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# Does the rise of China threaten the liberal world order?

An empirical analysis of the relationship between trade dependence on China and good governance, 1990-2019

Master's thesis in Political Science

Supervisor: Indra De Soysa

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## Abstract

The rise of China carries many implications. Some argue that the rise of an illiberal China could threaten the liberal world order. Liberal scholars argue that increasing trade should lead to democratization and better governance in China. Realists are more skeptical and point towards the previous conflicts that emerged after ascending states rose to challenge the hegemon. Previously, scholars have looked at aid and arms transfers to gauge if China promotes illiberal regimes. This thesis distinguishes itself by looking at dependence on Chinese trade as an indicator of China's influence instead. I weigh the arguments of the different schools of thoughts by looking at trade with China with an expectation about change in governance among China's trading partners. Does higher trade dependence on China predict poorer governance, measured by higher corruption and lower respect for human rights? I employ time series cross sectional data to measure this relationship, which should tell us whether or not those who blame China have empirical evidence to back up their claims. The results indicate clearly that trade dependence on China associates with higher corruption but not with human rights violations. However, when Chinese trade per capita is interacted with natural resource rich countries, the interaction effect is positive, indicating that the association between Chinese trade and corruption was mainly due to resource dependency. The results seem clear and robust, but the effects should not be overstated because they are substantively small.

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## Sammendrag

Kinas fremvekst har mange implikasjoner. Noen hevder at fremveksten av et illiberal Kina kan true den liberale verdensordenen. Liberale tenkere hevder at økende handel bør føre til demokratisering og bedre styresett i Kina. Generelt sett er realister mer skeptiske og peker på de tidligere konfliktene som oppsto etter at stater i vekst reiste seg for å utfordre en stormakt. Tidligere har forskere sett på bistand og våpenoverføringer for å måle om Kina fremmer illiberale regimer. Denne oppgaven skiller seg fra annen forskning ved å heller se på avhengighet av kinesisk handel som en indikator på Kinas innflytelse på styresett (Governance). Jeg veier argumentene til de forskjellige tankeretningene ved å se på handel med Kina og en forventning om endret kvalitet på styresett blant Kinas handelspartnere. Forutsier høyere handelsavhengighet av Kina dårligere styresett, målt ved høyere korrupsjon og lavere respekt for menneskerettigheter? Jeg bruker tverrsnittsdata for tidsserier for å måle dette forholdet, som burde fortelle oss om de som peker på Kina angående dårligere styresett har empiriske bevis for å støtte påstandene sine. Resultatene indikerer tydelig at handelsavhengighet av Kina assosieres med høyere korrupsjon, men ikke med menneskerettighetsbrudd. Men når kinesisk handelsavhengighet introduseres som et samspillsledd med naturressursrike land, indikerer resultatene at effekten hovedsaklig kom fra ressursavhengighet. Resultatene virker tydelige og robuste, men effektene bør ikke overvurderes, fordi de substansielt sett ikke er store.

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# 1 Introduction

*The rise of China will undoubtedly be one of the great dramas of the twenty-first century. China's extraordinary economic growth and active diplomacy are already transforming East Asia, and future decades will see even greater increases in Chinese power and influence. But exactly how this drama will play out is an open question. Will China overthrow the existing order or become a part of it? And what, if anything, can the United States do to maintain its position as China rises?" (Ikenberry 2008, p. 23).*

During the last few decades, the People's Republic of China (PRC) has ascended onto the world stage as a driving geopolitical force. After the Cold War, the country went from being a minor economic player on the international scene, into becoming the second largest economy in the world (Barboza 2010). What might the consequences of this rapid rise of a large economy have for the future of the liberal order? What if any are the consequences of PRC's economic prominence on liberal governance among its trading partners? This thesis seeks to shed light on these questions, by examining the relationship between trade and governance.

Utilizing its trade and labor arsenal, Beijing has established strong economic and political relations internationally. This rise in economic prowess puts China in a position where it represents a potential economic model for developing nations. These nations seek developmental strategies, and they might look to China for leadership. Likewise, those concerned about the geopolitical influence of China argue that the PRC may shape the world in its own image through buying friends around the world. Thus, China's increased geopolitical influence and crucial position in global trade, and the autocratic tendencies of political rule that exist in the country today, sets the stage for what will be analyzed in this text.

Could it be that countries becoming more dependent on China for trade adopt more autocratic models of political control? And if that is the case, which underlying factors are driving these associations? The aim of this thesis is to shed light on important aspects surrounding these questions.

This scholarly debate concerning the rise of China has multiple proponents. Some are not worried about the inner workings of the regime and argue that the rise of China does not undermine the process or policy convergence towards liberal policies (Kahn-Nisser 2022). China-skeptics argue that Beijing's domestic autocratic style of government will lead to the undermining of democracy around the globe (Men and Barton 2011, Bader and Daxecker 2015, Weiss n.d.). Additionally, some scholars

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have looked at whether trade with China has implications on foreign policy alignment. The results show that there is a positive correlation with trade with the PRC and alignment on foreign policy (Flores-Macias and Kreps 2013). However, adjacent literature has looked at trade relations with China and argued that while there is a higher chance of taking an accommodating attitude towards Chinese economic issues, the links to policy are opaquer (Kastner 2016). Thus, a research gap remains.

China's trade practices pose a challenge to the liberal, rule-based *status quo*, according to the China-skeptics. The liberal *status quo* is the set of rules, norms and institutions that constitute the international order supported by non-revisionist states.

However, others argue that while the country does impose a geopolitical threat, the internal affairs of the regime are not that important, compared to their power struggle with other major powers (Kirshner 2012). The views in international literature on what the implication of increased Chinese presence in the global economy will be, are thus conflicting and in need of further analysis. In addition, the perspective on trade in the study of Chinese influence in international politics is understudied, which also makes this topic of study relevant. Therefore, this thesis strives to bridge this need for theoretical discussions of these broad, and mutually conflicting, theoretical perspectives of the mechanisms of international relations, paired with raw data and statistical analysis to give new insights to support the theoretical claims of the actual traditions in question.

Why is the case of China an interesting topic of study? While China participates in international organizations as any other great powers, some scholars argue that some of the motivations of China for participating is to change the international order to reflect its own interests (Strange et al. 2017). For example: In international organizations, Beijing has viewed the US as having a disproportionate influence, and as a response to the *Washington Consensus* has built their own *Beijing consensus* (Ramo 2004).<sup>1</sup>

The question this study addresses is thus whether and to what extent the dependence on China for their trading partners is associated with good or bad governance. Herein, good governance is defined as less corruption and greater respect for human

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<sup>1</sup>The Washington consensus is a set of policy recommendations aimed at developing countries by institutions based in Washington, D.C such as the International Monetary Fund (IMF) or World Bank. The strategies often involve privatization and price stability and a reduced role of the government (Stiglitz 2004).

The Beijing consensus on the other hand, stands in contrast to the former. The term itself is somewhat vague, but it can be understood as an alternative development model to the Washington consensus. Comprising it are for instance the establishment of the China Development Bank, the Export-Import Bank of China (CHEXIM) and the vast Belt and Road Initiative.

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rights. The question is not just academic. Since governance within countries supposedly predicts the nature of liberal economic and political development, knowing whether and to what extent dependence on China shapes governance is a critical question underlying any debate about the consequences of the rise of China.

It could very well be that China is not in a position to cause good or bad governance among its trading partners, in terms of a strictly causal relationship, since the nature of national governance systems is complex and driven by many interrelated factors. However, by researching the association between dependence on China for trade and current governance, one might infer that China could have a larger grip on countries associated with higher trade with it. Considering the scarce magnitude of previous research studying trade as a driving factor for national governance systems, the research gives new perspectives in the study of international politics.

Even though this thesis studies this relationship statistically, it has a clear theoretical dimension regarding the viewpoints it examines. Furthermore, there are different theoretical consequences to different findings. If China associates systematically with bad governance, one may argue that China may indeed be trying to woo friends that are systematically more corrupt. Could this be a challenge to the so-called liberal hegemony of the West that once was projected to shape both China itself and other authoritarian regimes such as Russia in its image?

The theoretical framework of liberalism and realism will be utilized to explain the differences in approaches scholars have when analyzing China's rise and its consequences. These theories should allow us to understand the issue broadly.

Realism holds that international relations is fundamentally about power struggle, while liberalism argues for cooperation through trade and joint membership in international organizations. Liberalism favors trade as an instrument to promote democracy and good governance, while realists argue that "low politics", such as economics, is of less relevance for understanding international politics. While liberals see cooperation as the natural state of things, realists believe that states are motivated by political security and fear the intentions of others. They argue that great powers are locked in power struggles, where measurements of relative power are paramount (Kennedy 1988, Kissinger 2014, Mandelbaum 1988).

Some scholars argue that trade flows are greater between states that share similar interests (Morrow et al. 1998). Power is also not easily separated between economic and military power, thus, the economic interests between states should lead them to cooperate.

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While the backdrop to the issues over the rise of China motivates this study, it is argued here that by assessing how Chinese trade relations with its trading partners has affected levels of corruption and human rights would allow us to understand better what China's rise in the future might mean. How China interacts with their trading partners will therefore be the focus of the analysis in this thesis. To accomplish this, the association between Chinese trade and how important that trade is to recipient regimes around the world will be measured using trade data from the World Bank and International Monetary Fund (IMF n.d.)(World Bank n.d.), which will then be assessed against the levels of corruption and human rights within these countries.

To contextualize the subject, variables such as those presented by the V-Dem research institute will be used (V-dem n.d.(a)). If indeed China prefers interactions with more corrupt countries, then one might infer that Chinese influence should increase corruption around the globe, as would also be the case with human rights violations. The sum of these interactions, therefore, would lead to a less liberal future. This empirical analysis, thus, will indeed indicate how trade with China could affect the world.

## 1.1 Research question

While previous research has looked at arms deals (De Soysa and Midford 2012) and aid (Dreher, Fuchs, Brad Parks et al. 2018, Dreher, Fuchs, Bradley Parks et al. 2022), I aim to assess the aspect of trade in respect to how the rise of China will affect the current world order. To accomplish this, the following research question will be examined:

*Does the rise of China threaten the liberal world order?*

My empirical operationalization for answering the research question is to assess the association between trade dependence on China and levels of corruption and human rights using time series cross sectional data.

## 1.2 Structure

The text will begin by first looking at the relevant theories of realism and liberalism. Then, previous research and the argument as to why trade is empirically suited for addressing the larger questions posed by the rise of China will be introduced. After these elements, the section on autocracies and China's rise will illustrate what makes

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this case particularly interesting.

Chinese trade patterns and the concept of capitalism with Chinese characteristics will then be explored to illustrate some of the domestic workings of the country. Then a discussion on governance follows, before delving into the causal mechanisms that are at play behind the empirical link in this thesis. This sets the stage for the hypotheses and the methodology and research design. Finally, the empirical tests and the accompanied results will be presented before ending the thesis on discussion of the findings and any future implications.

## 2 Theory

In this section, I will present the two opposing theories of liberalism and realism. I will explore these two main schools of thought in international relations to assess what theory can predict about the rise of China.

### 2.1 Realism

In international relations, the tradition of realism holds a strong presence. As arguably the longest standing theory to explain global competition, the roots of this school of thought goes back two and half millennia. The classical thinkers Thucydides from ancient Greece and Niccolo Machiavelli from the period of the Italian Renaissance arguably introduced the basic principles of realism. Thucydides, in his work *The History of the Peloponnesian War*, discussed the underlying mechanisms of the war between the city states of Sparta and Athens. Herein he introduced one of the basic principles of realism, namely *balance of power* (Genest 1996, p. 46).

Proponents for the principle of *balance of power* argue for the even distribution of two or more states, or a coalition of states. If there is such a distribution of power, neither side will have the confidence of victory if conflicts were to emerge between them. These conditions also presume that there is a hesitation of utilizing military powers to quell their differences with other states (Genest 1996, p. 46).

In the more modern context, thinkers like Thomas Hobbes, Hans Morgenthau, Kenneth Waltz, Michael Mandelbaum, Samuel Huntington and many others have contributed significantly to the school. Though many variants of realism exist, there are some main characteristics that are shared. According to realist thought, states are the primary actors in international relations. Samuel Huntington argued that they



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are the "...only important actors in world affairs" (Orsi 2018). In the same framework, the relationship between states is one of anarchy. In this context, anarchy is not to be understood as chaos, but lawlessness. According to Michael Mandelbaum, every state needs to protect itself from outside attack because there is no supreme international system to police states (Mandelbaum 1988, p. 1). This absence of a major ultimate authority leads to a lack of guarantees for states. Though liberals do not deny that states can be invaded and conquered, realists focus on the potential and thus consequences of war. In the case of China, seen from a realist view, one can thus understand its rise and increased global influence as ultimately a zero-sum-game, where China gains influence whilst liberal states lose proportionately.

In this thesis, the distinction between realism and liberalism is utilized to shape a discussion on whether the rise of China can challenge the *status quo*. But within realism itself there are different approaches to the rise of China. The tradition can be divided between the classical and structural schools of thought. According to the classical realists, the international order is maintained from the balance of power. Neo-realists would argue that the competition of great powers is what makes the international order (Kirshner 2012). This stands in contrast to the liberal theorists that would argue that the order comes from organizations and institutions and has an economical approach to understanding human nature.

Mandelbaum argues that in the 18th century Europe, there was a balance of power between states. This balance meant that even though each of the states were viewed as self-interested, and wanting more power over the others, none of the states were successful in gaining mastery of the others. When some states threatened to gain dominance, the other states thwarted the attempt at hegemony by allying themselves together (Mandelbaum 1988). Mandelbaum argues in line with the neorealist school when he utilizes as a fundamental assumption that the security police of a state is resolved upon it by the international system. Following from this logic, two similar states in domestic terms, but different in their relation to the outer international system, will output different security policies.

One aspect that worries realists about the rise of China, is the propensity of states to project power abroad. According to Hans J. Morgenthau, it does not matter if the domestic qualities of the state are capitalistic or communistic, modern or ancient. There is a propensity of powerful states to project outside their borders. Indeed, this is present in all states, he suggests. In the discussion of the international power struggle, he argues that there are "...elemental biopsychological drives to live, to propagate, and to dominate are common to all men..." (Mandelbaum 1988, p. 134).

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To summarize, the most important characteristic of realism is the focus on the state as the unit of measurement. The states act after their own self-interest and view their own survival as their number one priority. The balance of power in relation to other states in the international system is viewed as paramount. However, though they are worried about the rise of China, they do worry because of the autocratic nature of China. Here, liberals disagree. They argue that the democracies act in a different way. Before discussing liberal theory, I will introduce some aspects of realism that are relevant to understanding the rise of China.

## 2.2 Security dilemma

There are several aspects of realism that have great relevance in studying international politics in general and studying the rise of China specifically. One of these is the core concept of security dilemma. It illustrates the conundrum states face when trying to expand their military capability. The concept of relative gains, discussed in section 2.13, argues that self-reliance can trump absolute gains. States face a dilemma of self-help. If they pursue their own security by expanding their military power, insecurities will rise among other states that there is a potential offensive build up. Paradoxically then, what one state does in motivation to enhance its own security, can lead to an arms race ultimately ending in conflict. The security dilemma thus challenges the notion of balance of power in the international system (Glaser 1997).

To illustrate the security dilemma that states face, one can look at the situation China finds itself in today. The country is rapidly expanding their navy. In fact, in numbers of hulls, they are already ahead of the American navy (Forbes n.d.). Will this prompt the US to invest significantly more into its military, and in the coming decades widen the gap in capabilities in relation to China?

## 2.3 State behavior

There are two different approaches to explain state behavior. One is the *inside out* approach. There is a tendency among strong states to extend what Mandelbaum calls the "collective self". This is the wish of states to proliferate its domestic characteristics among the international system. However, the approach of looking at states from an inside out perspective does not explain the irregularity of strong-state expansion. To deduce the pattern of behavior simply from the power a state wields is not sufficient the collective self-view of states. Here, the *outside-in* approach

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is more appropriate. The anarchic international system pulls the powerful states beyond their own borders. According to this explanation, one thing tends to lead to another through a distinct interconnectedness. Thus, there is a tendency for *chain reactions*. To explain this, the analogy of domino pieces is utilized. If one piece is allowed to fall, the chain reaction of the international system leads to the other pieces following. According to realism, these can explain the foreign policy choices of many a great empire or states, from the Roman Empire to the present day (Mandelbaum 1988, p. 163). Put simply then, according to realists, the world acts according to the principle of: "It is better to be safe than sorry".

## 2.4 Neorealism and classical realism

The internal differences in the approach to China's rise within the different schools of realism can be shown by looking at neorealism versus the classical approach (Kirshner 2012). Neorealists argue that states operate within an anarchic international system and are inherently competitive. The core driver for states according to them is the desire for security and power. Because of the view that states seek more power, offensive realists argue that the expansion of Chinese military capabilities, such as its vast expansion of their navy (Endaw 2021), is a consequence of this seek for power. Therefore, the preferred policy choice would be one of containment, or at least a policy of balancing against the new might of China. Here, expansion of alliances and working to countervail the regional influence of China, could be policy recommendations by neorealists, particularly an offensive neorealist. For clarification, offensive realism belongs to the neorealist school of thought (Kirshner 2012).

Structural realism, or neorealism, categorizes itself as utilizing a scientific approach. This approach to realism utilizes the anarchic world system as an axiom. Some argue that neorealism is not a theory, but an approach or paradigm. This argument is pointing out that neorealism is one part of a larger set of theories within international relations. Nevertheless, the approach obtains predictions of state behavior. It is labeled as structural realism because according to these scholars, "States weigh options and make decisions based primarily on an assessment of the external environment and their strategic situation." (Elman et al. 1995). Put simply, the argument they propose is that the international system, not the states themselves, is what dictates how states act.

According to Jonathan Kirshner, the approach taken by the classical realists stands in contrast to the former. However skeptical the classical realist is to the prospect of a rising power; their policy recommendations should be rooted in accommodation,

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according to the scholar. This is based in three core principals of the school:

First, classical realists emphasize acknowledging the reality of power. Secondly, they oppose the view that one should always defend the status quo world order. This stands in contrast to the policy recommendations by offensive realists, who view containment as an option when it comes to China. Third, they emphasize that politics matter, therefore the future is largely unknown (Kirshner 2012, p. 54). Classical realists emphasize the states themselves to a larger degree, and the human nature behind the actions leaders can take (Kirshner 2012). The last point especially contrasts to the view of structural realists. Classical realists view the choices of states, and especially great powers to be in a position of considerable discretion when it comes to what strategy they choose. Instead of only focusing on the outer structure, the domestic factors also are weighed in this school.

To sum up, the view of a confrontation with China differs between the two schools of realism. According to classical realists, it would be costly and risky to contain China. To illustrate the cost, the argument of the vast export value of China's trade is relevant. However, their imports are also vast, reaching almost to the level of the United States (IMF n.d.). Therefore, the consequences of a conflict with the country would be catastrophic for many other exporting nations to China. Classical realists argue that accommodation of the new rising power should be viewed as the preferred policy choice. According to Kirshner, the structural realist cannot utilize this flexibility of looking at more variables, such as history, ideology, and domestic aspects of a regime's policies (Kirshner 2012, p. 67).

How do realists judge the internal workings of states? For neo-realists, domestic factors do not get the attention the larger international system does. Others, like Michael Mandelbaum, argued that the cost of security policy is vast and at the mercy of a state's domestic order.

An example of why one can argue that the domestic nature of regimes matter, is the placement of troops on the European continent during the Cold War. For instance, the troops that were stationed in Western Europe after the Second World War were approved by the hosting countries. The hosts felt that they were stationed not to repress internal opposition, but instead to defend the countries' respective borders. This was not the case with the Soviet Union's stationing of troops. Instead, internal uprisings such as those in East Germany, Hungary, Czechoslovakia and Poland characterized this period. Nothing of this sort took place in the Western countries that hosted the American troops (Mandelbaum 1988).

To summarize, liberal theorists have argued that after the third wave of democracy

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there has been a change towards norm-based actions in global power politics. Liberal democracies stand together because of a shared interest in upholding their shared identity that is molded by their view of respect for human rights and liberal norms that maintain peace (De Soysa and Midford 2012, p. 844).

Realists oppose this view. They argue that, in aggregate, the relative power of states is the main factor that shapes how they act. When great powers make decisions, the "logic of consequences" gets prioritized over what is appropriate. In the view of realists, the actions of the US for instance, are derived from self-serving objectives and strategy interests.

By and large then, if realism is right about the temporary nature of trade relations, then one might assume that looking at trade dependence on China of the past decades will allow us to assess the degree to which China has shown an interest in more corrupt regimes. This interest in corrupt regimes, thus, would be one way in which China uses trade to buy geopolitical friends to balance the power of current and potential rivals. Another way of putting this is that assessing where Chinese trade is important will allow us to understand better what a future Chinese hegemony of the world will look like.

Before presenting the theory of liberalism, the thesis will progress by discussing some of the weaker aspects of realism.

## 2.5 Critique of realism

Though at the forefront of international politics, realism has its *pros* and *cons*. The simplistic nature of the theory does not grant decision makers the choice of utilizing normative judgments. Realism's focal point is how states do act, not how they ought to act. The paradigm of realism grants statesmen with pure academic approaches to complex issues in the real world. Ironically then, the term *realism*, grants a rather simple set of approaches that have few variables which appears in stark contrast to policy-issues faced with a complex set of actors and outcomes.

The self-proclaimed scientific approach of realism is contrasted with liberalism by Robert Gilpin. He argues that in mercantilism, politics determines economics. On the flip side of this, liberalism is in his view normative as it holds that economics should determine politics (Morascsik 1992, p. 3). To many realists, economics is viewed as *low politics*. Liberals argue that economics is more than just *low politics* and would contend that realists emphasize the aspect of conflict to a too large degree. In the modern context, liberals emphasize the role of cooperation through trade and

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international organizations. This expansion of cooperation is largely ignored by realists, they argue (Genest 1996, p. 50).

When it comes to the axiom of anarchy that realists utilize in their analyses, critics argue that this explanation of the world is not satisfactory, as its core principles are broken by the intricate linkages between states today. Thus, the unit of analysis also gets criticized. States are not the only interesting actors on the world stage, liberals argue. Additionally, the way in which the unit of states are measured is critiqued. In the realist approach, states are to be viewed monolithically, where actions are undertaken solely for the interest of the nation. Liberals argue that politics are molded by both internal and external factors that lead to more dynamic cost-benefit equations for statesmen than realists contend.

Additionally, realism lacks adequate explanations for peaceful change. In the international system, change only happens as a result of or as a catalyst of conflict, they assert. However, the realist framework will have issues granting sufficient explanation the fall of the Soviet Union using this framework. As a response to the critique, realists would likely point to the multiple conflicts that are still rampant in many parts of the world, thus, the international system might not have fundamentally changed (Genest 1996, p. 51). Critics of realism when it comes to how to explain the implications of the rise of China, would argue that as trade between countries increase, the future of the great power will also be tied to this trade, leading to a convergence of interests rather than conflict.

Next, the theory of liberalism will be introduced. Liberals expect democracies to behave in a particular way, where good governance is promoted. Particularly relevant to this thesis, is the fact that they argue that peace and stability between states can get promoted through trade. China remains an autocracy, and the question becomes whether its rise and accompanied trade dependence will lead to what can threaten the liberal world order.

## **2.6 Liberalism**

The liberal school of thought largely focuses on economic factors to explain relations between states. Proponents of the theory are likely to believe that economic realities play a critical role in shaping political interests. Additionally, a core principle that often gets emphasized is the freedom of the individual. Liberalism has been at the forefront of modern politics in the West. Scholars have portrayed the theory as an optimistic approach to human nature. However, there are many different starting

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points and disagreements within liberalism, and some are more skeptical to the premise that peace can be "created" by it (Haar 2009).

According to the scholar Michael Doyle, there are three core rights that make up the foundation of liberalism. What is often called "negative freedom", or the freedom from arbitrary authority includes free speech and a free press. Negative freedom also includes the right to exchange and hold property without a fear of arbitrary seizure (Doyle 1983a, pp. 206–207). "Positive freedoms" are also necessary to facilitate capacity and opportunity of freedom. Positive freedoms can be defined as "freedom to", which essentially are rights. These can be economic and social rights such as rights to healthcare, employment, or equality of opportunity within education. Thirdly, democratic participation and representation are essential rights that allow for the negative and positive rights to exist.

These rights are at the core of liberalism. They are relevant because if trade with China leads to bad governance, the citizens of a future world order may not experience them.

Within liberalism, there is a schism between the path to individualism and social order. Here, one can argue that the distinction lies between the extremes of "laissez-faire" on the one side and of social welfare on the other. These two directions within liberalism share four essential institutions. First, is the judicial equality and civic rights. Second, the sovereign authorities of the respective regimes derive their authority from the electorate. Perhaps most relevant for the effect the school has on international relations, the state itself, if liberal, is not subject to external authorities nor to internal authorities such as monarchs. Third, the economy functions because the recognition of private property is being upheld. The fourth point is that the main economic decisions are a result of supply and demand (Doyle 1983a, p. 208).

While both of the two directions share these institutions, the way in which "laissez faire" tries to accomplish this is through constraining the role of the state. Proponents of this approach to liberalism, such as Friedrich A Hayek, emphasize minimizing state intervention (Caldwell 1997, p. 1858). The social welfare direction emphasizes the role of the state and is more careful about the private market and argues for more constraints for it. Regardless, liberals see markets as useful because of the profit motive, and view war and geopolitics as costly, hurting profits and progress. In this sense, powerful actors should avoid costly conflict and promote mutually beneficial activity, such as trade.

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## 2.7 Liberalism and international relations

Is liberalism second to realism in regard to international relations? Doyle argues that there is a tendency among citizens in liberal states to be so occupied with domestic policies that foreign relations are to a certain extent ignored. Also, when it comes to diplomats and scholars, the difference between states appears so distinct from domestic affairs that liberal arguments are often ignored. Instead, international relations are in their view governed by realist concepts such as balance of power and the security dilemma. From this perspective then, liberal values either interfere with the pursuit of the policies of balance of power or are ignored. Doyle argues that both these views misinterpret liberalism, though one crucial aspect gets appreciated in both. This aspect is the fact that liberalism is a distinct array of institutions that have shaped the "...perceptions of capacities for foreign relations of political societies that range from social welfare or social democratic to laissez faire" (Doyle 1983a, p. 206).

The basic position of liberal international theory is that states have a right to be free from foreign intervention. This is grounded in the fact that citizens have the right to liberty. If then the states in the international system respect these rights, they create a foundation of relations where profitable exchanges between them can be exercised. In relation to the rise of China, increased interdependence and trade should lead to stability in international relations, liberals contend. However, liberal states are not inherently peaceful. On the other side, the realist position arguably struggles to explain the peace between liberal states.

## 2.8 Interdependence

Interdependence lies at the core of the argument liberals bring to the table in international relations. The idea was originally brought forth by thinkers like Montesquieu, Smith and Ricardo (Knutson 2016, p. 217). The main argument of interdependence is a potential for integration and cooperation through international institutions. In contrast to traditional realism, proponents of interdependence challenge the primacy of military might because they hold that the economic factors weigh heavily at the incentive structures of decision makers. The argument for interdependence will be used later regarding treasuries that China buys with its funds from their export surplus.

From a liberal perspective, trade can lead to an export of liberal institutions. According to these scholars, this manifests by trade convergence. Increased trade can



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generate an interdependence between countries, which facilitates the spread of liberal institutions (Kahn-Nisser 2022, p. 546).

## 2.9 The downside of interdependence?

Spearheaded by Germany, the EU has invested heavily into Russia. After the Russian annexation of Crimea in 2014, some sanctions against high tier technical equipment were implemented. However, the cooperation increased in the following years (Krickovic 2015, p. 16). The cooperation in regard to the natural gas pipeline "Nord Stream 2" is an example of this. The liberal approach of interdependence, especially relevant in the energy markets, did not go according to plan (Krickovic 2015). Instead, a security dilemma materialized. This arguably occurred because both sides were worried that improving their own security would adversely affect the other party. Arguably, this shows the downside of interdependence. The realist view of states that prioritize their own security over cooperation with others, might be a more valid analysis of this case.

Another example of failed interdependence is the case of Nazi Germany, where the country set out to make the smaller regimes in East and Southern Europe trade dependent on Germany. One can for instance point to the fact that some of these deals were unfavorable to Germany, and even still they pushed the deals forward to gain political leverage. Later, they could use these deals to advance their interests by for instance threatening to cut off these deals, which the other party was dependent on. Therefore, this interdependence is arguably an example of asymmetrical interdependence. In a symmetrical relationship, states are not likely to face such subjugation. However, according to Katherine Barbieri, relationships where dependence is limited is the most likely to quell conflicts. A limited dependence in this sense means that the trade between the two countries is lower in relation to their GDP (Krickovic 2015, p. 6). In regard to many smaller trading partners, where Chinese trade makes up a significant amount of their GDP, China-skeptics can argue that their relationship can be leveraged in favor of the PRC later on. Such a debate revolving Chinese debt in developing nations, will be discussed later in this thesis.

There are also differences in corporate governance for Western and Chinese companies, according to Leif Wenar. Though Western companies aren't altruistic in nature, they have to comply to a different standard than companies headquartered in other regions. Wenar argues that Chinese shadow companies can operate in the dark, meaning they are not accountable when it comes to environmental safety. They are

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also more inclined to trade with corrupt regimes and have poor working practices (Wenar 2015, p. 29). This means that, because Chinese firms do not seem to follow liberal principles, it is expected that dependence upon Chinese trade will lead to a worse outcome in governance.

Next, the arguments for democratic peace theory will be discussed. This theory is relevant because it argues that democracies promote peace. The rise of the autocratic China might represent a destabilizing force, according to this theory. Though the arguments of democratic peace theory seem solid when it comes to mutual relations between democracies, the relationship between democracies and autocracies seem less rigorous.

## 2.10 Democratic Peace Theory

Though electoral democracies have increased in numbers since since Fukuyama wrote "The end of history?" (Fukuyama 1989), liberal democracies have decreased (V-dem n.d.(b)). Electoral democracy is a minimal definition of democracy, therefore the threshold for the categorization is lower than for liberal democracies (Mello 2014). Thus, the terms liberal and democratic states will be used interchangeably. Also, in recent years, there has been a global tendency of democratic decay (Daly 2019). In his article, Fukuyama argued that the end of the Cold War represented "an unabashed victory of economic and political liberalism". However doubtful this victory can seem when looking at this democratic drawback of the last decade or two, there is an apparent success in the domestic affairs of liberalism. This is the case even despite the differences in approaches within the theory. When it comes to the record of liberalism's foreign relations, these are more obscure. Put differently, there is a distinct difference between the liberal practice toward mutually liberal states, and the liberal practice towards non-liberal states (Doyle 1983a, p. 213). Theoretically, the reason for the tendency of peace among democratic states is the fact that when mutually democratic states interact with each other, they apply their domestic norms outwards. This emphasizes negotiation and compromise. The second group of arguments evolve around institutions. According to this explanation, democratic states are peaceful with each other because their elites are accountable to various legislatures and bureaucracies in addition to their citizens and other formations. Here, decision-makers are viewed as restrained, because they weigh their reelection considering chances for reelection as paramount (Mello 2014). Decisions about war and conflict can of course lead to deadly outcomes and can have a pivotal effect on public perception of leaders.

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This track record, however preliminary in the grand scheme of history, might indicate that there is a predisposition towards peace among democratic states. Examples include England and the northern states in America which were on the cusp of war during the American Civil war. Despite their disputes, ultimately, there was no war between the two parties. In the times before the First World War, France and England, liberal states, formed an entente against the illiberal state of Germany. Another example is the fact that, even despite the history of tension between the English and Americans, the latter supported Britain during the First World War. Despite their historical differences, there seems to be a tendency among democratic states to wind up on the same side in conflicts. However, there are also examples of conflict between democratic states. Some examples are the Spanish-American war (Doyle 1983b, p. 333), the Lebanese involvement in the six-day war in 1967 and conflicts between Equador and Peru (Doyle 1983a, p. 213).

In the case of this thesis, it should be noted that democratic peace theory cannot fully explain the rise of China. Liberals expect democracies to behave in a particular way. During the end of the Cold War, policy makers and scholars argued from the standpoint that democracy is necessary for peace. In line with democratic peace theory, they contended that China would become a democracy through increased trade and cooperation (Fukuyama 1989). Increasing trade and cooperation should lead to less conflict, they argue. However, China remains an autocracy to this day. Therefore, democratic peace theory does not fit with the example of China. Instead, realism might provide a more accurate model in this case.

Next, the liberal argument of why institutions matter, will be introduced. Scholars argue that inclusive institutions are a prerequisite for good governance. But could it be that good governance was present before the institutions? That is the question the critics pose.

## **2.11 Institutions**

To assess whether China is challenging the liberal status quo, this thesis will utilize the arguments from the researchers Daron Acemoglu and James Robinson. They contend that in order to prosper, a nation needs what they call "inclusive institutions" (Acemoglu and Robinson 2012, p. 79). These institutions can be described as a set of rules and mechanisms that lead to inclusion of a broad part of society, both when it comes to political and economic procedures. Simply put, they argue that good institutions are those laws and norms that motivate economic actors to do hard work, be productive and thus enrich both themselves and their respective

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countries (Cesaratto 2012). On the opposing end sits what they call "extractive institutions". These rules and norms concentrate the spoils of wealth and power within a few ruling elites. Extractive institutions lead to economic opportunities getting stifled and generate a systemic privilege for the elites while suppressing the rights of the populace (Acemoglu and Robinson 2012, p. 79). When it comes to Xi's regime in current China, extractive political institutions are present, but economic institutions have been made "partially inclusive" as described by Acemoglu and Robinson (Acemoglu and Robinson 2012, p. 426). This will be explored later in the section on Capitalism with Chinese characteristics.

Inclusive economic institutions allow and encourage economic participation by a great mass of people in activities that maximize their potential. This leads individuals to make their own choices of where to spend their skills and talents. Such inclusive institutions foster secure private property, an impartial justice system and public services that make for a level playing field. This means that people are able to form new businesses and choose their own career paths (Acemoglu and Robinson 2012, pp. 73–75). There are many revealing examples of this, liberal scholars argue. For instance, the difference in economic development between North and South Korea is startling, even though they are positioned adjacent to another. From inclusive economic institutions, follows a growth in productivity and prosperity. If a member of the merchant class expects his labor output to be stolen, his incentive to work, invest or innovate is muted. In a country with extractive economic institutions, earners are not motivated to work hard to then invest domestically if the opportunities for profits are muted.

There are many examples of poor economic institutions. Business associations in the US have complained that intellectual property rights protections (IPR) in China have substantial problems. The US Congressional Research Service argues that counterfeits made up 15% to 20% of the aggregate products made in China and equate about 8% of their GDP. In the long run, the growth of the Chinese economy could be hampered by these extractive tendencies. Liberals argue that stifled competition and elites that manipulate the markets will decrease incentives to contribute to the economy. This can also manifest itself with corruption and rent seeking by elites that can thwart entrepreneurship. In less developed countries, the cost has been significant (Baland and Francois 2000).

What causes these institutions in the first place? Acemoglu and Robinson argue that political institutions are the result of societies. In North Korea, a communist authoritarian rule has forged the countries institutions. In Latin America, the institutions were foisted upon the people by conquistadors of Spain and Portugal. Their

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argument then, is that institutions are molded by politics. The authors argue that politics can be defined as "...the process by which a society chooses the rules that will govern it." (Acemoglu and Robinson 2012, p. 79).

This institutional argument is criticized by Jared Diamond. He argues that there are problems of endogeneity in this approach. Because there is a need for strong institutions to facilitate economic growth, there can be a problem with distinguishing what explains the emergence of these institutions in the first place. According to Diamond, geographical differences have larger explanatory power. One argument is the difference in tropical and temperate shows a schism when it comes to the respective income levels of the warmer and colder climates (Cesaratto 2012).

Now that the institutional argument is presented, the thesis will progress by looking at austerity policies. These can be destructive towards poor nations, liberals argue.

## **2.12 Liberal view of austerity**

This thesis examines the effect of trade dependence on China. Here, it is argued that the poorest group of countries are more likely to be trade dependent, as one sector or market is more likely to make up a substantial part of their GDP. Therefore, the view liberals have on austerity policies in regard to trade deals will be explored. The liberal argument is that the loss from a potential deal is so big to a poor country that they cannot afford austerity.

When poor countries enter into trade agreements that require austerity, this can lead to negative economic consequences. Austerity policies involve cutting public spending, welfare and implementing reforms of bureaucracies. At least in the short term, this can lead to social unrest as government services are being cut. In poor countries where resources are limited, such measures can worsen poverty and inequality, which further hampers growth prospects for the respective country. Thus, the cost from austerity measures can outweigh the potential gain from some trade deals. This is also because of the presence of unequal bargaining power. Poor countries can enter into agreements from a disadvantaged position. This can lead to accepting trade terms that are less favorable, including provisions that maybe necessitate austerity.

The liberal argument would probably focus on economic freedom and market efficiency. Accepting unfavorable trade deals could lead to distortions in the market, they would argue. Restrictive trade deals are thus a hindrance to the freedoms that liberals contend are a necessity to promote growth and prosperity. However, there is an interesting conundrum for the liberal scholars in this regard, as typically, the

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classical argument would be to favor fiscal discipline and free markets. However, in the modern context, there is a debate between neoliberalism and social liberalism, who emphasize different aspects. The former would likely argue for liberalization and reducing of state intervention to attract investment. On the other hand, the latter view governance as important, for instance through strong institutions that can increase social safety nets (Beitz 1999).

Now that the theoretical groundwork of liberalism is laid out and contextualized, the potential weaknesses of the theory will be discussed.

## 2.13 Critique of Liberalism

Liberals who focus on transnationalist approaches within both institutions and economics emphasize the harmony of interests. Critics of the theory argue that there are a multitude of factors, domestic and foreign, that shape the cooperation between states. The critics, often realists, point towards three main points: *human nature*, *security interests*, and *economic cooperation* (Genest 1996, p. 138). Realists focus on the conflictual aspects of interests between states. For state actors, this mistrust can undermine the perceived gain from potential cooperation. The argument of nationalism also gets dismissed too easily by liberals; realists argue. Throughout history, religion and ethnicity have been the base of conflicts between nations. According to Samuel Huntington, these arguments weigh more heavily than ideology does. He argues that in the post-Cold War world, coalitions between East and West have loosened, and states are free to pursue their self-interest to a larger extent. This self-interest is often molded by ethnicity and nationalism which are unpredictable factors that liberals do not sufficiently consider (Genest 1996, p. 138). Critics also point out that states do not always go after collective gains consistently. Cooperation over the long term is complicated by a myriad of factors, and states, which classical and neoclassical realists concede are molded by the individuals that lead them, sometimes are persuaded by relative gains. In contrast to absolute gains, self-reliance can be a disproportionately large priority by leaders. If the gains are dependent on cooperation, the mistrust between actors can thus outweigh the potential benefit, they argue (Genest 1996, p. 139).

The second point of criticism leveled upon liberalism, is in regard to national security. Here, the axiomatic differences of self-interest and collective interest are illustrated. The failure of the League of Nations prior to the second World War to stop the rise of Hitler and fascism is a prime example of the problems of collective action, realists argue. To counter this, liberals could argue that the structure of

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the League of Nations had some inherent limitations. For instance, there was an absence of major powers in the league, namely the United States and The Soviet Union. Additionally, proponents of democratic peace theory could point to the prevalence of authoritarian regimes at the time, which according to them, increases the chance for conflict (Genest 1996, p. 139).

Realists also critique the notion of what they view as "low politics", such as social, economic, and environmental policies have risen to the level of national security on the list of leaders' priorities. Though realists concede that the world is more complex today and these attributes play a role, they remain minor to the main priority of survival. In line with a core tenet of realism that the international system is one of anarchy, liberals can agree to an extent. However, they argue that the presence of transnational institutions and interdependence has made the world system more cooperative than before. To conclude, liberalism seems to have fitting explanations when it comes to aspects such as peaceful transition and cooperation between democratic states. However, when it comes to the persisting prevalence of conflict and autocratic regimes, there might be some limitations in the theory, at least according to realist critics.

In this thesis, the aim is to assess whether there is a relationship between trade dependency upon China and poor governance. Therefore, the theoretical foundation of trade dependency will be explored next.

## **2.14 Trade dependency and conflict**

In a contrasting view to that of classical economics where it is theorized that all countries eventually will become developed, Gunder Frank argues that this is assumption is erroneous. Instead, there exists structural exploitation in the wake of the colonial powers that thwarts the growth of developing countries (*Development and underdevelopment* 2014, p. 283). In trade dependency's theoretical framework, the unit of analysis is relations between societies, as the sets of such relations form the world system. Developmental studies of such nature thus utilize a holistic approach of analysis. If the relation of two or more different societies output inequalities, this level of analysis can make researchers understand poverty and wealth. Dependency theorists argue that the basic state of relations between societies is an exploitative one (Friedmann and Wayne 1977). Could this be the case when it comes to China and its trading partners?

In this analysis, the recipient of Chinese trade is the primary unit of analysis. This

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is because the thesis is assessing if the rise of China will shape a new authoritarian, or at least non-liberal, world order. This outcome should manifest in its trading partners. However, the proponents of trade dependency argue that trade leads to monopolies and does not spread goods equitably across societies. Thus, in contrast to liberals, they argue that the state of a mature capitalistic society is one dominated by a few corporations. This, they argue, is an economy of stagnation (Foster and McChesney 2012). Therefore, they do not agree with the presumption that increased trade and competition will lead to less conflict. Instead, they argue that it leads to economic upheaval. As the developed rich nations are the commanding actors when it comes to manufacturing and technology, the poor developing nations are dependent upon their primary industry export.

One example of an operationalization of this theory can be if we want to know if Nigeria and Botswana will vote with China in transnational institutions. If the dependency on China is low in one or both countries, the effect is expected to be that they will not vote in favor of China. In effect, the intuition here is that the more dependent a recipient country is upon China, the more effect trade will have on governance.

## 2.15 Critique of Trade dependency

The proponents of trade dependency being a major driver of the weak governmental scores of many developing nations, argue that the scars of the colonial times have deeply lasting consequences. Additionally, they argue that in the modern context, rich developed nations engage in *neo-colonialism* in an exploitative relationship with poorer regimes. Though these factors have played a role, there seems to be some inherent flaws in the approach as well. As will be illustrated by the section on corruption later in this dissertation, the well-intentioned actors from developed nations trying to combat corruption have had limited success. In fact, in some areas where there have been reforms and policy advice from abroad, corruption has increased (Persson et al. 2013, p. 454). There are deep rooted causes that policy advisors likely will have to struggle with for a long time. This, unfortunately, can also be the case with the poor governmental scores of the countries that according to these scholars, are being exploited.

Now that the theoretical groundwork has been laid, the text will progress by looking at previous research. Arguably, there is a research gap because even though there has been many academic works on Chinese aid and some that look at weapon transfers, the effect that autocratic regimes have on governance in recipient trade partners is



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still unclear.

### 3 Previous research

An optimal way to gauge the influence of a great power, is to assess the extent of its interactions with others. These interactions can be measured as political interactions, as economic interaction or through military alliances. Economic interactions might be best judged by looking at trade relations and investment and as aid granted by a great power. However, the current knowledge about authoritarian trade patterns and the political determinants of Chinese trade is not vast. By addressing the empirical gap and broadening the literature on the rise of China and its implications, this thesis aims to contribute an addition to the understanding of these mechanisms. Through the following quantitative investigation, this text will look at whether trade with China leads to poor governance among its trading partners.

The research frontier has recently been pushed forward by looking at China through the lens of aid. The Beijing regime argues that their foreign policy follows a noninterference policy in the affairs of other sovereign governments (Dreher, Fuchs, Brad Parks et al. 2018). Thus, foreign aid allocations are executed without considering the implications of institutions in the recipient countries. This is at least true if one were to accept the claims of Beijing. Some Western observers are skeptical to these claims and argue they might be convenient excuses to engage economically with corrupt autocracies (Alden 2005). Chris Alden argues that the "no strings attached"-approach taken by Beijing is appealing to many regimes in Africa, and that the Chinese Communist Party (CCP), is thus admitting that their competitive advantage versus Western actors, is the willingness to engage with such regimes (Alden 2005, p. 418). Chinese policy of non-interference, thus, might be hiding China's desire to aid autocratic regimes to build geopolitical support.

Stern Halper also echoes this skepticism towards Chinese foreign aid. He argues the strategy is designed to buy allies in the Global South. And according to Halper, the Chinese strategy is working. For instance, the aid arsenal of Beijing thwarts that of its island neighbor Taiwan. Arguably, this could be one of the reasons for the fact that Senegal, Chad, and Malawi are cutting diplomatic ties with the Taipei regime. As of 2010, only four countries in Africa recognized Taiwan's independence, though this matter is complex and even the US' official position is not to acknowledge the Republic of China, or Taiwan, as independent (Boon and Sworn 2020). The strategy of alliance-building with states shunned by Western counterparts has led

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to a coalition of actors willing to vote in favor of Beijing on the international scene (Halper 2010, p. 101). This is part of the rationale behind the claims that "Chinese aid props up rogue regimes and delays much-needed governance reforms" (Dreher, Fuchs, Brad Parks et al. 2018, p. 185).

The research on Chinese aid has revealed that the regime is one of the least transparent major donors. After the turn of the millennium, Beijing altered its aid spending to be more debt-based. Between 2000 and 2014, only 23 percent of the overseas spending of the regimes was in line with Organization for Economic Co-operation and Development's (OECD) definition of official development assistance. According to the authors, China acts in line with many of its major Western counterparts when it comes to aid allocation, namely focusing on a country's per capita gross domestic product (GDP).

Sara Kahn-Nisser researched something akin to what is being empirically assessed here, namely whether the rise of China can undermine the "trading up"-practice of the European Union. This trading up is manifested by the export of human rights practices, and she finds that there is no indication that export to China undermines the EU's policies here. However, the research gap on governance as a whole persists, as she does for instance does not look at corruption. Additionally, she does not assess whether trade dependence on China is associated with poorer governance, but rather if this hampers the effects of trading up when interacting with the EU (Kahn-Nisser 2022).

The findings of (Dreher, Fuchs, Brad Parks et al. 2018) indicate that when it comes to traditional aid, or Official Development Assistance (ODA), China does not allocate aid to acquire natural resource wealth. When it comes to the largest part of the aid basket, which is market-oriented loans, or Other Official Flows (OOF), Beijing acts in line with many Western donors, where GDP per capita is a major variable for anticipating where the money flows.

Aid research also points towards some inherent flaws of this assistance. William Easterly argues that there is a fundamental difference in what he calls "planners" and "searchers" (Easterly 2006, p. 5). In the frontier of foreign aid, Planners, often represented by bureaucrats, can have good intentions but do not manage to motivate their agents to realize these intentions. Searchers on the other hand, resemble markets. These actors find ways to carry out plans and achieve rewards for doing so. Bureaucrats accept little accountability, while market actors do. When poor people require medicines, the supply chains are made up by Planners, but when rich people want to buy a product, it is readily available almost anywhere, due to

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Searchers, he argues.

Instead of aid, I suspect that looking at trade is more important. The argument for this will be presented in the following section.

### 3.1 Trade

Though aid is of interest when analyzing power projection, trade is enormous in comparison. In 2021, the aggregate value of exported goods globally was at 22.3 trillion US dollars. At the same time, net official development assistance, or official aid received globally, stood at 202 billion US dollars.

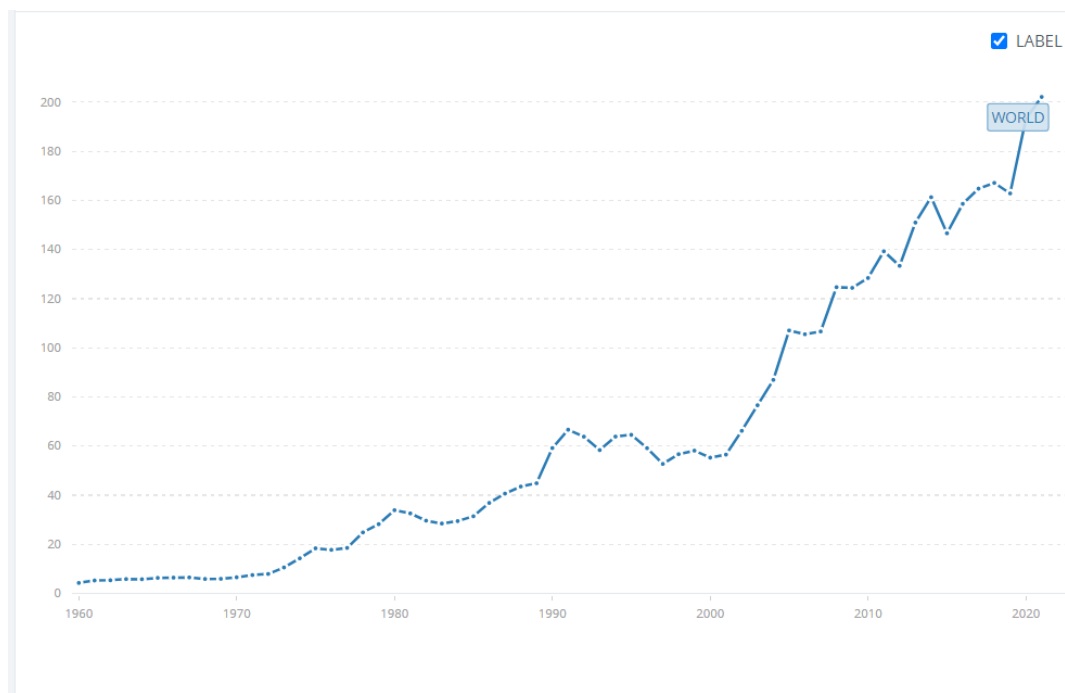


Figure 1: Net official development assistance and official aid received (In billion US dollars) .

Source: <https://data.worldbank.org/indicator/DT.ODA.ALLD.CD>

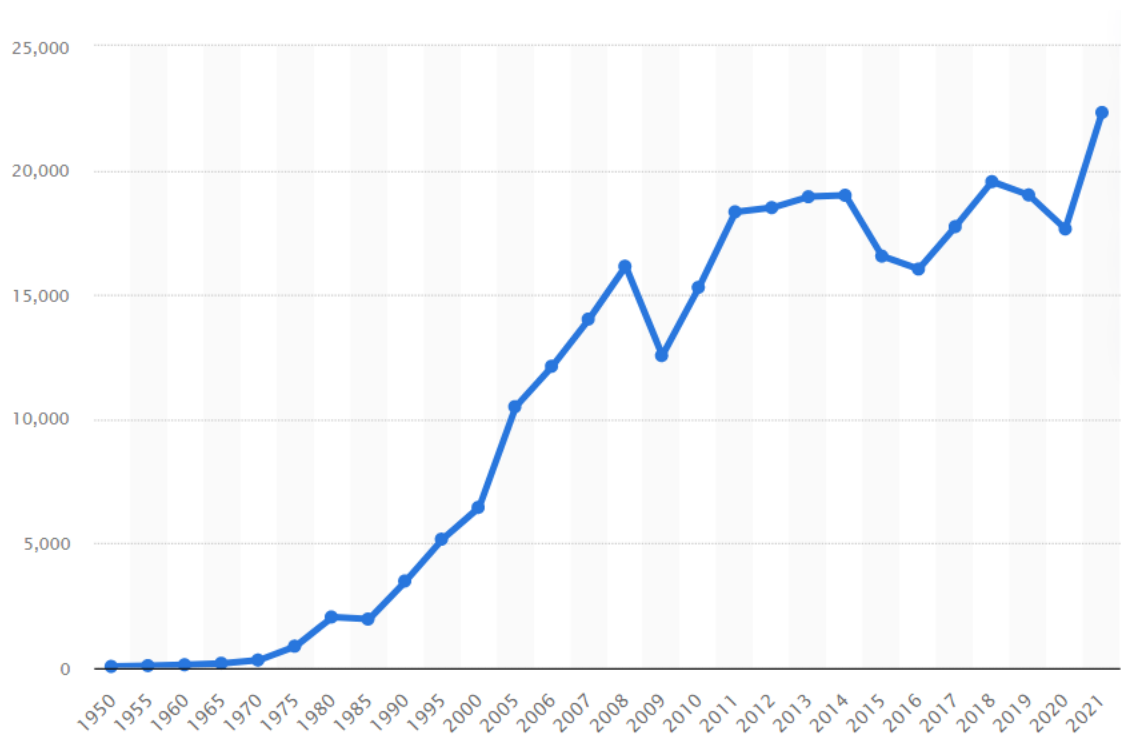


Figure 2: Trends in global export value of trade in goods from 1950 to 2021(In billion US dollars)

Source:

<https://www.statista.com/statistics/264682/worldwide-export-volume-in-the-trade-since-1950/>

As illustrated, there is a substantial size difference between aid and trade. This emphasizes the scale that trade has in the global economy. Arguably, this makes trade more relevant when looking at the main drivers behind economic and international relations. Long term relationships are necessary for trade relations. These relations are backed up by extensive deals and networks based on negotiations between countries. On the other hand, aid is more targeted, and more time limited in essence. By choosing to focus on trade, this thesis aims to contribute to the question of how China’s economic influence may matter to shape the nature of corruption and human rights among its trading partners, which then allows us to assess the future of the broader liberal order. The focus on trade allows for examination of the impact trade potentially has on the dynamics of governance and thereby the development prospects of poorer parts of the world.

China and its trading patterns have faced criticisms. For instance, Ann Kent studied the interactions between China and major international organizations. She argues that the country is a "least-likely" candidate when it comes to compliance with international treaties. This is in context of its history, traditions and power (Kent 2007, p. 2). The general conclusions towards China’s actions in international or-

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ganizations has a mixed score, where it is compliant to a degree, but not fully cooperative within the World Trade Organization (WTO). There are also issues for instance when it comes to adhering to the rule of law and transparency (Zeng and Liang 2013). Many observers from global Non-Governmental Organizations (NGOs) also see China as a resource hungry actor acting on self-interested motives. These observers paint China in contrast to what they claim is a more ethical Western-led international body (De Soysa and Midford 2012, p. 844). According to the 2006 council on Foreign Relations report, China does not share the same concern for governance, human rights or economic policy as their Western counterparts. Like Dreher et al. pointed out, the aid stemming from Beijing is much opaquer than that from the *Washington Consensus* institutions. Though many African leaders have welcomed the Chinese loans and investments that lack the conditionality of the Western counterparts, some have criticized Beijing. The governor of Nigeria’s central bank Lamido Sanusi argued that China is ”a significant contributor to Africa’s de-industrialization and under-development.” (Coleman n.d.).

So far, research on Chinese trade has focused on its foreign policy alignment (Flores-Macias and Kreps 2013) and whether trading partners are more likely to take accommodating stances towards Chinese political issues (Kastner 2016). The conclusions are mixed, because though there is a positive relationship with how much regimes in Africa and Latin-America trade with China and how aligned they are politically, when it comes to buying influence in regard to China’s political goals, the results are not clear. Also, though these studies are looking at Chinese trade, they do not study its effects on governance in particular. Therefore, this study will hopefully narrow this research gap.

China has also been accused of protecting “rogue states” like Sudan and Zimbabwe. According to the council on Foreign Relations, China has a historic relationship and a solidarity with these developing countries. During the reign of Robert Mugabe, during which a harsh suppression of political opposition and disregard for human rights occurred, China upheld its mineral, road, and farming investments. In addition to this, China supplied Mugabe’s regime with jets and other types of arms.

If however one were to follow the money, the argument could be flipped. Because democracies are richer and therefore represent bigger potential markets. This line of reasoning could suggest that following the money should lead China to trade more with democratic countries.

China wields its economic power to promote foreign policy objectives through aid and investment (Dreher, Fuchs, Brad Parks et al. 2018, Dreher, Fuchs, Bradley

Parks et al. 2022). These efforts also influence the human rights promotion of democratic powers. Additionally, research has proven that the likelihood of survival for autocratic regimes increases when such a regime exports to China (Bader and Daxecker 2015).

Research has also established a link between the prevailing policies of the EU and practises related to human rights and partner countries. This link is established when looking at the level of export from those regimes to the EU (Kahn-Nisser 2022, p. 546). The mechanism at play in this instance is the following: The cost for companies to diverge from the EU-standard is significant. This is because The EU can utilize its market size in tandem with its regulatory capacity to market these practises. In exporting countries, firms are pressured by democratic regimes and their institutions to show acceptable standards of human relations in their supply chains (Kahn-Nisser 2022, p. 547).

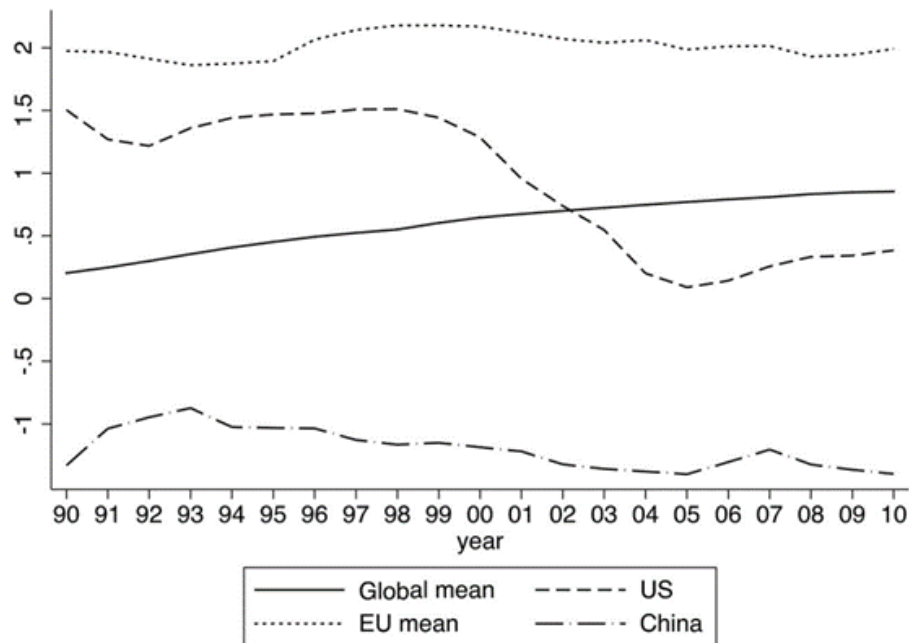


Figure 3: Human rights protection in the EU, the US and China

Source: Kahn-Nisser (2022, p. 548)

Another reason why China is of interest is the difference in human rights (HR) protection it has domestically, compared to its Western counterparts. As figure 2 shows, HR respect has gained during the modeling period from 1991 to 2010. Of the three actors on the figure, the US is closest to the global mean, while the EU and China represent the opposite extremes. Even though the aggregate score of the West is not at the level of the EU specifically, the gap between China and the other actors makes them opposites that are interesting to research further.

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Next, this thesis will progress by looking at autocracies in general and China's rise specifically. Can these factors tell us something about what is in order for governance in the future?

## 4 Autocracies and China's rise

This paper studies whether there is a deteriorating effect of governance for countries that are trade dependent on China. The reason this is of interest, is that there has been asserted by some skeptics that China's domestic authoritarian policies are being projected abroad. Chris Alden argues that their approach has been interesting to African nations because of their "no strings-attached"-attitude, which stands in particular contrast to the European one. The European trade attitude has been to extend their domestic focus on Human Rights also in their trade policy. This contrast of the domestic reality is illustrated in Figure 3. In this section, autocracies will be contrasted with democracies. How they are expected to behave in relation to what is being empirically tested here, and if the rise of China will have an adverse effect on its trading partners, is of the largest interest.

### 4.1 Autocracies and governance

When it comes to governance, there is an apparent dichotomy between autocracies and democracies. Autocracies are characterized by poorer governance. For instance, freedom of speech, assembly and of religion all are repressed to a larger degree in autocracies. These effects do not vary significantly across different types of autocracies (Møller and Skaaning 2013). However, there has been a deterioration in the different level of suppression between these two regime types since the Cold War. In contrast to democratic regimes, autocracies have more centralized structures of power. Though governance is poorer, there are some apparent advantages. For instance, one can argue that through this centralized power the Belt and Road Initiative, which will be discussed shortly, has been executed swiftly.

However, opaqueness when it comes to accountability and larger degree of corruption create incentive structures to keep this governance at a lower level. In contrast, democracies, especially liberal ones, focus on rule of law and transparency in political processes. This, in sum, can lead to better governance. When it comes to the distinction in regard to international relations, autocracies, like other regimes, focus on survival. But there are also interests among some of these states to seek a follow

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internationally and spread their type of governance, which can be viewed as a threat to liberal democracy (Weyland 2017, p. 1237).

As will be discussed in the section on country risk, autocrats seldom get voted out of power. Hence, the way in which they exit their political office is much noisier. The coup d'état has become the most common among by autocracies since the 1950s. During the two following decades for instance, around half of the autocratic power shifts occurred by a coup. Though about a quarter of the world's nations are ruled by dictators, there are many hybrids of regime types (Kendall–Taylor and Frantz 2014).

The apparent dichotomy between autocracies and democracies can be illustrated by looking at the following map:

**FIGURE 2. STATE OF LIBERAL DEMOCRACY (LDI), 2022**

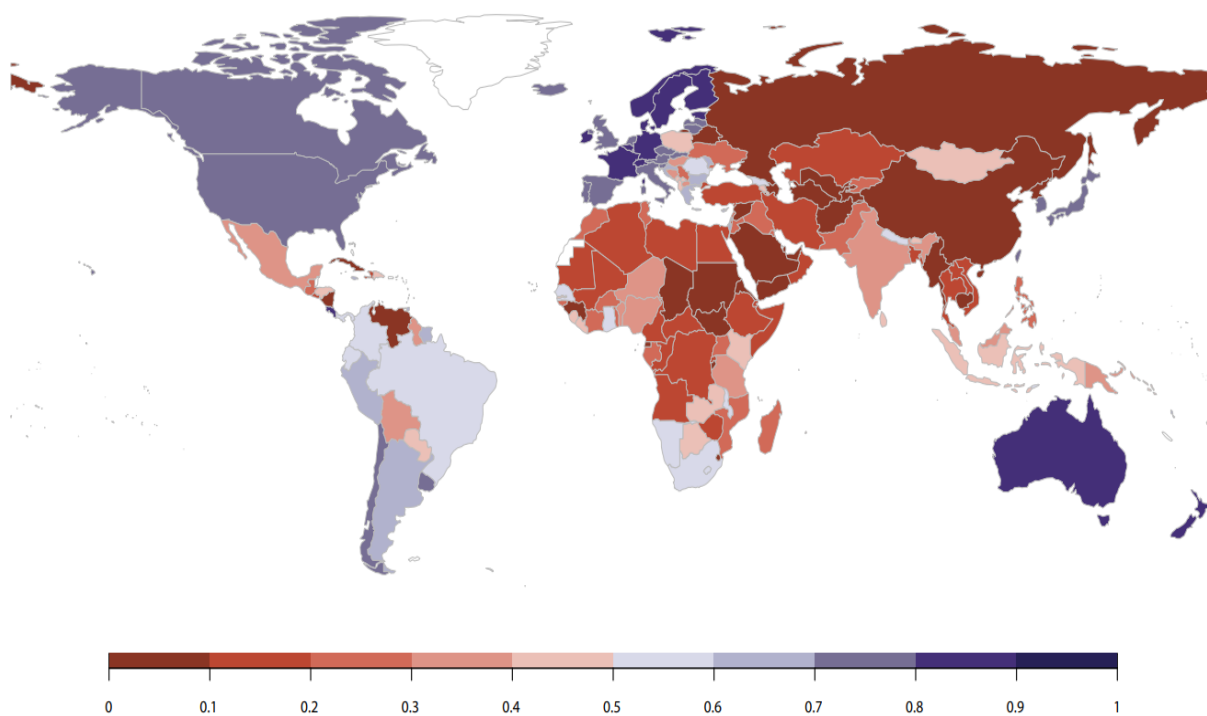


Figure 4: State of liberal democracy

Source: V-dem n.d.(b)

This map is using V-Dem's Liberal Democracy Index and captures both electoral and liberal democracies. It is coded from 0 (lowest) to 1 (highest) and uses Robert Dahl's definition of "polyarchy" by looking at metrics such as election quality and individual rights. The Liberal Component Index additionally captures such aspects as checks and balances, independence of the judiciary and legislature and respect of rule of law (V-dem n.d.(b)). Therefore, the threshold for liberal democracy is higher.



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The figure shows an interesting observable dichotomy with the Western countries on one side, and China and many developing countries on the other.

## 4.2 Multipolar world?

The research question posed this text is: *Does the rise of China threaten the liberal world order?* Therefore, the implications for a multipolar world are of interest. In this section, the term will be explained, then a discussion of the Global South and their response to the war in Ukraine will follow. Then the BRICS will be introduced in order to set the stage to discuss some of the implications of a potential shifting gravity on the world stage.

Because of the trend of power diffusion from west to east, where autocratic powers are rising swiftly, the question of whether a new multipolar world order is on the rise has been discussed. The term itself describes a distribution of might where more than two powers share similar amount of influence. The questions scholars pose are those of stability and security. Previously, it has been argued that a multipolar world order akin to more checks and balances should be more peaceful (Mandelbaum 1988). However, the peace between major powers in the cold war and post-Soviet has put these assumptions into question. Here, the transition went from a bipolar to a unitary one dominated by the US. Interestingly, very few scholars predicted that a world order could be unitary before the fall of the Soviet Union (Tomja 2014).

After the Russian invasion of Ukraine in 2022, many countries in the Global South have not followed the Western countries in condemning Russia's war. This reluctance to side diplomatically with the West can be the result of friction towards the status quo world order and dissatisfaction towards what is viewed as Western hypocrisy considering their meddling in other countries. Additionally, the reliance on Russian resources arguably also plays a role in this decision (Economist n.d., p. 4). This alleged Western hypocrisy is viewed as a legacy of the exploitative and repressive policies from the colonial era. However, many countries with prolonged ties to Western nations have tapped into their security forces for helping against domestic terrorism and general security. Recently, countries such as Mali, Libya, the Central African Republic and Sudan have utilized security services from Russian mercenaries from the Wagner group (Pokalova 2023). The group has also appeared in other countries on the same continent, and arguably this represents a pivot to Africa by the Russian government. This is one of the aspects of what the BRICS nations' strategy of assembling a competitive, multipolar, world order entails.

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### 4.3 BRICS

The term BRICS refers to a grouping of the emerging economies Brazil, Russia, India, China, and South Africa. The group was formed in 2010 from the predecessor BRIC, with the addition of South Africa. Initially an investment term, the group is now widely touted as a potential challenger the liberal world order. As the group has formalized and institutionalized with yearly summits, it has gotten more cohesive.

With the backdrop of the global financial crisis in 2008, some have predicted that the BRICS countries will have an opportune moment to grow their position in the international system, both economically and financially (Stuenkel 2013). For instance, the group has signaled an intention to challenge the domination of the dollar. An example of this is that in 2010, Russia and China signed a bilateral trade agreement without a dollar denomination. With the vastness of the population and increasing share of the world GDP, some are predicting a rosy future for the group (Wilson and Purushothaman 2003). With the establishment of a development bank, the group also has implications for the status of the *Washington Consensus*. Collectively, the states argue in favor of creating a multipolar world and maintain that state sovereignty trumps all. This contrast to Western countries was for instance shown during the Arab Spring, where the emerging countries opposed any outside intervention (Laidi 2011). There are heterogeneous aspects of the group, with internal diverging interests and even border disputes. However, despite their differences, the group shares similar goals when it comes to restructuring the global financial institutions towards a shifting economic gravity (Pant 2013). In the context of this shift, structural changes in the IMF were promised. When these promises did not materialize (Coleman n.d.), it can be viewed as a natural response from the BRICS-countries to establish opposing institutions, as they did not feel commensurately represented in the current ones.

Some are skeptical about the much-discussed rise of BRICS. For instance, the US Conference Board argued in 2012 that the gains from cheap labor and import of technology the group had enjoyed in the years prior would wane. In addition, growth rates for the largest players, China and India, would decrease going forward, the board argued (Pant 2013). In light of the current slowdown in China (Tme n.d.), one can argue that this has materialized. However, what the following years of growth will be is unknown and will give future researchers more perspective in regard to these claims. Additionally, many skeptics points towards the inherent heterogeneity of the group. With active border conflicts between India and China, and the Sino-Russian history, there are many potential pitfalls. Looking at trade, both China and India, by far the largest players in the group, have the European

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Union and the US as their respective largest markets (World Bank n.d.). This shows that arguably, these regimes profit from the current world order. Maybe this means that China will not pose a threat to the current liberal order, as the elites in the countries are profiteering from the status quo?

Isobel Coleman raises questions whether the group has enough commonalities to sustain shared institutions (Coleman n.d.). The group is comprised of countries with vastly differing political systems. While Brazil is categorized by V-dem as an electoral democracy, Russia is an autocratic regime with an entrenched oligarchy. In addition to the main players in the group having their largest markets outside of BRICS, the scale difference leads to different leverage in internal negotiations. In 2021, the size of the Chinese economy was almost 50 times larger than that of the smallest member, South Africa (World Bank n.d.). However, one could argue this argument lacks historical merit. For instance, during the establishment of the Bretton Woods monetary system, the size difference between the European and American economies were vast, but they still succeeded in establishing and keeping the commercial relations of the system alive (Coleman n.d.).

Next, some characterizations of rising states will be explored. Though China is a rising state today, and the US rose from being a lesser to a major power more than a century ago, interestingly, there are some similarities.

#### 4.4 Rising states

According to Manjari Chatterjee Miller, there are some weaknesses in international relations' approach to emerging powers. For instance, it seems unclear how to commonly define what a rising state is and what indicators to look at. This particular field of study relies on looking at relative capabilities (Miller 2016). Miller argues that when only looking at these relative strengths or weaknesses, the assessment misses the context of states' own beliefs of becoming a new great power. Usually, theories on power transition focus on the power shifts and systematic parts of states' behavior. However, they focus less frequently on the propensity for conflict of specific emerging powers.

Miller argues that a rising state is defined by: "...increasing its relative military and economic power, globalizing its interests, and exhibiting internal recognition of its changing status." (Miller 2016, p. 216). Thus, in context of what we know about China, it can be argued that all three categorizations are fitting in this context. A discussion about these aspects, and the exhibition of internal recognition will be

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explored in section 5.2.

In relation to rising powers, there are some inherent domestic beliefs, which can be used to measure change. According to Miller, both the US in the 1890-1903 period and China from 2002 until today, showed similar beliefs about their own rise of power. This is interesting as the commonality between regime type, culture and time period all are vastly different in these two cases.

There seems to be a recurring pattern within international politics. An incumbent international order exists, and is led by a powerful nation or alliance, before there is a challenge to this order. In the context of this, and the current rise of China, it is not surprising that many scholars are discussing this power shift.

When it comes to rising states, it is their stronger economy that underpins their rise (Kennedy 1988). Over the last couple decades, many scholars have argued that the fall of the US dollar was imminent. The next section will discuss the exchange reserves of China and their link to the liberal argument of interdependence.

## 4.5 Exchange reserves

Chinese trade surpluses are the largest of any nation in history (Pettis 2023), and their largest markets after their neighboring Asia is the American and European markets. The liberal argument of interdependence asserts that through increased trade, there should be less conflict as countries rely on others to grow and prosper.

Following from the surplus, are outflows of capital. This is the reason why China is the number one exporter of capital in the world. Logically, any dollar that enters the country as the result of export revenues, must also exit the country. This can for instance happen through acquisition of assets such as the aforementioned government bonds. The reason this instrument is bought, is the fact that there simply is no other satisfactory liquid and safe asset to deposit the massive trade surpluses of the export fueled Chinese economy (Hung 2015). The reason the monetary system is of importance, is that it can be utilized as a tool of the hegemon to keep its incumbency. For instance, Ho-Fung Hung argues that the US dollar's position as the most used reserve- and transactional currency has been the largest attributor to the persistence of the economic- and military capabilities of the country. The *dollar standard* gives the US the ability to borrow money at preferable interest rates. Additionally, the printing of their own money can be utilized to repay their debts more easily.

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When it comes to the liberal argument of interdependence, the monetary argument is interesting. China needs a sufficiently safe and liquid market to place its foreign exchange reserves in, while the US wants to keep the dollar in the strong position it is today. Therefore, one can argue that this is a mutual dependency that should lead to stability in the global system.

Some authors, such as Martin Jacques, argue that China already did upheave the West from the point of view of purchasing power parity. He argues that China has a stronger position today than the West (Jacques 2009). Others contend that there are weaknesses in these arguments, and point to the domestic factors, or *innenpolitik*, of the PRC. Domestic factors lead to a dependency on the current economic system, Ho-Fung Hung argues (Hung 2015). This dependency is manifested in the massive buying of American treasuries. Also, international trade has been the facilitator of China's rapid growth. The ability to import the necessary technology, consumer goods and resources needed to grow the economy and strengthen the military, has by this logic enabled the legitimacy of the Communist Party (Sutter 2012, p. 77).

Because China is the largest exporter of capital in the world, it is incentivized to invest in exchange reserves that can deliver acceptable results and risk. This is because they are vulnerable to weak economic conditions in the recipient countries of their capital flows. Qualitative research underpins this assumption. When assessing the projects that China Exim Bank and the China Development Bank have prioritized, the commercial other official flows (OOF) have prioritized the best option, commercially speaking. The Beijing regime is also incentivized to secure the natural resources that it demands but has a shortage of at home. This points towards the *going out* strategy being implemented at all levels of policy.

While liberals argue for democracy, as shown in section 2.6, realists arguably do not have an active position on the matter. Some realists could argue that democratic promotion can be viewed as power projection, while others could argue that democracy fosters stability between states.

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## 4.6 Natural Resources

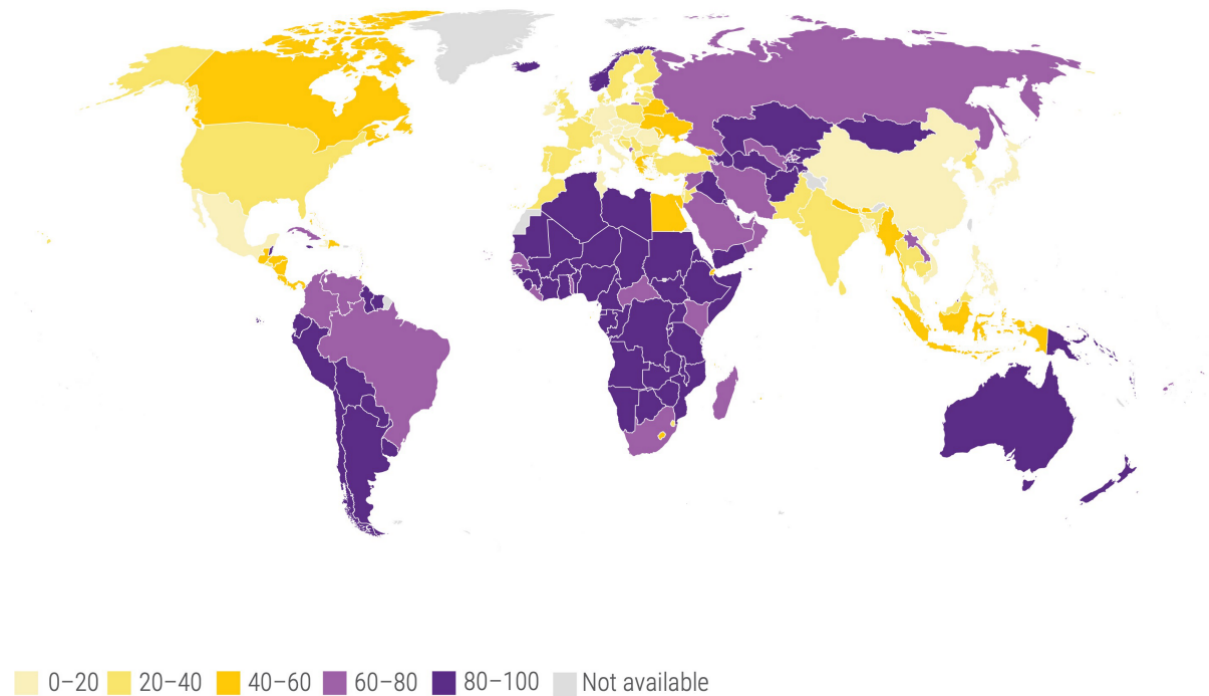


Figure 5: Commodity dependence

Source: Damodaran (2023, p. 15)

As illustrated by the figure, there are significant differences in the value commodities represent as a share of merchandise exports (Damodaran 2023, p. 15). If there is an empirical link between this relative trade value for different exporting regimes, an association to trade dependence can be established. With some exceptions, there is a divide between the WENAO-categorization of Western Europe, North America, and Oceania, and the other major parts of the world (Milanovic 2003). The observable dichotomy from the previous map is also still present, though importantly, China is in the same grouping as the Western countries when it comes to the level of commodity dependence. Also, Oceania and Norway are categorized as commodity dependent.

This is vital to the core assumption in this text, namely that: trade dependence on China is related to a country's governance. Following from this the larger question of whether China's rise threatens the liberal world order can be assessed. To discuss the link between resource wealth and governance, the phenomenon called *resource curse* will be introduced.

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## 4.7 Resource curse

In the analysis section of this thesis, natural resources will be introduced as a control variable. Therefore, some context to what effects natural resource wealth can cause, will be introduced in this section.

According to some scholars in political science, natural resource rich countries tend to be victim to what is called the "resource curse". The phenomenon is characterized by the correlation of the presence of large natural resource wealth and lower quality of governance (Ross 2015, p. 239). The term got attention in the post WW2-period, when Latin American countries suffered from the global fall in commodity prices. This catalyzed the research on the topic (Ross 2015). Intuitively, one could think that high resource wealth should lead to wealthier societies with better governance. However, in aggregate, in states with higher presence of natural resources, the likelihood for instability and inequality is higher. The reason for this phenomenon could be one of rent seeking. In these countries, national politics can be oriented towards acquiring the rents of resource endowments. Therefore, the elites in these societies establish bureaucracies that are used to maintain and further their positions at the top, which fuels the process of poor governance in a positive feedback loop. The scholar Leonard Wantchekon asserts that there is a systematic association between resource wealth and autocracy in Africa. Also, new democracies on the continent have largely been countries with a lower degree of resource rents per capita (Easterly 2006, p. 111).

The lower growth rate seen in resource rich countries is present even after controlling for other variables such as climate or geographical variables. From the 1970s, none of the countries with the greatest abundance of natural resource rents grew fast the following 20 years. In the same period, countries that initially were resource poor, grew faster than the former group (Sachs and Warner 2001). Some argue that there should be a distinction from types of natural resource rents such as minerals and agriculture. However, the changes in the definition of natural resources do not yield large quantitative differences in results (Sachs and Warner 2001). There is also an impression amongst many critics of the phenomenon that countries that have reached certain levels of wealth, initially were resource intensive in relation to GDP. Barring the issue of data scarcity when a researcher is looking far back in time, the percentage of natural resource rents in countries like the United States or Australia achieved in the 20th century did not reach the level of today's Gulf States, for example. Also, structural changes should be mentioned. Today, the transportation network and general petroleum-based economy alters the way in which cheap energy can be moved in ways that were impossible earlier.

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Many of the studies conducted on the resource curse has occurred before 2010. Since then, the United States has become an independent oil producer in the wake of the shale industry boom. One can argue the long relationship with Saudi Arabia is a stark contrast to the image that the US specifically and the West in general want to portray of themselves. China skeptics argue that Beijing's domestic policy molds their trade to being targeted towards corrupt human right abusers. However, why then does the West keep their strong relationship with some of the worst autocratic regimes in the world, namely the Gulf States? This is also more interesting given the fact that the US never was more dependent upon Saudi Arabia than for 15% of its oil consumption (Wenar 2015). The reason for this relationship is because the veins of the petroleum infrastructure run through this area. Around 60% of the world's oil crosses the borders of the Middle Eastern countries, in addition, the area controls about half of the world's total oil reserves. Having control of these flows is essential for the US. This is because the control of these flows ensures that the oil cartels and "rogue" states such as Iran and previously Iraq, are limited in their ability to price gauge significantly. Price increases in petroleum and gas have large implications for the world economy, and for US' allies in Europe and Japan specifically. Petroleum is present in most manufacturing and transportation, even down to food production by fertilizer. Therefore, keeping prices of the natural resources somewhat low is essential, as significant price increases could lead to excessive inflation in these end markets, which are important to the US both strategically and as economic partners. These partners have continued to be net importers of natural resources and are thus more sensitive to prices than the self-sufficient US.

A natural resource such as oil is produced through long-term contracts that outline oil field exploration, development, and crude purchasing. In light of all these mentioned factors, the cost of halting such import contracts for states even with poor governance, is very costly. For context, the relationships with such regimes were initiated before the liberal normative considerations that outline modern policy goals, at least on paper, were implemented (Wenar 2015, p. 38). Therefore, the liberal aspirations of today were not present when the alliances were initiated. Critics can still point to the HR-abuses acted out by the Gulf States, but this information adds context as to why the alliances have survived until today.

Some criticism has also been levied against the reasoning behind the resource curse. For instance, there can be endogeneity issues present when looking at the dependence measurements. These issues can occur when the relationship between variables can be biased in some sense. For instance, there can be a case of reverse causality. A researcher can argue that the resource associates with political instability and corruption. However, could it be the case that the poor governance is what enables



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the entrenched elites to exploit the presence of natural resources? Recent studies on the matter have had the advantage of longer time frames of measurement. In addition, some of the studies have focused resource abundance instead of dependence as the variable of interest. Some of the more recent articles also delve into the different type of resources that can be exported. Therefore, though there seems to be a negative relationship between large natural resource wealth and growth, some caution should be taken when arguing that this is an established consensus (Badeeb et al. 2017).

One mechanism that can occur when a country overemphasizes its commodity sector as such, is the phenomenon known as the *dutch disease*. The increased surplus in the resource sector leads to increased investment here. As the focus is drawn away from non-resource exporting sectors, they decay. This occurred in the Netherlands in the 1960s after a large natural gas field was discovered, and the manufacturing sector declined. The causal mechanism at play is also the fact that there occurs appreciation in the local currency in relation to foreign ones. This exchange rate increase leads to noncompetitive conditions for other sectors, as it becomes more expensive for merchants in other countries to buy their goods (Bahar and Santos 2018 Corden 1984). Some authors have also linked this bloating effect of currencies and some sectors in the economy, to aid. This is because these grants can be disproportionately directed towards certain sectors. This will lead to an increase in wages in these parts of the economy, because of a limited supply of skilled workers. Additionally, the inflows can lead to currency appreciation. These factors, coupled with the fact that prices internationally largely stay the same in the same time frame, can lead to less competitive conditions for the recipient of aid (Rajan and Subramanian 2011 Ross 2015).

Next, the vast infrastructure program called the "Belt and Road Initiative" will be described. This is key to understanding more about the strategy of foreign investment and trade that Beijing is aiming for. The project has garnered both support and criticism, and it is a central part of China's global aspirations.

## 4.8 Belt and Road Initiative (BRI)

The Beijing consensus describes China's alternative development model. The Belt and Road Initiative (BRI) is part of this. It is probably the largest infrastructure program in the World, with some USD 8 trillion of pledged investments (Schulhof et al. 2022). The initiative is aimed at stimulating development of a vast geographical region, from Asia to Africa and Europa via both land and sea. This means that

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the program can influence an area containing a third of the global GDP and about half its population. In addition to the infrastructure components, there are aspects of "unimpeded trade", financial support in addition to dialogue on policy. The two major parts of the BRI are the silk Route Economic Belt, which links rail-and pipelines between the areas, and the 21st Century Maritime Silk Road, which is a seaborne trading route (Schulhof et al. 2022). Additionally, some of the core institutions behind the Beijing Consensus are behind the facilitation of funding of the BRI, such as The China Development Bank and the Export-Import Bank of China.

According to some scholars, the key motivation behind the BRI is to respond to the American pivot to Asia. Additionally, the policy initiative represents a shift in foreign policy for China, from passive, to reactive, to proactive, they argue. Others have pointed to that the BRI might just be the logical next step for China in regional development, rather than some new geopolitical strategy pivot (Zhai 2018).

From a resource dependence point of view, there are multiple issues that can arise from the BRI. Proponents of the infrastructure deals that China has leveraged in the Belt and Road initiative, argue that this focus might mitigate these problems. Some researchers have argued that even in the most conservative of forecasts, the BRI should bring large benefits to the wider economy both when it comes to trade and welfare (Zhai 2018). However, some argue that the end goal of the BRI is for China to control these hard assets from the borrowers who will find themselves in trouble. Put differently, China is supposedly utilizing their debt to leverage geopolitical power by trapping developing countries in loans that are unsustainable (Were 2018).

This argument has some historical grounding. In the 1980s, many economies on the African continent had large debts that were failed to be repaid. As a result, many African countries were largely frozen off from the global financial system during the 1990s. After failures to restructure this debt, a solution was reached in 2005 where the creditors wrote off loans to poor and indebted countries. With newly issued credit and new policies, countries in Sub-Saharan Africa reduced their median debt to GDP of around 30%. According to the IMF, the external debt threshold for low-income countries is about 40 %. Below this level, the probability for corrections is in the low single digits, but above the probability rises to 15-20% (Were 2018). However, the debt ratio increased again, and in 2018 it reached a level of more than 50%. China became the largest lender to the Sub-Saharan region in 2012, accounting for 14% of total debt of the region. The US-African trade volume decreased in the same period, the main reason for this is the fact that the US got self-sufficient access

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of oil during this time.

Deborah Brautigam argues that the notion that a Chinese debt trap arising from the BRI is a myth. She argues that Chinese lenders have shown a willingness to restructure the terms and covenants of the loans (Brautigam and Rithmire 2021). There seems to be a growing demand for debt for financing large infrastructure projects in Africa, and the argument that this is a set up debt trap does seem less convincing with this in mind.

## 4.9 Delinquencies and issues with BRI

There are many positive implications from the BRI, such as its focus on infrastructure instead of monetary grants that can end up in corrupt systems, and its projected effect on decreasing freight costs. However, delinquencies are increasing among the debtors of the initiative. In 2010, less than 5% of the lending from Beijing's cross border lending portfolio assisted distressed borrowers. Twelve years later, that number had risen to 60% (Horn et al. 2023). One core contrast to the *Washington Consensus* is the opaqueness of these "overseas bailouts" (Horn et al. 2023), which has resulted in them not being systematically examined.

In Europe and the USA, there is a widespread belief that the BRI not only has an economic aim but also a political one. China wants to incorporate as many countries as possible into its political sphere at the expense of its rivals, according to this view. Many fear that over time, China will become so powerful that the democratic ideals of the Western regimes will be put to the test. Others believe that through more contact and closer cooperation, they will be able to influence the country in the right direction (Færøvik 2020).

To see what kind of inherent risks democracies and autocracies inherently inhabit, the next section will look at country risk.

## 4.10 Country risk

In this section, country risk will be discussed. Even though the governance of autocracies generally is poorer than democracies, there are some arguments that for instance investors would consider to be advantageous with these types of regimes.

Aswath Damodaran distinguishes two different sets of risks for democracies and autocracies as continuous and discontinuous, respectively. For an investor looking

to deploy capital in either category of regime, there are different implications for each. Democracies represent continuous risk, which means that change occurs more often as governments are shifted out. However, these changes tend to be gradual. A strong authoritarian regime can lock in policies in line with business interests. Therefore, from an investor’s perspective, this can appear as less chaotic. On the flip side, when change occurs in authoritarian regimes, the pivots can be extreme, and the costs can be enormous. In addition, as exemplified in section 9, there are hidden costs of doing business in such regimes.

This perceived risk can be viewed through the CDS market. CDS are essentially insurance against default. So, if a bondholder buys a CDS and experiences a default in the CDS of the underlying country, the investor can either get the principal amount back, or the difference between the market price and the defaulted bond, known as the spread (Damodaran 2023, p. 48).

According to Damodaran, the different governments are quite aware of this risk, and their actions can have direct implications towards the perceived risk, which can lead to a positive feedback loop where the higher risk decreases FDI which then again increases risk: ”Finally, governments are not bystanders in this process, since their actions often have a direct effect on country risk, with increased country risk often translating into less foreign investment in the country, leading to lower economic growth and potentially political turmoil, which feeds back into more country risk. ” (Damodaran 2023, p. 6).

The following map shows the different perceived risks after the CDS methodology:

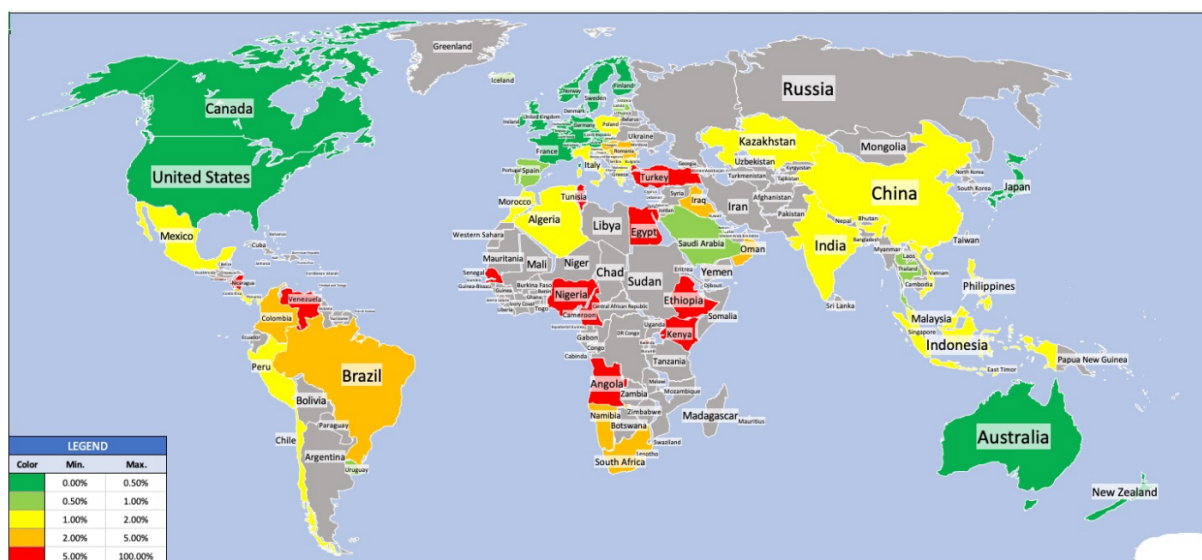


Figure 6: Sovereign CDS Spreads Global Heat Map– July 2023

Source: Damodaran (2023, p. 52)

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The perceived risk of investing in different countries thus shows interesting overlaps with the maps showing regime type and commodity dependence, though with some differences. For instance, China is here viewed as in the middle bracket of riskiness. The overarching trend though, is arguably the good governance, low commodity dependence and low risk of the WENAO-countries.

Next, what some observers have called "Capitalism with Chinese characteristics" will be introduced. This domestic model that China's elite has used to balance state and market actors, ties in with the risk and autocratic nature of the regime, that is being discussed in regard to whether its domestic nature can predict something about the future governance of the global order.

## 5 Capitalism with Chinese characteristics

China is a notable case of growth because they utilize a system with state capitalism where a strong state has many levers over private capital. Do the unique inner workings of China mean that they will change the world order if they reach a strong enough position?

Acemoglu and Robinson argue that the Chinese model is one of only "partially inclusive" economic institutions, and that China's lack of property rights in general and intellectual property rights specifically are hampering their growth (Acemoglu and Robinson 2012). But as Bai, Hsieh and Song ask, if the Chinese economic institutions indeed are antagonistic towards capitalism, what can explain capitalism's thriving stature in China during the last couple of decades (Bai et al. 2014)?

Capitalism with Chinese characteristics has not been a streamlined process post-Mao and has not followed an established blueprint. In the 1970s until the early 1990s, a market economy was layered on top of the already established practice of planned central economy. Through agrarian reforms, markets were established for the farmers that produced beyond their quotas. However, state owned enterprises (SOEs) continued to dominate the economic landscape and the state-maintained control over a vast amount of capital and land. Through "special economic zones", liberalization was tested. As a result, foreign investment was encouraged. Only during the later 1990s did the party state initiate a process to privatize and downsize materially.

Before the 18th party congress that saw Xi Jinping elected as General Secretary, Bo Xilai was viewed as a potential rival. He argued for the "Chongqing model of

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development". This model was allegedly intended to "undo the harms of capitalism" (Pearson et al. 2021, p. 208). This indicates the inherent skepticism the regime has to the system of capitalism. While Bo was a rival to Xi, the local Party Secretary's alternative model never came into fruition as he fell after a political scandal (Færøvik 2020). Thus, the stage was set for Xi's model.

Under Hu Jintao's regime, the party's legitimacy was threatened by exposed corrupt links between officials and business. Additionally, Xi was faced with the large debt buildups from the 2000s. These were categorized as "grey rhinos", where the risk was that they were ignored until they moved into a frenzy and caused large amounts of damage (Pearson et al. 2021, p. 209). Another policy priority under Xi has been the focus on "Made in China 2025". This policy has incentivized domestic production and research within cutting edge sectors like artificial intelligence and semiconductors. The party reasoned that if it were to move beyond the middle income economy of today, it had to be investing in the bleeding edge. However positive these factors can be viewed from a Chinese perspective, the regime is facing many risks. The trade and technology rivalry with the United States, protests in Hong Kong and problems with delinquencies in regard to the Belt and Road infrastructure projects are some examples (Horn et al. 2023). These examples illustrate that it is a difficult balancing act the CCP has set out to manage, under "Capitalism with Chinese characteristics".

Xi has used his position to discipline private capital. The party has increased monitoring of important actors and has emboldened its role in corporate governance. Party cells within companies has increased, in 2017 there were 1.88 million non-state firms that had established such cells. Thus, one way of looking at capitalism with Chinese characteristics is that "the political survival of the Communist Party trumps developmental goals." (Pearson et al. 2021).

An illuminating example of this is the clamp down on the large tech companies of China, such as Alibaba, Tencent, Baidu and Xiaomi. These policies started at a large scale in 2020. Alibaba was for instance fined about RMB 18.228 billion, equating about EUR 2.4 billion. This sum was about 4% of the company's revenue in 2019. This fine represents an outlier in the contravention of Anti-monopoly laws, in absolute size it was three times larger than the next largest fine at the time. This was levied to American chip designer Qualcomm was in 2015 (Marco Colino 2022). Though many other governments around the world also were ramping up their judicial restrictions of large tech companies, notably in the European Union, in the Chinese case, the party state is arguably using this momentum to avert what the politburo calls "the disorderly expansion of capital" (Marco Colino 2022).

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The fine against Alibaba was allegedly imposed because the company, among other things an ecommerce platform, was accused of coercing merchants and traders to exclusively use Alibaba's platform. However, some observers point to the fact that these sweeping policy changes occurred after a speech by the company's founder, Jack Ma, where he argued Chinese banks had a "pawnshop mentality" (Marco Colino 2022).

Because the State Administration for Market Regulation (SAMR) targeted domestic companies in this manner, the argument of political survival for the Communist Party being paramount to developmental goals seems to have some merit. Perhaps this attitude of valuing the party over all other parts of society, is one of the reasons skeptics are worried about the rise of China?

The disappearance of Jack Ma after his speech where he criticized Chinese banks, led observers to wonder if the intentions of the CCP's policies were mainly to silence dissent. However, there were also other factors at play. For instance, the global momentum in such cases put a light on the issue of whether large corporations are becoming *de facto* institutions that are rule makers over utilities that large parts of the population use frequently. From this point of view, one can make the argument that the retaliation against Ma was at least not the sole catalyst behind the policy shift. One more argument is the case against Tencent, who's CEO Huateng Ma has had a muted public persona in contrast to Jack Ma. This muted persona should in theory be less prone to being reprimanded for breaching the CCP's line.

In sum then, with autocracies, there are some inherent advantages. The investigations against the Chinese tech companies were example of policies with quick results. Initiated later than the Western counterparts, where the lawsuits can drag on for years, in China, these processes by the SAMR yielded quicker results.

Now that the background for the Chinese approach to the modern market economy is explained, the tendency towards totalitarianism will be discussed in the next section.

## 5.1 Totalitarian tendencies

After experiencing the catastrophic consequences of Mao's absolute rule, Deng Xiaoping made it taboo for Chinese leaders to promote their own personality. During Xi's rule, and despite his reclusiveness, this has changed.

To illustrate the differences that have occurred in the controlling bodies of the

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Chinese state since Xi entered into power in 2012, his cult of personality is of interest. During the first years of his leadership, his name was mentioned almost twice as many times as any other leader since Mao Zedong (Galtung and Stenslie 2022, p. 59). The CCP propaganda apparatus has worked to initiate the cult of personality around Xi. In 2017, the Constitution of the Chinese Communist Party was amended by enrolling Xi into the "core leaders" together with Mao Zedong, Deng Xiaoping and Jiang Zemin. During the same year, the local government in Jiangxi asked their christian constituents to replace pictures of Jesus Christ with Xi Jinping. In a mobile app called "Xuexi Qiangguo", users get points by reading speeches and partake in quizzes about Xi's life and ideology. Party members, bureaucrats and students are scored by their results in this app and risk reprimands if they do not reach a threshold of points (Galtung and Stenslie 2022, p. 59).

In the lower ranks of the CCP, one can argue that a meritocratic approach is taken. This was evident with Xi's personal journey up the ranks, where his tangible results made him reach higher levels. For instance, the General Secretary avoided corruption scandals and oversaw some of the fastest growing provinces in China at the time (Galtung and Stenslie 2022, p. 38). However, the top ranked officials are chosen moreso by personal connections. In the period of 2017-2022, five of seven out of the CCP Politburo committee had close ties to Xi. In the Politburo as a whole, 15 out of 25 members had with close personal ties to Xi (Galtung and Stenslie 2022, p. 60).

This section has showed that China is an especially interesting case with many dynamics in regard to governance that stands in stark contrast to Western regimes. It has highlighted why some skeptics are worried about the implications of its swift rise to power. Next, to understand if China is a "status quo regime", China's power politics will be discussed. The example of their relations in the South China Sea with The Philippines will be used to illustrate some core tenets of realism. According to these tenets, China is challenging the balance of power and making the other states in the region scramble for stronger militaries, for instance by emboldening their alliances with the West.

## 5.2 China's power politics

In this section, China's position in power politics will be explored. On the international stage, the aggressive diplomatic relations used by Beijing has turned heads. For instance, in what some observers saw as a pivotal moment, Yang Jiechi told US officials during a summit that the US did not have the qualification "...to speak to China from a position of strength." (Xuetong 2021). Such an assertive rhetoric



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within diplomatic relations can be viewed in a context of a larger degree of confidence from Beijing in recent times.

### **5.3 The Philippines, security dilemma and alliances**

China is arguably not fully a "status quo regime". Their actions in the South China Sea, including disputes with The Philippines, indicates this. The case of The Philippines is also interesting due to shifting priorities between the last 3 presidents of the archipelago, as well as during their tenures (Grossman 2021). This dynamic showcases core mechanisms of realism, such as the security dilemma and balance of power.

In the initial phase of Benigno S. Aquino's presidential term, he showed muted interest in foreign relations. In the inaugural speech of his presidency, he argued for not wasting time abroad before settling urgent domestic affairs. However, phased with the aggressive Chinese border policies of the time, his viewpoint changed. In March of 2010, Benigno was informed that two Chinese patrol vessels had harassed a Philippine survey ship which was on a mission to conduct exploration of natural gas. Because this occurred within the Philippine Exclusive Economic Zone (EEZ), Benigno decided to question the choice of the Peoples Republic of China (PRC) diplomatically. Questioning the Chinese conduct, the Chinese diplomatic response brushed off the approach by the archipelago regime and insisted that the PRC, not the Philippines, had sovereignty of the area (De Castro 2020). This underscores the point of China potentially being a threat to the status quo, and at least signifies that China doesn't view the law based international order to benefit them in all respects, as they do not recognize the borders of internationally recognized EEZs in the South China sea.

As mentioned at the outset of this section, there have been shifts not only between different cabinets of Philippines, but also during. Initially, Rodrigo Duterte emphasised his anti-western stance. At the same time, he welcomed large Chinese investments, such as through the Belt and Road initiative, and called China a "Good friend" (Grossman 2021). However, during the last years of his service, this changed and an about-face on the Philippine position towards China occurred. One example of the former Presidents anti-US position, is the termination of the "US-Philippines Visiting Forces Agreement" (VFA). This agreement allowed American troops to deploy smoothly to the Philippines, without any dragged-out bureaucratic processes. However, after this termination, Duterte extended the period of the VFA two times. In July 2020, the Secretary of Foreign Affairs in the country, Teodoro Locsin, ac-

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knowledgeed the ruling of The Hague which had dismissed the PRC's claims in the South China sea. Later, rhetoric from both Duterte and Locsin indicated further the pivot towards Western influence, in the context of the dissatisfaction with the Chinese encroachments (Grossman 2021).

Though the Philippines has pivoted towards the US, others are establishing regional blocs instead. After the Cold War, multiple security organizations have risen to accommodate the changing and complex challenges of security policies in the Indo-Pacific. From the ASEAN Union the ASEAN Regional Forum was created in 1994, and some other organizations are the East Asian Summit of 2005 and the more contemporary the ASEAN Defences Minister's Meeting Plus, or ADMM+. These multilateral organizations have shown skepticism towards American grand strategy. During the 2019 ASEAN summit, the Indonesian decree "ASEAN Outlook on the Indo-Pacific" was published. This was formulated as an alternative to the US' "Free and Open Indo-Pacific". This latter approach was seen by the ASEAN group as exclusionary American (De Castro 2020).

To summarize this section, the PRC seems to be the victim of the security dilemma. Because they acted aggressively and expanded their military capacities, they risked altering the balance of power. The regional power The Philippines answered with bolstering their alliance with the US, which earlier in the 2010s was, at least diplomatically, quite weak. However, the ASEAN group also indicates that some skepticism towards Western influence remains.

This text discusses whether there is a relationship between increased trade dependency upon China and worse governance. In that sense, it is important to look at what governance means. Therefore, the next part of this thesis will look at governance.

## 6 Does governance matter?

In this section, the reason for why the text focuses on governance metrics will be explained. Normatively speaking, the case seems obvious. Negative freedoms, freedom from suppression or violence and positive freedoms such as the rights to express and participate are not just important to liberal scholars. However, in many regimes today one or neither of these freedoms are respected. This, I would argue, hampers life quality for the people living there. Outside of the elite and associated classes of society, most people do not get to enjoy what many philosophers have argued should be or are universal rights. However, good governance and its implications is more than normative assessments. For instance, in a cross sectional analysis of

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150 countries, Kaufman, Kraay, and Zaido-Lobatón find that there is a strong causal relationship between governance and development outcomes (Kaufmann et al. 1999).

The implications underlying the rise of China is being discussed in this text. Many scholars have argued whether it will be a peaceful rise. This term, however, can mean either negative peace, which can be understood as the absence of war, or positive peace, which Johan Galtung argues implies valuing human development and structure (Toje 2017.) This arguably illustrates a focus on good governance by this author. Asle Toje argues that the liberal argument of the positive relation between globalization and peace is not self-evident. Instead, by looking at the historical backdrop, the opposite seems to be the case. For instance, the peaceful rise of the US is a historical anomaly, he argues.

Next, the causal mechanisms at play in the research question will be explored.

## 7 Identifying the causal mechanisms

So far, this thesis has explained why it is relevant to assess China as a potential challenger to the rule-based status quo. To add to the understanding of the mechanisms at play, in this section, the causal mechanisms that underpin the connection between Chinese trade and governance in the recipient countries, will be explained.

In the context of this thesis, it is argued that Chinese trade will empower commercial interests in poor countries. As the last couple of sections have explained, China does not have a focus on liberal values. Consequently, it is expected that they are less likely to pressure these corrupt interests to change their corrupt habits than their Western counterparts would. The result of this is that these countries should become increasingly corrupt as the commercial elites are getting more dependent upon Chinese trade.

If these developing countries are more dependent on China and are getting increasingly corrupt, there can be uprisings and revolts. As a response to this, as the elite are getting corrupted, they should resort to more human rights violations. Therefore, a negative association to governance with increasing trade dependence on China is expected.

Trade is an indicator of economic power. Trade also transfers knowledge and technology and promotes a way of life. People get used to products, but more importantly, trade in intermediate goods become valuable inputs to other industries. For example, US car makers rely on Chinese steel, or computer makers may rely on com-

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ponents from China. Trade creates multiple dependencies and are harder to replace compared to, for example, aid and investment. Thus, trade is a good measure of interaction between two countries.

There are the different perspectives on these causal mechanisms, in accordance to the theories presented in this thesis. Dependency theorists have argued that when a country trades with another country, the elites can be emboldened by a structural dependency. The rents from this trade can be utilized to buy a loyal patronage. Following from this, a convergence on the power structure can be shaped. Convergence in this context means that fewer people end up in the leadership of a country. This leads to a lower chance of a leader change in this corrupt leadership. Exogenous shocks tend to be hard on delicate power systems, thus, reducing the chance of leaks from the cabinet is paramount to corrupt leaders (De Mesquita and Smith 2011, p. 37). Some realists argue that trade increases the chances for conflict (Cope-land 1996, p. 6). According to them, mutual dependence gives incentives to states to initiate conflict on the grounds of access to necessary resources. However, liberal scholars argue that trade can lead to the convergence of similar interests, and thus promote peace.

With this in mind, the hypotheses will be introduced.

## 8 Hypotheses

To discuss the implications that Chinese patterns of trade have on governance indicators, two hypotheses will be presented and tested. These are used to guide the analysis. The foundation of the hypotheses is guided by the existing literature on the theories presented in this thesis. They are divided into 2 sections, each measuring the 2 respective dependent variables.

### **Hypotheses, Corruption:**

- H0: Higher trade dependence on China predicts higher corruption
- H1: Higher trade dependence on China does not predict higher corruption

### **Hypotheses, Human Rights:**

- H0b: Higher trade dependence on China predicts higher human rights violations

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- H1b: Higher trade dependence on China does not predict higher human rights violations

From these hypotheses, one can infer a less or more liberal world order.

## 9 Corruption and Human Rights

This text seeks to measure what effect Chinese trade has on the liberal rule-based order. The dependent variables of corruption and human rights are used as gauges of governance to assess the effect of Chinese trade. To add some context to this operationalization, the terms will be discussed in the following section.

### 9.1 Corruption

There is an increasing library of content from the field of international development studies regarding corruption, according to Arvind K. Jain (Jain 2001). The academic literature of this field has increased the attention towards the need for good governance to spur growth and development. However, according to these studies, advice on optimal policies and well-intended aid have not achieved the goals that institutions and policymakers in the West hoped. Corruption is viewed as hampering good governance by altering the allocation of provided public funds. In addition, corruption shifts the incentives and opportunities of the entrepreneurial class. The frustration towards the inefficient usage of funds might be a reason behind the fact that also the public at large now views corruption in the public sector as one of the greatest barriers to development (Jain 2001). Studies of the effects of corruption indicate that the phenomenon does not stay in one area of the economy, rather it echoes outside the corrupted transactions. Brunetti et al. 1998 argue that corruption affects the level of investment and the design of the rules and institutions that govern an economy (Morrow et al. 1998).

Despite how much of a hurdle to good governance corruption is, and despite the desire of well-intended actors to fight it, the phenomenon seems to be the rule rather than the exception (Jain 2001). For instance, the low degree of corruption present in the Nordic Countries today, are exceptionally rare (Martela et al. 2020).

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## 9.2 Collective action

There are disincentives present in many societies to fight corruption. There might be negative consequences for individuals if they go against the norms of a corrupt system, such as isolation or retribution.

Persson, Rothstein and Teorell argue that in very corrupt societies, there has been a mischaracterisation of the problem as an principal-agent system, when in fact the corrupt system rather resembles a collective action problem. The methods used to combat corruption have used a methodology dependent on the "existence of non-corruptible so-called principals" (Persson et al. 2013). When viewed as a collective action problem, the degree to which other actors in society are expected to act corrupt, is the key to understanding the issue. Instead of the approach of the principal-agent problem where the existence of "principled principals" that can hold corrupt officials accountable (Persson et al. 2013).

The international community has utilized a holistic approach to combat corruption, by working against monopolies and increasing public salaries such that the benefit of corruption is lessened (Jain 2001, p. 453). One of these strategies has been the decentralization of governments. The disenchantment towards earlier failures of highly centralized models has made this strategy an enticing one. While some scholars argue that there is a positive effect of decentralization on corruption, the skeptics claim that the results are ambiguous (Mookherjee, Bardhan et al. 2005). Though the increased focus has led to a larger degree of awareness of the negative consequences, not much has happened when it comes to actually combating the corruption. In fact, some countries have seen increased corruption after these reforms (Persson et al. 2013).

Since the anti-corruption awareness is heightened, many elected officials campaign on the promise of combating the issue. However, during this process, many of them seem to get entangled in the very system that they sought out to change, if they genuinely had these intentions in the first place. When the norms of corruption are present, both citizens and political actors tend to maintain the system. In these regimes, the conviction rate of such cases are low, and corrupt officials' chances of reelection are high. One can also argue that the populace takes an active part by voting for actors that have been shown to be corrupt (Persson et al. 2013).

There is also a cultural aspect that seems to affect corruption. While in some systems certain transactions are deemed corrupt, in other systems the same transactions might simply be viewed as gifts. In relation to this, I would contend that William Easterly's distinction between "planners" and "searchers" is relevant. The

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bureaucrats that have tried to combat corruption, sadly falls into the category 'of "planners". As was argued in the section under previous research, planners have trouble motivating their agents to realize their goals. The core problem might be the lack of accountability that is inherent in such top-down systems. This stands in contrast to that of the market exposed accountability that Easterly argues is more efficient to allocate resources and services (Easterly 2006).

In this text, to measure corruption, V-dems definition will be used. This variable will be explained in section (10.8.1).

### **9.3 Human Rights**

In this analysis, human rights (HR) are used as a gauge for governance quality. According to Sheena Chestnut Greitens, all autocrats have to shield themselves from threats such as uprisings, coup d'états or external attacks. The way in which they do this is by building coercive institutions. The apparatus that is implemented to protect elite interests, often use the most basic of human rights abuses to stay in power, namely violence (Grietens 2016). Therefore, the dependent variable from V-dem measuring violence and torture carried out from government agents will be used as the second dependent variable in this thesis. Sara Kahn-Nisser argues that China is on the opposite end of the spectrum when it comes to protection of HR. What then, is the link between trade and human rights? When it comes to trade via international treaties that lack enforcement, they are not likely to improve HR. However, conditional trade agreements where the cost of violating HR increases, are more likely to do so. When it comes to export specifically, companies are under pressure from democratic countries and the corporations operating there are incentivized to show domestic stakeholders that their practices, for instance in supply chains, hold HR standards over a certain threshold (Kahn-Nisser 2022, p. 547).

Next, the data and methods will be explained.

## **10 Data and methods**

In this section, the core scientific tenets of reliability and validity will be explained. Then, multiple regression utilizing time series cross sectional data (TSCS) will be discussed. Following from this, model specification and assumptions will be discussed. After this overview the variables will be laid out and the empirical analysis

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and following results will be shown.

## 10.1 Reliability and validity

Reliability and validity are core principles of science (Rose and Johnson 2020, p. 433). Generally, reliability is a measure of consistency, while validity is a measure of precision. The quantitative approaches within social sciences borrow from the natural sciences for guidance. Systematic rigor refers to how applicable the research methods are and how trustworthy the results are. Reliability, more specifically, is more akin to how *sound* the research is (Rose and Johnson 2020, p. 435), and refers to the consistency of the methods utilized. Preferably, these results should be similar or equal across time and if other researchers test the same data. Reliability thus asserts that if a different researcher were to test the same data again, equal or similar results should follow.

Validity on its side gauges the accuracy of the results. This precision can be measured by the residual of the observed and expected values (Louangrath 2018, p. 51). This study has stated its research goals and has specific questions to answer. The methodology is reliable in the sense that any researcher can back-test the results using the same, public data set and using similar or the same statistical programs such as Stata. The data utilized in this text is mainly collected through the World Bank and the International Monetary Fund (IMF). Thus, the data quality is of high quality as it is utilized by large institutions and a plethora of other researchers. One example of the rigorous testing of econometric data, is the shift that happened with how researchers view the official Russian data after they in 2022 were hit by sanctions following the invasion of Ukraine. Previously, the official data was viewed as somewhat valid and reliable as there was a large number of transactions and parties on both sides that could verify these metrics. However, Russia has ceased the reporting on their imports (Chorzempa 2022). Following the tight restrictions on the currency flows, researchers now have reason to be skeptical towards the official data from Russia.

## 10.2 Research design

The research design of this text is shaped to assess whether Chinese trade is more important to corrupt regimes or human right violators than their respective counterparts. First, a global data set containing 165 countries is presented. Following this, a sub-sample containing 142 developing countries is presented. Theoretically, there



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should be a difference in how important Chinese trade is for developed and developing countries. Therefore, this sub sample where developed nations are omitted is of interest because per capita, the gross domestic product should be more sensitive to Chinese trade in the developing country category. Moreover, the industrialized democracies have already been strong democracies before the rise of China in recent decades.

A time series cross sectional data set, or TSCS-data set is used to perform the empirical tests. These types of data sets are made up of observations within a series of fixed units, in this case: countries. Though seemingly similar, panel data tracks the same units over time. This can for instance be useful when doing surveys of households over a few time points (Mehmetoglu 2017, p. 252).

Before the linear regression analysis can be conducted, there are core assumptions that should be satisfied.

### 10.3 Model specification

Firstly, the theoretical soundness of the analysis is paramount. To ensure that all relevant X-variables and no irrelevant X-variables are included, the relationship between the variables should have a theoretical grounding (Mehmetoglu 2017, p. 135). If the explanatory variables are included randomly, we run the risk of false significant results. In this thesis, the relevant theories are meticulously explained and contextualized in relation to what is being tested by the hypotheses. Therefore, the theoretical soundness should be rigorous in this analysis.

In addition to the theoretical reasoning, to check for model misspecification, *linktest* and Ramsey's regression specification error test for omitted variables can be run (Mehmetoglu 2017, p. 136). In this case, the results point to issues with the specifications. Though this is a potential weak point of the analysis, the fixed effects estimator helps alleviate some of this omitted variable bias.

### 10.4 Assumptions about residuals

In addition to checking the model itself, the residuals within the model should also meet certain assumptions. The errors should be normally distributed. As the data set used in this analysis is of a large N, there should be a lower chance for presence of this issue than for analyses using smaller samples. The skewness and kurtosis level can be tested directly using the Shapiro-Wilk test, or *swilk*. However, as most

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of my variables are logged, skewness should be reduced. Instead, a visual test is also performed. After storing all the residuals in a variable, I create a histogram to check for normal distribution. The histogram shows an approximate normal distribution, but the results are somewhat skewed towards lower values.

## 10.5 Some issues with TSCS-data

TSCS-data tends to be prone to the problem of autocorrelation, heteroskedasticity and non-stationarity. Autocorrelation is the degree to which the correlation of the error term correlates over the different time points in the data set. In statistics, the error is the aggregate difference, or the residual from the observed to the expected value of  $Y$  (Mehmetoglu 2017, p. 49). In the statistics program Stata, the Wooldridge test has been utilized in this context. It is designed to help researchers pinpoint serial correlation. The null hypothesis of the test is that there is no autocorrelation. In this instance, the output is telling us that the difference in coefficients is not systematic. This means that the null hypothesis is retained, and there is autocorrelation present. This is not surprising, in light of the characteristics of TSCS-data. Therefore, the Driscoll/Kraay standard error methodology will be put to use, as this accounts for the present autocorrelation (Hoechle 2007).

Though the type of data used in this analysis gives more information than purely cross sectional data, the value of the data can be overstated. This is because econometric data tend to inhibit various types of temporal and cross sectional dependencies. Not taking this fact into account, can lead to biased inference (Hoechle 2007, p. 281).

Heteroskedasticity is also a potential issue with TSCS data. A core assumption for performing linear regression is that there should be constant variance in the error term, or homoscedasticity. To test for this, the Breusch and Pagan test has been performed (Mehmetoglu 2017, p. 150). The null hypothesis of this test is that there is no heteroscedasticity present. In this case, the result was highly significant and thus the null hypothesis is rejected, and the alternative hypothesis is accepted. This means that there seems to be a problem with inconsistent variance.

Therefore, to make sure that the statistical results are valid, an inclusion of adjusted standard errors has become standard in articles utilizing this type of data, for instance in finance. Additionally, there likely is some spatial correlation even in county level data. According to studies in microeconomics, there are complex mutual dependencies between cross sectional data points. Additionally, norms and patterns of

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behaviors can enter regressions of panel data as unobserved common factors. Therefore, complex types of temporal and spatial dependence can occur (Hoechle 2007, p. 282). Thus, I use the method suggested by Hoechle, which is to use ordinary least squares (OLS) with the Driscoll-Kraay standard errors robust to heteroscedasticity and general forms of spatial and temporal autocorrelation (Hoechle 2007).

As the approach utilizes time series, the potential presence of non-stationarity could cause problems. Data is stationary when the parameters like variance and mean do not change over time. If the non-stationarity is present, it will appear as if there is a relationship between two unrelated series of data. If a researcher is not aware of this fact, the analysis will be invalidated by spurious data. Spurious relations are characterized by misleading correlations between variables that are a result of a third causal variable (Mehmetoglu 2017, p. 236). Therefore, the augmented Dickey-Fuller test has been performed. This test checks if the time series contains a unit root which means that it can be hard to perform statistical analysis as the units are impacted by random factors. The null hypothesis of the test is that there is non-stationarity present. In this case, the p-value is 0, meaning we can reject the null hypotheses of non-stationarity and move to the estimators.

## 10.6 Fixed or random effects

When performing analysis of panel data, the error term can be correlated with one or multiple of the X-variables. This also applies to the methodology of TSCS-data as there are recurrent observations of units across time. This endogeneity or omitted variable bias could lead to problems with the analysis. If there are unobserved phenomena that affects both the dependent and independent variables, a core underlying assumption of linear regression that the unexplained variance, or error term, should be uncorrelated with the X-variables, is broken (Mehmetoglu 2017, p. 240). The fixed effects (FE) utilize a within estimator. If there is a covariance between the within variation and and unexplained endogenous variable  $e$ , then the fixed effects estimator should be chosen. If the covariance is zero, then the more efficient random effects model should be chosen.

One common way of checking for what estimators to use, is with the Hausman Test (Mehmetoglu 2017, p. 241). If the Hausman test is significant, we should use the fixed effects. The fixed effects estimator elaborates on the regression by including dummies that are specific to the units. Therefore, for each unit, a dummy variable is included. This means that the observations are centered. Potential cross sectional effects are thus removed. This leaves the potential temporal, or time-related issue,

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as the temporal variation within X is correlated with the temporal variation in Y. If variables are time invariant, their effects cannot be measured by the fixed effects estimator. On the flip side, the unmeasured variables that do not vary over time can be controlled for. In addition, the coefficients that change of time will be compatible over time.

To summarize, fixed effects are thus a *within estimation* tool. Any cross sectional heterogeneity has been considered when using FE. The estimator checks if X is causally related to Y. Additionally, omitted variables are not a problem here.

Random effects on their side are better for interpretation. However, we cannot be sure that it is not some unexplained variable behind the variables.

As mentioned, the Hausman test is utilized to weigh the potential of fixed or random effects. The alternative hypothesis of the test indicates that the favored choice is fixed effects. In this case, the test is indicative that there is a negligible difference when choosing between them, as the coefficients are quite similar. Therefore, both sets of results will be presented so that coefficients from the fixed and random might be compared.

## 10.7 Timeframe

This data set uses V-dem's corruption and physical violence indicators as its dependent variables. Various independent- and control-variables that look at trade and democratic indicators are utilized. The data is collected from 1990-2019, which is a fitting time frame for this analysis. China's role as a great power is a rather new phenomenon, as the bulk of the absolute economic growth has happened these last decades. As argued earlier, this economic growth has made China a great political and military power as well, thus its potential to project power through trade flows is mostly relevant after this growth spurt. Utilizing data during this time frame, we can observe both new states that gained their independence at this stage, and also China that opened itself up to markets globally (Kahn-Nisser 2022, p. 552). Thus, the timeframe from what scholars call the unipolar moment in geopolitics following from the collapse of the Soviet Union is an interesting time frame which is of the highest relevance to the theories presented in this text.

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## 10.8 Dependent Variables

### 10.8.1 Corruption

The dependent variable "Corruption", or as originally denoted by V-dem, "v2x\_corr", measures how pervasive political corruption is to the respondents of the survey. The direction of the coding is here important to keep in mind, as the index increases from 0-1 as corruption increases, meaning higher scores indicate a worse governance score (V-dem n.d.(a)). This means that it is coded in a contrary way to other V-dem indicators that usually increase as democratic indicators increase. There are six types of corruption that are measured, from the political, legislative and judicial branches. The intention from the researchers at the V-dem institute is to capture an array of different types of corruption, from bribery to theft and corruption targeting law making and law implementation (V-dem n.d.(a)).

### 10.8.2 Human Rights

The second dependent variable "Human Rights", or as originally denoted by V-dem, "v2x\_clphy", measures to what degree physical integrity is respected (V-dem n.d.(a), p. 293). As such, it is utilized as a proxy variable that is specifically measuring negative freedoms from political killings and torture acted out by government agents. It is also narrowed down because it only captures killings and torture that is not referring directly to elections. The variable is thus an index combining these two indicators. It is coded as an interval, from low (0) to high (1), the higher score meaning that physical integrity is respected to a larger degree, which in this thesis is utilized as what degree of Human Rights a regime upholds. It is therefore coded more in line with other V-dem variables that score higher with corresponding higher governance scores, in contrast to the corruption variable (V-dem n.d.(a), p. 293). Specifically, the variable is an index averaged by two other indicators. These are *v2cltort* and *v2clkill*, or freedom from torture and freedom from political killings, respectively (V-dem n.d.(a), p. 293).

## 10.9 Independent Variable

The independent variable being assessed in this empirical analysis is "Trade with China per capita". This variable allows the thesis to explore the association between trade dependency upon China and its effects on the two dependent variables. This variable is logged, as we don't want outliers, for example small, wealthy Gulf states,

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to skew the results. The data is collected from the IMF and shows each country's trade with China. The variable is calculated by adding import and exports. Then, the sum is divided by the population of the country in question and then by 1,000,000 to get the per capita data (IMF n.d.)

The directions of trade statistics from the IMF should lead to data with high validity. Validity measures the accuracy of the results. In this case, there are large institutions and many researchers that use these data and depend on them. Therefore, there is a lower chance that all of these actors have overlooked erroneous details in the data.

Next, the control variables will be introduced. They are categorized as such because they do not have the same theoretical interest as the dependent variable but could influence the result of the analysis. Therefore, they should be controlled for.

## **10.10 Control Variables**

### **10.10.1 Trade as a percentage of GDP**

Arguably, the more total trade a country engages in, the more it can develop and engage in markets and relationships. With such a diversification, good governance should in theory be fostered. Therefore, it is expected that an increase in this variable should lead to a decrease in corruption and human rights abuses. The variable is logged so that outliers do not skew the results to a large degree.

### **10.10.2 GDP per capita**

The control variable "GDP per capita" is included because in theory, richer countries should be less prone to being trade dependent upon China. The variable is logged.

### **10.10.3 Electoral democracy**

The control variable "Electoral democracy" is included to check a core assumption in this thesis, namely that there is a stronger set of institutions in such regimes than in autocracies. It is expected that electoral democracies should have higher governance score than autocracies. In the V-dem codebook it is viewed as a core element in representative democracies, which include liberal, participatory, deliberative, egalitarian or other types. The variable specifically measures: "To what extent is the ideal of electoral democracy in its fullest sense achieved?" (V-dem n.d.(a), p. 43).

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Thus, the threshold for being categorized as electoral should be lower than to be categorized as liberal democracy. The variable is scaled as an interval from low (0) to high (1).

#### **10.10.4 Total population**

Total population is also controlled for. In theory, population size correlates with market size and could indicate how open an economy is, and also include certain advantages with cost because of economies of scale (Alesina and Spolaore 1997, p. 1029). The data is taken from the World Bank's World Development Indicators (WDI n.d.).

#### **10.10.5 Civil war, ongoing**

The control variable "Civil war" is gathered from the Uppsala Conflict Data Project. They define the concept as an armed conflict with 25 battle deaths (Gleditsch et al. 2002). This is lower than other the COW datasets which utilize 1,000 as a threshold. However, this high threshold omits conflicts such as the ones in Ireland and the Basque conflict in the latter half of the 20th century. This threshold leads to there being too few conflicts to analyze for multivariate analyses, the UCDP designers argue (Gleditsch et al. 2002, p. 617).

#### **10.10.6 Years of peace**

The final control variable measures the time since the last civil war and is also gathered from the UPCD project. Arguably, years of peace should correlate with higher score on governance.

## **11 Correlation matrix and summary statistics**

Between the independent and control variables, there should not be too high correlation. This would lead to multicollinearity. When two or more independent variables are too linked to each other, it can become hard to distinguish the effect that one single variable has on the dependent variable. In the appendix, a matrix of correlation utilizing the Pearson R correlation is shown. Generally, when correlations are above 0.8 they are considered high and could be considered overlapping. In this

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instance, no such high values are reported.

## 12 Empirical analyses

The research question posed in this thesis is *Does the rise of China threaten the liberal world order?* In the following section, the results from the multiple regression models will be shown. These results will then be discussed in context of the research question.

## 13 Regression results

The first regression, Table 1, includes both dependent, the independent and all control variables. It has 165 units of analysis, while the two following regressions has 142. This is because initially, the whole data set of available countries from the World Bank is included. In the two following regressions, developed countries have been omitted. They have been chosen using the WENAO-categorization which includes countries in Western Europe, North America, and Oceania (Milanovic 2003). There are differences in the number of the observations between the two dependent variables. In the first regression, there are 4669 and 4683 observations for Corruption and Human Rights, respectively. In regression 2, there are 3968 and 3982 for the dependent variables, and in table 3 there are 3941 and 3955, respectively. Fixed effects are shown in the FE columns, while random effects are under the RE columns.



Table 1: Fixed-effects and random-effects regression with Driscoll-Kraay standard errors measuring the effect Chinese trade has on corruption and human rights.

	(1)	(2)	(3)	(4)
	Corruption	Corruption	Human Rights	Human Rights
VARIABLES	FE	RE	FE	RE
Trade with China per capita (ln)	0.00246** (0.00109)	0.00252 (0.00177)	-0.000815 (0.00202)	-0.00106 (0.00225)
Trade / GDP (ln)	-0.00160 (0.00569)	-0.000872 (0.00525)	-0.00831 (0.00518)	-0.00722 (0.00457)
GDP per capita (ln)	-0.0521*** (0.00781)	-0.0724*** (0.00927)	0.0430*** (0.00664)	0.0402*** (0.00604)
Electoral democracy	-0.313*** (0.0292)	-0.325*** (0.0268)	0.639*** (0.0397)	0.649*** (0.0330)
Total population (ln)	0.0499*** (0.00915)	0.0301*** (0.00647)	-0.0123 (0.0165)	-0.0248*** (0.00893)
Civilwar, ongoing	-0.0175*** (0.00459)	-0.0191*** (0.00479)	-0.0487*** (0.00631)	-0.0502*** (0.00669)
Years of peace	-0.000398** (0.000164)	-0.000500*** (0.000133)	2.34e-05 (0.000209)	0.000163 (0.000218)
Constant	0 (0)	0 (0)	0 (0)	0 (0)
Observations	4,669	4,669	4,683	4,683
Countries	165	165	165	165
Standard errors in parentheses				
*** p<0.01, ** p<0.05, * p<0.10				

Table 1 shows fixed effects and random effects multiple regression measuring the effect Chinese trade dependence has on corruption and human rights. This is done to measure what is being empirically assessed, namely the effect trade dependence has on the two dependent variables. Furthermore, the control variables are used to see if the effects are robust and not spurious. Spurious effects occur when a different variable is, at least partly, the cause of our X- and Y-variables (Mehmetoglu 2017, p. 236).

When it comes to the fixed effect estimator, trade with China has a positive and statistically significant effect on the  $p < 0.05$  level, on corruption. As the corruption variable measures how pervasive corruption is, this increase shows that a higher trade dependence on China predicts higher corruption. Based on this model, it seems we can thus reject the alternative hypothesis H1 and keep the null hypothesis H0. Also, the H0b hypothesis gets rejected, and H1b accepted. However, these results will be tested further in the following regressions.

Looking at standardized results, it can be observed that an increase in trade with China per capita by one standard deviation increases corruption by 1.93% of a

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standard deviation of corruption. The substantive impact thus is quite small. The calculation is shown in the footnote. <sup>2</sup>

When it comes to the random effects and the effects on human rights of the independent variable, these are not statistically significant.

Interpreting the control variables, it can be observed that GDP per capita has a negative effect on corruption and is statistically significant on the  $p < 0.01$  level. This is in line with expectations. Richer countries should be less prone to being trade dependent upon China and they are likelier to be directly less corrupt, independent of their trade with China. The coefficients measuring the effects upon human rights are also significant on the same level and are positive. This means that countries with higher GDP per capita respect physical integrity rights of citizens to a higher degree than poorer countries. These results are highly robust as both the fixed and random effects for both the dependent variables are significant. They should also be valid and reliable because of the data quality and the methodology utilized being easily replicated.

In the context of this analysis, electoral democracy measures "To what extent is the ideal of electoral democracy in its fullest sense achieved?" in an interval from 0 (lowest) to 1 (highest). Electoral democracy has a negative effect on corruption and is statistically significant on the  $p < 0.01$  level. This is also in line with expectations, as these regimes should have higher good governance scores than autocracies. Additionally, they score higher on human rights, which also is in line with expectations.

However, it should be noted that fixed effects are less precise for estimating variables which do not change materially over time. This is the case for regime types; therefore, one should be careful in overstating the FE results here (Mehmetoglu 2017, p. 249). Total population is also significant on the  $p < 0.01$  level. The coefficient is positive, which indicates that larger countries are more corrupt.

Additionally, civil war is also strongly associated and is highly significant on the  $p < 0.01$  level, across both Y variables and both fixed and random effects. The effect on human rights is negative as expected, however, on corruption it is also negative. This is not in line with expectations. The presence of a civil war decreases corruption. The control variable is included because in theory, civil war should correlate with poorer governance. However, if very autocratic regimes that can control their populace with security forces are also corrupt regimes, it can make

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<sup>2</sup>Standard deviation of X \* coefficient = Z Z/ SD of Y\*100% = % change in SD of Y. In this case for regression 1:  $2.295 * 0.00246 = 0.0056457$   $0.0056457 / 0.292 = 1.93\%$  For regression 2:  $2.295 * 0.00351 = 0.00805545$   $0.00805545 / 0.292 = 0.02758715753 * 100\% = 2.76\%$  and for electoral democracy  $0.287 * -0.318 = -0.091266$   $-0.091266 / 0.292 = -31\%$

sense that civil wars would not occur in these regimes. For example, after the Russian invasion of Ukraine in 2022, Russia increased repression upon civil society to crack down on any uprisings, protests or unwanted critique with a high success rate (V-dem n.d.(b)). The result in regard to civil wars' effect on corruption is an interesting finding that can alter how to perceive the issue of civil wars. When it comes to the variable Years of peace, this is only significant only on corruption, and yields expected results.

Table 2: Fixed-effects and random-effects regression with Driscoll-Kraay standard errors measuring the effect Chinese trade has on corruption and human rights.

	(1)	(2)	(3)	(4)
	Corruption	Corruption	Human Rights	Human Rights
VARIABLES	FE	RE	FE	RE
Trade with China per capita (ln)	0.00351*** (0.00118)	0.00335** (0.00150)	-0.00101 (0.00225)	-0.00147 (0.00252)
Trade / GDP (ln)	-0.00146 (0.00573)	-0.00115 (0.00554)	-0.00786 (0.00538)	-0.00670 (0.00461)
GDP per capita (ln)	-0.0547*** (0.00837)	-0.0625*** (0.00792)	0.0394*** (0.00627)	0.0421*** (0.00663)
Electoral democracy	-0.318*** (0.0283)	-0.324*** (0.0262)	0.638*** (0.0407)	0.651*** (0.0335)
Total population (ln)	0.0454*** (0.0111)	0.0366*** (0.00758)	-0.0200 (0.0180)	-0.0279** (0.0104)
Civilwar, ongoing	-0.0171*** (0.00492)	-0.0179*** (0.00503)	-0.0486*** (0.00637)	-0.0497*** (0.00691)
Years of peace	-0.000346* (0.000176)	-0.000410** (0.000157)	0.000104 (0.000232)	0.000271 (0.000245)
Constant	0 (0)	0.627*** (0.157)	0.391 (0.300)	0.479** (0.196)
Observations	3,968	3,968	3,982	3,982
Countries	142	142	142	142

Standard errors in parentheses  
 \*\*\* p<0.01, \*\* p<0.05, \* p<0.10

In the second regression model, developed nations are omitted. Arguably, the lower income per capita countries should be more prone to being dependent upon Chinese trade and associated with poorer governance.

First, looking at the independent variable, the results on corruption are statistically significant and positive, with a higher coefficient than in the previous model. The effects on human rights are not significant. Looking at the standardized results for corruption in regression 2, an increase in one standard deviation of trade with China per capita, explains 2.76% of a standard deviation increase in corruption. Though a relative increase from the first regression model, the effect remains small. Again,

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these results are similar compared with the full sample.

When it comes to the control variables, GDP per capita is statistically significant, and decreases corruption and increases human rights. The results are robust as they're consistently on a  $p < 0.01$  level for both fixed and random effects. The same can be observed for electoral democracy, though with larger coefficients.

Looking at the standardized results of electoral democracy in regression 2, an increase in one standard deviation of electoral democracy explains 31% increase of a standard deviation of corruption. This puts into perspective the relative change that the independent variable yields. Therefore, though the results from the independent variable are interesting, statistically significant and rigorous, they should not be overstated.

Overall, the differences in Table 2 with the omitted WENAO-countries are minuscule compared to regression 1. This is the case for the remainder of the control variables. In conclusion then, though there was an increase in the effect upon corruption, whether or not the sample included the WENAO-countries or not, is of little importance to the results.

Before showing the next regression model, another control variable will be included.

### **13.1 Control variable: Natural Resources**

The variable "Natural resources" measures natural resources as a percentage of GDP. The rents of natural resources are mapped out as the delta of the price of a commodity and the mean production cost. More specifically, they are calculated as the unit price of said commodities, before subtracting the estimated mean unit harvesting or extraction cost. Following this, the unit rents are multiplied by the number that countries produce. This allows for the calculation of resources in relation to GDP. The data is gathered from the WDI (WDI n.d.).

Below, the third regression table will be shown.

Table 3: Random-effects regression with Driscoll-Kraay standard errors measuring the effect Chinese trade has on corruption and human rights, with interaction effect.

VARIABLES	RE	RE
	Corruption	Human Rights
Trade with China per capita (ln)	-0.00782*** (0.00132)	0.00188 (0.00350)
Natural Resources	-0.0213*** (0.00392)	0.00289 (0.00731)
Interaction Term	0.00619*** (0.000498)	-0.00178 (0.00128)
Trade / GDP (ln)	-0.00338 (0.00618)	-0.00573 (0.00499)
GDP per capita (ln)	-0.0620*** (0.00791)	0.0412*** (0.00708)
Electoral democracy	-0.330*** (0.0279)	0.648*** (0.0323)
Total population (ln)	0.0157* (0.00798)	-0.0255** (0.0111)
Civilwar, ongoing	-0.0216*** (0.00453)	-0.0491*** (0.00689)
Years of peace	-0.000271 (0.000165)	0.000220 (0.000258)
Constant	1.014*** (0.146)	0.437** (0.211)
Observations	3,941	3,955
Number of groups	142	142
Standard errors in parentheses		
*** p<0.01, ** p<0.05, * p<0.10		

Table 3 introduces the natural resource variable and the interaction term. We can interpret an interaction term as the effect of the X-variable on the Y-variable, which varies for different values of another X-variable. This means that the interpretation of the coefficients that are included in the interaction term assumes that the other X-variable is equal to zero.

In this case, the interaction term multiplies the variables "Trade with China per capita" and "Natural Resources".

Interpreting the coefficients in this model that are included in the interaction term, is thus more complicated than in the two former regressions. The negative effect on trade with China per capita on corruption only occurs when natural resources are at zero. Conversely, the negative effect natural resources have on corruption is observed when trade with China is at zero. The most interesting empirical result for this thesis is therefore in regard to the interaction term. The interaction term is positive, meaning the effect is coming from trade from resource rich countries. Because of this, any blanket argument that trade with China in isolation is increasing corruption is wrong. The small positive effect reported in the previous tables, thus,

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is most likely due to Chinese trade with resource rich countries. However, using this caveat, probably all trade with these countries will have some effect in this fashion. From this, it can be inferred that the natural resource curse is probably the real issue, rather than the effect of trade with China as an autocratic nation. The effect on human rights are not statistically significant. However, the only reasonable way to interpret the interaction term is through the conditional marginal results that will be shown shortly. Also, it should be noted that there is a possible endogeneity issue here, where it could be the case that Chinese trade is related to corruption because natural resource rich countries are already corrupt.

### 13.2 Conditional marginal effects

The conditional marginal effects are shown in the figures below. The reason they are denoted as "conditional marginal" are because they are calculated while keeping all other covariates in the regression at their mean value. Thus, they show the change in the dependent variable with one unit change in the independent variable that are included, while holding the other at their respective means. In this case, the interaction term measures the effect a control variable has on the independent variable. Specifically, it measures the effect of increasing natural resources/GDP on Chinese trade per capita, meaning the effect more resource trade has on trade dependency on China.

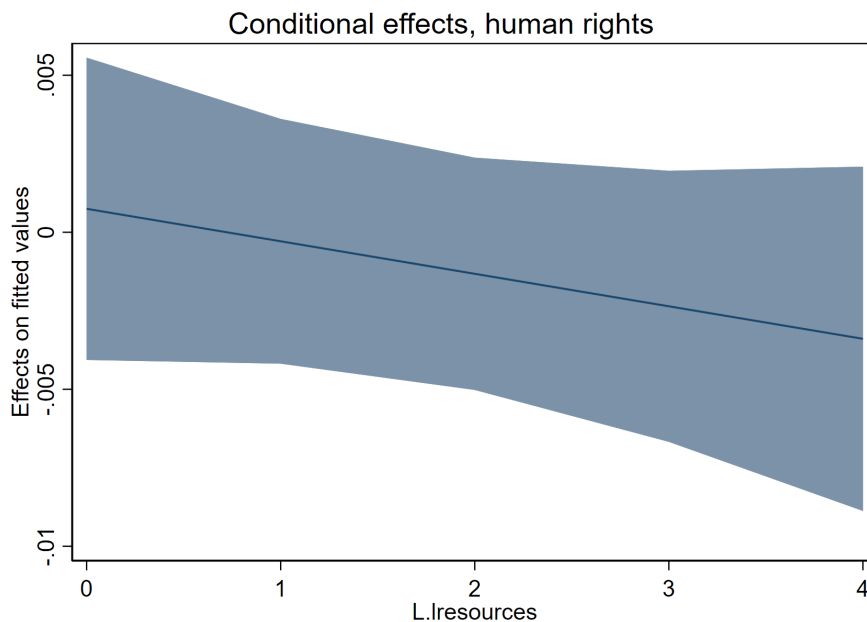


Figure 7: Marginal effects on Human Rights

The marginal effects on human rights from Chinese trade per capita and natural resources are shown in Figure 7. The large confidence interval indicates a low degree of precision, and the crossing of the zero line illustrates that the results upon human rights are not statistically significant. As this variable measures the respect of physical integrity, this can be viewed as good news. The results indicate that this very stringent criteria of human right respect is at least not increased by trade dependence upon China.

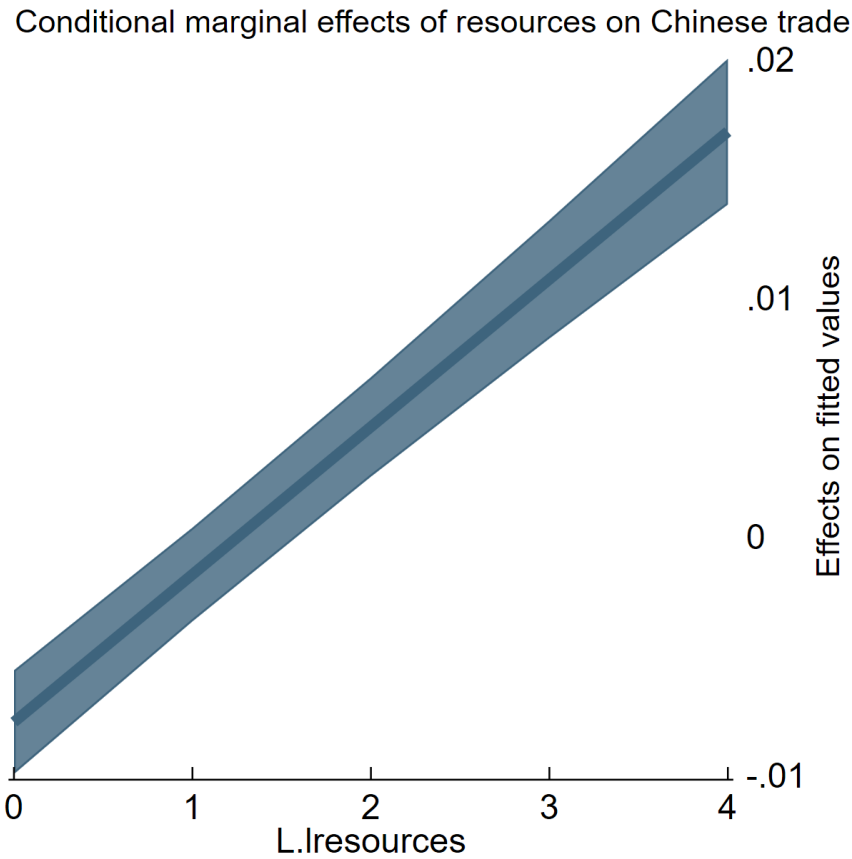


Figure 8: Marginal effects on Corruption

The interaction between Chinese trade per capita and natural resources on corruption is shown in Figure 8. The interaction effect shows that there is a positive relationship between the interaction term and corruption. In other words, the product of Chinese trade per capita and resources has a positive effect on corruption. In effect, Figure 8 visualizes the effect of the resource curse, which gets worsened by trade dependence on China, denoted by the horizontal X-line. However, it should be noted that the results are not to be overstated, as the increase is quite subdued. This can be observed by the vertical Y-line that shows the effects on the fitted values. One should be careful with the interpretation of the magnitude of this effect.

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However, in context of the small, standardized effects that were discussed earlier, it can be noted that the effects in Figure 8 only move in small magnitude, as the decimals show.

### **13.3 Hypotheses testing**

The hypotheses tested in this thesis look at the effect of higher trade dependence on China on the two dependent variables, respectively.

#### **Hypotheses, Corruption:**

- H0: Higher trade dependence on China predicts higher corruption
- H1: Higher trade dependence on China does not predict higher corruption

#### **Hypotheses, Human Rights:**

- H0b: Higher trade dependence on China predicts higher human rights violations
- H1b: Higher trade dependence on China does not predict higher human rights violations

The null hypothesis H0 is accepted, and the alternative hypothesis H1 is rejected. The results have shown that higher trade dependence on China predicts higher corruption. The null hypothesis H0b is rejected, and the alternative hypothesis H1b is accepted. There is no statistically significant indication that higher trade dependence upon China predicts human rights violation.

Before entering the discussion of the findings in this thesis, a brief robustness test will be performed.

### **13.4 Testing robustness**

Within empirical studies, researchers can conduct robustness checks. These checks are performed to see how the coefficients of the regression behave when the specification of the model is modified, such as by adding or moving regressors. One can also perform sensitivity analysis to check what the outcome is by altering sample



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size. In this text, it was observed that the alteration of the data set by omitting the developed countries did not have a substantive effect on the results. Adding or removing control variables is also a type of robustness check. If the coefficients persist to be stable after such changes, the results can be judged robust to different sets of covariates (Lu and White 2014). Here, the dataset is logged and the robust standard errors by Hoechle 2007 are being utilized. Thus, in this section, only the variance inflation factor test (VIF) will be used to check for model specification robustness. The VIF-test checks for multicollinearity. This phenomenon causes issues in multiple regression models because the inputs are influencing each other and are thus not independent. This means that testing for the individual effects of each of the variable is difficult. In this case, none of the critical values are close to being problematic in the test. Usually, these thresholds are 10 for the VIF column,  $< 0.1$  for the  $1/\text{VIF}$  or tolerance column, and 4 for the mean VIF.

<b>Variance inflation factor</b>		
	VIF	1/VIF
L.lgdppc	2.498	.4
L.lchntradepc	2.132	.469
L.peaceyrs	2.061	.485
L.lpop	1.624	.616
L.ltrade	1.586	.63
L.civilwar	1.516	.66
L.v2x polyarchy	1.512	.661
Mean VIF	1.847	.

Figure 9: VIF

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## 14 Discussion

This thesis has aimed to answer the research question *Does the rise of China threaten the liberal world order?* Through empirical assessment guided by the theories of realism and liberalism, the results show that from trade dependency on the autocratic China, follows an increase in corruption. This finding is thus in accordance with expectations, since it was outlined that Chinese trade should empower commercial elites in developing countries. Because China lacks any focus on liberal values such as positive and negative rights, they are not likely to put pressure on the corrupt elites to change their actions. Thus, since their corruption is not quelled, and when this commercial elite gets more trade dependent upon China, there should instead be an increase in corruption.

However, the results were substantively not large. In the amended data set containing only developing countries, an increase in one standard deviation of trade with China per capita explains 2.76% of a standard deviation increase in corruption. To contextualize this, an increase in one standard deviation of "electoral democracy" explains about 31% of a standard deviation increase in corruption. This means that whether a country is more democratic, predicts much more about governance than trade dependency on China.

Importantly, after trade dependency on China was interacted with the resource variable, the results indicate that it is the resource curse that explains a major part of the positive relationship between trade with China and corruption. The resource curse puts countries in a situation that is hard to escape. When regimes are dependent upon exporting natural resources, this can get prioritized over other sectors. In the long run, this can make a country less resilient to exogenous shocks, and less likely to be innovative and thus enter new sectors which can bolster the economy. Therefore, I argue that if a country is dependent upon exporting natural resources, it puts it in a position of being more prone to trade dependency on China. It has been discussed that the US became self-sufficient on oil. On the flip side, China is not self-reliant, and thus is dependent upon importing much of their consumption of natural resources. Therefore, the PRC needs to trade with different regime types. One can assume that any other vast regime with the same need for resources would have the same effect on governance, since it is the resource dependency that leads to them trading with these regimes.

Additionally, I would argue that the most important threshold for someone making the case that one should not worry about China, is the testing of the effects on human rights. These are a stringent check on HR-respect, as they measure respect of

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physical integrity. However, there is no statistical indication that trade dependency upon China increases such violence. This is not in line with expectations. Instead, it was argued that in countries that are getting more corrupt, there would be uprisings and revolts, which would then be responded to with violence. This would result in HR being negatively associated with trade dependence on China. However, this was not the case as the results were not statistically significant. This can be linked to the fact that elites in China are arguably not incentivized to alter the current world order that has enabled their current position. In this context, the results can be viewed as a positive indication that future governance in the world order will not be threatened in this sense by the increasing presence of China.

In sum, there is a lack of evidence to suggest that Chinese trade can be associated with bad governance among its trading partners. The clear, but small effect on corruption vanishes when testing the conditional effect with natural resources. Therefore, by inference, it is hard to conclude that China threatens the liberal rule-based order.

The results are interesting, and they align with the previous research that argues that China is not necessarily an outlier in global relations in terms of its effect on governance. This was for instance argued by (Dreher, Fuchs, Brad Parks et al. 2018, Dreher, Fuchs, Bradley Parks et al. 2022 De Soysa and Midford 2012 Kastner 2016). Therefore, one can argue that any other regime in the same trade relationship of importing natural resources in the scale China is, would have a similar effect on the resource curse.

To guide the analysis, the theoretical framework of realism and liberalism has been used. These theories have grounded the analysis in two distinct ways. Firstly, through the realist perspective, power, conflict, and self-interest within an anarchic world are core axioms. Secondly, the liberal perspective on international relations holds that realism and its focus on conflict is too narrow. In the context of modern complexities of international trade, the monolithic state as the unit of analysis therefore has diminished usefulness. Rather, liberalism holds that a convergence of interests emerges from complex trade and cooperation in transnational institutions that go beyond the borders of states. In this light then, China's interactions with other countries, even developing ones, can be viewed as converging their interests and leading to a less isolated and more cooperative world order.

In addition, dependency theory has been applied. This theory contends that developed nations exploit poor nations in what they call *neocolonialism*. The theory is useful, because in the analysis I argue that higher trade dependency upon China

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would make the recipient country more likely to have poorer governance.

What do the findings mean from a realist perspective? As has been illustrated, China did not become a liberal democracy even after opening its markets and growing quickly for decades. China remains an autocracy to this day. Previous research that looked at arms transfers (De Soysa and Midford 2012) came to similar conclusions as this one, where there is a cold calculation of own interests that have deciding implications even for the regimes that have strong governance scores at home. I would therefore argue that realism has provided important insights into the factors that have been discussed. Namely, it seems like the survival of the regime is paramount to elites in China.

What do the findings mean from a liberal perspective? The skeptics that argued the internal policies of China will be exported to Beijing's trading partners, seem to have vindication when it comes to the effect on corruption that trade dependency on China has. However, as discussed, the effect was not substantively large, and not statistically significant when checking human rights.

Liberals argue for convergence and that richer economies should lead to democratization. Since the Cold War ended, there has been stagnation in democratization. Globally, the number of liberal democracies have decreased in the period (V-dem n.d.(b)). However, taking a longer perspective, one can argue that the prevalence of democracies today is unprecedented. I have argued that there might be some faulty assumptions when it comes to the efficacy of combating corruption and entrenched poor governance. For instance, when it comes to corruption, some reports indicate that it has increased even after efforts to combat it have been implemented (Persson et al. 2013). However, I argue that the presence of corruption is the rule, more than the exception. Here, I am trying to tie this logic with the case of democratization and the presumably erroneous assumptions of liberals such as (Fukuyama 1989). Just as good governance, democracies are the exception rather than the norm. This thesis has a limited scope given that the timeframe that is researched is from 1990 to 2019. During this period, the trend of liberal democracy has been negative, though electoral democracies have expanded in the context of the third wave of democratization (Lührmann et al. 2018). However, when utilizing centuries and not decades as the scope of analysis, there is a clear trend towards democratization and better governance globally. Therefore, I would argue that the theory of liberalism has merit in relation to the empirical question of the rise of China posed in this thesis. Democratic peace theory for instance indicates a trend of (almost) lack of conflict between democracies. If Acemoglu and Robinson are correct in assuming China will face problems when reaching saturation of growth, maybe it will converge towards

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liberalism at a later stage in history. As of today though, the liberal argument of convergence has not materialized when it comes to the case of China.

Democratic peace theory contends that there is a tendency of peace between democratic regimes. From the variable electoral democracy, it seems that this regime type also relates to lower corruption. However, this can be an endogeneity issue where these countries already are richer with higher quality institutions than autocracies in general, meaning that there can be a reverse causality between those factors and governance.

What do the results mean from the standpoint of trade dependency? The theory is arguably on the opposing side of the liberal argument in this debate and has some merit here. Because China needs natural resources, it chooses to trade with resource rich countries. The higher resources are in relation to their GDP, trade dependency has an increasing effect on corruption. The resource curse may lead to further exploitation of these regimes, and the dependency argument of core-periphery seems to have some merit in this context. Rent seeking from elites, coupled with the dutch disease and a myriad of complexities of each individual case makes it extremely difficult to escape poverty for these countries.

According to dependency theory, there is an exploitative relationship between core and periphery. In the light of the positive association between trade dependency on China and resource dependency, one can thus argue that the PRC entrenches the resource curse and is a perpetrator of neo-colonialism.

As illustrated by the correlation shown on the world maps in this thesis, autocracies are characterized by poorer governance than democracies. Though governance is poorer, the thesis has also highlighted some inherent advantages for autocracies. For instance, one can argue that through the centralized power structure within China, the BRI has been executed swiftly. In addition, the investigations against the Chinese tech companies were example of policies with quick results. On the flip side, the opaqueness in relation to accountability in these regimes, in addition to their propensity to inhabit higher levels of corruption, create incentive structures for elites to entrench the poor governance.

When it comes to democracies, they are often characterized by the focus on rule of law, transparency in political processes which in sum can result in better governance. From an investing perspective, it was explained how this can also be viewed as a risk, because power shifts are more frequent, leading to what some may view as chaos. Also, decision making processes can be slower. However, by and large, the perceived risks seem to be lower in democracies than in autocracies. Perhaps more

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importantly for the average citizen, they respect negative and positive freedoms to a larger degree than autocracies.

## 15 Conclusion

The research question this thesis has set out to answer is: *Does the rise of China threaten the liberal world order?*

Scholars have been discussing this question in various ways, but this text has distinguished itself by looking at trade in relation to governance. The theories that were applied in this text have provided different approaches to the implications of this question. Realists are weary of the rise of China because of the changes to the balance of power in the international order. However, liberal scholars point towards the complex transnational institutions and cooperation between states and are less pessimistic.

From the analysis, it is clear that China is not an outlier in terms of its effect on governance. When it comes to the effect on corruption, association between it and trade was mainly due to the resource curse. Therefore, I argue that any other major state in China's position would likely have the same small positive effect on corruption when interacted with the natural resources variable. Also, the results on the more stringent check on governance, namely HR respect, were not significant. In sum then:

I cannot infer from the results that *the rise of China threatens the liberal world order*.

Overall, there is no consistent evidence to suggest that Chinese trade associates with bad governance. The association with corruption vanishes when testing the conditional effect with natural resources. Therefore, I lack evidence to conclude that China threatens a liberal future global order.

The contribution of this thesis has hopefully been to shed light on some of the effects that trade with autocratic regimes, in this case China, has on recipient countries. The research gap has been narrowed by this thesis, that has employed strong data sets from the World Bank and IMF, which should yield high validity. The methodology is clearly presented, and other researchers can therefore easily test the reliability of my results later. They will also have the advantage of more data.

Though the study has highlighted the research question, there are some core lim-

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itations that should be acknowledged before concluding the thesis. One of these limitations is endogeneity. For instance, there can be a bidirectional relationship between governance and resources. This potential reverse causality could for instance be the fact that Chinese trade is related to corruption because governance in resource rich countries is already poor. Findings in TSCS data are at the end of the day specific to the countries and time period that was studied. Therefore, one should be careful when generalizing the results beyond these frames.

The implications for policy makers are that increasing cooperation in trade relations and international organizations can lead to a more secure global order. Though the Chinese regime is assertive diplomatically, as illustrated by rhetoric by Chinese officials directed towards the US during a summit and their relations with The Philippines, the country is dependent upon the current world order. As discussed, they are dependent upon the liquidity and low risk provided by American treasury markets, and outside the ASEAN group, their largest markets are in the West, primarily in the US and the European Union. Therefore, they are not incentivized to alter the world order. In this sense, the proposal by the offensive neo realists for a policy of containment, can be a dangerous proposition. If China is isolated from the West economically, their economy may face severe contraction. Following from this weakened state, the incentive structure of the elites in the CCP may be altered, in the worst case, leading to conflict. Instead, I argue that the results in this thesis show that China is not that different from other rising states and should be incorporated into the world order through trade and cooperation.

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## 16 Appendix

Pairwise correlations							
Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) Trade with China/capita (ln)	1.000						
(2) Trade/GDP (ln)	0.300	1.000					
(3) GDP per capita (ln)	0.596	0.350	1.000				
(4) Electoral democracy	0.313	0.140	0.580	1.000			
(5) Total population (ln)	0.069	-0.528	-0.252	0.075	1.000		
(6) Civil war, ongoing	-0.149	-0.250	-0.259	-0.142	0.327	1.000	
(7) Years of peace	0.372	0.454	0.470	0.369	-0.250	-0.389	1.000

Figure 10: Pairwise correlations

Summary statistics					
Variable	Obs	Mean	Std. Dev.	Min	Max
Corruption	1006 2	.478	.292	.002	.968
Human Rights	1014 8	.59	.318	.014	.99
Trade with China (ln)	6336	4.082	2.295	0	11.234
Total Trade (ln)	8562	4.166	.652	-3.863	6.761
GDP/Per capita	9857	8.352	1.499	4.97	12.227
Electoral democracy	1014 6	.42	.287	.007	.926
Total population (ln)	1342 4	14.775	2.452	7.881	21.069
Civil war, ongoing	1345 4	.117	.322	0	1
Years of peace	1345 4	21.496	18.308	0	61

Figure 11: Summary statistics





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