive relationship with aid amounts from the US[135]. Andersen, Hansen & Markussen (2005) measure the impact of voting alignment on aid commitments from the IDA, an affiliation of the World Bank. They find a strong positive impact from voting alignment with the US in the UNGA[136]. The authors note that the impact from voting alignment is both statistically and economically significant[137]. Thacker (1999) reports similar findings with regards to the International Monetary Fund, the sister organization of the World Bank[138]. Following this, I expect UNGA voting alignment to impact positively with World Bank aid amounts and World Bank project approval ratios. The more a country's voting pattern in the UN General Assembly is

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[133] Alesina & Dollar 1998: 16

[134] Alesina & Dollar 1998:7

[135] Alesina & Weder 2002: 1133-4

[136] Andersen, Hansen & Markussen 2005: 14

[137] Andersen, Hansen & Markussen 2005: 17

[138] Thacker 1999:

similar to that of the US, ceteris paribus, the more likely it will be to receive World Bank development projects, and the higher aid amounts it will receive. The cost of buying a vote in the UNGA should increase with population size, since relatively populous countries need more aid money in absolute terms. It is likely that vote-buying would be directed at smaller countries to a greater extent, because each country has only one vote to sell. Having a resolution passed in the UNGA requires a majority of votes, which is less costly obtained by targeting smaller countries[139]. Testing for UNGA voting alignment should remove any downward bias for the population variable caused by this relationship.

3.3.7 UNSC Member

To further proxy for US political interests, I test the effect from tenure on the UN Security Council (UNSC) on World Bank aid allocation. The UNSC Membership variable captures whether a country participates on the United Nations Security Council as a rotating member for a given country-year. Operationalized as a dummy, the variable takes on the value 1 if such participation is observed. Sourced from the United Nations. The United Nations Charter delegates the task of maintaining international peace and security to the Security Council, which has the power to make binding resolutions and adopt legally binding measures. Ten of the fifteen seats on the UN Security Council are held by temporary members, seats rotating on a two-year basis. China, France, Russia, the United Kingdom, and the United States (the P5) serve on a permanent basis. Each year, five temporary members are elected for a two-year term. Countries are nominated for temporary membership by regional caucuses, and must be approved by at least two thirds of the votes in the General Assembly. Three of the ten temporary seats go to African countries. Each member of the UNSC has one vote. Decisions require a majority of nine votes, and can be vetoed by any of the permanent members. Thus, in order to pass a UNSC resolution, the votes of four out of the ten temporary members are required in addition to the permanent members' votes. According to Malone (2000), countries actively seek out UNSC membership. Despite the workload involved, and despite other potentially dissuading effects of membership, competition for seats on the Council can be intense[140]. Following this, governments are plausibly

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[139] Boone 1995: 19

[140] Malone 2000: 3

expecting some form of reward for temporary membership. Developing countries may aspire to the UNSC because the esteem associated with it: membership reflects respect from the world community and approval of the aspiring country's policies. Governments could be motivated by the possibility of gaining from this soft power both at the domestic and international arena. However, aspiring members may also be expecting economic gains from participating in the Security Council. Asking how much a seat on the United Nations Security Council (UNSC) is worth, Kuziemko & Werker investigate whether the pattern of aid payments to rotating members of the UNSC is consistent with vote buying on behalf of the US government[141]. The theoretical foundations for this claim lie in the fact that the US government, despite holding veto power in the UNSC as a permanent member, will seek to legitimize its' foreign policy through obtaining supportive UNSC resolutions. Their main variable of interest is a compiled measure of economic and military assistance from the US government. The authors report that, on average, a non-permanent member of the council enjoys a 59 percent increase in total aid amounts from the United States. They negate the possibility for this relationship being endogenous, since aid receipts remain high throughout the two-year term, and swiftly return to their earlier level upon completion of the term[142]. Dreher, Sturm & Vreeland (2009) find countries serving as rotating members of the United Nations Security Council more likely than other countries to receive development projects. This effect grows stronger in the second year of the two-year term a country serves as rotating members on the UNSC, with a 19% increase in World Bank projects compared to what would otherwise be the case[143]. Following these studies, I expect UNSC membership to impact positively with World Bank project approval ratios and World Bank aid amounts. Ceteris paribus, recipient countries have higher project approval ratios and receive more aid money from the World Bank when serving as a rotating member on the UN Security Council.

3.3.8 US Trade

As a measure of commercial interests, I include recipient country trade with the US in the donor interest model. The data for the construction of this variable was sourced from the World

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[141] Kuziemko & Werker 2006: 2

[142] Kuziemko & Werker 2006: 3

[143] Dreher, Sturm & Vreeland 2009: 14

Development Indicators, published by the World Bank. The US Trade variable captures the size of recipient country trade with the US relative to the size of the recipient country economy. I constructed this variable by adding the total value of recipient country imports from the US to the total value of recipient country exports to the US, and divided this sum with the value of gross domestic production;

$$\frac{\text{Country } i \text{ imports from US + Country } i \text{ exports to US}}{\text{Recipient country GDP}}$$

Frey & Schneider (1986) find exports from donor countries to recipient countries, impacting negatively with aid flows for most donor countries in their sample, including the US[144]. Their trade variable is operationalized as a dummy, taking on positive value when imports from a given donor country exceed one percent of total imports to a given recipient country[145]. Investigating the economic potential of recipient countries as determinant for aid flows, Schraeder, Hook & Taylor's model (1998) include trade with the donor country as measured by recipient country imports from the donor country as percentage of total recipient country imports. They find a positive association between trade and aid flows in the cases of four major donor countries, including the US[146]. Meernik, Krueger & Poe (1998) report a similar impact from recipient country trade with the US on bilateral aid amounts from the US between 1991 and 1994. This finding is supported by the study of Neumayer (2003a), who reports the same relationship between exports and aid flows from most DAC member countries, including the US[147]. Berthelemy (2006) shows a similar impact on bilateral aid amounts from trade, measured as percentage of donor country exports relative to donor country income[148], this effect being stronger with regards to US bilateral aid compared with most other donors[149]. Fleck & Kilby (2006) find trade between recipient countries and the US to impact positively on aid receipts from

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[144] Frey & Schneider 1986: 234

[145] Frey & Schneider 1986: 244

[146] Schraeder, Hook & Taylor 1998: 308

[147] Neumayer 2003a: 660

[148] Berthelemy 2006: 184, 187

[149] Berthelemy 2006: 192

the World Bank. The greater the share of US exports purchased by a recipient country, ceteris paribus, the more funding received by that country from the World Bank[150]. I expect US trade to impact positively with World Bank aid amounts as well as World Bank project approval ratios. The more a country trades with the US, ceteris paribus, the higher project approval ratio it will have and the more aid money it will receive.

4.0 Empirical Results

Table 1 shows the impact of Chinese development aid on the rate of approvals a country receives for projects proposed to the World Bank. The first column includes the needs-based controls income and population, while remaining controls are added stepwise. Table 2 displays the impact from Chinese aid on World Bank development aid allocation, as measured by aid commitments. Here as well, the first column controls for income and population, while remaining controls are added stepwise. Before presenting these results, however, it may be pertinent to have a look at the evolution of aid allocation from China and the World Bank to countries in Sub-Saharan Africa.

4.1 Evolutionary Trends of Aid

Figure 1 provides a descriptive look on the evolution of aid from the government of China to African countries in the south of the Sahara.

********Figure 1 About Here********

When viewed across the entire study period, Figure 1 leaves an impression of steadily increasing amounts of Chinese aid, albeit with frequently recurring decreases from one year to the next. The amount of aid flowing from the Chinese government to countries in this region was roughly 14 million US dollars in 2012, rising from an initial level of roughly 7, 5 million US dollars in 2000.

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[150] Fleck & Kilby 2006: 16

The simple fact that Chinese aid is surging into Sub-Saharan Africa, indicates that the World Bank may be allocating more aid to countries in this region. Figure 2 provides a descriptive look on the evolution of the rate of approval for projects put to vote in the World Bank, for countries in this region.

********Figure 2 About Here********

The impression left by Figure 2 is similar to that of Figure 1; increasing over the duration of the entire study period, but with a few decreases from one year to the other. While in 2004 the rate of approval was roughly 65 percent, in 2012 it had risen to roughly 80 percent. Figure 3 provides a descriptive look on the evolution of aid from the World Bank to Sub-Saharan countries.

********Figure 3 About Here********

The trend in Figure 3 is similar to those of Figures 1 and 2. The average Sub-Saharan country received roughly 125 million US$ from the World Bank in 2004, while this figure has doubled by 2012, with the average country receiving approximately 250 million. These simple stylized facts, although they could easily be spurious and misleading, seem to suggest that if the Chinese government distributes more aid to Sub-Saharan Africa, the World Bank is likely to follow suit by approving a larger share of projects and providing more development aid. The following section moves to examine this statistical relationship in greater detail and precision by employing multivariate models.

4.2 Regression Results

Table 1 reports the impact from Chinese development aid on the approval ratio for projects proposed to the World Bank.

********Table 1 About Here********

As seen from Table 1, no variable is statistically significant with the exceptions of population and human rights. Interestingly, my key explanatory variable Chinese aid allocation remains significantly not different from zero throughout the columns. This negates the first hypothesis that Chinese aid allocation would spur US approval of more World Bank projects in relative terms. A plausible explanation for this phenomenon would be that, as theorized earlier, the statistical insignificance may not necessarily be indicative of the importance attached by the US government to the Chinese aid allocation in Sub-Saharan Africa. Rather, this matters in the amount of aid money from the World Bank i.e. the monetary size of projects. The US could be paying more attention to Chinese aid allocation in this region when it comes to approving large scale projects. In Table 2, I examine this possibility by investigating World Bank aid allocation in terms of project amounts.

The impact from population size is negative and significantly different from zero at the 1 percent level (99 percent confidence level) across the columns. A 1 percentage point increase in population (log) is associated with a decline of roughly 2 percentage points in the approval ratio for projects proposed to the World Bank. The negative impact from population could reflect that the effect of aid is a decreasing function of population, because larger countries need more aid compared with less populous countries at the same level of development. If so, results from the analysis of World Bank aid in terms of total aid flows (see Table 2) should be similar with regards to the effects from population size. Alternatively, Dudley & Montmarquette's theoretical model of negative administration costs may provide an explanation for this phenomenon. According to Dudley & Montmarquette (1976), the efficiency of aid is a negative function of recipient income and a positive function of recipient population, because the marginal utility of aid decreases with recipient country income, and the administration costs of aid projects decrease with recipient country population. Negative administration costs implies that these effects are stronger for income compared with population. For negative administration costs to plausibly explain the direction of impact from population, the impact from population on World Bank aid amounts should be positive. In Table 2, I examine this possibility.

As seen from Table 1, I find human rights negatively associated with the approval ratio of World Bank aid projects, as expected. The statistical relationship is significantly different from zero at the 1 percent level (99 percent confidence level). At the mean value of human rights violations there is a decline of 39 percentage points in the World Bank project approval ratio (2.95*.13). However, one standard deviation increase over the mean value of human rights violations (3.89*.13) is associated with a decline in the approval ratio for World Bank projects by roughly 51 percentage points. Moving from no human rights violations (1) to full human rights violations (5) is associated with a decline of 53 percentage points in approval ratios for World Bank aid projects. Surprisingly, neither UNGA voting alignment nor UNSC membership, level of income, trade with the US, and civil conflict appear as key determinants for the approval ratio of projects proposed to the World Bank. I now turn towards the actual amount of development aid money released by the World Bank in Table 2.

Table 2 reports the impact from Chinese development aid on World Bank development aid.

********Table 2 About Here********

As seen from Table 2, most variables are statistically insignificant with the exceptions of Chinese aid and population size. Chinese aid is positively associated with the amount of aid granted by the World Bank. The relationship between these two variables is significantly different from zero at the 1 percent level (confidence level of 99 percent), and results are robust to the inclusion of relevant controls. This finding supports my second hypotheses that Chinese aid would increase the amount of development aid from the World Bank. A country will receive roughly 17 percent more aid money from the World Bank at the mean value of Chinese aid. One standard deviation increase over the mean value of Chinese aid (21.28*.01293) is associated with an increase of roughly 27.5 percent in development aid funding from the World Bank, while moving from the minimum to the maximum observed value of Chinese Aid (24*.01293) yields an increase of roughly 31 percent in the amount of development aid Sub-Saharan countries receive from the

World Bank.

Interestingly, population size has the expected positive impact on aid amounts from the World Bank, and this statistical relationship is significantly different from zero at the 1 percent level (99 percent confidence level) across the columns. A one percentage point increase in population is associated with an increase of 0.4 percentage points in World Bank development aid. This finding is broadly in line with the development aid literature stating that, ceteris paribus, countries with larger populations receive more aid in absolute terms, and less in relative terms. Interpreted in context with the impact from population presented in Table 4, this result is also consistent with Neumayer's (2003a) findings, and strengthens Dudley & Montmarquette's theory of negative administration costs.

4.3 Implications for Policy

Policymakers in developing countries can increase the number of World Bank development projects in their countries by improving human rights records. Although aid amounts are unaffected by human rights, more projects may nevertheless increase domestic political support for incumbents in recipient countries. Increased funding and increased domestic political support thus constitute strong economic and political incentives for policymakers to implement policies supportive of human rights. Assuming economic sustainability, policymakers in developing countries should therefore strive to improve human rights conditions.

Developing country governments who succeed in attracting Chinese aid will be rewarded in terms of higher aid receipts from the World Bank, regardless of how the country performs or its' political and economic ties to the US. This represents an obvious opportunity for developing country governments to increase their inflows of foreign aid, and there will always be many reasons for policymakers to do so. A word of caution on behalf of developing countries is warranted, however, since going with this option entails increasing risks of issues related to aid dependency such as inflation, slow economic growth, unsustainable debt burdens and vulnerability to macroeconomic shocks. These issues should be of concern to the World Bank and its' shareholders, as well. In any way you look at it, economic deterioration could not possibly be

an appropriate aim of aid policies; it does not reduce the need of recipients, nor does it work in the favour of long-term donor interests. With regards to permanently reducing recipient need, it would be advisable for the World Bank to allocate its' development aid on the basis of performance criteria. My results show that this is not what is currently going on. However, it does not follow that e.g. Japan or the UK have the same perceptions as the US regarding Chinese influence in Sub-Saharan Africa. The remaining shareholders in the Word Bank should therefore (re)consider their positions with regards to China. Do they want to continue supporting the US strategy of countering increased Chinese influence in Sub-Saharan Africa with multilateral aid? If not, these shareholders may be able to thwart the process through their voting power in the World Bank board of directors. Seeing as the US has more voting power than any other shareholder, such a scenario would likely cause recipient need and performance criteria to become more salient as determinants of aid allocation; no other shareholder on their own holds sufficient influence over World Bank decisions to champion purely selfish interests. To the extent that the selfish interests of shareholder countries are divergent, then, donor country interests would decreasingly influence the allocation of World Bank aid. This would presumably be to the benefit of poor people all over the world.

5 Conclusion

In this thesis, I have examined whether the World Bank allocates more aid projects and aid money as an effect of countries receiving development aid from the Chinese government. I found no discernible impact from Chinese aid on countries' rate of approval for projects proposed to the Bank. However, the amount of aid a developing country receives from the World Bank does increase with Chinese aid receipts. These results are robust to the inclusion of relevant indicators for recipient need, recipient development performance, and donor interests.

I also find that countries with larger populations receive more World Bank aid money in absolute terms, and less in relative terms, confirming the small-country bias reported in established literature. However, a larger population has the auspicious effect of decreasing country approval ratios for projects proposed to the World Bank. Although I have suggested the theory of negative administration costs as an explanation, this latter finding warrants further research.

Contrary to US policy and World Bank policy, I find no effect from the development performance of a country on the amount of aid it receives from the World Bank. However, a proposed development project is more likely to be approved when the recipient country has a good human rights practice.

The World Bank aims for economic and institutional improvement in recipient countries, and frequently imposes ex poste policy conditionality for recipient countries, the effects of which are dependent on recipient country compliance. Compliance will be harder to illicit if the legitimacy of World Bank policy is undermined, and the dominance of one country over others is likely to erode the Bank's legitimacy as a multilateral and apolitical institution. I will not attempt to endeavour on reform suggestions. However, from a normative standpoint it is clear that World Bank decisions should not be motivated by competition for geopolitical influence. I believe this problem could be addressed if other major World Bank shareholders take this ongoing competition into consideration when they bargain with the World Bank over decisions. Seeing as my findings imply a trade-off between US strategic considerations with regards to China and the efficiency of World Bank development aid, other shareholder countries should consider their positions on this issue.

With regards to the US, there appears to be a conflict of interests going on. World Bank decisions do not reflect the official US policy of supporting democracy and human rights as means of enhancing US security. Rather, these considerations are trumped by the competition with China for influence in Sub-Saharan countries. This implies a trade-off between domestic security and political influence abroad, and represents a potential security concern for the US.

Developing countries may draw on the findings of this thesis to gain higher aid receipts. My results show that increases in Chinese aid will not cause decreases in World Bank aid, implying that governments do not have to choose one donor over the other. For developing countries with sound economic policies and high institutional quality, this may be a blessing. For poorly governed countries, of which there are many in Sub-Saharan Africa, this opportunity to increase aid inflows may have strongly adverse effects in the long term.

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Appendix

Table 1: Countries under study

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Angola	Ethiopia	Niger
Benin	Gabon	Nigeria
Botswana	Ghana	Rwanda
Burundi	Guinea	Senegal
Cameroon	Guinea-Bissau	Sierra Leone
Cape Verde	Kenya	Somalia
Central African Republic	Lesotho	South Africa
Chad	Liberia	Sudan
Comoros	Madagascar	Tanzania
Congo, Dem. Rep.	Malawi	Togo
Congo, Rep.	Mali	Uganda
Cote d'Ivoire	Mauritania	Zambia
Djibouti	Mauritius	Zimbabwe
Equatorial Guinea	Mozambique	
Eritrea	Namibia	

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Table 2: Data definition and sources

Variables	Data definition and sources
World Bank Aid	Amount of aid from the World Bank. Denoted in millions, US$ constant prices, base year 2010. Sourced from US State Department, 2014.
Chinese Aid	Total sum of military aid, official aid and unofficial aid distributed by the Chinese government. Denoted in millions, US$ constant prices, base year 2010. Sourced from
Income	Gross domestic production per capita. Denoted in millions, US$ constant prices, base year 2010. Sourced from World Development Indicators, 2014, World Bank.
Population	Total population, denoted in thousands. Sourced from World Development Indicators, 2014, World Bank.
Democracy	Measure of institutional openness ranging from -10 to 10, where higher values reflect a more democratic country. Sourced from the Polity IV dataset.
Human Rights	Measures human rights violations on a scale ranging from 1 to 5, where higher values indicate more human rights violations. Sourced from the website politicalterrorscale.org
Conflict	Dummy where the value 1 indicates presence of serious conflict. Sourced from the UCDP/PRIO Armed Conflict Dataset.
US Trade	Total exports from country x to the US, plus total imports from the US to country x, divided by the GDP of country x. Shown as percentage of GDP. Sourced from the US State Department, 2014.
UNGA Voting	Correlation of voting behaviour with US in the United Nations General Assembly. Ranging from 0-1, where 1 implies identical casting of votes. Sourced from the United Nations, 2014.
UNSC Member	Dummy variable, with the value 1 indicating country participation in the United Nations Security Council. Sourced from the United Nations, 2014.

Table 3: Descriptive Statistics

Variables	Mean	Standard Deviation	Minimum	Maximum	Observations
World Bank Aid	148.95	250.03	0	2164.1	387
World Bank Aid (log)	2.82	3.13	-2.3	8	387
WB Approval Ratio	.742	.414	0	1	387
Chinese Aid	4.98e+08	1.84e+09	0	2.39e+10	558
Chinese Aid (log)	13.28	8.00	0.0	24	559
Income	1460.28	2449.5	118.64	16847.67	558
Income (log)	6.54	1.09	4.8	10	558
Population	17801.13	25852.55	442.43	168833.8	559
Population (log)	8.97	1.38	6.1	12	559
Democracy	2.27	4.93	-7.0	10	558
Human Rights	2.95	0.94	1.0	5	546
Conflict	0.23	0.42	0.0	1	559
US Trade	6.63	9.55	.027642	51.67	558
US Trade (log)	6.63	9.55	0.0	52	558
UNGA Voting	0.15	0.07	0.0	1	551
UNSC Member	0.05	0.23	0.0	1	559

Table 4: FGLS Regression, Dependent Variable World Bank Project Approval Ratio

	Model1 Eligibility	Model2 Eligibility	Model3 Eligibility	Model4 Eligibility	Model5 Eligibility
Chinese Aid (log)	0.00100 (0.00256)	-0.00009 (0.00261)	-0.00006 (0.00261)	-0.00006 (0.00261)	-0.00021 (0.00262)
Income (log)	0.21479 (0.23784)	0.01340 (0.24453)	0.01159 (0.24459)	0.01066 (0.24625)	-0.00945 (0.24707)
Population (log)	-1.57612*** (0.70112)	-1.68222*** (0.70174)	-1.68791*** (0.70195)	-1.68739*** (0.70213)	-1.70365*** (0.70259)
Democracy		0.01123 (0.01265)	0.01139 (0.01266)	0.01136 (0.01269)	0.01135 (0.01274)
Human Rights		-0.13227*** (0.03779)	-0.13010*** (0.03855)	-0.13017*** (0.03862)	-0.13264*** (0.03867)
Conflict			-0.01796 (0.06312)	-0.01794 (0.06312)	-0.02238 (0.06312)
US Trade				-0.00015 (0.00445)	-0.00048 (0.00448)
UNGA Voting					0.39544 (0.36055)
UNSC Member					-0.03104 (0.07725)
Constant	14.61642*** (7.29433)	17.73984*** (7.36139)	0.00000 (0.00000)	17.81670*** (7.36656)	0.00000 (0.00000)
Observations	386	377	377	377	377
Sampled Countries	43	42	42	42	42
Country-fixed Effects	Yes	Yes	Yes	Yes	Yes

Time-fixed Effects	Yes	Yes	Yes	Yes	Yes

Table 5: Tobit Regression, Dependant Variable World Bank Aid (logged)

	Model1 Aid Amount	Model2 Aid Amount	Model3 Aid Amount	Model4 Aid Amount	Model5 Aid Amount
Chinese Aid	0.01293*** (0.00558)	0.01299*** (0.00558)	0.01297*** (0.00558)	0.01276*** (0.00558)	0.01382*** (0.00592)
Income	-0.03484 (0.04823)	-0.02755 (0.04897)	-0.02477 (0.04933)	-0.00646 (0.05245)	0.00174 (0.05626)
Population	0.39705*** (0.03301)	0.39049*** (0.03790)	0.38808*** (0.03799)	0.39153*** (0.03807)	0.38461*** (0.04048)
Democracy		-0.00440 (0.00836)	-0.00297 (0.00865)	-0.00325 (0.00866)	-0.00225 (0.00911)
Human Rights		0.01560 (0.05185)	0.00827 (0.05348)	0.02390 (0.05436)	0.02329 (0.05937)
Conflict			0.05510 (0.09938)	0.03505 (0.09974)	0.03849 (0.10744)
US Trade				-0.04683 (0.03507)	-0.05655 (0.03835)
UNGA Voting					0.43315 (1.00202)
UNSC Member					-0.09299 (0.13421)
Constant	-0.51229 (0.44974)	-0.52809 (0.44966)	-0.51724 (0.44918)	-0.86096 (0.53275)	-0.90702 (0.57896)
Observations	1,374	1,374	1,374	1,374	1,246
Sampled Countries	41	41	41	41	41
Country-fixed Effects	No	No	No	No	No

Time-fixed effects	Yes	Yes	Yes	Yes	Yes

<div align="center">Robust standard errors in parentheses
*** p<0.1, ** p<0.05, * p<0.01</div>

Table 5: Definition of Political Terrorism Scale

| PTS Score	Definition
1	Countries are under a secure rule of law, people are not imprisoned for their views, and torture is rare or exceptional. Political murders are extremely rare.
2	There is a limited amount of imprisonment for nonviolent political activity. However, few persons are affected, torture and beatings are exceptional. Political murder is rare.
3	There is extensive political imprisonment, or a recent history of such imprisonment. Execution or other political murders and brutality may be common. Unlimited detention, with or without a trial, for political views is accepted.
4	Civil and political rights violations have expanded to large numbers of the population. Murders, disappearances, and torture are a common part of life. In spite of its generality, on this level terror affects those who interest themselves in politics or ideas.
5	Terror has expanded to the whole population. The leaders of these societies place no limits on the means or thoroughness with which they pursue personal or ideological goals.

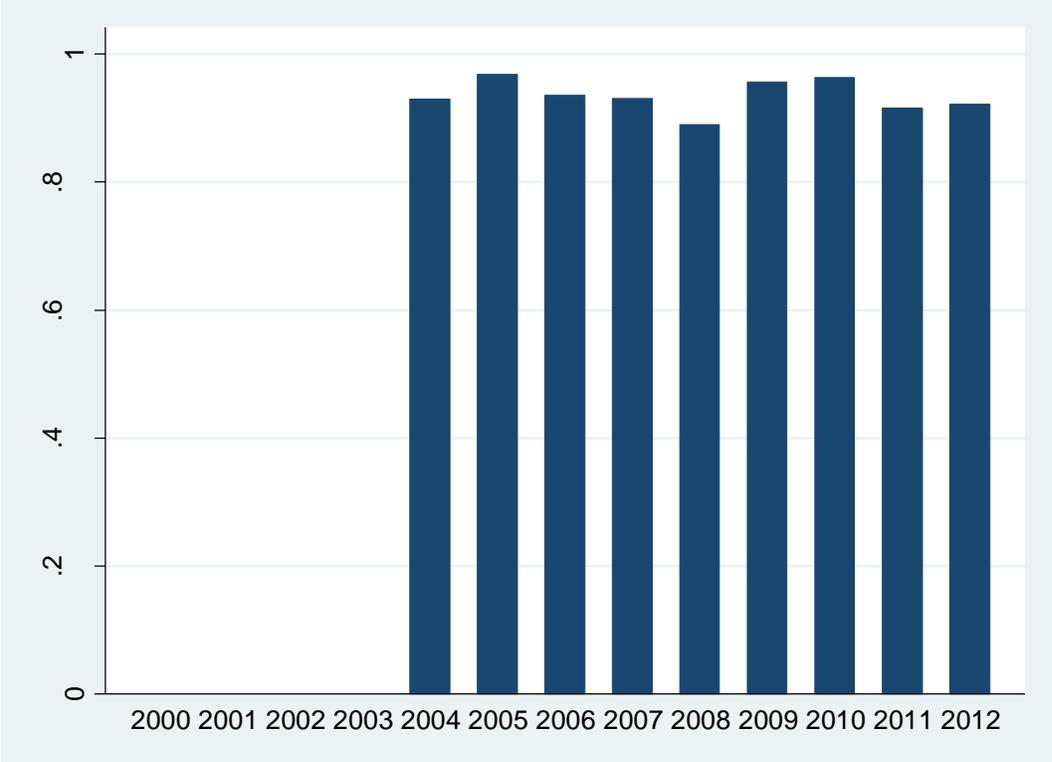Figure 1: Chinese Aid
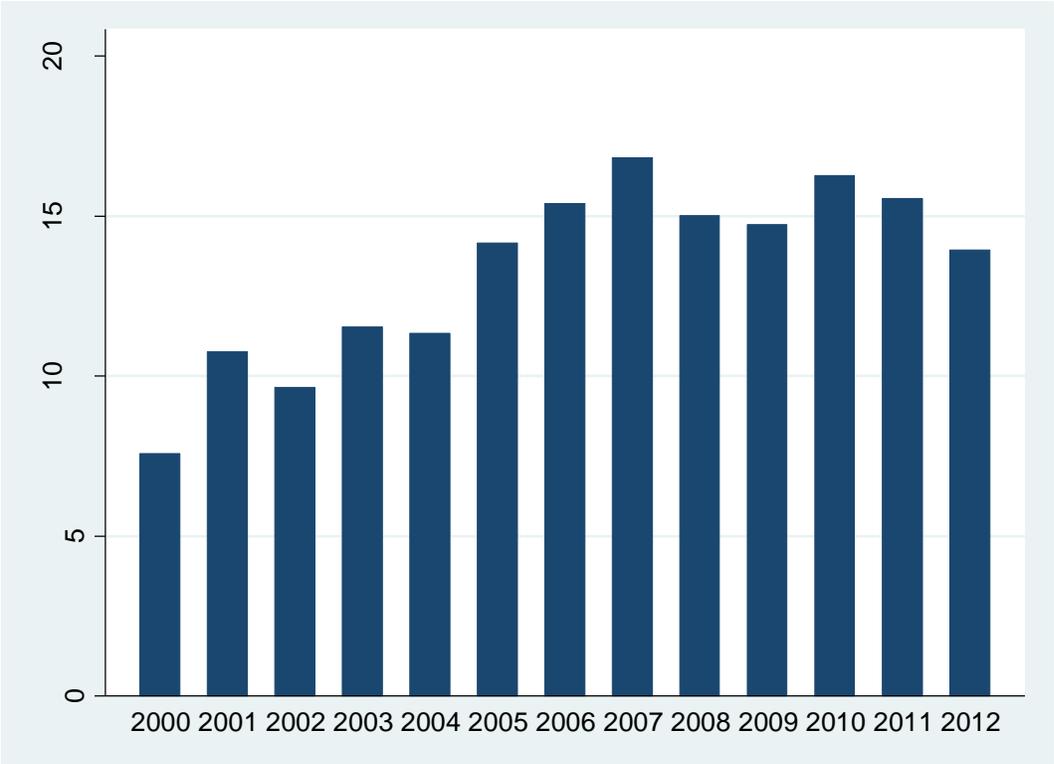
Figure 2: World Bank Approval Ratio

Figure 3: World Bank Aid