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The Rise of China and its Implications for Western Development Cooperation Policy

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Abstract

Recently new donors are beginning to challenge the international aid architecture of traditional Western donors by providing huge amounts of foreign aid to Sub-Sahara African (SSA) countries without political conditions attached, thereby undermining the bargaining power and influence of OECD DAC donors. Especially Chinas new role as aid donor causes a lot of scepticism among researchers. This master thesis investigates whether OECD DAC donors changed their aid allocation policies and patterns in response to rising Chinese foreign aid activities in SSA countries. So far, the literature investigating the relationship between foreign aid provided by traditional Western donors and aid by the Chinese government has been limited mostly due to the lack of accurate data on Chinese foreign aid. This study makes use of a new dataset on Chinese foreign aid flows in order to examine the response of OECD DAC donors to Chinese foreign aid activities in SSA between 2000 to 2014. It finds that contrary to current assumptions OECD DAC donors do not generally change their policies and aid allocation patterns as a response to Chinese aid activities in SSA. However, Chinese foreign aid seems to influence OECD DAC foreign aid commitments to the economic infrastructure sector.

Keywords

Development cooperation, international aid architecture, OECD DAC, new donors, China, donor competition

Range of thesis: 135.430 symbols & 54 pages

Declaration of Authorship

1. The author hereby declares that he compiled this thesis independently, using only the listed resources and literature.

2. The author hereby declares that all the sources and literature used have been properly cited.

3. The author hereby declares that the thesis has not been used to obtain a different or the same degree.

S. Ertürk

Konstanz, 31.07.2019 **Saadet Ertürk**

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Institute of Political Studies
Master Thesis Proposal

1. Introduction

Western development cooperation policy has gone through slow but constant changes since the 1970s, from aid given for large-scale capital investment infrastructure projects, to the current Sustainable Development Goals (SDGs), always adjusting and changing its norms, rules and principles according to the new circumstances, demands and needs in the world.

In the past decades, China´s status in the international system changed due to its rapid economic growth, and researchers argue that this will lead to an alteration of the current political order. Particularly this change lead to China shifting from an aid recipient to an aid donor, bringing about the question which impact this change might have on the global development cooperation regime. China shows little interest in joining the existing traditional development cooperation regime. Rather it started creating its own implicit norms, rules and principles making Chinese aid more favourable and prominent for developing countries, since it is less strictly linked to terms and conditions as development aid provided by traditional Western donors tends to be. Trends in development aid flows by the Organization for Economic Cooperation and Development (OECD) already show, that aid provided by Western donors has fallen while aid provided by China increased in the same period, leading to the conclusion that Chinas development aid activities are changing the international development cooperation landscape (Tierney, 2014, p. 453).

Even though some researches deal with the rise of China, not much research has been done on the consequences this might have on development cooperation. Especially little attention was given on if and how the traditional Western donors reacted to these new changes, making it a relevant topic.

2. Research Target and Research Question

International relations theory suggests that rising powers, such as China, may seek to reform or challenge existing institutions in a certain policy area if they believe that these no longer reflect the underlying power distribution of the international system and their interests. Indeed in 2013 China together with the other BRICS countries demanded the reform of existing international financial institutions and heralded the creation of the New Development Bank (Tierney, 2014, p. 452). China created and uses other norms and rules for its development aid allocation, which are also common under other non-traditional donors such as Russia, Saudi-Arabia and Turkey. Contrary to Western donor practices, aid from these countries are less linked to certain terms and conditions, which the recipient countries need to fulfil, leading to the possibility of forum shopping for recipient countries. Recently, the pan-African research network Afrobarometer started to include questions on the perception of Chinese engagement in Africa to its annual public attitude survey and found that China ranks very high in perception about its influence on African countries. In this master thesis I assume that Chinese development aid given to Sub-Sahara African (SSA) countries is crowding-out traditional Western donors of certain countries and development aid areas, undermining their authority and the scope of their impact, leading them to change their own development cooperation policies, in order to remain present and competitive. Therefore, the aim of this master thesis is to find out whether China was able to give rise to a change and a loosen-up of traditional Western donor development cooperation policies.

The **research question** is: *Do Western donors alter their development cooperation practices and policies in response to the rise of Chinese development aid activities?*

> **H1:** *In response to Chinas unconditional aid flows to autocratic countries, Western donors start loosening up their conditions, leading to an increase in their aid flows to these recipient countries.*

The main research question will be supplemented by a second assumption, that Western donor's willingness and ability to change is determined by their political constellation (left-wing or right-wing government).

Therefore, the **sub-research question** is: *Are there differences in reaction and change between Western donors?*

> **H2:** *Donor countries with left-wing governments are more likely to change their development cooperation practices and policies and to loosen up their conditionality.*

> **H3:** *Donor countries with right-wing governments are less likely to change their development cooperation practices and policies and to loosen up their conditionality.*

3. Literature Review

Today, the BRICS countries, Brazil, Russia, India, China and South Africa are handled as emerging countries with the power to transform world politics and economy. Donno & Rudra (2014) explore the impact of the BRICS and find that they are already fundamentally changing

the shape of the world economy and paving a path towards greater global politico-economic stability, confirming these assumptions. Others such as Tierney (2014) and Mansfield (2014) see important impacts on the international aid architecture, as well, because the BRICS became an important source of development finance, too.
Especially Chinese involvement in the African continent is getting unprecedented attention. China-African relations started to cover a wide range of areas such as political, economic, social and cultural cooperations. “While China is not the only ‘new’ actor in Africa, its political and economic clout is clearly more substantial than for other emerging countries like India, Brazil or Turkey” (Grimm & Hackenesch, 2017, p. 549). Money and trade flows between China and Africa have grown enormously in the past decades and so has China´s economic and political role in Africa. Therefore, most literature seeks to understand the nature of China-Africa relations.

In recent years a lot of researchers have discussed the potential opportunities and challenges of China's economic activities in Africa (Alden, 2005; Biggeri & Sanfilippo, 2009; He, 2013; Manning, 2006; Taylor, 2007a; Tull, 2006; Zhao, 2014)-Broich2017.

“One specific strand of that increasing literature is qualitative work which labels Chinese development assistance as rogue aid that is guided merely by selfish motives and not by needs-based considerations (Naím, 2007; Taylor, 2007a, 2007b; Tull, 2006)” (Broich 2017).

“Furthermore, I do not find a strongly negative and highly statistically significant relationship between the institutional quality of a recipient country and Chinese official development finance. As a result, my findings provide further statistical evidence that equating Chinese development assistance with “rogue aid” (Naím, 2007) is unfounded.” (Broich 2017).

Some academics look from a widely historical perspective. I.e. Fernando (2014: 146) notes, that China´s foreign and trade relations with Africa have a very long history reaching far back to the Han Dynasty. According to Shinn and Eisenmann (2012: 22), after the fifteenth century relationships between China and African countries were interrupted because of the Chinese aversion to maritime exploration and the expansion of European empires into Africa. It is said that the migration of Chinese labourers and traders which established permanent Chinese communities in i.e. Madagascar and South Africa, was the most important Chinese connection to Africa during the colonial era (Fernando, 2014: 146). Modern Chinese-African political and economic relations began after the Chinese Civil War in 1949 and the establishment of the People´s Republic of China (PRC) on the mainland under Mao Zedong. Since than China has built increasingly strong economic ties with Africa. Fernando (2014: 146) reports of a blossoming of China-Africa relations in the 1960s and 1970s. Following his description of these decades a Chinese delegation led by the Chinese Premier Zhou Enlai made a tour around Africa visiting more than 10 countries in North, West, Central and East Africa, including i.e. Morocco, Algeria, Tunisia, Egypt, Mali, Ghana, Guinea, Sudan, Ethiopia and Somalia. During this time, China increased its economic assistance to a large number of African countries by assisting and financing the development of agriculture, industry and infrastructure such as roads, railways and ports (Fernando, 2014: 146). However, he continues that China-Africa relations declined again during the 1980s before reaching higher amount in the 1990s.

Other scholars try to explore the factors and conditions that underline China´s Africa policy and ask what the implications of this will be for the continents sustainable development.

Even though China's financial involvement in Africa is complex and reliable information is not always easily accessible, it is widely known that China became SSA´s largest export and development partner. According to Pigato & Tang (2015, p. 1) "China now represents about a quarter of SSA´s trade […]". Pigato & Tang (2015), as well as Taylor (2006), Alden & Alves (2009), Eisenman (2012), and Tseng & Krog (2015) assume that Chinas main motivation for this much engagement in and with African countries stems from its growing domestic energy demand, which it cannot meet itself anymore. Pigato & Tang (2015, p. 2) find that African countries are mostly exporting primary commodities to Chinas, such as oil, minerals, and other natural resources. "The success of Chinese resource diplomacy in Africa can be measured in terms of its presence across the continent in most of all the major resource economies there: it has gone from a status of no position in the resource market in 1995 to a standing as a significant player today with oil leases from Angola to Sudan and mining concessions from the Democratic Republic of the Congo (DRC) to South Africa" (Alden & Alves, 2009, p. 1).

China put a lot of effort into strengthening diplomatic ties with African countries. Contemporary China-Africa relations are based on the Forum on China-Africa Cooperation (FOCAC), which was established mainly out of Chinese initiative in 2000. The FOCAC appears to be one of the most efficient instruments strengthening the ties between China and SSA countries. It has the objectives to promote equal consultation, enhanced understanding, expanded consensus, strengthened friendship and cooperation between China and African countries. Currently 53 African countries are members in FOCAC. Scholars such as Naidu (2007) and Plessis (2014) take a closer look on FOCAC and its mechanisms, especially analysing China´s role in it and whether the relationship is mutually beneficial. They find that the relationship is marked by equality between partners, but still is largely one-sided and more beneficial for China.

Studies on Chinese development aid impact give more positive results, though. Dreher et al. (2017) use a new dataset of official financing to investigate whether Chinese aid affects economic growth in recipient countries and find, that Chinese development aid indeed boosts economic growth in recipient countries. Another recent study by Strange et al. (2017) finds that sudden withdrawals of aid by traditional donors does not induce the outbreak of conflict, if there is a presence of enough alternative funding from China, declaring Chinese aid as a reliable alternative of aid source.

Such findings suggest that Chinas foreign aid may impose competitive pressure on the traditional Western donors. Following Hackenesch (2013), China´s Africa policy have spurred a lively debate in European development policy circles. In her paper, she assesses the competitive pressure of China´s growing presence in SSA on the European development policy regime by conducting a case study on Ethiopia. She finds that that the EU´s and China´s policies towards Ethiopia differ greatly and that China has developed a comprehensive political and economic partnership with Ethiopia and thereby has become an alternative partner to the Ethiopian government. In a more recent study Grimm & Hackenesch (2017) argue that reforms to EU external relations take place against a backdrop of rapidly intensifying economic and political relations between China and African countries and that Chinese engagement in Africa poses challenges for the EU´s development policy.

This competitive pressure is caused by differences in political and economic conditionality between aid provided by the traditional Western donors and China. Political and economic conditions imposed on aid are a central feature of the global development cooperation regime. Sometimes, conditionality is backed by clear rules and standards concerning i.e. human rights, democratic principles and transparency. But de Felice (2015), Koch (2015) and Moleneares et al. (2015) argue that there has been a diversification of political and economic conditionality during the last decade and that conditionality needs to be conceptualized and researched again to reflect the global changes. According to Koch (2015) conditionality on development aid will have little traction for reforms in the recipient countries because of the declining of aid dependencies of many countries and the emergence of new donors such as China. China is accused of providing important volumes of development aid, trade and investments without such political and economic strings attached, thereby undermining the traditional Western donors’ possibilities to set incentives for reforms in recipient countries. A study by Hernandez

(2017) investigates whether World Bank (WB) conditionality is affected by the emergence of new donors, by using panel data for 54 African countries between 1980-2013. His results indicate that the WB delivers loans with significantly fewer conditions to recipient countries, if these countries get assistance by China, as well.

The findings and approaches from these studies will be used to answer the first research question in the first part of this master thesis.

Differences in aid allocation have been much discussed in the past decades. Inter alia some scholars focused on differences in aid allocation between governments with different political ideologies. It is argued that a countries development aid policy depends on the governments political ideology. This is confirmed by Thérien (2002). He argues that the main difference between rightist and leftist governments is that the leftists are more egalitarian then rightists and continues that these differences were the driving forces for the transformation of the aid regime over the years. Another study by Brech & Potrafke (2014) examines the effect of government ideology on the composition of aid flows in the period 1960-2009. They find that rightist and leftist governments have different preferences over channels of foreign aid. While leftist governments tend to increase bilateral aid, rightist governments favour multilateral aid channels. Greene & Licht (2018), too find evidence that varying goals based on political ideology differentiate the way donors use development aid. However, opinions on these differences are divided. Contrary to the studies above, a case study on South Korea by Sohn & Yoo (2015) indicates that development aid policies do not depend on the political ideology of the incumbent government.

While a number of such studies on differences in development aid allocation between governments with diverging political ideologies exist, there is no study on how these diverging governments react to foreign aid competitors such as China. The second part of this master thesis will try to fill in the gap is this research area.

4. Conceptual and Theoretical Framework

The theoretical concepts used are the *regime complexes theory* and *contested multilateralism*. Regime complexes theory assumes that multiple regimes exist in a given governance area. Following Orsini et al. (2013, p. 29) "regime complexes always exhibit a degree of divergence regarding the principles, norms, rules, or procedures of their elemental regimes". In this master thesis the governance area constituting the regime complex is the development cooperation regime. To simplify the theoretical application, it is assumed that two different regimes exist in this regime complex: that of traditional Western donors and of non-traditional donors, represented by China, with different to contrary norms, rules and principles about development cooperation. In the previous abstracts the conflicting situation was described, with China changing the development cooperation landscape and thereby challenging the Western donors and potentially forcing them to change their policies. The theoretical framework for understanding these changes in regime complexes is contested multilateralism. For contested multilateralism three criteria must be fulfilled:

1. "A multilateral institution exists within a defined issue area and with a mission and a set of established rules and institutionalized practices".
2. "Dissatisfied with the status quo institution, a coalition of actors—whether members of the existing institution or not—shift the focus of their activity to a challenging institution with different rules and practices. This challenging institution can be either pre-existing or new".
3. "The rules and institutionalized practices of the challenging institution conflict with or significantly modify the rules and institutionalized practices of the status quo institution".

   (Morse & Keohane, 2014, p. 388)

In order to fully understand how these criteria, apply to the situation of China challenging Western donors, a closer look at these actors and mechanisms is needed.

In this case the multilateral institution defined in the first criteria is the OECD DAC which is primarily responsible for creating the rules, norms and principles for the current development cooperation regime. OECD member states are obliged, at least to a certain degree, to comply with these norms, rules and principles when allocating their foreign aid. The coalition of dissatisfied actors is represented by the BRICS countries which denied complying with the OECD DAC norms, rules and principles, rather creating their own institutions with different rules. Corresponding to the third criteria, these institutions conflict and compete with the practices of the status quo institution – the OECD DAC.

Even though contested multilateralism assumes that a coalition of actors would compete against an existing regime, it makes sense to only look at China while using the assumptions of this theory, because China represents the leading actor in the real-world coalition against the traditional development cooperation institutions. For example, the Asian Infrastructure and Investment Bank, created to compete against the World Bank, International Monetary Fund and the Asian Development Bank is undeniably led by China, even though a long list of other states are members of it. At the same time Chinese development aid will not be compared to OECD DAC member´s development aid in general, but to single donor countries and multilateral donor institutions.

5. Analytical Technique and Empirical Data

The analysis of Chinas rising aid activities and its impact on the Western development cooperation regime is very complex. Therefore, the analytical technique used in this master thesis will be a mixed-method approach, making use of quantitative and qualitative data, in order to provide a in depth and valid analysis.

The actors and data to be analysed are China and traditional Western donor countries and their aid flows to SSA countries between 2000 and 2015. The data for this analysis is provided by the OECD (data on aid flows by traditional Western donors) and AidData (aid flows by China). The time frame is chosen because of two reasons: 1.) data on Chinese development aid is not made available by the Chinese government in a comprehensive way, but AidData collected these information from different sources and estimations for the period of 2000-2015 making an analysis possible; 2.) this time-period represents the implementation time of the Millennium Development Goals (MDGs), making the analysis of possible changes in Western development cooperation policies even more interesting.

The main research question and **H1** will be solved first by quantitatively mapping out developments and changes in aid flows of development aid provided by traditional Western donors to different SSA countries, also in different areas of aid, compared to development aid provided by China. The dependent variable (DV) are aid flows from traditional Western donors to SSA countries, and the independent variable (IV) are aid flows by China to SSA countries. For the analysis SSA countries will be grouped according to their political system and scores in governance and human rights indices (Polity IV, Economist Intelligence Unit Democracy Index, and Freedom House). The reason for this is the following: if Chinas unconditional aid flows to autocratic countries scoring bad on these indices lead to Western donors loosening up their conditions, we should be able to see an increase in aid flows by Western donors to these recipient countries.

For the second part of the analysis, the sub-research question and **H2** and **H3**, Western donors will be grouped according to their government's political ideology during the given timeframe, to see if there are differences in their response to Chinas development aid activities and challenging new norms and rules. This will be conducted through a Qualitative Comparative

Analysis (QCA) which will combine the results of the first part of the master thesis with a qualitative analysis of official and relevant documents and statements by officials of traditional Western donor countries, which potentially declare Chinas aid activities as a threat to their own and announce counteraction. This qualitative analysis is of particular importance, because it will help to determine if there is justification discourse for change among Western donors, which would help to validate findings on changes in their development aid flows.

6. Planned Thesis Outline

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List of Abbreviations

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
BDB	BRICS Development Bank
BRICS	Brazil, Russia, India, China, and South Africa
CDB	China Development Bank
CIDCA	China International Development Cooperation Agency
CRS	Creditors Reporting System
DAC	Development Assistance Committee
DCF	United Nation Development Cooperation Forum
DFA	Department of Foreign Affairs
Eximbank	China's Export Import Bank
FE	Fixed Effects
FOCAC	Forum on China Africa Cooperation
GDP	Gross Domestic Product
HAI	Human Assets Index
IGOs	Intergovernmental Organizations
IMF	International Monetary Fund
IOs	International Organisations
IR	International Relations
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MFA	China's Ministry of Foreign Affairs
MOFCOM	China's Ministry of Commerce
NDB	New Development Bank
NGOs	Non-Governmental Organisations
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OOF	Other Official Finance
PRC	The People's Republic of China
RE	Random Effects
SDGs	Sustainable Development Goals
SSA	Sub-Sahara Africa

UN	United Nations
UNCHR	United Nations Commission on Human Rights
UNICEF	United Nations International Children's Emergency Fund
UNSC	United Nations Security Council
US	United States
WB	World Bank

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1. Introduction

International development cooperation policy has gone through slow but constant changes since its establishment in the 1940s. From aid given for the reconstruction of Europa after World War II, over aid as a geopolitical as well as an ideological instrument during the Cold War, to the current Sustainable Development Goals (SDGs), always adjusting and changing its norms, rules and decision-making procedures according to the new circumstances, demands, and needs in the world. Traditional Western donors, represented by the members of the Organization for Economic Cooperation and Development's (OECD) Development Assistance Committee (DAC), comply with the norms, rules and decision-making procedures set by the DAC within the international aid architecture. Following debates about aid allocation and aid effectiveness traditional Western donors decided to consider the democratic and governance level of recipient countries when deciding on their aid allocation. Further, the focus of OECD DAC donors has shifted to the social infrastructure sector over time, because of their publicly made aim through the Millennium Development Goals (MDGs) and the SDGs to eliminate poverty. However, in the past years they started to relocate aid to the economic infrastructure sector again.

Since the past decades, international development cooperation is facing new circumstances repeatedly – the emergence of so-called *new donors*. Many former recipients of foreign aid, most notably, the BRICS countries Brazil, Russia, India, China and South Africa became active as foreign aid donors. Especially Chinese involvement on the African continent is earning a lot of attention by researchers. China's status in the international system changed due to its rapid economic growth, and researchers argue that this will lead to an alteration of the current political order. Particularly this change led to China shifting from an aid recipient to an aid donor, bringing about the question which impact this change might have on the international aid architecture established by traditional Western donors. Trends in foreign aid flows by the OECD already show, that foreign aid provided by the OECD DAC donors has fallen while foreign aid provided by China increased in the same period, leading to the conclusion that China's foreign aid activities are changing the international development cooperation landscape (Tierney, 2014). Chinas rise as a donor is taking place within the set of norms, rules and decision-making procedures which govern the international aid architecture. However, China, as well as the other BRICS countries, show little interest in joining the international aid architecture. Rather, China started to create its own implicit norms, rules and decision-making procedures for financial and technical assistance to developing countries which differ from those followed by the OECD DAC donors. In his empirical analysis Mwase (2011) finds that China, different to traditional Western donors, allocates a lot of foreign aid to African countries with weak institutions and bad governance. Another strand of analysis finds that Chinese aid is given mostly to projects related to economic infrastructure to increase the extraction and import of natural resources from recipient countries. An area which is relatively neglected by OECD DAC donors who focus on development aid related to social infrastructure projects. These findings suggest that Chinese foreign aid might be perceived as an attractive alternative to foreign aid provided by OECD DAC donors, since it is less strictly linked to terms and conditions which the recipient countries must fulfil.

Even though some scholars deal with the rise of China, not much research has been conducted on the consequences this rise might have on the international aid architecture. Especially little attention was given on if and how the traditional Western donors responded to these new changes, leaving it a relatively unexplored research topic. Therefore, the main research question in this master thesis is: *Do traditional Western donors alter their development cooperation policies and aid allocation patterns in response to the rise of China as a foreign aid donor?*
I assume that Chinese foreign aid given to Sub-Saharan African (SSA) countries is crowding-out OECD DAC donors of certain countries and development sectors, thereby undermining their authority and the scope of their impact, leading them to change their own development cooperation policies and aid allocation patterns, in order to remain present and competitive in the new international development cooperation landscape. This master thesis undertakes a combination descriptive and statistical analysis on foreign aid flows from China and OECD DAC donors to SSA countries between 2000 to 2014 and finds that contrary to current assumptions OECD DAC donors do not generally change their policies and aid allocation patterns as a response to rising Chinese aid activities in SSA. However, Chinese foreign aid seems to influence OECD DAC foreign aid commitments to the economic infrastructure sector.

The thesis is organized as follows. The next section will review the main literature available on the international aid architecture, the emergence of new donors, China's new role as a foreign aid donor, and the discussions linking these issues together. Section 3 will describe and apply the theoretical framework used in this master thesis and develop the hypotheses. This will be followed by the description of the research design in Section 4 and the analysis in Section 5. Finally, the results will be discussed in Section 6, concluding with remarks on further research on this topic.

2. Literature Review

In an increasingly interdependent world, wealthy states have an interest in promoting development abroad in order to benefit from these developments themselves (Bermeo, 2010). Development cooperation was established as an essential instrument to ensure peace, after the disastrous experiences of two world wars, to eliminate poverty, and for the construction of new political and economic ties between states. According to Tierney et al. (2011), since 1945, wealthier countries have allocated more than US$4.9 trillion to developing countries under the purpose of lifting the world's poor out of poverty. However, this amount of money spent on development cooperation and the number of countries and organisations working in this area have created little certainty about the purpose and effects of foreign aid. Many researchers have devoted much effort to find answers about its purpose and effectiveness and found diverging answers.

While trying to answer these questions about foreign aid, research has dedicated almost exclusive attention to foreign aid provided by members of the OECD DAC, and multilateral development banks (MDBs) such as the World Bank (WB) and the International Monetary Fund (IMF). But these established donors and lenders no longer dominate the development cooperation market. Following Paulo & Reisen (2010), more than 30 donor countries operate outside the OECD DAC's framework. These countries who have entered the field of development finance are called *new* or *emerging donors* and are said to have a significant impact not only on the current political and economic order. "The emergence of new donors may increasingly offer alternative sources of aid […]" (Dreher et al., 2011, p. 1951) to developing countries. Therefore, it is possible that they are also reshaping international development cooperation, thereby perhaps hindering democratic reforms forged by traditional Western donors. New donors were widely neglected in research on development cooperation until recently. However, especially Chinese foreign aid activities in SSA are getting a lot of attention mainly because of China's history of secrecy surrounding its development projects and allocation patterns which drives speculation about its actual motives. The next subsections will give an overview on the literature available on the international aid architecture, the emergence of new donors, China as a foreign aid donor, and the main discussions on these issues which link them together and which make up the topic of this master thesis.

2.1. International Development Cooperation and Aid Effectiveness

International development cooperation policy has gone through slow but constant changes since its establishment. International development cooperation as an institution began with the Marshall Plan (Bräutigam & Knack, 2004). Between the period of the 1940s to the 1960s the institutional basis for development cooperation was laid down. Many institutions, which were created in the aftermath of World War II to contribute to the recovery of Europe, such as the United Nations (UN) International Children's Emergency Fund (UNICEF) and the UN Commission on Human Rights (UNCHR), changed their focus to developing countries in the global south (Hjertholm & White, 2000). Foreign aid has served as a geopolitical as well as an ideological instrument. “It was openly used to contain Communism (by Western powers) and to fight the West (by the Eastern Bloc) or both Moscow and Washington (China)” (Kragelund, 2011, p. 588). After the end of the Cold War the purpose of foreign aid changed. It became an essential instrument to eliminate poverty and for the construction of new political and economic ties between states. However, it “[…] failed to spur economic growth in the places where it could perhaps do the most good – the poorest countries in the world, particularly those of sub-Saharan Africa” (Wright & Winters, 2010, p. 63).

Two schools of thought dominate the discussions about foreign aid. Critiques of foreign aid denounces it as a waste of taxpayers’ money. Most famously William Easterly, who is a professor of Economics at the New York University, believes that economic and social development cannot be solved through strategic planning and implementation from what he calls *planners* outside of the country, but must be accomplished by *searchers* from the country in question who learn by doing and in turn promote economic and social development from within the respective country (Easterly, 2006). His biggest opponent, representing the pro-aid school, is Jefferey Sachs, who is the director of the Earth Institute at Colombia University in New York. Sachs argues that “[p]oor countries are poor because they are hot, infertile, malaria infested, [and] often landlocked; this makes it hard for them to be productive without an initial large investment to help them deal with these endemic problems” (Banerjee & Duflo, 2011, p. 3). In short, they are trapped in a *poverty trap* from which they cannot arise by themselves and foreign aid is the key to their problem. This debate led many scholars to ask substantial questions about foreign aid and critiques started to question its purpose and effectiveness. The answers these scholars found diverge and hence, remain remarkably contested. Tierney et al. (2011) justify these discrepancies with the lack of accurate and more detailed data on foreign aid flows provided by official donor organizations which hinders researchers from getting true insights into the foreign aid landscape. Nevertheless, many scholars still try to investigate on the relationship between foreign aid and growth in recipient countries with the data and methods available.

Numerous studies on the cross-country relationship between foreign aid and receipt's economic growth have found mixed results. Some find that foreign aid causes positive economic growth and others do not (i.e. Boone, 1996; Rajan & Subramanian, 2008). Another strand of studies finds that foreign aid has an effect only in certain countries with specific characteristics (i.e. Burnside and Dollar, 2000). Clemens et al. (2011) agree with Tierney et al. (2011) on the difficulties of getting full information about foreign aid flows and reanalyse the data and results from these three most influential studies on the relationship between foreign aid and economic growth. They do so by strictly conserving their regression specifications with sensible assumptions about the timing of foreign aid effects and without what they call questionable instruments and find that in all cases an increase of aid has been followed by at least a small increase in investment and economic growth. Following the realisation of the absence of greater success of foreign aid, concerns arose over the correct allocation of foreign aid and the behaviour and characteristics of donor and recipient countries.

Literature on the allocation of foreign aid has found evidence that donors' political and strategic interests play an important role in their aid allocation decisions and that they can affect the outcome in recipient countries. Researchers, such as Alesina and Dollar (2000) as well as Hoeffler and Outram (2011) conducted analyses to find factors determining the aid allocation decisions of donor countries. In their famous work *"Who gives foreign aid to whom and why?"* Alesina and Dollar (2000) study the patterns of aid allocation of various foreign aid donors and find considerable evidence that foreign aid allocation is in fact as much determined by political and strategic considerations of donors, as by the economic needs and policy performances of recipient countries and their colonial past. Hoeffler and Outram (2011) revisit these findings with new data and allow for donor- and recipient-specific effects in their analysis. Their results reaffirm the findings by Alesina and Dollar (2000) that all bilateral donors allocate foreign aid according to their self-interest and but also according to recipient need.

Various factors and conditions in recipient countries have been highlighted as major determinants for foreign aid allocation and aid effectiveness. The factor which has attracted most attention is the quality of the institutional environment and in more general the governance level in recipient countries. Burnside and Dollar (2000) and Collier and Dollar (2002) investigate on the fundamental question, whether and under which conditions foreign aid would be effective in promoting developmental goals in recipient countries. Burnside and Dollar (2000) examine the relationship between foreign aid, economic policies, and growth of per capita GDP in recipient countries and find a positive impact on growth in developing countries with good fiscal, monetary, and trade policies such as low inflation, low budget deficits, and high trade volumes. At the same time, they find that foreign aid has very little impact on growth in the presence of poor economic policies, while the quality of policy has only a small impact on the allocation of foreign aid. They recommend that foreign aid should be conditioned on good policies in order to make it more effective. Collier and Dollar (2002) also argue that the maximum positive effect of foreign aid on poverty reduction depends not only on the level of poverty but also on the quality of policies in the recipient country. However, they find that the actual allocation of aid does not follow their suggested poverty-efficient aid allocation. Several other researchers have conducted analysis to examine the relationship between governance and the effectiveness of aid, and commonly find that aid may work positively in an environment of good governance, as well (i.e. Isham, Kaufman & Pritchett, 1997; Knack, 2001; Sophal, 2002).

Some foreign aid proponents even suggest that without aid "the global democratic revolution cannot be sustained" (Diamond, 1992, p. 45). Yet, many African countries are still characterized by poor quality of intuitions and high levels of corruption. According to Bräutigam and Knack (2004), there are many reasons why governance is so poor in many SSA countries. "Colonialism did little to develop strong, indigenously rooted institutions that could tackle the development demands of modern states. Economic crisis and unsustainable debt, civil wars, and political instability have all taken their toll over the past 2 decades and more" (Bräutigam & Knack, 2004, p. 255). Caused by the scholarly findings discussed, there is a broad agreement among scholars and donors alike that sustainable development cannot be accomplished without a good policy environment and effective public institutions in the recipient countries and that these factors are essential for development cooperation to effectively foster growth, reduce poverty, and improve social conditions (Dollar & Levin, 2006; In`airat, 2013). The concept of good governance was first introduced in 1989 in the WB's report on SSA in which the crisis on the continent at the time was described as a crisis of governance (World Bank, 1989). It was introduced because of the continuing lack of aid effectiveness in the poorest countries in the world. In 1992 the WB defined good governance as "[…] the manner in which power is exercised in the management of a country's economic and social resources for development" (World Bank, 1992, p.1).

The view that aid effectiveness is directed by the recipient countries quality of policies and institutions is based on two types of scholarly evidence. "There are specific country cases in which foreign assistance combined with sound institutions and policies produce good results. The Marshall Plan is the most famous example. More recently, South Korea in the 1960s and 1970s, China in the 1980s, and Uganda and Vietnam in the 1990s provide other examples" (Dollar & Levin, 2006, p. 2034). Other studies have shown that all kinds of development projects tend to be more successful in countries with sound institutions and good policies (Isham & Kaufmann, 1999; Dollar & Levin, 2005). The idea that foreign aid is more effective when targeted to countries with sound institutions is even included in the Monterrey Consensus that emerged from the UN Conference on Financing for Development, in March 2002 (Dollar & Levin, 2006). This was followed by the idea that foreign aid should foster democratization and good governance in recipient countries in order to improve aid effectiveness.

Research on the relationship between foreign aid and democratization has found different results. Some argue that aid inhibits democratization because of its similarity with non-taxable incomes such as oil, consequently leading to the same problem such as the resource curse. Others argue that donors can contribute to democratisation in recipient countries (Li, 2016). Both views find scholarly support. Djankov, Montalvo, & Reynal-Querol (2008), Smith (2008), and Bueno de Mesquita & Smith (2010) find that foreign aid decreases the likelihood of a democratic transition in a recipient country and confirm the pessimistic view on aid and democratization. Goldsmith (2001) and Dunning (2004) on the other hand argue that foreign aid increases the likelihood of a democratic transition in a recipient country. Then again others such as Knack (2004) find no significant relationship at all. Dietrich & Wright (2014) investigate whether and how foreign aid influences specific outcomes associated with democratic transition and consolidation in recipient countries, as well, by using an instrumental variable approach for the period from 1989 to 2008. They find that economic aid increases the likelihood of transition to multiparty politics, while specific democracy aid furthers democratic consolidation by reducing the incidence of multiparty failure and electoral misconduct. Bermeo (2011) finds that democratic donors use scarce aid resources to encourage democracy in recipient countries and goes a little bit deeper by analysing the relationship between foreign aid from different donor countries and aid recipients during the period of 1992 to 2007. She finds evidence that the relationship between foreign aid and democratization depends on characteristics of the aid donor, as well. Receiving more aid from democratic sources is often associated with an increased likelihood of a democratic transition and the opposite holds true for aid from authoritarian sources which can have a negative impact on the likelihood of democratization. “Additionally, more aid from democratic donors to democracies is associated with a decreased likelihood of an authoritarian transition, while aid from authoritarian donors has no significant relationship with the probability of a transition away from democracy” (Bermeo, 2011, p. 2021).

Alesina and Dollar (2000) ask whether foreign aid has been used to foster the process of democratization or not and conduct a cross sections and time series analysis. They find evidence that countries which have democratized have received more foreign aid immediately afterwards and state that “[t]he typical democratizing country gets a 50% increase in aid” (Alesina & Dollar, 2000, p. 34). Donors can influence democracy in recipient countries through two mechanisms: (1) they attach conditions for political reform to economic aid or (2) they invest directly into democracy promotion through activities aimed at strengthening governance institutions and civil society (Dietrich & Wright, 2014). Dietrich and Wright (2014) state, that “[t]hese mechanisms focus on different categories of aid—economic aid and democracy assistance— and have implications for distinct political outcomes. For example, donor pressure to hold elections may be more likely to push a transition to multiparty regimes but may not influence electoral support for the opposition or electoral misconduct. Investing in civil society organizations, in contrast, is unlikely to operate through economic aid but has implications for whether democracy assistance improves electoral support for opposition parties” (Dietrich & Wright, 2014, p. 217).

Over the past decades, many donor countries have embraced the idea that wealthy countries should not provide aid to governments which have come to power by force or through flawed elections, or those that tolerate extensive corruption or human rights abuse (Bräutigam 2010). Therefore, donor countries increasingly linked foreign aid to democracy objectives in recipient countries in the form of conditions attached to foreign aid. While MDBs do not apply conditionality, many bilateral donors do, even though relatively inconsistently. Economic and political conditions imposed on aid represent a central element of international development cooperation. “The rhetoric that accompanies these programs is that they serve the purpose not only of reducing poverty, but also of rewarding good policies and efficient and honest governments” (Alesina & Weder, 2002, p. 1126). Conditionality can be defined as the practice of donors to attach economic and political terms and conditions to the disbursement of their foreign aid. Donors can demand economic or political support and alignment from recipient countries, or they can request recipient countries to pursue economic policies and to establish governance structures which they consider as necessary for their aid to be effective (Dreher et al., 2011). Aid flows can be suspended if countries disregard conditions. However, following In’airat (2013) aid conditionality failed to produce positive growth results and therefor motivated ex-post selectivity instead of ex-ante conditionality as a new approach to aid allocation. In ex-post selectivity donor countries can decide to not give aid to countries with poor policies and institutions in the first place or they can decide to give smaller amounts of foreign aid to these countries. “Over the course of the 1990s, nearly all bilateral and multilateral international development agencies incorporated language about allocating aid selectively with regard to recipient-country governance into their mission statements” (Winters & Martinez, 2015, p. 516). Some donors have been explicit in their efforts to use foreign aid as a tool to improve governance in developing countries, i.e. in the mid-2000s the United States (US) created a new agency called the Millennium Challenge Corporation, which was explicitly charged with giving foreign aid to countries which were deemed to have good governance (Brazys et al., 2017; Winters & Martinez, 2015).

The critiques of foreign aid and conditionality argue that corrupt governments following very poor policies still receive just as much foreign aid as less corrupt ones (Alesina & Weder, 2002). And indeed, despite official discourses of donors and their intentions, some studies show that the most corrupt countries receive the highest amounts of foreign aid. According to Croix & Delavallade (2014), this is because the most corrupt countries also are the poorest and most needy ones, and therefore they may receive more aid. They argue that corruption is not exogenous but an equilibrium phenomenon and therefore it makes sense to provide aid to corrupt countries, as well. Examples for this rationale are the cases of Botswana and Uganda which both display higher governance levels and productivity and receive about the lowest amount of foreign aid from all SSA countries (Croix & Delavallade, 2014). The authors conclude that aid allocation depends more on the productivity level of a country than on its governance level.

Another analysis by Alesina and Weder (2002) on foreign aid flows between 1975 to 1994 shows that there is no evidence that bilateral or multilateral aid goes disproportionally to less corrupt governments, as well. However, they find differences in selectivity behaviour between donors. Following their results, Scandinavian countries and Australia give more aid to less corrupt countries, while the US gives more aid to more corrupt countries, although it favours democracies over dictatorships. They assume that the US pays little attention to corruption in recipient countries because its aid allocation decisions are driven by other motivations and that Scandinavian donor countries and Australia are better in discriminating against corrupt recipient countries because they did not have colonies and are therefore free from specific political pressures. Dollar and Levin (2006) also examine the extent to which foreign bilateral and multilateral aid is selective in terms of the democracy level of recipient countries and find that multilateral assistance is more selective than bilateral aid in targeting countries with good rule of law. "During 1984–89, both bilateral and multilateral aid had significant negative relationships with rule of law; by 2000–03 this had shifted to a significant positive relationship for multilateral aid, and a positive but statistically insignificant relationship for bilateral aid" (Dollar & Levin, 2006, p. 2034).

Bermeo (2010) and Dietrich (2013) look beyond aggregated aid flows and examine how donors find ways of structuring their aid flows in such a way that they avoid working directly with countries with bad governance or how they use different types of development assistance in poorly governed states. Winters and Martinez (2015) add to this literature by looking at patterns of overall foreign aid flows of donors between 2004 to 2010 and using a categorization of aid flows based on project-level purpose codes. They find that donors provide higher levels of aid to better governed countries and do so by using a larger number of modalities and across a larger number of sectors. For example, they find that bilateral donors substitute programmatic aid for technical assistance and project aid in well-governed countries and that they substitute aid to infrastructure projects for aid to social projects in better governed countries. Nevertheless, these studies still confirm that donor countries do respond to the recipient countries governance level when allocating their foreign aid (see Bermeo, 2010; Croix & Delavallade, 2014). By using instrumental variables as estimators to analyse the determinants of aid allocation over the period 2001 to 2010, In'airat (2013) finds evidence that countries with good governance are given preferential treatment by donors. It can be concluded that some donor countries follow aid allocation rules that take into account the performance of political and economic institutions and policies in recipient countries and that foreign aid can help to reform recipient country institutions, in turn making foreign aid more effective.

2.2. The Emergence of New Donors

Traditional Western donors and lenders no longer dominate the development cooperation landscape. Following Paulo & Reisen (2010), more than 30 donor countries operate outside the OECD DAC framework. These countries who have entered the field of development finance are called *new* or *emerging donors*. Woods (2008) argues that there is a silent revolution going on in international development cooperation, with the increasing number of these new donors, which are quietly offering alternatives to aid-receiving countries. He views these developments as global rebalancing from North-South dominance towards greater South-South relations. Most of these new donors have been recipients of development finance themselves for a long time and simultaneously started to act as providers of foreign aid, as well. Many of them already have a lot of experience as donors because they have provided aid to African countries for more than half a century now (Manning, 2006; Kragelund, 2008). Among these new donors are Saudi Arabia, Iran, Turkey, and the BRICS countries Brazil, Russia, India, China and South Africa, to name the most prominent ones. "Russia, for example, is anything but a new donor, considering the role of Soviet aid given during the Cold War and the country's competition with Western donors" (Dreher et al., 2013, p. 403). These donors spend billions of dollars throughout the developing world to build roads, dams, bridges, railways, airports, seaports, and electricity grids (Dreher et al., 2011). Especially the BRICS countries are handled as emerging donors with the power to transform world politics and economy, today. There has been a growing recognition that these countries are key political actors because some are regional powers and all but one of them possess nuclear weapons (Mansfield, 2014).

Donno & Rudra (2014) explore the impact of the BRICS and find that they are already fundamentally changing the shape of the world economy and paving the path towards greater global politico-economic stability, confirming the assumptions above. Even though the combined aid budget of the BRICS countries is still small compared to the total amount of foreign aid provided by the OECD DAC donors, the rapid pace with which the BRICS aid activities have grown in size and scope have aroused great interest in economic and political research (Asmus et al., 2019). Following Dreher et al. (2013), in the first half of the 1990s only 1.8% of reported food aid originated from new donors but their share increased to 18.8% in the second half of the 2000s. Kragelund (2011) analyses why the BRICS countries have rejuvenated international development cooperation and with what and how they actually do it. He argues that the most important aspect of the rejuvenation of new donors' development cooperation with African economies is not the direct effects on these economies, but the potential gains that may occur to African countries in terms of larger leverage towards traditional Western donors due to increased competition and the challenge from new donors.

None of the new donors belongs to the OECD DAC. “While the approach to development cooperation of most of these ‘new’ donors does not differ radically from the guidelines and procedures stipulated by the DAC, some donors do stand out. They have little interest — at least in the short to medium term — in following the path set down by DAC” (Kragelund, 2011, p. 585 - 586). In 2011, the OECD tried to include new donors in the aid effectiveness debate with the Busan Partnership and the new donors signed the agreement. However, they persisted to include a disclaimer in the outcome document which stresses that all commitments should have the reference for South-South partners on a voluntary basis (OECD, 2011). Several OECD DAC donors try to engage with BRICS countries in trilateral development cooperation, usually in Africa, but these cooperations are not very successful and remain symbolic (Bräutigam, 2011). Because the BRICS became an important source of foreign aid without being members of the OECD DAC, Woods (2008), Tierney (2014) and Mansfield (2014) see important impacts on the current international aid architecture. By not being members of the OECD DAC, new donors are less constrained in the way they provide foreign aid and may follow their political and economic self-interests and strategic considerations to a greater extent than DAC donors can do (Asmus es al., 2019). Therefore, it is possible that they are reshaping the current international aid architecture, thereby perhaps hindering the political reforms forged by traditional Western donors as described in the previous subsection.

Following Tierney (2014) and Asmus et al. (2019), the BRICS countries are even seeking to challenge the prevailing international aid architecture through reforms and the establishment of new institutions such as the New Development Bank (NDB) (formally named the BRICS Development Bank, BDB) and the Asian Infrastructure Investment Bank (AIIB) which were explicitly established to support the funding of infrastructure projects in developing countries. Abdenur (2014) argues that these initiatives seek to provide multilateral institutions to developing countries which can offer easy access to capital for infrastructure and industrialisation projects besides the WB. The BRICS countries have the joint view that these new organisations “[…] would better reflect the principles and practices of contemporary South-South cooperation” (Abdenur, 2014, p. 86). Broich (2017) compares the emergence of these new donors in the international development cooperation landscape with the competing situation between the US and the Soviet Union during the Cold War, which was a communism-capitalism game, where both sides used foreign and military assistance to extent their influence in order to prevent recipient countries from switching political ideology. However, this time the international development cooperation landscape is a democracy-autocracy game in which democratic and autocratic donors compete against each other (Broich, 2017). Apart from Russia, China fits into this analogy of an autocracy challenging democratic traditional Western donors. Chinese involvement on the African continent is getting unprecedented attention by researchers recently, because of the size and scope of its foreign aid activities and its history of secrecy surrounding its development projects. These drive huge speculation about China's actual motives and goals. Therefore, scholars started to investigate about Chinese involvement in Africa.

2.3. China as a Foreign Aid Donor in Africa

While China is not the only 'new' donor in Africa, its political and economic clout is clearly more substantial than for other new donors (Grimm & Hackenesch, 2017). Twenty-five years ago, China ranked low in the list of African trading partners. Money and trade flows between China and Africa have grown enormously and so has China's economic and political role. China-African relations started to cover a wide range of areas such as political, economic, social and cultural cooperation. Today, China is the number one trading partner of many African countries. It is buying everything African countries have to offer: cobalt, copper, diamonds, gold, iron ore, oil, platinum, and zinc. And Chinese agencies are building highways and railways, ports and airports, dams and power plants, presidential palaces and football stadiums all around African countries. "Apart from that, China provides increasing financial and technical assistance to African countries" (Busse et al., 2016, p. 228). In the period between 2000 and 2014 China has committed more than US$173 billion of bilateral foreign aid to SSA countries. There are different opinions on these developments. While critiques believe that Chinese foreign aid is primarily about getting access to natural resources and that it challenges hard-won political reforms in recipient countries by traditional Western donors, admirers maintain that China is an equal partner to developing countries and that it allows these countries to develop infrastructure and invest in productive activities which are neglected by traditional Western donors (Bräutigam, 2011). Because of Chinas new role as an aid donor and its growing presence in Africa, Chinas is chosen as the main subject for this master thesis.

Most literature seeks to understand the nature of China-Africa relations. Some academics look from a widely historical perspective. I.e. Fernando (2014) notes, that China's foreign aid and trade relations with Africa have a very long history reaching far back to the Han Dynasty. According to Shinn and Eisenmann (2012), after the fifteenth century relationships between China and African countries were interrupted because of the Chinese aversion to maritime exploration and the expansion of European empires into Africa. It is said that the migration of Chinese labourers and traders which established permanent Chinese communities in i.e. Madagascar and South Africa, was the most important Chinese connection to Africa during the colonial era (Fernando, 2014).

Modern Chinese-African political and economic relations began after the Chinese Civil War in 1949 and the establishment of the People's Republic of China (PRC) under Mao Zedong (Ubi, 2014). "China's aid programme began in 1950, with transfers to North Korea. During that decade, aid was focused on China's Asian neighbours: Burma, Cambodia, North Vietnam, Nepal, and Sri Lanka" (Bräutigam, 2014, p. 2). After the mid-1950s and the Asia-Africa conference in Bandung, China extended its foreign aid activities to non-communist countries and built increasingly strong economic and social ties with African countries. Only a few countries received aid from China and those were mainly located on the African continent, the Arabian Peninsula, and China's immediate neighbourhood (Dreher & Fuchs, 2015). Further, Dreher and Fuchs (2015) argue, that "China's aid at that time consisted of grants and interest-free loans and is said to have been driven mainly by political and ideological considerations. China supported African countries' independence movements and used its aid to support resistance against colonial powers" (Dreher & Fuchs, 2015, p. 990).

Egypt was the first African recipient of Chinese foreign aid in 1956. Fernando (2014) reports of a blossoming of China-Africa relations in the 1960s and 1970s. Following his description of these decades a Chinese delegation led by the Chinese Premier Zhou Enlai made a tour around Africa visiting more than 10 countries in North, West, Central and East Africa, including Morocco, Algeria, Tunisia, Egypt, Mali, Ghana, Guinea, Sudan, Ethiopia and Somalia. During this time, China increased its economic assistance to many African countries by assisting and financing "the development of agriculture, industry and infrastructure such as roads, railways and ports" (Fernando, 2014, p. 146). China also supported liberation movements in several African countries and cemented its relations with them through a steady exchange of expert engineers, teachers, students and doctors. "During the 1960s, China's aid programme targeted

African countries with socialist governments: Guinea, Ghana, Mali, Tanzania, and Zambia. As more countries emerged from colonialism, however, aid evolved to become an active component of Beijing’s diplomacy” (Bräutigam, 2014, p. 2). In the 1970s, after China had won back its UN seat from Taiwan, China had more foreign aid programmes in Africa than the US (Bräutigam, 2010). It is even said that China used foreign aid to African countries to buy their support in the UN. Following Dreher & Fuchs (2015), after the death of Mao Zedong his successor Deng Xiaoping introduced an economic reform program named ‘Reform and Opening Up’ which included market principles and gradually opened the Chinese economy to foreign investment and international trade. In the 1980s, this led economic considerations to become more influential for China’s aid allocation decisions and conditions on foreign aid became stricter, but still very favourable for recipient countries. However, China-Africa relations declined again during the 1980s before reaching a higher amount in the 1990s again. After the Tiananmen Square incident in 1989 China actively sought diplomatic support and substantially increased its foreign aid to African countries (Bräutigam, 2009). According to Taylor (1998, p. 450) “[s]uch a policy was a quick and comparatively cheap way by which Beijing could reward those countries that had stood by China during the 1989 crisis as well as cementing relations for the future”. After the aid reform of 1995, Chinas foreign aid activities changed completely because the central aim of the reform was to increase the ways in which foreign aid was supplied to developing countries (Dreher & Fuchs, 2015). “In addition to grants and interest-free loans as a flexible and quick form of financing, China offered new forms of financing such as interest-subsidized preferential loans and joint ventures” (Dreher & Fuchs, 2015, p. 993) to African recipients.

China put a lot of effort into strengthening diplomatic ties with African countries. In 2000, China-Africa relations further intensified with the establishment of the Forum on China-Africa Cooperation (FOCAC) which was established mainly out of Chinese initiative. Contemporary China-Africa relations are based on the FOCAC and currently 53 African countries are members in it (FOCAC, 2019). FOCAC became a platform for China and African countries to exchange and cooperate in various areas like politics, trade, economics, social, and culture geared toward individual countries development (Ubi, 2014). It has the objectives to promote equal consultation, enhanced understanding, expanded consensus, strengthened friendship and cooperation between China and African countries (FOCAC, 2019). “The leaders further pledged to take a variety of measures, including increasing high-level visits, trade cooperation and cultural exchanges, and enhanced coordination in international affairs, and to draw on each other's strengths for the mutual benefit of China and Africa" (Ubi, 2014, p. 247). The summits so far took place alternating between African cities and Beijing. "In October 2000 FOCAC I offered African countries quite some room for political manoeuvre by offering them an alternative to the (post) Washington Consensus route of development. This was achieved via the Beijing Declaration which laid out the foundations for an 'equitable and just new international political and economic order" (Kragelund, 2011, p. 597). Further, FOCAC summits, held in African capital and Beijing alternatingly, stressed the growing economic relations between both sides, and many pledges were made about development assistance from China to its African partners. "FOCAC III, held in Beijing in November 2006, followed the publication of China's Africa Policy and was used to publicize the Sino–African relationship to the world. One of the major results of FOCAC III was a list of eight development pledges to China's African partners including the doubling of aid, provision of preferential loans and buyer credits, establishment of a development fund, building of the AU conference centre, debt cancellation, unilateral market access, opening of new trade and economic cooperation zones and training of African professionals" (Kragelund, 2011, p. 597). The establishment of FOCAC and its summits prove the determination with which China seeks to deepen relations with African countries. At the sixth summit, FOCAC VI, held in Johannesburg in 2015, the Chinese President "[…] pledged US$60 billion in financial support to Africa, including grants and interest-free loans worth US$5 billion, and US$35 billion in concessional loans and export buyer's credits" (Zhang & Smith, 2017, p. 2330). Scholars such as Naidu (2007) and Plessis (2014) take a critical look on FOCAC and its mechanisms, especially analysing China's role in it and whether the relationship is mutually beneficial. They find that the relationship is marked by equality between China and its African partners, but still they conclude that it is largely one-sided and more beneficial for China.

Other scholars try to explore the factors and motivations that underline China's Africa policy and ask what the implications of this might be for the African continent's sustainable development. They assume that Chinas motives are not different compared to those of traditional Western donors, following their self-interest, as well, by using foreign aid to punish or reward recipients and to influence them. Some even characterize Chinese aid as *rouge aid* which is guided by self-interest alone, to secure unfair commercial advantages for Chinese domestic companies and to support corrupt and authoritarian regimes (Naím, 2007).

Fuchs (2012) analyses the political motivations behind China's foreign aid activities in Africa and states that the Chinese Ministry of Commerce openly admits using grants to coordinate diplomatic work. Davies (2007) argues that "Africa is important for China's foreign policy agenda and the building of alliances" and continues by pointing out that China is using foreign aid as a political instrument to push further its 'One-China Policy' by rewarding countries which do not recognize Taiwan with foreign aid and punishing those who do by not giving foreign aid to them at all (Davies, 2007, p. 27). A quantitative study by Dreher and Fuchs (2015) adds on these findings and shows that China uses its foreign aid to attract political support at high-level diplomatic events, to influence the voting behaviour of recipients in International Organizations (IOs) and to secure diplomatic recognition. A recent study by Dreher et al. (2018) supports the notion that China uses foreign aid to promote its foreign policy goals and finds that China is using less concessional forms of official financing for the promotion of its economic interests, as well.

During the 1960s and 1970s the Chinese economy was relatively isolated. However, over the last three decades Chinas economy opened and its economic performance has been very impressive ever since. "Rapid urbanization transformed China from a primarily rural, agricultural economy into an increasingly urban one with a more diversified economic structure. The last three decades also saw a transformation from a command-based economy to a more decentralized and market-based system" (Schellekens, 2013, p. 1). Even though China's financial involvement in Africa is complex and reliable information is not easily accessible, it is widely known that China became SSA's largest trade and development partner. According to Pigato & Tang (2015) "China now represents about a quarter of SSA's trade […]" (Pigato & Tang, 2015, p. 1). The trade volume between China and Africa has increased to US$215 billion in 2014 (China Africa Research Initiative, 2019). Many African countries such as Angola, South Africa, the Republic of the Congo and Zambia belong to the top export partners of China (OEC, 2019). Therefore, increasing the access and facilitating the export of natural resources to China is seen as a central aim of Chinese foreign aid policy (see i.e. Alden, 2005; Naím, 2007). The economic growth in the 1990s spurred demand for natural resources, hence Pigato & Tang (2015), as well as Taylor (2006), Alden & Alves (2009), Eisenman (2012), and Tseng & Krog (2015) assume that Chinas main motivation for this much engagement in and with African countries stems from its growing domestic resource and energy demands, which it cannot meet itself anymore. Chinas growing need for natural resources and its growing manufacturing sector makes it complementary to many African countries with relatively abundant natural resource endowments. Following Alden and Alves (2009), China, despite being among the major oil producers and second only in refinery capacity and output, is not able to provide for less than half of its domestic oil needs. Bräutigam and Xiaoyang (2011) note that many observers of Chinese involvement in Africa argue that it is of neo-colonial nature, when almost exclusively aiming to get access to natural resources. "The success of Chinese resource diplomacy in Africa can be measured in terms of its presence across the continent in most of all the major resource economies there: it has gone from a status of no position in the resource market in 1995 to a standing as a significant player today with oil leases from Angola to Sudan and mining concessions from the Democratic Republic of the Congo (DRC) to South Africa" (Alden & Alves, 2009, p. 1). Pigato & Tang (2015) find that African countries are mostly exporting primary commodities to China, such as oil, minerals, and other natural resources. In 2014 Angola was Chinas biggest export partner and 97% of Angola's exports to Chinas consisted of crude petroleum. The same year, the Republic of the Congo's exports to China consisted of 94% crude petroleum and South Africa's exports to China consisted of 20% iron ore, 12% diamonds and 8.6% platinum (OEC, 2019). Chinese foreign aid to African countries seem to correlate with subsequent Chinese imports to those countries. "For example, from 2000 to 2012, China's imports of minerals and metals and of agricultural and food products from its five top aid recipient countries rose many folds: its imports of minerals rose from US$39.6 million to US$667.6 million, and its imports of metals rose from US$762.7 million to US$2,365.1 million" (Butcher & Yuan, 2015, p. 2). Davies (2007) further assumes that Chinese foreign aid is used to secure future access to other export markets like the pharmaceutical industry, where China seeks to find and secure costumers for medicine made in China. Until recently, the Ministry of Commerce (MOFCOM) was the head agency in the provision of Chinese foreign aid, and this clearly indicates the importance of commercial interests behind Chinese foreign aid.

Other scholars have studied the effect of Chinese foreign aid on recipient countries and have found positive and negative results. In theory, the expansion of international trade with China could boost growth rates and demands for African products, and thereby foster productivity spill-overs to African companies. However, larger engagement with China could also lead to the risk of the resource curse, since their trade involves mostly natural resources, and extracting and exporting natural resources may increase the likelihood for rent-seeking and corruption. (Busse et al., 2016). According to Woods (2008) there are some studies which provide evidence that recipient countries with intensified trade and foreign aid relationships with China are enjoying higher growth rates, better terms of trade, increased export volumes and higher public revenues. Dreher et al. (2017) use a new dataset on Chinese official financing to investigate whether Chinese foreign aid affects economic growth in recipient countries and find, that Chinese development aid indeed boosts economic growth in recipient countries. They estimate that for the average recipient country one additional Chinese ODA project produces a 0.7%-point increase in economic growth two years after the project is committed. Nevertheless, they point out that this economic growth comes from Chinas focus on investments in the economic infrastructure sector which is a key constraint to economic growth. Therefore, they argue that Chinese aid might have a stronger economic growth effect than aid by traditional donors who scaled down their involvement in the economic infrastructure sector over the past decades. Another study by Kilama (2016b) indicates that developing countries receiving additional aid flows from China enhance their fiscal response to aid through an increased domestic economy aid absorption rate.

Other studies on Chinese foreign aid, examine whether Chinese aid is mostly allocated to the birth regions of political leaders and regions populated by the ethnic groups to which the leaders belong, controlling for indicators of need and various fixed effects and show that birth regions of leaders receive substantially more funding from China than other subnational regions Dreher et al. (2016). The authors also find that Chinese foreign aid improves local development outcomes measured by per-capita night-time light emissions and conclude that Chinese foreign aid has distributional and developmental effects on recipient countries. Bluhm et al. (2018) analyse the effects of Chinese projects in 138 countries between 2000 and 2014 and find that Chinese development projects in general, and transportation projects increase economic equality within and between subnational localities. Another recent study by Strange et al. (2017) finds that sudden withdrawals of aid by traditional Western donors does not induce the outbreak of conflict, if there is a presence of enough alternative funding from China, declaring Chinese foreign aid as a reliable alternative source of aid.

Such findings suggest that Chinas foreign aid may impose competitive pressure on the traditional Western donors by giving recipient governments more choices on finance opportunities and a certain amount of leverage towards OECD DAC donors (Woods, 2008; Kilama, 2016b). A study by Greenhill, Prizzon, and Rogerson (2013) analyses the changing development cooperation landscape. By conducting country case studies on Cambodia, Ethiopia and Zambia they show that new donors provide recipient countries with a policy comfort and that new donors diminish the leverage of traditional donors, who are disinclined to impose policy terms on their aid. They argue that many developing countries are welcoming these choice opportunities provided by new donors, but that some of them show limited interest in including new donors to their list of donors, as well. In general, the benefits of greater choice in foreign aid sources is found to outweigh the potential costs of aid fragmentation expected by many scholars and donors (Greenhill, Prizzon & Rogerson, 2013).

Following Hackenesch (2013), China's Africa policy has spurred a lively debate in European development policy circles. In her paper, she assesses the competitive pressure of China's growing presence in SSA on the European development policy regime by conducting a case study on Ethiopia. She finds that that the EU's and China's policies towards Ethiopia differ greatly and that China has developed a comprehensive political and economic partnership with Ethiopia, thereby becoming an alternative partner to the Ethiopian government. In a more recent study Grimm and Hackenesch (2017) analyse how Chinese engagement in Rwanda, Mozambique and Angola influences European efforts to improve collective action in development cooperation. The authors argue that reforms to European external relations take place against a backdrop of rapidly intensifying economic and political relations between China and African countries and that Chinese engagement in Africa poses challenges for the EU's development cooperation policy.

The assumed competitive pressure by China is rooted in differences in political and economic conditionality and different focus areas between aid provided by the traditional Western donors and China. Political and economic conditions imposed on foreign aid are a central feature of the international aid architecture of traditional Western donors. Conditionality is backed by clear rules and standards concerning human rights, democratic principles and transparency in recipient countries. According to Koch (2015) conditionality on development aid will have little traction for reforms in the recipient countries because of the declining of aid dependencies of many countries and the emergence of new donors such as China. China is accused of providing high volumes of foreign aid, trade and investments without such political and economic conditions attached, thereby undermining the traditional Western donors' possibilities to set incentives for political and economic reforms in recipient countries. A study by Hernandez (2017) investigates whether WB conditionality is affected by the emergence of new donors, by using panel data for 54 African countries between 1980-2013. His results indicate that the WB delivers loans with significantly fewer conditions to recipient countries, if these countries receive assistance by China, as well.

Kilama (2016a) adds to this analysis by investigates whether African countries with expanding Chinese influence receive favourable aid modalities by G7 donors and finds a positive relationship between the level of aid and the number of Chinese projects a country receives and the level of bilateral aid from the G7 donors. Another very recent study by Humphrey & Michaelowa (2018) on the responsive behaviour of MDBs such as the WB and the IMF to Chinese rising aid activities in Africa, on the other hand, finds that total MDB finance levels by country and sectoral allocation of concessional lending change little over time regardless of Chinese activity. This master thesis will add on these recent and contrary findings by analysing whether the assumptions on Chinese foreign aid are true and whether all OECD DAC donors responded to rising Chinese aid activities in China. The next section will describe the theoretical framework for the analysis of this topic and apply the theory to the case of Chinas new role as a foreign aid donor and the response of traditional Western donors to these developments.

3. Theory

The previous sections described the problem which arises from Chinas new position in the international development cooperation landscape. Some welcome the rise of a new development partner, suggesting that Chinese foreign aid might provide new leverage to recipient countries faced with conditionality-based aid provided by traditional Western donors (Bräutigam, 2010). Others believe that Chinese foreign aid activities in Africa pose a significant challenge to the norms, rules and decision-making procedures governing the international aid architecture. The fear of China undermining these rules, norms and principles is rooted in liberal theories. In this master thesis I will follow this liberal perspective by using liberal theories, namely the *regime complex theory* and the *theory of contested multilateralism*. These theories have been used in many other global governance areas and proved to be helpful in explaining policy changes there. However, they have not been applied to the global governance area of international development cooperation so far and I assume that they will be helpful in explaining possible effects of China on the policies and aid allocation patterns of OECD DAC donors, as well. In order to fully understand the liberal perspective on this issue it is necessary to define the theories and their underlying concepts. The following subsections will define the two theories and apply them to the case of China and traditional Western donors and define the hypotheses for this master thesis.

3.1. Regime Complex Theory

Regime complex theory is rooted in liberal theories on international regimes and international organisations (IOs). Therefore, this section will define the main terms and concepts that lead to the regime complex theory. Further, regime complex theory will be defined and applied to the case of China and the international aid architecture by traditional Western donors.

Since World War I we are witnessing an increase of global governance in many issue-areas. Numerous international institutions emerged especially after the end of World War II in order to address increasing globalization and interdependence in the international political and economic arena. The large number of international institutions dealing with global governance issues in the international system required scholars to consider the role of these institutions when analysing international politics (Stein, 2008). The term international institution describes international regimes and IOs. Therefore, these two terms have wrongly been used indistinctively in the IR literature. In order to clarify the correct meanings of these terms and to derive at regime complex theory the definitions of international regimes and IOs will be discussed, first.

The term *international regime* was first introduced by John Ruggie in 1975. But the most common definition used in IR is defined by Stephen Krasner. Following Krasner (1982) “[r]egimes can be defined as sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations. Principles are beliefs of fact, causation, and rectitude. Norms are standards of behavior defined in terms of rights and obligations. Rules are specific prescriptions or proscriptions for action. Decision-making procedures are prevailing practices for making and implementing collective choice” (Krasner, 1982, p. 186). International regimes for example include International Conventions such as the International Covenant on Economic, Social and Cultural Rights, the European Convention on Human Rights, and the UN Convention Relating to the Status of Refugees. And as mentioned before, international regimes can also include IOs in a broader sense.

IOs are defined as „[...] purposive institutions with explicit rules, specific assignments of roles to individuals and groups, and the capacity for action” (Keohane, 1988, p. 384). Compared to the definition of international regimes it can be concluded that IOs not only have physical qualities, such as staff, headquarters, and own resources, but also, they “[...] can engage in goal-directed activities such as raising and spending money, promulgating policies, and making discretionary choices” (Keohane, 1988, p. 384). International regimes do not function as actors on their own, but they can encompass several IOs which accept the norms, rules and decision-making procedures set by the respective regime and act according to them. In fact, many IOs were established and designed to support international regimes.

Regime complex theory builds on the literature on international regimes and IOs from the 1980s and 1990s, because regime complexes consist of international regimes, IOs and their interplay. Scholars of IR relocated their focus of analysis to the study of regime complexes as the number and density of regimes and IOs in the international system further increased (Alter & Raustiala, 2018). They have focused on the emergence of regime complexes in various issue-areas of global governance such as climate change (Keohane & Victor, 2010), energy (Colgan et al., 2012), food security (Margulis, 2013), plant genetic resources (Raustiala & Victor, 2004), trade (Busch, 2007), and refugees (Betts, 2010 & 2013) and aimed to understand how the overlaps mentioned in the above definition impact actors preferences and choices, stressing that member states could engage in forum shopping, regime shifting and strategic inconsistency. While forum shopping and regime shifting refer to when “states and nonstate actors relocate rulemaking processes to international venues whose mandates and priorities favor their concerns and interests” (Helfer, 2009, p. 39), strategic inconsistency refers to situations “where contradictory rules are created in a parallel regime with the intention of undermining a rule in another agreement” (Betts, 2010, p. 14). Researchers have recognized that institutions within a regime cannot be analysed separately, therefore, they started to analyse how one institution within a regime complex can influence another institution, pointing out to functional overlaps which might affect the effectiveness of the overall regime complex, but also spill-overs from one institution to another, and institutional adaption processes due to competition between institutions arising from strategic inconsistency.

Especially functional overlaps are reflected in the first ever definition of regime complexes introduced by Kal Raustiala and David G. Victor (2004). They define regime complexes as “an array of partially overlapping and nonhierarchical institutions governing a particular issue-area”

(Raustiala & Victor, 2004, p. 279). Orsini et al. (2013) perceive this definition of regime complexes as very vague and argue that it needs further clarification. They build on the findings on institutional interplay and propose another definition for regime complexes and define it a network of institutions "[...] that relate to a common subject matter; exhibit overlapping membership; and generate substantive, normative, or operative interactions recognized as potentially problematic whether or not they are managed effectively" (Orsini et al., 2013, p. 29). The authors replace the condition of non-hierarchical institutions by Raustiala & Victor (2004) with operative interactions because in their view regime complexes "[…] do not typically exhibit hierarchical relations that are as clear and vertical as those linking a framework convention to its protocols or an organization to its programs. Otherwise, their interactions would not seem problematic" (Orsini et al., 2013, p. 31). This assumption is an important requirement for the existence of a regime complex, because for Orsini et al. (2013) the simultaneous existence of several elemental institutions itself should be perceived as posing an actual or potential problem, which is not possible within a hierarchical order. According to Orsini et al. (2013), "regime complexes always exhibit a degree of divergence regarding the principles, norms, rules, or procedures of their elemental regimes" (Orsini et al., 2013, p. 29). To conclude, regime complex theory acknowledges that multiple elemental institutions – international regimes and IOs – exist in a given global governance area and that they overlap with and influence each other. And it assumes that competition between these elemental institutions is a core characteristic of regime complexes.

IR has generated regime complexes in various global governance areas. In this master thesis the global governance area constituting the regime complex is international development cooperation. The global governance area of international development cooperation can be understood as a regime complex because it encompasses an ever-increasing number of actors and a variety of institutions with partially overlapping memberships, mandates, many international issue areas such as human rights, environment, migration and security, and aid fragmentation which might have a negative impact on the effectiveness of the regime. To be considered a regime complex, not only the norms, rules and decision-making procedures of the elemental institutions should display some degree of divergence. The simultaneous existence of these elemental institutions should already be perceived as posing an actual or potential problem to the regime. To simplify the theoretical application for this master thesis, it is assumed that two different elemental institutions exist within the regime complex of international development cooperation: the international aid architecture of traditional Western donors, represented by the OECD DAC, and the aid regime created by new donors, here represented by China, with different to contrary norms, rules and decision-making procedures regarding development cooperation.

3.2. Contested Multilateralism

As the theoretical framework for understanding the mechanisms within the regime complex of international development cooperation, the theory of contested multilateralism will be used. “Contested multilateralism describes the situation that results from the pursuit of strategies by states, multilateral organizations, and non-state actors to use multilateral institutions, existing or newly created, to challenge the rules, practices, or missions of existing multilateral institutions” (Morse & Keohane, 2014, p. 385). According to Morse and Keohane (2014), for contested multilateralism three criteria must be fulfilled:

1. “A multilateral institution exists within a defined issue area and with a mission and a set of established rules and institutionalized practices”

2. “Dissatisfied with the status quo institution, a coalition of actors—whether members of the existing institution or not—shift the focus of their activity to a challenging institution with different rules and practices. This challenging institution can be either pre-existing or new”

3. “The rules and institutionalized practices of the challenging institution conflict with or significantly modify the rules and institutionalized practices of the status quo institution” (Morse & Keohane, 2014, p. 388).

Previously, the international aid architecture of traditional Western donors and the aid regime created by new donors, represented by China, were declared as the two elemental institutions within the regime complex, which display some degree of divergence between them. Applied to the theory of contested multilateralism the international aid architecture of traditional Western donors represents the status quo institution and China’s aid regime represents the challenging institution.

Contested multilateralism suggests that rising powers, such as China, may seek to reform or challenge existing institutions in a certain policy area if they believe that these no longer reflect the underlying power distribution of the international system and their interests. And indeed, in 2013, China together with the other BRICS countries demanded the reform of existing international financial institutions and heralded the creation of the New Development Bank (NDB) (Tierney, 2014). Even though contested multilateralism assumes that a coalition of actors would compete against an existing regime, it makes sense to look at China as the only competing actor while using the assumptions of contested multilateralism, because China represents the leading actor in the real-world coalition against the traditional development cooperation institutions. For example, the Asian Infrastructure and Investment Bank (AIIB) was created to compete against the WB, IMF and the Asian Development Bank (ADB) and it is undeniably led by China, even though many other states are members of it, too. Abdenur (2014) analyses Chinas interests in the NDB in the light of its past experiences with development at home and abroad and argues that Chinas interests in backing the NDB are mainly political and with the aim to influence international development norms and principles set by the OECD DAC.

According to the theory of contested multilateralism the norms, rules and decision-making procedures of the challenging institution conflict with those of the status quo institution and probably lead to significant modifications of the norms, rules and decision-making procedures of the status quo institution. In order to fully understand how regime complex theory and contested multilateralism can explain the challenging effect of China on the OECD DAC donors, a closer look at these actors, their aid governing institutions, and the differences between them is needed. The next subsection will describe and compare the two elemental institutions and explain how they differ from each other, which problems arise from these differences and how the OECD DAC is expected to react.

3.3. Donor Competition between the OECD DAC and China

The previous subsections defined regime complex theory and the theory of contested multilateralism and described why and how these two theories can be applied to the global governance area of international development cooperation, and more specifically to the challenge by China’s aid regime to the international aid architecture of traditional Western donors, represented by the OECD DAC.

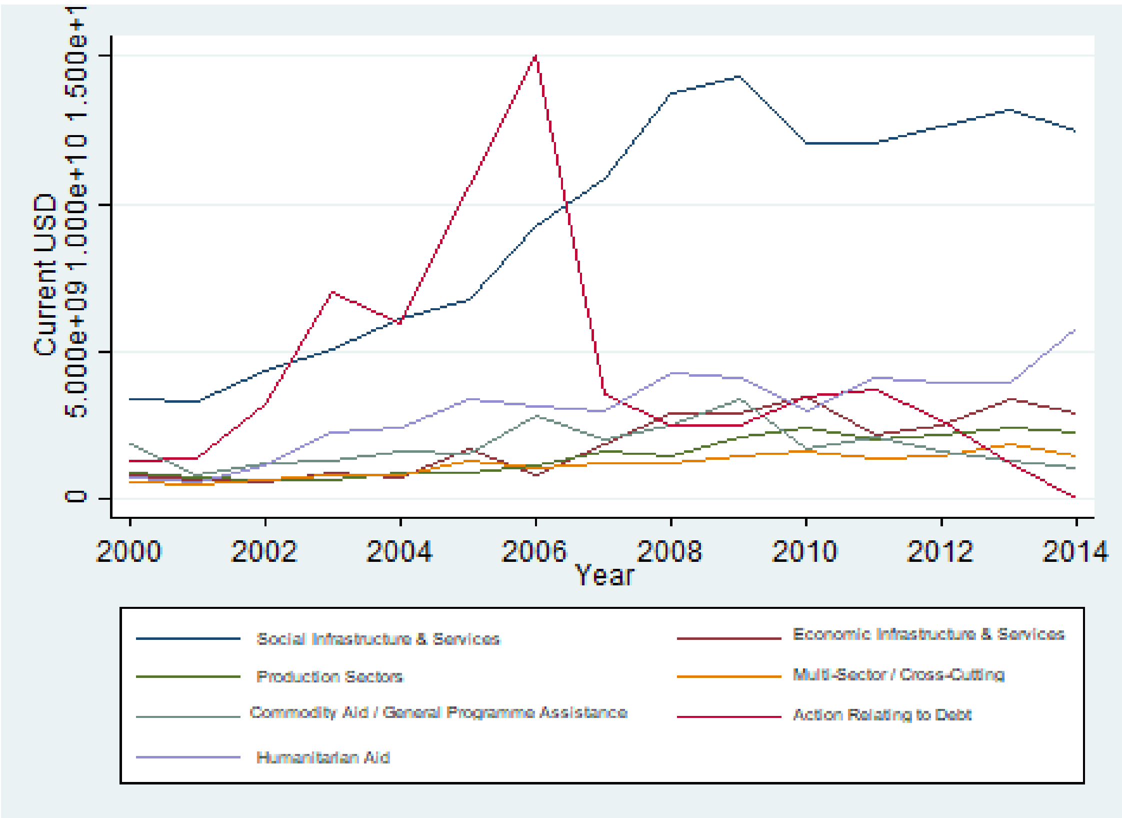
The regime complex theory and the theory of contested multilateralism allow us to understand how one institution influences the other, as well as to analyse the changes that might occur within them. Even though aid from China is often programmed in similar ways, i.e. including project support, technical assistance, food aid, debt relief and humanitarian assistance, both institutions also have their own sets of rules which are supposed to govern their aid (Bräutigam, 2011). The incompatibility between these rules, norms, and principles of traditional Western donors with those advocated by China poses a potential problem to the international aid architecture. China has been accused of challenging the norms and rules of the international aid architecture of traditional Western donors, thereby undermining the political and economic reforms forged by them in developing countries. In the following the differences between the two elemental institutions and the issues arising from these differences will be described.

The traditional Western donors operate within the norms, rules and decision-making procedures of the international aid architecture set by the OECD DAC. Deborah Bräutigam (2010) gives an accurate description of the international aid architecture. She defines it as a subset of the global architecture of development finance, which is equivalent with what was defined as the global governance area of international development cooperation, earlier in this thesis. "It can be defined as the system of institutions, rules, norms, and practices that govern the transfer of concessional resources for development" (Bräutigam, 2010, p. 8). The international aid architecture comprises bilateral and multilateral donor agencies, nongovernmental organisations (NGOs), global funds, private foundations, and forums such as the Paris Club, the G-8, the DAC and the UN's Development Cooperation Forum (DCF). It is characterised by slowly evolving norms, rules and decision-making procedures that serve as aspirational best practices for donors (Bräutigam, 2010). Since the 1960s, the primary responsible body for creating these norms, rules and decision-making procedures is the OECD's DAC. It is also responsible for helping its members states to coordinate and implement their foreign aid activities consistent with these norms, rules and decision-making procedures, so that they might be collectively more effective and so that each donor country could monitor the behaviour of the other OECD DAC donor countries. Currently the OECD DAC has 30 members. These are: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, European Union, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, The Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom, and the United States (OECD, 2019). They are obliged, at least to a certain degree, to comply with the norms, rules and decision-making procedures set by the DAC when allocating their foreign aid. Following Bräutigam (2010), the rules of the international aid architecture are not much universal. Many of its rules were agreed upon during the creation of the DAC and others originated in the Bretton Woods institutions. “Few of these rules have sanctions or other built-in enforcement mechanisms. Most depend on informal practices, expectations, and public opinion for their enforcement” (Bräutigam, 2010, p. 11). However, the most codified norms, rules and decision-making procedures include reporting norms and transparency, the effort to untie aid, conditionality on democracy and good governance in recipient countries, and the content of aid with a focus on social infrastructure.

DAC donors pledged to implement the recommendations by the DAC and to commit to use the DAC guidelines and reference documents in formulating their national development cooperation policies. They develop country assistance strategies which help them to programme their aid to recipient countries. Additionally, donors are obliged to submit annual Official Development Assistance (ODA) statistics and, and on request, summary information describing their foreign aid activities and policies to enhance transparency. The definition of ODA is standardised for the members of the OECD DAC since 1972. The official definition of ODA is: “Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount). By convention, ODA flows comprise contributions of donor government agencies, at all levels, to developing countries (“bilateral ODA”) and to multilateral institutions. ODA receipts comprise disbursements by bilateral donors and multilateral institutions. Lending by export credit agencies – with the pure purpose of export promotion – is excluded” (DAC, 2019). This definition is considered as technical definition of foreign aid. ODA includes foreign aid targeted to the following sectors: Social Infrastructure, Economic Infrastructure, Production Sectors, Multi-Sector / Cross-Cutting, Commodity Aid, Action Relating to Debt, and Humanitarian Aid. Aid for military purposes such as peacekeeping and anti-terrorism activities are excluded from ODA (OECD, 2019). Foreign aid also includes the residual category of ‘other official finance’ (OOF) as money that comes from donor countries but does not meet the criteria of ODA, either because it is not primarily aimed at development, or because it has a grant element of less than 25 per cent. The use of ODA and OOF is rather restricted, because it is only applied by those countries that follow the DAC’s guidelines for foreign aid.

Many OECD DAC donors started to reduce the tying of their foreign aid to their own companies and citizens to increase local ownership (Bräutigam, 2014). Further, OECD DAC donors embraced the idea that foreign aid can only be effective in recipient countries with sound institutions and a good policy environment and therefore, attach political and economic conditions at least on some of their foreign aid to enhance democracy and the governance level in recipient countries. Lastly, the volume of foreign aid to different development sectors mentioned above changed over time. “The changing sectoral composition of aid, and specifically the proportion directed to social sectors, infrastructure, productive activities, or debt relief, fit in this central component of the aid architecture” (Bräutigam, 2010, p. 10). Graph 1 shows the composition and development of OECD DAC foreign aid commitments to SSA countries. The highest amount of foreign aid commitments by OECD DAC donors is directed to the social infrastructure and services sector, followed by action related to debt, especially from the beginning to the mid-2000s, and humanitarian aid.

Graph 7: *Composition and Development of OECD DAC Aid to SSA Countries, by Sector*



<u>Source:</u> Data from OECD-CRS

As discussed earlier in this master thesis, there are very large differences between the international aid architecture of traditional Wester donors and the Chinese foreign aid regime. The international aid architecture and Chinas aid regime differ with regard to the norms, rules and decision-making procedures mentioned above. These differences are already visible in the large number of institutions which are involved in Chinas foreign aid regime, how they work and the type of financial assistance they provide to recipient countries.

In April 2018 the China International Development Cooperation Agency (CIDCA) was established as a direct agency under the Chinese State Council which is the highest authority of the state administration. CIDCA is responsible to oversee tasks such as drafting strategic guidelines and policies for Chinese foreign aid (Bräutigam, 2018). Different to the former system CIDCA is separate from the Ministry of Foreign Affairs (MFA) and the Ministry of Commerce (MOFCOM) which also operate within Chinas foreign aid regime and will be described below.

Until the establishment of the new agency, the State Council was the main government body to set China's broad foreign aid policies. In 1960 the Commission of Foreign Economic Relations was set up under the State Council but decisions on foreign aid had to be made jointly with the MFA (Bräutigam, 2014). Over the past decades, with an increasing number of foreign aid projects and foreign investments abroad, the Commission of Foreign Economic Relations was upgraded to become the Ministry of Foreign Economic Relations. In the beginning of the 2000s, it was merged together with the Ministry of Trade to become the MOFCOM, (Bräutigam, 2014). MOFCOM tasks the Department of Foreign Affairs (DFA) to manage Chinas foreign aid. "Its responsibilities include drafting aid policies, regulations and plans, including the annual plan and five-year country plans. It also approves and manages aid projects" (Zhang & Smith, 2017, p. 2332). The DFA cooperates with the MFA and operates China's grant programmes, zero-interest loans and grants, volunteer programmes, and its technical assistance (Bräutigam, 2010). Therefore, it is the most important actor in China's aid regime (Zhang & Smith, 2017). MOFCOM has three semi-autonomous bodies, the Executive Bureau of International Economic Cooperation, the China International Centre for Economic and Technical Exchange, and the Academy of International Business Officials. The Executive Bureau of International Economic Cooperation "[…] handles tenders for 'complete plant' aid projects, procurement, and quality control" (Bräutigam, 2014, p. 3). The other two bodies manage aid-in-kind issues and the coordination of short-term training courses respectively

(Bräutigam, 2014). Apart from the government institutions described above, the China Export Import Bank (China Eximbank) and the China Development Bank (CDB) are involved in many aspects of Chinas foreign aid and trade relations. Both were established in 1994, when China reorganised its state banking system to tools of its new government policy (Bräutigam, 2011).

The China Eximbank was established to serve as China's export credit agency. Under the direction of MOFCOM, it offers letters of guarantee, export seller's credits for Chinese exporter and investors, export buyer's credits for foreign governments and companies (which can be at fixed or preferential rates), and concessional foreign aid loans (Bräutigam & Gallagher, 2014). These loans are made to promote economic development and improve living standards in the recipient countries, while the export credits simply promote Chinese exports (Bräutigam, 2014). The China Eximbank emphasises that its concessional loans parallel the ODA definition of the DAC (Bräutigam, 2011). It lists the alleviation of poverty as one of its central targets (China Eximbank, 2019). However, the mixture of concessional and market-rate loans and credits offered by the China Eximbank frequently cause confusion about what is foreign aid and what is not (Bräutigam, 2010).

Originally, the CDB was established to provide finance for China's own development but began to operate abroad after the reorganisation of the Chinese banking system. Its businesses abroad expanded largely in recent years with project finance, credits and loans to Chinese companies operating abroad (Bräutigam & Gallagher, 2014). It also lends to foreign governments but mostly at commercial rates. Further, it manages the China Africa Development Fund, which provides equity investment capital (Bräutigam, 2011). Many other Chinese Banks, such as the Bank of China and the China Construction Bank operate in and with African countries as well and have branches all over Africa. They operate largely on commercial principles, as well (Bräutigam, 2010).

According to Ubi (2014) and Bräutigam (2011), in 1964 the Chinese government laid out eight principles for economic and technical assistance to other countries which still govern China's foreign aid today. These principles are: "(i) equality and mutual benefit; (ii) respect for sovereignty with no conditions attached; (iii) provided through interest-free or low interest loans; (iv) promotes self-reliance, not dependency; (v) quick results; (vi) uses best-quality equipment of Chinese manufacture; (vii) emphasises technology transfer through technical assistance; (viii) Chinese experts will live at the standard of local experts" (Zhou, 1964 in:

Bräutigam, 2011, p. 760). These principles show some overlaps between both foreign aid institutions discussed, but also highlight their main differences.

First, OECD DAC donors are obliged to develop country assistance strategies, China is not. The same holds for the transparency of Chinese foreign aid and the definition of foreign aid. Contrary to OECD DAC donors who agreed long ago to transparently publish full information on their foreign aid activities using standardized categories and definitions, China does not publish much data or information on its official financing abroad and therefore its foreign aid is poorly understood (Bräutigam, 2010; Bräutigam, 2011; Sethi, 2015). Further, it does not comply with the reporting norms and ODA definition of the OECD DAC. Bräutigam (2011) compares development finance from China and the OECD through the examination of two cases of Chinese development cooperation in Africa and finds that "[…] the lion's share of China's officially supported activities in other developing countries do not take the form of, and would not qualify as, official development assistance" (Bräutigam, 2011, p. 753). Although China provides finance which meets the definition of ODA, only a relatively small amount can be defined as such. China created its own definition of what constitutes foreign aid. Several items which the OECD DAC counts as ODA are not included in the Chinese definition of foreign aid and vice versa. For example, the OECD DAC counts debt relief as foreign aid, but China does not, or China counts military aid as foreign aid while the OECD DAC does not. With the intention to meet the objections on the lack of transparency and clear definitions of foreign aid the State Council published its first White Paper on Chinese foreign aid in 2011, which revealed that China had committed approximately US$15.6 billion in grant and US$11.2 billion in interest free loans over the past five decades (Fuchs, 2012; Bräutigam & Gallagher, 2014;). However, it is assumed that the White paper does not include full information and it is not clear whether it contains all financial flows (Dreher & Fuchs, 2015).

Second, while many OECD DAC donors still tie their foreign aid to their own companies and citizens, they are working to reduce their tying levels, but China does not (Bräutigam, 2014). Both the China Eximbank and CDB offer credits at commercial rates, which are secured by exports and which also are used to finance imports from China to recipient countries (Bräutigam 2014). In many cases, natural resource exports are used as a security to guarantee repayment of grants and loans (Bräutigam, 2010). For example, in 2004 the China Eximbank granted US$4.5 billion to Angola for infrastructure projects, in exchange for oil supply, and in 2006, it granted US$3 billion to Gabon in exchange for manganese exploration rights (Alden & Alves, 2009).

Third, a key difference between OECD DAC donors and China lies in the application of aid conditionality. Most OECD DAC donors impose political and economic conditions on their foreign aid to enhance democracy and good governance in recipient countries, whereas China is accused of providing high amounts of foreign aid to less- and non-democratic countries mostly, not attaching any conditions on it (Mwase, 2011; Berthélemy, 2011; Eisenman, 2012; Kilama, 2016b). In the Chinese White Paper published by the State Council in 2011, it is stressed that China does not attach any political conditions on its foreign aid because it does not want to interfere in the domestic affairs of other countries (Mattlin & Nojonen, 2015).

As discussed before, many scholars asked about the motivations behind Chinas foreign aid activities and found that China does not pay substantially more attention to democracy, the governance level or the need of recipient countries as compared to traditional Western donors, and that Chinese foreign aid is driven by its political and economic interests only (Dreher & Fuchs, 2015; Woods, 2008). Naím (2007) further accuses China to give foreign aid to African countries in order to gain better and greater access to natural resources. According to Swedlund (2017), China is offering new sources of foreign aid to African countries, which is commonly assumed to increase African governments bargaining power towards traditional Western donors, and to enable them to be more selective about the foreign aid they accept. With conditionality imposed by traditional Western donors, which are designed to punish countries which violate them, China represents an alternative source of foreign aid (Alden, 2005). By doing so, China is eroding the bargaining power of traditional Western donors and puts their power and influence into question. Chinese foreign aid represents new opportunities for recipient countries to get additional resources to finance their development and to improve their control over these resources and their own development agenda (Kilama, 2016b).

According to Fuchs (2012) such an aid allocation behaviour should be alarming for traditional Western donors, especially in the light of the study by Bermeo (2011) who finds that the regime type of the donor country influences the outcome of foreign aid. Her results indicate that foreign aid provided by authoritarian regimes, such as China, decreases the likelihood of democratic transitions in recipient countries. However, as longs as African countries have alternative sources of foreign aid which are de-linked from conditions, it will be harder for traditional Western donors to pursue democratization and good governance in recipient countries (Tierney, 2014).

A study by Brazys & Vadlamannati (2018) finds evidence that Chinese foreign aid flows, and especially those over which the recipients have more control and a higher degree of discretion, inhibit broader economic reform. Another study by study by Brazys et al. (2017), finds that WB projects are associated with lower levels of corruption in the absence of Chinese foreign aid, while this relationship disappears when Chinese projects are conducted in the same region. Lastly, Li (2016) finds that the democratizing effects of the OECD DAC donors diminish because of rising China-Africa relations. He argues that the democratizing effect of aid conditionality only works when there is no alternative source of foreign aid for the recipient countries.

In the light these findings it can be expected that traditional Western donors and lenders change their aid allocation policies and patterns with regard to aid conditionality and recipient selectivity in order to remain competitive and present in the development cooperation landscape, i.e. through offering foreign aid with reduced conditionality or higher amounts of foreign aid to recipient countries which also receive foreign aid by China. Hernandez (2017) investigates whether the WB responded to the emergence of China as a new donor regarding its conditionality. His results indeed indicate that the WB provides loans with significantly fewer conditions to recipient countries which also get assistance by China.

In 2006, the chair of the OECD DAC, Richard Manning, referred to China as a new donor in the development cooperation landscape and expressed concerns about its effect on aid effectiveness. He assumed that the non-conditionality approach of China and other new donors would delay political and economic reforms in developing countries and would therefore waste resources on unproductive investments (Kragelund, 2011). Based on the issues discussed, and the expression of concerns over Chinese foreign aid activities by OECD DAC officials, I assume that traditional Western donors might feel compelled to compete against the challenge imposed by China. Particularly, I assume that traditional Western donors would react by offering higher amounts of foreign aid to SSA countries as a response to increasing foreign aid to these countries by China. Therefore, the first hypothesis is:

> **Hypothesis 1:** *The higher Chinese aid flows to SSA countries, the higher OECD DAC aid flows to these countries.*

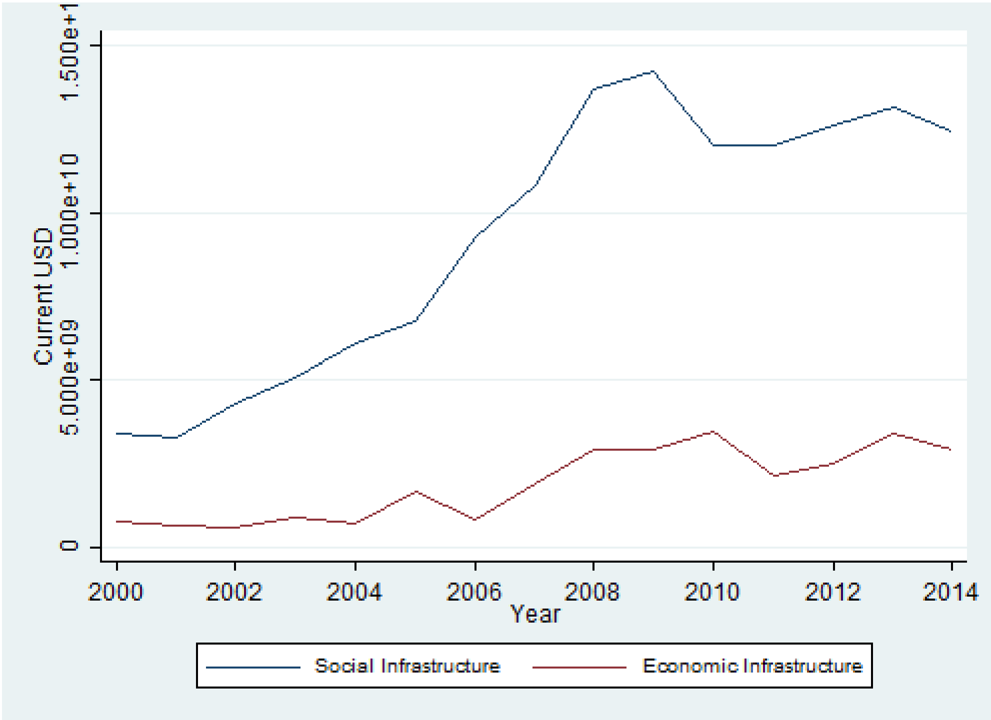
Regarding the argument that Chinese foreign aid is provided mostly to less- and non-democratic countries without any conditions attached, I assume that the compelling effect of China on traditional Western donors is stronger, in these countries. I assume that traditional Western donors would increase their foreign aid efforts especially towards these countries in order to not lose ground there. Therefore, my second hypothesis is:

Hypothesis 2: *The less democratic a recipient country the stronger the effect of Chinese aid on OECD DAC aid.*

Lastly, another difference between OECD DAC donor's and Chinese foreign aid allocation regards the development sectors they prefer. Several multilateral summits and high-level forums were held that were supposed to further enhance coordination and increase aid effectiveness by harmonizing donor conditions and reporting procedures on recipient governments (Tierney, 2014). Through these summits and forums, the members of the OECD DAC have also regularly changed the emphasise of their foreign aid from infrastructure, to basic needs, to policy reforms, and governance. In September 2000, all UN member states at that time, and many international organizations, signed the Millennium Development Goals (MDGs) and committed themselves to help achieve these goals by 2015. The MDGs comprised eight goals with 21 targets which focus mostly on social development. However, even before the signing of the MDGs the focus of the OECD DAC donors shifted towards the social infrastructure sectors (Bräutigam, 2011). Pushed forward by the MDGs, and currently the SDGs, the OECD DAC donors distribute most of their foreign aid in the social infrastructure sector (as seen in Graph 1). However, Graph 2 and 3 show that there has been a remarkable rise in OECD DAC aid in the economic infrastructure sector, since 2004, and it is up to debate what caused this shift.

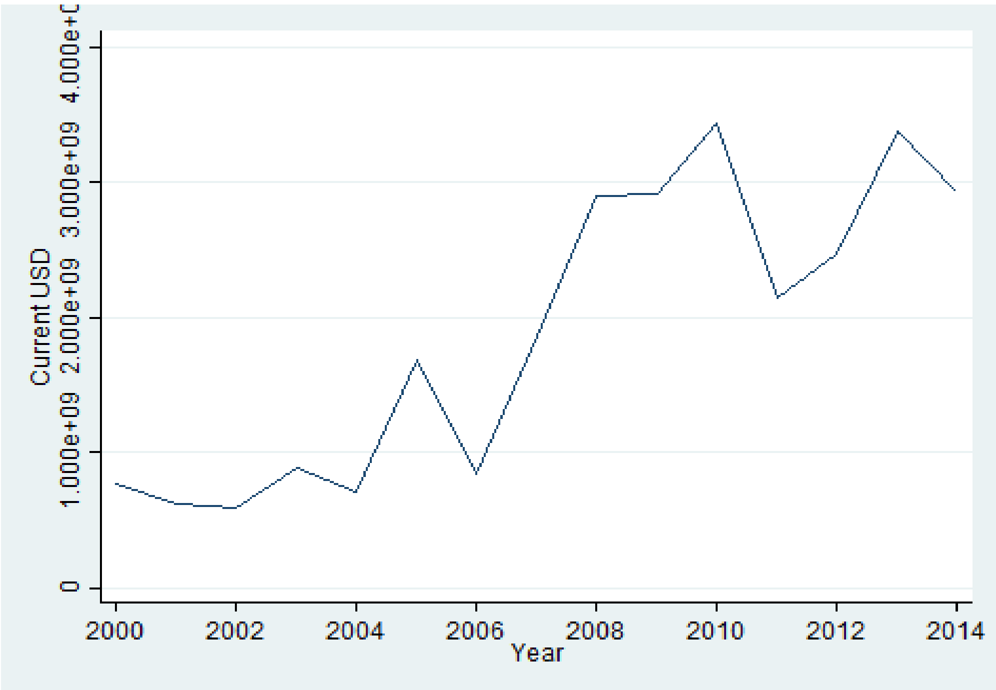
Following Bluhm et al. (2018), many developing countries have a huge need in infrastructure finance and China is willing to finance these projects. Different to the OECD DAC donors, China emphasizes on infrastructure and productive activities (Bräutigam, 2011). Bräutigam (2009) argues that China's focus on infrastructure projects might meet the development needs of many African countries which are neglected by traditional Western donors. For example, already in the 1960s, China agreed to finance the TAZARA railway, a 180-kilomter railway connecting copper mines in Zambia to the port of Dar es Salaam in Tanzania, while traditional Western donors declined to finance the project (Bluhm et al., 2018).

Graph 8: *Development of OECD DAC Aid Commitments in the Social and Economic Infrastructure Sector in SSA*



Source: Data from OECD-CRS

Graph 9: *Development of OECD DAC Aid Commitments in the Economic Infrastructure Sector in SSA*



Source: Data from OECD-CRS

Further, China financed a US$320 million ring road around Ethiopia's capital, Addis Ababa, and a US$3 billion railroad that runs from Addis Ababa to Djibouti's seaside port of Doraleh (Bluhm et al., 2018, p. 4). Infrastructure is key to economic growth. Therefore, Dreher et al. (2017) argue that it is plausible that Chinese foreign aid might have s stronger effect on economic growth in recipient countries than foreign aid from traditional Western donors to other development sectors. According to Bluhm et al. (2018), infrastructure investments can spill-over and can increase the mobility of people, goods, and capital, thereby helping to distribute economic activity to wider regions. I assume that this would lead to a better reputation of Chinese foreign aid, leading African governments to prefer Chinese aid even more. Therefore, I further assume that traditional Western donors raised their foreign aid commitments in the economic infrastructure sector as a response to Chinese foreign aid activities in order to remain competitive and present in recipient countries which receive high volumes of Chinese foreign aid. The third hypothesis is:

Hypothesis 3: *The more Chinese aid a country receives the more OECD DAC economic infrastructure aid it receives.*

The next section will describe the data and methodology used to test the three hypotheses and will be followed by the analysis and discussion of the results.

4. Research Design

The analysis of Chinas rising foreign aid activities in SSA and its impact on the international aid architecture is new and very complex. So far, the literature investigating the relationship between Chinese foreign aid and foreign aid by traditional Western donors is scarce and has been limited by the availability of data on Chinese foreign aid activities. A recent study on the impact of Chinese foreign aid on the behaviour of G7 donors by Kilama (2016a) presents evidence of donor's competition in Africa. Kilama (2016a) investigates whether African countries with expanding Chinese influence receive favourable aid modalities from G7 donors and finds a positive relationship between the level of aid and the number of Chinese projects a country receives and the level of bilateral aid from the G7 donors. Another very recent study by Humphrey & Michaelowa (2018) on the responsive behaviour of MDBs such as the WB and the IMF to Chinese raising aid activities in Africa, on the other hand, indicates that total MDB finance levels by country and sectoral allocation of concessional lending changed little over time regardless of Chinese activity. In this master thesis I will build on these findings and test whether traditional Western donors, represented by all OECD DAC donors, showed any responsive behaviour regarding their foreign aid policies and allocation patterns to SSA countries.

Aid literature methodology and a three-dimensional panel dataset (recipient-year-donor), which allows for comparisons among the OECD DAC donors as a whole and China, is used to analyse the responsive behaviour of OECD DAC donor countries to Chinas rising aid activities in SSA between 2000-2014. The focus on Chinese development aid activities in SSA is made because of two reasons: (1) China is observed as the largest and most influential new donor, and (2) SSA countries are the most aid-dependent countries in the world, many of them are characterized by weak democratic institutions, and they are in the focus of most OECD DAC donor countries.

Further, the time frame is chosen because: (1) data on Chinese development aid is not made available by the Chinese government in a comprehensive way. But AidData collected this information from different sources and estimations for the period of 2000-2014 making an analysis possible for this time period, and (2) this time-period falls into the implementation time of the MDGs, making the analysis of possible changes in the OECD DAC development cooperation policies and change of allocation patterns even more interesting in the light of the world-wide public pressure to achieve reduce poverty.

4.1. Data Description

Data on OECD DAC donor countries aid flows to SSA countries is provided by the OECD`s Creditor Reporting System (CRS). The OECD-CRS compiles annual statistics on foreign aid commitments and disbursements from the OECD DAC donors and some MDBs. Following Tierney et al. (2011) the CRS statistical system was designed to help the DAC donors to monitor each other's foreign aid activities and to observe how well these complied with the commitments made over the years. Whereas the OECD DAC donors are transparent about their foreign aid flows, China is not (Sethi, 2015). It releases little information on its development aid activities and estimations about the size and nature of Chinese aid vary widely. In an effort to overcome this transparency problem, several researchers such as Kitano & Harada (2016) and Dreher et al. (2017) tried to estimate China's net foreign aid compared with net ODA by OECD DAC donors. For now, the current AidData database on *Chinese Official Finance to*

Africa by Dreher et al. (2017) is the most comprehensive dataset available. It covers more bilateral and multilateral donors and more types of aid than existing datasets while also providing project-level information about the purposes and aid activities. Researchers at AidData have compiled the database using a media-based approach to data collection with thousands of media reports on Chinese development aid projects worldwide between 2000 to 2014. AidData's Chinese Official Finance to Africa database covers financial flows on more than 2,6 thousand projects in 46 recipient countries in SSA. The sample used in this master thesis covers only 42 SSA recipient countries. This is because not all SSA countries are recipients of Chinese foreign aid. "Chinese aid is almost automatic for African countries with formal diplomatic ties with Beijing. Every country in Africa, except for Swaziland, has been a recipient of Chinese aid. Countries such as Chad, Burkina Faso, and The Gambia, have switched diplomatic recognition back and forth between Beijing and Chinese Taipei" (Bräutigam, 2010, p. 7) and therefore did not receive foreign aid continuously or at all. For technical reasons SAA countries which do not get any or very little aid from China are excluded from the analysis. Apart from Chad, Burkina-Faso and The Gambia these are: Lesotho, Sao Tome & Principe, Eswatini and South Sudan. Furthermore, co-financed projects between China and other institutions provided to multiple SSA recipient countries are left out of the analysis, because it is not possible to assign correct values to each recipient country.

Before comparing OECD DAC and Chinese foreign aid it is important to highlight the differences between OECD DAC and Chinese foreign aid definitions again. Only a small amount of global finance flows qualifies as foreign aid. These are private grants by individuals, foundations and NGOs, and financial flows which qualify as official development assistance (ODA) by bilateral and multilateral donors (Bräutigam, 2010). As explained earlier, the definition of ODA and OOF is standardised for the members of the OECD DAC. However, the use of ODA and OOF is rather restricted, because it is only applied by those countries that follow the DAC's guidelines for aid.

China does not comply with the reporting norms of the OECD DAC. Bräutigam (2009) even makes the analogy of comparing 'apples to dragon fruits'. Strange et al. (2017) prove that mismeasurement of Chinese foreign aid leads researchers to arrive at widely different estimates of Chinese foreign aid which makes it difficult to draw meaningful inferences about the purposes and effects of Chinese aid. China provides packages that bundle together concessional and non-concessional finance from several agencies. Therefore, outsiders to the Chinese aid system are often confused about what is aid and what is not (Bräutigam, 2011). In order to make Chines foreign aid flows comparable with OECD DAC aid flows the authors of the AidData database used in this master thesis define 'ODA-like' and 'OOF-like' flows, aligning closely with the OECD DAC's criteria for ODA and OOF. Following Tierney et al. (2011), "[…] AidData defines development finance as loans or grants from governments, official government aid agencies, and inter-governmental organizations (IGOs) intended mainly to promote the economic development and welfare (broadly defined) of developing countries. This expands upon the traditional definition of "aid" as only including flows that fit the traditional definition of Official Development Assistance (ODA). In addition to ODA, AidData includes international loans at market rates if these loans are extended by governments or IGOs in an effort to foster economic or social development. AidData includes neither project funding that originates from nongovernmental organizations (NGOs) nor contributions from private investors, banks, or foundations. The database also does not include military assistance from either bilateral or multilateral donors" (Tierney et al., 2011, p. 182). The analysis in this master thesis will include Chinese foreign aid flows which are declared both as 'ODA-like' and 'OOF-like' flows, because of the different ODA definition used in the dataset and because I assume that total Chinese financial flows to SSA countries will affect the behaviour of OECD DAC donors, whether it is concessional or not.

It is important to emphasize that the data on Chinese aid flows are only estimations and therefore, not exact. The media-based approach to data collection has its limitations and information is not always complete (Kitano, 2014). Nevertheless, the AidData dataset represents the best possible approximation of Chinese foreign aid flows that is available at present and hence will be used for the quantitative analysis in this master thesis.

4.2. Dependent Variable

The dependent variable (DV) is the aid flow from OECD DAC donor countries to SSA countries. For the statistical analysis I use ODA commitments only. Total aid commitments rather than total aid disbursements are used because these better reflect the donor countries aid allocation decisions and intentions. While donors have total control over their aid commitments, the amount of aid disbursements depends on the recipient country's willingness and administrative capacities to acquire the money. And "[s]ometimes, political or economic circumstances may change leading a donor to take some immediate measures which might be different from the original agenda set. For this reason, the actual flows of ODA allocation sometimes do not reflect the latest intended agenda" (Baydag et al., 2018, p. 6).

In order to test Hypothesis 1and 2 the log transformation total aid commitments from OECD DAC donors to SSA countries will be used. This is because the total aid commitments of OECD DAC donors are highly right skewed. The log transformation will improve the fit for the analysis by making the variable more normally distributed. This also hold for OECD DAC aid commitments to the economic infrastructure and services sector. Therefore, Hypothesis 3 will be tested using the log of total aid commitments from OECD DAC donors to SSA countries in the economic infrastructure and services sector, which includes aid commitments in areas such transportations & storage, communications, energy, banking & financial services and business & other services.

4.3. Independent Variable

The independent variable (IV) is the aid flow by China to SSA countries. As explained earlier in this thesis, Chinese development aid flows are hard to align with the criteria for ODA and OOF by the OECD DAC. Therefore, I will rely on the 'ODA-like' and 'OOF-like' classification by Dreher et al. (2017) and only use aid flows which are classified as such in their database. The log of total Chinese aid flows will be used for the testing of all hypotheses, because Chinese aid flows are not distributed normally, as well. In hypothesis 3 the total amount of Chinese foreign aid flows will be used, because I assume that total Chinas aid flows rather than Chinas aid flows in the economic infrastructure sector influence the aid allocation decisions of OECD DAC donors. Further, the separation of Chinese aid flows in the economic infrastructure sector from total Chinese aid flows is possible but this would result in a very fragmented dataset making a meaningful regression analysis technically impossible.

4.4. Control Variables

I suspect that there will be other variables affecting the DV and IV in the analysis. The control variables (CVs) are selected using acknowledged aid allocation literature. These include economic as well as political conditions in the recipient countries which are known to affect aid allocation decisions of donors. In their famous work "Who Gives Foreign Aid to Whom and Why?", Alesina and Dollar (2000) study the pattern of allocation of foreign aid from various donor countries to receiving countries. They conduct a cross section and time series analysis with data on bilateral aid flows provided by the OECD and find that the direction of foreign aid is dictated both by the economic needs and policy performance of the recipient country and by the political strategic considerations of the donor country. There is a long list of variables that can influence aid allocation decisions which can be included in the analysis. These i.e. are the level of poverty, GDP per capita, GDP growth, government debt and other development indicators, and political indicators such as regime type, scores on relevant democracy indices, and recipient country satisfaction with donors. "But more controls is not always good" (Angrist & Pischke, 2009, p. 64). Therefore, only a meaningful number of CVs will be included in the analysis, which are selected from previous literature dealing with the rise of China as a foreign aid donor and the response from traditional donors and lender.

Following Dollar & Levin (2006), there is a broad agreement among aid donors that recipient country need should be a factor in aid allocation decisions, where need is reflected in indicators such as per capita income, poverty level and social indicators. Therefore, *GDP per capita (in current USD)* and the *Human Assets Index (HAI)* are used to capture the poverty level and need of the respective recipient country. GDP per capita is a commonly used variable to capture the poverty level of a country. The log transformation of GDP per capita is used for the analysis because GDP per capita is not normally distributed. In order to improve the fit for the analysis by making the variable more normally distributed log GDP per capita will be used. The HAI measures the level of human capital to capture recipient needs. It is a composite index including measure on health, education and income, assumed to reflect the main structural handicaps faced by the respective recipient country on a range of 0 to 100 (Feindouno & Goujon, 2016).

As a measure of good governance in the recipient country the *polity2 score* from the PolityIV project by Marshall, Gurr & Jaggers (2018) is used. It ranges from -10 (most autocratic) to 10 (most democratic). In order to facilitate technical application, I converted the range to 0 (most autocratic) to 20 (most democratic).

Larger countries need more aid than smaller ones. I order to control for the small country bias in aid allocation the *population size* is used as another CV. Given that the DV is not used in per-capita terms, I expect that development aid flows rise with the population size. When scattering the population size variable, we can observe that it is highly right skewed, as well. This can lead to misleading results. Therefore, I will use a log transformation on the population size variable, too, before running the regression analysis.

Aid allocation literature highlights the importance of the economic and political self-interest of donors when deciding on their aid allocation. To capture these effects the recipient's natural *resources rent in % of its GDP* and the recipient's temporary *membership in the United Nations Security Council (UNSC)* will be used as proxies for donor's economic and political self-interest. Recipient's natural resources rent in % of its GDP will be used with regard to the assumptions that Chinese foreign aid aims to get better access to natural resources in recipient countries. Meaning that resource abundance should lead to more aid. The recipient's temporary membership in the UNSC is used because several researchers such as Dreher et al. (2009) and Vreeland & Dreher (2014) argue that temporary members of the UNSC experience substantial increases in aid, arguably due to the powerful geostrategic position these countries enjoy during their tenure to the Council. Eichenauer (2016) shows that aid commitments for countries that have served one- or two-year periods in the UNSC are substantially larger than to the same countries before and after they have been in the UNSC. Kuziemko and Werker (2006) find that US foreign aid increases when countries serve on the UNSC and Dreher et al. (2006), too, find evidence that the members of the UNSC are more likely to receive IMF assistance than other countries. It is argued that certain donors reward these countries with more aid for aligned voting behaviour in the UNSC. And indeed, several empirical studies prove that developing countries get more aid and better conditions from donors when they have closer political ties with the donor, as measured by their UNSC voting alignment (Fuchs, 2012). I created a CV indicating 0 (not a member of the UNSC) and 1 (member of the UNSC) for each recipient country and each year.

4.5. Methodology

The most straightforward way to analyse how the OECD DAC donors have responded to rising Chinese aid activities in SSA is to look at aid flow patterns over time. A descriptive analysis of the foreign aid allocation patterns of OECD DAC donors and China will be conducted and complemented by a cross-section panel regression analysis of foreign aid allocation to SSA countries by OECD DAC donors and China.

"Donors set their agenda for development policy on a medium- or long-term basis and then make the decisions by taking recent international political and economic environment into consideration" (Baydag et al., 2018, p. 6). Therefore, aid allocation decisions are usually made every 3-4 years. Some type of time lag is necessary, as it is not likely that OECD DAC donors would be able to react immediately to Chinese development aid activities in a given recipient country. In order to control for lagged effects, a model specification will be applied to the analysis of all hypotheses which will lag the IV and CVs for three years.

According to Angrist & Pischke (2009) the key to causal inference in regression analysis is to control for observed confounding variables. But unfortunately, in econometric statistical analysis, many variables are unobservable. The panel regression analysis conducted here will most probably suffer from omitted variables bias. In panel models, individual effects can be modelled as either fixed effects (FE) or random effects (RE). These two estimators are seen as two solutions to the problem of hierarchical data, with variables and processes at both higher and lower levels (Belle & Jones, 2015). In order to control for biases, I will apply FE and RE to the regression models. Panel regressions divide the unobserved, individual heterogeneity into two error terms. An error term collects all unobserved variables that change over time within individuals. Another error term collects all unobserved variables that do not change within individuals. FE and RE are used to control for unobservable, time-invariant variables. In FE it is assumed that all factors that may affect the aid allocation decisions of the OECD DAC donors and China are constant over time. Contrary to FE models, RE look at unobserved, individual effects as random variables. Both effects of variables that vary between individuals are estimated, as well as variables that vary within individuals.

In FE the unobserved, individual heterogeneity can be dependent on the explanatory variables and it is assumed that the explanatory variables correlate with unobserved, individual heterogeneity. This can be checked with a Hausman-test. The Hausman-test is a test for model misspecification. According to Belle & Jones (2015) it is regularly used to test whether FE estimations can be used, or whether RE estimations are the better choice instead. The Hausman-tests tries to determine whether there is a correlation between the error terms and the regressors in the model. The null hypothesis is that there is no correlation between the two which means that the preferred model to use for the respective analysis is RE. The alternate hypothesis is that the FE are the appropriate to be used. This is the case if the explanatory variables and unobserved heterogeneity correlate. Then a FE model is the statistically better choice for the analysis. With a Hausman-test for all models I will determine which is the appropriate one to use and interpret.

5. Analysis

In this thesis the role of China as a foreign aid donor is examined, as well as the implications it might has on traditional Western donors and the norms, rules and decision-making procedures governing their foreign aid activities established in the international aid architecture. I conduct six different models to estimate the effect of Chinese foreign aid on aid allocation patterns of OECD DAC donors in SSA. Model 1 and Model 2 refer to the analysis of Hypothesis 1. Model 3 and 4 belong to Hypothesis 2. And Model 5 and 6 refer to the analysis of Hypothesis 3.

5.1. Competition between China and the OECD DAC Donors?

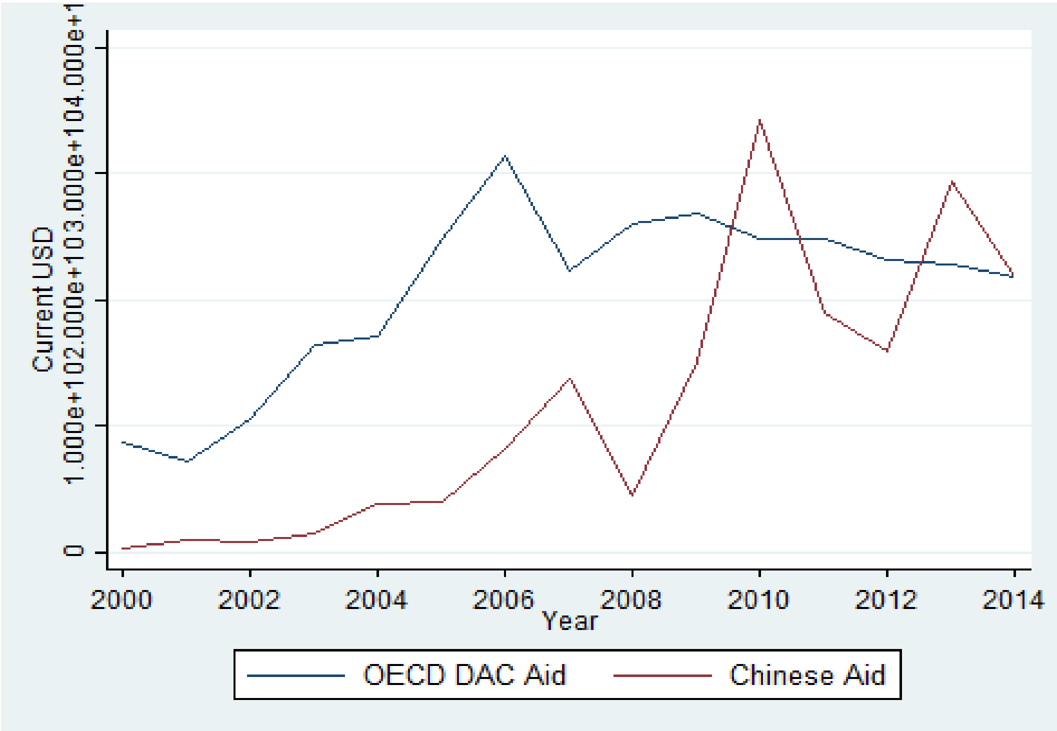
I will start with the analysis of the effect of total Chinese foreign aid flows on OECD DAC foreign aid commitments to SSA. As discussed earlier, I expect a competitive responsive behaviour from OECD DAC donors to rising Chinese aid activities in SSA, expressing itself in higher foreign aid commitments to countries which receive high amounts of foreign aid from China.

> ***Hypothesis 1***: *The higher Chinese aid flows to SSA countries, the higher OECD DAC aid flows to these countries.*

The competitive behaviour expected in Hypothesis 1 would ideally express itself in rising OECD DAC foreign aid commitments in response to rising Chinese foreign aid flows. Graph 4 shows the development of foreign aid commitments from OECD DAC donors and China between 2000 and 2014. It indicates that OECD DAC foreign aid commitments and Chinese aid flows might rose independently of each other. Both aid flows rose until 2006 and both dropped in and after 2007. While Chinese aid flows show the lowest recorded point in 2008, OECD DAC aid commitments rose again although very slightly. After 2008 Chinese foreign aid flows show a sharp increase until 2010 while OECD DAC aid commitments slowly decrease again until 2014. This descriptive analysis of foreign aid commitments and aid flows does not give a definite prove of rising OECD DAC aid commitments in response to rising Chinese aid flows. Therefore, regression analysis using FE and RE models will be considered.

For the testing of Hypothesis 1 the log transformation of total OECD DAC aid commitments (ln_DAC_AID2) will be regressed with the log transformation of total Chinese foreign aid (ln_Chinese_Aid_lag) and the control variables described in Section 4. Chinese foreign aid and the control variables are lagged by three years in order to account for the time OECD DAC donors might need to react and change their foreign aid policies and allocation patterns.

Graph 10: *Development of OECD DAC and Chinese Foreign Aid between 2000 to 2014*



Source: *Data from OECD-CRS and AidData database on Chinese Official Finance to Africa by Dreher et al. (2017)*

The regression is run using FE and RE. While Model 1 (FE) proves to be not significant with Prob > F = 0.312, Model 2 (RE) is with Prob > chi2 = 0.0000. A Hausman-Test on both regression models results in Prob > chi2 = 0.7914 indicating that the RE-model is better in estimating the effects of Chinese foreign aid and the CVs on total OECD DAC foreign aid commitments. Table 1 shows the coefficients for both regression models. The effect of Chinese foreign aid on OECD DAC aid is not significant in both models. Therefore, the allocation of OECD DAC foreign aid seems to be independent from foreign aid provided by China and there does not seem to be donor competition between both. Therefore, Hypothesis 1 can be rejected. Contrary to some critiques discussed earlier, Model 1 and 2 both show that the democratic level of recipient countries has a significant effect on aid allocation of OECD DAC donors. According to Model 2 (RE) the increase of the democracy level by one unit increases OECD DAC aid by 3,9%. Additionally, Model 2 finds a significant and positive relationship between the GDP per capita and the population size of a recipient country and OECD DAC aid.

Table 4: *Regression Models testing Hypothesis 1*

VARIABLES	Model 1 (FE)	Model 2 (RE)
ln_Chinese_Aid_lag	0.0173	0.0130
	(0.0181)	(0.0171)
ln_R_GDPPC_lag	-0.190	-0.147**
	(0.167)	(0.0749)
R_DEMO_lag	0.0399**	0.0383***
	(0.0202)	(0.0132)
R_NEED_lag	0.00792	0.000597
	(0.00657)	(0.00312)
ln_R_POPU_lag	0.220	0.737***
	(0.762)	(0.0637)
R_UNSC_lag	-0.00497	-0.0143
	(0.140)	(0.136)
R_NATR_lag	0.00237	-0.000149
	(0.00665)	(0.00457)
Constant	16.09	8.023***
	(11.24)	(1.136)
Observations	349	349
R-squared	0.025	
Number of Country_Num	39	39

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

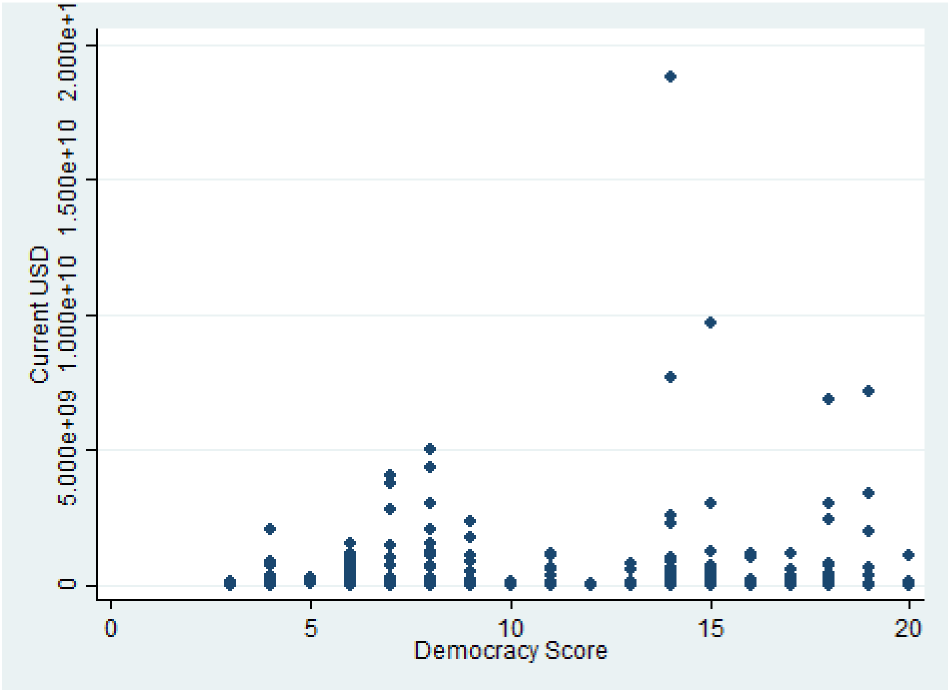
5.2. More Aid to Non-Democratic Countries?

The significant positive relationship between the democratic level of a recipient countries and OECD DAC aid leads to the analysis of the next hypothesis:

> ***Hypothesis 2:*** *The less democratic a recipient country the stronger the effect of Chinese aid on OECD DAC aid.*

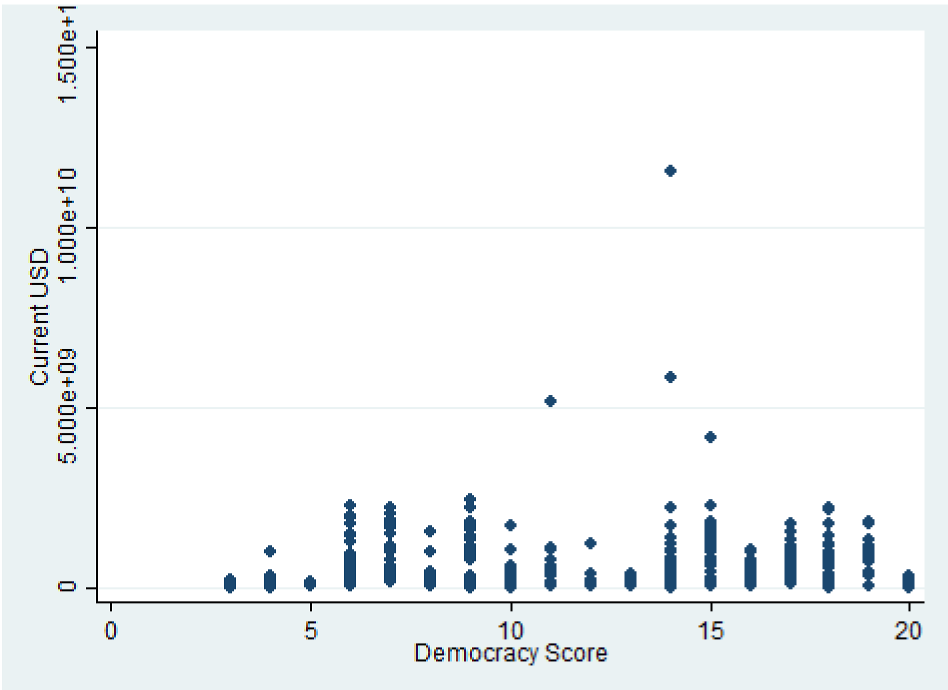
If we claim that China favours less to non-democratic countries, we would expect that most of Chinese foreign aid should be provided to countries which have low polity2 scores. First, a series of descriptive statistics will be discussed comparing the total aid commitments from OECD DAC donors and China to SSA countries regarding their governance level. Graph 5 and 6 show the distribution of Chinese and OECD DAC aid on democracy scores for the overall period of 2000 to 2014.

Graph 11: *Distribution of Chinese Aid on Democracy Scores between 2000 to 2014*



Source: Data from OECD-CRS and AidData database on Chinese Official Finance to Africa by Dreher et al. (2017)

Graph 12: *Distribution of OECD DAC Aid on Democracy Scores between 2000 to 2014*



Source: Data from OECD-CRS and AidData database on Chinese Official Finance to Africa by Dreher et al. (2017)

Graph 5 shows the distribution of Chinese aid on democracy scores. Following the critiques of Chinese foreign aid this graph should show a significant bias towards lower democracy score, but instead it indicates that Chinese foreign aid is distributed along all democracy levels. Chinese foreign aid allocation seems to be independent of the recipients' governance level and institutions. This is the same for OECD DAC donors, as shown in Graph 6. Both provide foreign aid to democracies and autocracies alike, which makes it doubtful that an African country's democracy level explains much about Chinese foreign aid allocation and its effect on the OECD DAC donors.

The regression models testing Hypothesis 2 again regress the log transformation of total OECD DAC aid commitments (ln_DAC_AID2) with the log transformation of total Chinese foreign aid (ln_Chinese_Aid_lag) and the control variables described in Section 4. But this time the relationship is dependent on the democracy score of recipient countries (R_DEMO_lag) ranging from 1 to 20. The FE- and RE-models for Hypothesis 2, do not find any significant relationship between Chinese foreign aid on OECD DAC aid dependent on the democratic level of recipient countries, either. Here, too, the Model 3 (FE) is insignificant with Prob > F = 0.002, while the Model 4 (RE) is significant with Prob > chi2 = 0.0000. The Hausman-test with Prob > chi2 = 0.0260 indicates that Model 4 is the better model to use for this analysis. Table 2 shows the coefficients of the FE and RE regressions for Hypothesis 2. Here, no variable expect for the population size of recipient countries proves to have a significant effect on OECD DAC aid allocation. In this case OECD DAC aid allocation to less and non-democratic countries seems to be independent from higher Chinese foreign aid to these countries, as well, meaning that Hypothesis 2 can be rejected, too. Further, there does not seem to be a significant relationship between OECD DAC aid allocation and the different democracy scores.

Table 5: *Regression Models testing Hypothesis 2*

VARIABLES	Model 3 (FE)	Model 4 (RE)
ln_Chinese_Aid_lag	-0.161	-0.116
	(0.117)	(0.131)
4.R_DEMO_lag	1.636	3.028
	(3.088)	(3.489)
5.R_DEMO_lag	-9.641	-11.29
	(12.88)	(13.41)

6.R_DEMO_lag	-1.801	-1.074
	(2.182)	(2.277)
7.R_DEMO_lag	-2.579	-0.453
	(2.350)	(2.439)
8.R_DEMO_lag	-1.388	1.198
	(2.653)	(2.587)
9.R_DEMO_lag	-1.428	-0.877
	(2.282)	(2.429)
10.R_DEMO_lag	0.573	0.994
	(2.550)	(2.690)
11.R_DEMO_lag	-3.419	-0.974
	(2.486)	(2.544)
12.R_DEMO_lag	-1.087	1.344
	(2.802)	(2.786)
13.R_DEMO_lag	-2.783	-3.008
	(3.377)	(3.266)
14.R_DEMO_lag	-0.522	-0.0785
	(2.270)	(2.347)
15.R_DEMO_lag	-1.948	-1.287
	(2.179)	(2.304)
16.R_DEMO_lag	-2.139	-2.238
	(2.180)	(2.297)
17.R_DEMO_lag	-2.029	-3.364
	(2.456)	(2.536)
18.R_DEMO_lag	-1.814	-0.652
	(2.217)	(2.282)
19.R_DEMO_lag	-0.886	-0.0158
	(2.633)	(2.812)
20o.R_DEMO_lag	-	
	(0.154)	(0.175)
ln_R_GDPPC_lag	-0.310*	0.0622
	(0.185)	(0.0555)
R_NEED_lag	0.00965	-0.00119
	(0.00703)	(0.00183)
ln_R_POPU_lag	0.438	0.883***
	(0.838)	(0.0407)
R_UNSC_lag	0.0520	0.0322
	(0.146)	(0.158)
R_NATR_lag	0.00392	0.000557
	(0.00676)	(0.00322)
20.R_DEMO_lag		-5.393*
		(2.935)
Constant	15.40	6.116***
	(12.41)	(2.250)
Observations	349	349
R-squared	0.193	
Number of Country_Num	39	39

5.3. A Shift to Economic Infrastructure?

As has been shown earlier in this thesis, since 2004 there has been a remarkable rise in OECD DAC foreign aid to the economic infrastructure sector and it is up to debate what caused this shift. I assume that this change was caused by the rise of Chinese foreign aid to SSA countries and that the OECD DAC started to spend more in economic infrastructure to remain present and competitive in countries which receive more Chinese aid. Therefore, the third hypothesis is:

> ***Hypothesis 3:*** *The more Chinese aid a country receives the more OECD DAC economic infrastructure aid it receives.*

The regression models testing Hypothesis 3 regress the log transformation of OECD DAC foreign aid to the economic infrastructure sector (ln_DAC_Aid_Infra) and the log transformation of total Chinese foreign aid (ln_Chinese_Aid_lag) and the control variables, which are lagged by three years. Table 3 shows the coefficients of both models.

Table 6: *Regression Models testing Hypothesis 3*

VARIABLES	Model 5 (FE)	Model 6 (RE)
ln_Chinese_Aid_lag	0.106**	0.123***
	(0.0493)	(0.0472)
ln_R_GDPPC_lag	-0.210	-0.0316
	(0.451)	(0.216)
R_DEMO_lag	0.139**	0.184***
	(0.0546)	(0.0381)
R_NEED_lag	0.0117	-0.00207
	(0.0177)	(0.00928)
ln_R_POPU_lag	2.197	1.101***
	(2.055)	(0.193)
R_UNSC_lag	0.325	0.218
	(0.379)	(0.369)
R_NATR_lag	0.0320*	0.00860
	(0.0179)	(0.0132)
Constant	-22.77	-6.025*
	(30.35)	(3.391)
Observations	348	348
Number of Country_Num	39	39

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Both, Model 5 (FE) and Model 6 (RE) are highly significant models for testing this hypothesis with Prob > F and Prob > chi2 = 0.0000. However, here the Hausman-test calculates Prob > chi2 = 0.3132 indicating that the RE-model is the better choice, again. In both models, Chinese foreign aid has a significant effect on the allocation of OECD DAC aid in the economic infrastructure sector and Hypothesis 3 can be accepted. Rising Chinese aid to SSA countries seems to explain the recent shift in OECD DAC aid allocation to the economic infrastructure sector. Additionally, the Model 6 (RE) finds a highly significant and positive relationship between OECD DAC aid in economic infrastructure and the democracy level and population size of recipient countries, indicating that traditional Western donors seem to consider democracy in recipient countries more when deciding on their aid allocation to the economic infrastructure sector.

6. Conclusion

Recently new donors are beginning to challenge the international aid architecture of traditional Western donors by providing huge amounts of foreign aid to SSA countries without political conditions attached, thereby undermining the bargaining power and influence of OECD DAC donors. Especially Chinas new role as an aid donor causes a lot of scepticism among researchers and donors alike. The growing presence of China in SSA and its new role as foreign aid donor have raised concerns that it will destabilize the international aid architecture and it is expected that "[…] Chinese aid will weaken democracy, governance and human rights, fail to promote development, weaken social and environmental standards and increase corruption […]" (Dreher & Fuchs, 2015, p. 995). Research suggests that Chinese foreign aid activities in SSA might undermine the "[…] hard-fought battles on human rights protection, good governance, environmental protection and debt sustainability" (Swedlund, 2017, p. 390) of traditional Western donors. Additionally, it is assumed that the recent rise in OECD DAC foreign aid commitments directed to the economic infrastructure sectors is caused by the increasing presence of China in SSA countries, who is proved to be active in this sector mainly.

This master thesis investigates whether OECD DAC donors changed their aid allocation policies and patterns in response to rising Chinese foreign aid activities in SSA countries. There are very huge differences between traditional Western donors and China regarding reporting norms and transparency, the effort to untie aid, conditionality on democracy and good governance in recipient countries, and the content of aid with a focus on different sectors.

Traditional Western donors who are members of the OECD DAC must report on their foreign aid activities annually and comply with the definitions of ODA and OOF. China, on the other hand, is not very transparent about its foreign aid and does not apply the same definitions of ODA and OOF. While OECD DAC donors try to untie their foreign aid, Chinese aid is widely known to be tied to exports and imports to and from recipient countries. Another major difference between both is the application of conditionality. OECD DAC donors attach conditions on their foreign aid in order to improve democracy and governance in recipient countries, with the aim to improve aid effectiveness, as well. Contrary to this practice, China emphasizes that it does not interfere in the domestic affairs of other countries. Because of the lack of transparency and the refusal to apply conditionality, Chinese aid is often accused of being ‘rouge aid’, which is directed to less- and non-democratic countries, mostly to secure the access to natural resources and other economic benefits for China (Naím, 2007). It is assumed that OECD DAC donors might feel challenged and compelled by China, to compete against these developments. Therefore, this master thesis first asks, whether the OECD DAC donors rise their foreign aid commitments to SSA countries which receive Chinese foreign aid and whether this effect is stronger, if the recipient countries have low democracy and governance levels. OECD DAC donors are known to focus on the social infrastructure mainly, yet since 2004, there has been a remarkable rise in OECD DAC aid directed to the economic infrastructure sector, and it is up to debate what caused this shift. Compared to that, China is known to invest mostly to the economic infrastructure sector. Therefore, this master thesis also tries to investigate, whether Chinese rising foreign aid activities in SSA caused this shift in OECD DAC foreign aid commitments.

By conducting a descriptive and statistical regression analysis on OECD DAC foreign aid commitments and Chinese foreign aid flows to 42 SSA countries between 2000 to 2014, this master thesis finds that contrary to current assumptions OECD DAC donors do not generally change their aid allocation policies and patterns as a response to rising Chinese aid activities in SSA. However, Chinese foreign aid seems to influence OECD DAC foreign aid commitments to the economic infrastructure sector.

So far, the literature investigating the relationship between foreign aid provided by traditional Western donors and aid by the Chinese government has been limited mostly due to the lack of accurate data on Chinese foreign aid. This study makes use of AidData's Global Chinese Official Finance Dataset in order to examine the response of OECD DAC donors to rising

Chinese foreign aid activities in SSA between 2000 to 2014. Even though this dataset is the most comprehensive one, at the time, its criticized for the method of data collection and the definitions of ODA and OOF used. The database relies on media reports which only indicate that Chinese projects were announced, however not whether they were carried out. Apart from that, the dataset classifies Chinese foreign aid flows as ‘ODA-like’ which most probably would not be classified as such. Accordingly, the accuracy of the results found in this master thesis are questionable. Further, the short period of analysis further delimits the validity of the results.

Nevertheless, I argue, that the claim that China is reshaping the development cooperation landscape, thereby undermining the power and influence of traditional Western donors is overstated. Even though China became an important political and economic partner of many African countries, it’s foreign aid is still small compared to foreign aid provided by traditional Western donors. Further, it may still lack enough experience and influence as an aid donor to actually pose a serious threat to traditional Western donors’ power and influence in recipient countries. Results from past studies find evidence of a positive relationship between Chinese foreign aid and economic growth in recipient countries. And some argue that Chinese foreign aid serves to enhance development in areas which are neglected by traditional Western donors. Therefore, I would suggest that OECD DAC countries should make use of these positive effects and cooperate with China as development partners, instead of fearing it. Thereby they could curb the potential negative effects of Chinese foreign aid activities on democracy and governance in recipient countries.

To end with I suggest that, since China and other new donors have been neglected in research about foreign aid, and more and better data about their foreign aid flows becomes available now, researcher should conduct the same studies as haven been conducted about traditional Western donors with regard to the purpose and effectiveness of aid, and possible interactions between those new and old donors.

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Appendix

Appendix 1: List of SSA Countries included in the Analysis

Nr.	Country Name (ISO)
1	Angola (AGO)
2	Benin (BEN)
3	Botswana (BWA)
4	Burundi (BDI)
5	Cameroon (CMR)
6	Cape Verde (CPV)
7	Central African Republic (CAR)
8	Comoros (COM)
9	Democratic Republic of the Congo (COD)
10	Republic of the Congo (COG)
11	Cote d´Ivoire (CIV)
12	Djibouti (DJI)
13	Equatorial Guinea (GNQ)
14	Eritrea (ERI)
15	Ethiopia (ETH)
16	Gabon (GAB)
17	Ghana (GHA)
18	Guinea (GIN)
19	Guinea-Bissau (GNB)
20	Kenya (KEN)
21	Liberia (LBR)
22	Madagascar (MDG)
23	Malawi (MWI)
24	Mali (MLI)
25	Mauritania (MRT)
26	Mauritius (MUS)
27	Mozambique (MOZ)
28	Namibia (NAM)
29	Niger (NER)

30	Nigeria (NGA)
31	Rwanda (RWA)
32	Senegal (SEN)
33	Seychelles (SYC)
34	Sierra Leona (SLE)
35	Somalia (SOM)
36	South Africa (ZAF)
37	Sudan (SDN)
38	Tanzania (TZA)
39	Togo (TGO)
40	Uganda (UGA)
41	Zambia (ZMB)
42	Zimbabwe (ZWE)

Appendix 2: Description of Variables

Variable	**Description**	**Source**
R_Country	**Recipient Country** Sub-Sahara African Country receiving bilateral aid from China and OECD DAC donor countries	
R_ISO	**Code for country names** defined by the International Organization for Standardization (ISO)	
Year	Time period between 2000 - 2014	
Chinese_Aid	**Chinese Aid, total (in current USD)** Chinese total bilateral aid to respective recipient country in current USD	AidData's Global Chinese Official Finance Dataset V1.0
DAC_Aid1	**OECD DAC Commitments, total (in current USD, Mio.)**	OECD Creditor Reporting System (CRS)

	Total bilateral aid commitments by OECD DAC donors, in current USD, Mio.	
DAC_Aid2	**OECD DAC Commitments, total (in current USD)** Total bilateral aid commitments by OECD DAC donors, in current USD	OECD Creditor Reporting System (CRS)
DAC_Aid_Infra	**OECD DAC Commitments in the Economic Infrastructure Sector (in current USD)**	OECD Creditor Reporting System (CRS)
R_GDPPC	**Recipient GDP per capita (in current USD)** Gross domestic product per capita of recipient country	World Development Indicators
R_DEMO	**Democracy in Recipient Country** Polity 2 measure (-10 Autocracy to 10 Democracy) of recipient country inverted into 1 Autocracy to 20 Democracy	Marshall, M., Gurr, T. & Jaggers, K. (2018). *Polity IV Project: Political Regime Characteristics and Transitions, 1800–2017.* Vienna, VA: Center for Systemic Peace.
R_NEED	**Recipient Need (Human Assets Index)** Measures the level human capital to capture recipient needs. The HAI is composite index, assumed to reflect the main structural handicaps faced by the respective country (0 to 100)	Feindouno, S. & Goujon, M. (2016). *Human Assets Index retrospective series*: *2016 update*, Ferdi Working Paper P179.
R_POPU	**Population size in recipient country** Total population is based on the de facto definition of population, which counts all residents regardless of legal	World Development Indicators

	status or citizenship. The values shown are midyear	
R_UNSC	**Recipients temporary membership in UNSC** Dummy variable set to one for recipients with membership in the UN Security Council	United Nations
R_NATR	**Recipients Natural Resources Rent (% of GDP)** Total natural resources rents are the sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents, and forest rents. Contribution of natural resources to gross domestic product of recipient country	World Development Indicators

Appendix 3: Regression Tables

Table 1: Regression results Hypothesis 1 (FE-Model)

ln_DAC_Aid2	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
ln_Chinese_Aid_lag	0.017	0.018	0.96	0.340	-0.018	0.053	
ln_R_GDPPC_lag	-0.190	0.167	-1.14	0.257	-0.519	0.139	
R_DEMO_lag	0.040	0.020	1.98	0.049	0.000	0.080	**
R_NEED_lag	0.008	0.007	1.21	0.229	-0.005	0.021	
ln_R_POPU_lag	0.220	0.762	0.29	0.773	-1.279	1.720	
R_UNSC_lag	-0.005	0.140	-0.04	0.972	-0.281	0.272	
R_NATR_lag	0.002	0.007	0.36	0.721	-0.011	0.015	
Constant	16.092	11.244	1.43	0.153	-6.033	38.218	

Mean dependent var	19.679	SD dependent var	1.260
R-squared	0.025	Number of obs	349.000
F-test	1.102	Prob > F	0.312
Akaike crit. (AIC)	564.374	Bayesian crit. (BIC)	595.215

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

Table 2: Regression results Hypothesis 1 (RE-Model)

ln_DAC_Aid2	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
ln_Chinese_Aid_lag	0.013	0.017	0.76	0.448	-0.021	0.047	
ln_R_GDPPC_lag	-0.147	0.075	-1.96	0.050	-0.294	0.000	*
R_DEMO_lag	0.038	0.013	2.90	0.004	0.012	0.064	***
R_NEED_lag	0.001	0.003	0.19	0.848	-0.006	0.007	
ln_R_POPU_lag	0.737	0.064	11.57	0.000	0.612	0.862	***
R_UNSC_lag	-0.014	0.136	-0.11	0.916	-0.280	0.251	
R_NATR_lag	0.000	0.005	-0.03	0.974	-0.009	0.009	
Constant	8.023	1.136	7.06	0.000	5.796	10.249	***

Mean dependent var	19.679	SD dependent var	1.260
Overall r-squared	0.686	Number of obs	349.000
Chi-square	184.719	Prob > chi2	0.000
R-squared within	0.019	R-squared between	0.845

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

Table 3: Regression results Hypothesis 2 (FE-Model)

ln_DAC_Aid2	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
ln_Chinese_Aid_lag	-0.161	0.117	-1.38	0.168	-0.391	0.068	
3b.R_DEMO_lag	0.000	.	.	.	.	.	
4.R_DEMO_lag	1.636	3.088	0.53	0.597	-4.444	7.716	
5.R_DEMO_lag	-9.641	12.875	-0.75	0.455	-34.989	15.708	
6.R_DEMO_lag	-1.801	2.182	-0.83	0.410	-6.096	2.494	
7.R_DEMO_lag	-2.579	2.350	-1.10	0.273	-7.207	2.048	
8.R_DEMO_lag	-1.388	2.653	-0.52	0.601	-6.611	3.835	
9.R_DEMO_lag	-1.428	2.282	-0.63	0.532	-5.921	3.064	
10.R_DEMO_lag	0.573	2.550	0.23	0.822	-4.448	5.594	
11.R_DEMO_lag	-3.419	2.486	-1.38	0.170	-8.314	1.475	
12.R_DEMO_lag	-1.087	2.802	-0.39	0.698	-6.604	4.430	
13.R_DEMO_lag	-2.783	3.377	-0.82	0.411	-9.431	3.865	
14.R_DEMO_lag	-0.522	2.270	-0.23	0.818	-4.990	3.947	
15.R_DEMO_lag	-1.948	2.179	-0.89	0.372	-6.238	2.342	
16.R_DEMO_lag	-2.139	2.180	-0.98	0.327	-6.431	2.153	
17.R_DEMO_lag	-2.029	2.456	-0.83	0.409	-6.864	2.806	
18.R_DEMO_lag	-1.814	2.217	-0.82	0.414	-6.179	2.550	
19.R_DEMO_lag	-0.886	2.633	-0.34	0.737	-6.070	4.297	
20o.R_DEMO_lag	0.000	.	.	.	.	.	
3b.R_DEMO_lag	0.000	.	.	.	.	.	
4.R_DEMO_lag	-0.031	0.174	-0.18	0.858	-0.373	0.311	
5.R_DEMO_lag	0.559	0.690	0.81	0.418	-0.799	1.918	
6.R_DEMO_lag	0.170	0.123	1.37	0.171	-0.073	0.412	
7.R_DEMO_lag	0.217	0.134	1.62	0.107	-0.047	0.481	
8.R_DEMO_lag	0.099	0.149	0.66	0.508	-0.195	0.392	
9.R_DEMO_lag	0.159	0.130	1.22	0.222	-0.097	0.414	
10.R_DEMO_lag	0.037	0.150	0.24	0.808	-0.259	0.333	
11.R_DEMO_lag	0.265	0.140	1.89	0.060	-0.011	0.541	*
12.R_DEMO_lag	0.109	0.162	0.67	0.502	-0.210	0.428	
13.R_DEMO_lag	0.245	0.201	1.22	0.226	-0.152	0.641	
14.R_DEMO_lag	0.070	0.130	0.54	0.592	-0.187	0.326	

15.R_DEMO_lag	0.198	0.124	1.59	0.112	-0.046	0.442	
16.R_DEMO_lag	0.207	0.124	1.67	0.096	-0.037	0.452	*
17.R_DEMO_lag	0.214	0.139	1.55	0.123	-0.058	0.487	
18.R_DEMO_lag	0.182	0.125	1.46	0.146	-0.063	0.428	
19.R_DEMO_lag	0.166	0.153	1.08	0.280	-0.136	0.468	
20.R_DEMO_lag	0.460	0.154	2.99	0.003	0.157	0.763	***
ln_R_GDPPC_lag	-0.310	0.185	-1.68	0.095	-0.675	0.054	*
R_NEED_lag	0.010	0.007	1.37	0.171	-0.004	0.023	
ln_R_POPU_lag	0.438	0.838	0.52	0.601	-1.212	2.089	
R_UNSC_lag	0.052	0.146	0.36	0.721	-0.235	0.339	
R_NATR_lag	0.004	0.007	0.58	0.563	-0.009	0.017	
Constant	15.402	12.413	1.24	0.216	-9.036	39.841	

Mean dependent var	19.679	SD dependent var	1.260
R-squared	0.193	Number of obs	349.000
F-test	1.664	Prob > F	0.002
Akaike crit. (AIC)	562.228	Bayesian crit. (BIC)	716.431

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

Table 4: Regression results Hypothesis 2 (RE-Model)

ln_DAC_Aid2	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
ln_Chinese_Aid_lag	-0.116	0.131	-0.89	0.374	-0.372	0.140	
3b.R_DEMO_lag	0.000	.	.	.	.	.	
4.R_DEMO_lag	3.028	3.489	0.87	0.385	-3.810	9.866	
5.R_DEMO_lag	-11.295	13.407	-0.84	0.400	-37.572	14.982	
6.R_DEMO_lag	-1.074	2.277	-0.47	0.637	-5.538	3.389	
7.R_DEMO_lag	-0.453	2.439	-0.19	0.853	-5.233	4.327	
8.R_DEMO_lag	1.198	2.587	0.46	0.643	-3.873	6.269	
9.R_DEMO_lag	-0.877	2.429	-0.36	0.718	-5.637	3.883	
10.R_DEMO_lag	0.994	2.690	0.37	0.712	-4.278	6.266	
11.R_DEMO_lag	-0.974	2.544	-0.38	0.702	-5.961	4.013	
12.R_DEMO_lag	1.344	2.786	0.48	0.629	-4.116	6.804	
13.R_DEMO_lag	-3.008	3.266	-0.92	0.357	-9.408	3.393	
14.R_DEMO_lag	-0.078	2.347	-0.03	0.973	-4.679	4.522	
15.R_DEMO_lag	-1.287	2.304	-0.56	0.577	-5.803	3.230	
16.R_DEMO_lag	-2.238	2.297	-0.97	0.330	-6.740	2.265	
17.R_DEMO_lag	-3.364	2.536	-1.33	0.185	-8.334	1.606	
18.R_DEMO_lag	-0.652	2.282	-0.29	0.775	-5.125	3.820	
19.R_DEMO_lag	-0.016	2.812	-0.01	0.996	-5.527	5.496	
20.R_DEMO_lag	-5.393	2.935	-1.84	0.066	-11.146	0.361	*
3b.R_DEMO_lag	0.000	.	.	.	.	.	
4.R_DEMO_lag	-0.116	0.194	-0.60	0.550	-0.496	0.264	
5.R_DEMO_lag	0.663	0.716	0.93	0.354	-0.740	2.065	
6.R_DEMO_lag	0.122	0.137	0.89	0.374	-0.147	0.390	
7.R_DEMO_lag	0.083	0.145	0.57	0.565	-0.201	0.368	
8.R_DEMO_lag	-0.050	0.150	-0.34	0.738	-0.345	0.244	
9.R_DEMO_lag	0.101	0.146	0.69	0.490	-0.185	0.387	
10.R_DEMO_lag	-0.011	0.165	-0.07	0.947	-0.333	0.312	
11.R_DEMO_lag	0.108	0.151	0.72	0.474	-0.188	0.404	
12.R_DEMO_lag	-0.012	0.175	-0.07	0.947	-0.355	0.332	
13.R_DEMO_lag	0.244	0.202	1.21	0.226	-0.151	0.639	
14.R_DEMO_lag	0.023	0.140	0.17	0.868	-0.252	0.298	
15.R_DEMO_lag	0.155	0.139	1.11	0.265	-0.118	0.427	
16.R_DEMO_lag	0.208	0.139	1.50	0.134	-0.064	0.481	
17.R_DEMO_lag	0.260	0.151	1.72	0.085	-0.036	0.557	*
18.R_DEMO_lag	0.111	0.137	0.81	0.420	-0.158	0.379	

19.R_DEMO_lag	0.031	0.167	0.19	0.851	-0.296	0.358	
20.R_DEMO_lag	0.397	0.175	2.27	0.023	0.054	0.741	**
	0.062	0.055	1.12	0.263	-0.047	0.171	
ln_R_GDPPC_lag							
R_NEED_lag	-0.001	0.002	-0.65	0.516	-0.005	0.002	
ln_R_POPU_lag	0.883	0.041	21.67	0.000	0.803	0.963	***
R_UNSC_lag	0.032	0.158	0.20	0.839	-0.278	0.342	
R_NATR_lag	0.001	0.003	0.17	0.863	-0.006	0.007	
Constant	6.116	2.250	2.72	0.007	1.706	10.527	***

Mean dependent var	19.679	SD dependent var	1.260
Overall r-squared	0.770	Number of obs	349.000
Chi-square	1030.552	Prob > chi2	0.000
R-squared within	0.108	R-squared between	0.928

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

Table 5: Regression results Hypothesis 3 (FE-Model)

ln_DAC_Aid_Infra	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
	0.106	0.049	2.16	0.032	0.009	0.203	**
ln_Chinese_Aid_lag							
	-0.210	0.451	-0.47	0.641	-1.097	0.677	
ln_R_GDPPC_lag							
R_DEMO_lag	0.139	0.055	2.54	0.012	0.031	0.246	**
R_NEED_lag	0.012	0.018	0.66	0.509	-0.023	0.047	
ln_R_POPU_lag	2.197	2.055	1.07	0.286	-1.848	6.241	
R_UNSC_lag	0.325	0.379	0.86	0.391	-0.420	1.071	
R_NATR_lag	0.032	0.018	1.78	0.075	-0.003	0.067	*
Constant	-22.773	30.350	-0.75	0.454	-82.497	36.952	

Mean dependent var	15.968	SD dependent var	2.619
R-squared	0.106	Number of obs	348.000
F-test	5.111	Prob > F	0.000
Akaike crit. (AIC)	1253.335	Bayesian crit. (BIC)	1284.152

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

Table 6: Regression results Hypothesis 3 (RE-Model)

ln_DAC_Aid_Infra	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
ln_Chinese_Aid_lag	0.123	0.047	2.62	0.009	0.031	0.216	***
ln_R_GDPPC_lag	-0.032	0.216	-0.15	0.883	-0.454	0.391	
R_DEMO_lag	0.184	0.038	4.82	0.000	0.109	0.258	***
R_NEED_lag	-0.002	0.009	-0.22	0.824	-0.020	0.016	
ln_R_POPU_lag	1.101	0.193	5.69	0.000	0.722	1.480	***
R_UNSC_lag	0.218	0.369	0.59	0.555	-0.506	0.942	
R_NATR_lag	0.009	0.013	0.65	0.513	-0.017	0.034	
Constant	-6.025	3.391	-1.78	0.076	-12.671	0.621	*

Mean dependent var	15.968	SD dependent var	2.619
Overall r-squared	0.403	Number of obs	348.000
Chi-square	79.928	Prob > chi2	0.000
R-squared within	0.095	R-squared between	0.583

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

Appendix 4: Do.file

```
/*
	Data Analysis
	Master Thesis: "The Rise of China and its Implications for Western Development
	Cooperation Policy"
				by Saadet Ertürk  */
```

// Graph 1: Overview of Aid Flows from OECD DAC Donors and China//

```
cd "C:\Users\saade\Desktop\Masterthesis\Datasets"
import excel "C:\Users\saade\Desktop\Masterthesis\Datasets\Dataset_SaadetErturk.xlsx",

sheet("Overview Aid Flows") firstrow clear

set more off

line DAC_Aid_Overview Chinese_Aid_Overview Year, legend(size(medium))

clear
```

// Testing of Hypothesis 1: The higher Chinese aid flows to SSA countries, the higher OECD DAC aid flows to these countries. //

```
cd "C:\Users\saade\Desktop\Masterthesis\Datasets"
import excel "C:\Users\saade\Desktop\Masterthesis\Datasets\Dataset_SaadetErturk.xlsx",
sheet("Main Dataset") firstrow clear

set more off

ssc install outreg2
ssc instal asdoc, replace
help asdoc
```

// Overview of main variables //

```
describe
display _N

sum Chinese_Aid DAC_Aid2
list Chinese_Aid DAC_Aid2
```

// giving numbers to countries //

```
sort Country_Num Year
tab Country_Num Year
isid Country_Num Year
xtset Country_Num Year
```

// generating log variables to get normal distributions//

```
hist DAC_Aid2
gen ln_DAC_Aid2=ln(DAC_Aid2)
hist ln_DAC_Aid2

hist DAC_Aid_Infra
gen ln_DAC_Aid_Infra=ln(DAC_Aid_Infra)
hist ln_DAC_Aid_Infra

hist Chinese_Aid
gen ln_Chinese_Aid=ln(Chinese_Aid)
hist ln_Chinese_Aid

hist R_GDPPC
gen ln_R_GDPPC=ln(R_GDPPC)
hist ln_R_GDPPC

hist R_DEMO

hist R_NEED

hist R_POPU
gen ln_R_POPU=ln(R_POPU)
hist ln_R_POPU

hist R_NATR
```

// generating lagged variables - 3 years //

```
gen ln_Chinese_Aid_lag=L3.ln_Chinese_Aid
gen ln_R_GDPPC_lag=L3.ln_R_GDPPC
gen R_DEMO_lag=L3.R_DEMO
gen R_NEED_lag=L3.R_NEED
gen ln_R_POPU_lag=L3.ln_R_POPU
gen R_UNSC_lag=L3.R_UNSC
gen R_NATR_lag=L3.R_NATR


xtreg ln_DAC_Aid2 ln_Chinese_Aid_lag ln_R_GDPPC_lag R_DEMO_lag R_NEED_lag
ln_R_POPU_lag R_UNSC_lag R_NATR_lag, fe
asdoc xtreg ln_DAC_Aid2 ln_Chinese_Aid_lag ln_R_GDPPC_lag R_DEMO_lag
R_NEED_lag ln_R_POPU_lag R_UNSC_lag R_NATR_lag, fe, title(Table 1: Regression
results Hypothesis 1 (FE.Model))save(Table_1.doc) append

estimate store Model1, title (Model1, FE)
outreg2 using reg.doc, replace ctitle(Model1(FE))

xtreg DAC_Aid2 ln_Chinese_Aid_lag ln_R_GDPPC_lag R_DEMO_lag R_NEED_lag
ln_R_POPU_lag R_UNSC_lag R_NATR_lag, re
```

```
asdoc xtreg ln_DAC_Aid2 ln_Chinese_Aid_lag ln_R_GDPPC_lag R_DEMO_lag
R_NEED_lag ln_R_POPU_lag R_UNSC_lag R_NATR_lag, re, title(Table 2: Regression
results Hypothesis 1 (RE-Model))save(Table_1.doc) append

estimate store Model2, title (Model2, RE)
outreg2 using reg.doc, append ctitle (Model2 (RE))

hausman Model1 Model2

help exp

gen potent = exp(0.0383)
```

// Testing of Hypothesis 2: The less democratic a recipient country the stronger the effect of Chinese aid on OECD DAC aid. //

// Overview of main variables //

```
tabulate R_DEMO, m
scatter Chinese_Aid R_DEMO
scatter DAC_Aid2 R_DEMO
scatter Chinese_Aid DAC_Aid2 R_DEMO


xtreg ln_DAC_Aid2 c.ln_Chinese_Aid_lag##i.R_DEMO_lag ln_R_GDPPC_lag
R_NEED_lag ln_R_POPU_lag R_UNSC_lag R_NATR_lag, fe
asdoc xtreg ln_DAC_Aid2 c.ln_Chinese_Aid_lag##i.R_DEMO_lag ln_R_GDPPC_lag
R_NEED_lag ln_R_POPU_lag R_UNSC_lag R_NATR_lag, fe, title(Table 3: Regression
results Hypothesis 2 (FE-Model))save(Table_1.doc) append

estimate store Model3, title (Model3, FE)
outreg2 using reg.doc, replace ctitle(Model3(FE))

xtreg ln_DAC_Aid2 c.ln_Chinese_Aid_lag##i.R_DEMO_lag ln_R_GDPPC_lag
R_NEED_lag ln_R_POPU_lag R_UNSC_lag R_NATR_lag, re
asdoc xtreg ln_DAC_Aid2 c.ln_Chinese_Aid_lag##i.R_DEMO_lag ln_R_GDPPC_lag
R_NEED_lag ln_R_POPU_lag R_UNSC_lag R_NATR_lag, re, title(Table 4: Regression
results Hypothesis 2 (RE-Model))save(Table_1.doc) append

estimate store Model4, title (Model4, RE)
outreg2 using reg.doc, append ctitle(Model4(RE))

hausman Model3 Model4
```

// Testing Hypothesis 3: The more Chinese aid a country receives the more OECD DAC economic infrastructure aid it receives. //

// Overview of main variables //

```
sum Chinese_Aid DAC_Aid2 DAC_Aid_Infra
list Chinese_Aid DAC_Aid2 DAC_Aid_Infra

scatter DAC_Aid_Infra Year

clear

cd "C:\Users\saade\Desktop\Masterthesis\Datasets"
import excel "C:\Users\saade\Desktop\Masterthesis\Datasets\Dataset_SaadetErturk.xlsx",
sheet("OECD DAC Aid Sectors (2)") firstrow clear

set more off

describe

gen Year_n = real(Year)

line SocialInfra EconomicInfra ProductionSector MultiSector Commodity ActionDebt
Humanitarian Year_n, legend(size(medium))
line SocialInfra EconomicInfra Year_n, legend(size(medium))
line EconomicInfra Year_n, legend(size(medium))


xtreg ln_DAC_Aid_Infra ln_Chinese_Aid_lag ln_R_GDPPC_lag R_DEMO_lag
R_NEED_lag ln_R_POPU_lag R_UNSC_lag R_NATR_lag, fe
asdoc xtreg ln_DAC_Aid_Infra ln_Chinese_Aid_lag ln_R_GDPPC_lag R_DEMO_lag
R_NEED_lag ln_R_POPU_lag R_UNSC_lag R_NATR_lag, fe, title(Table 5: Regression
results Hypothesis 3 (FE-Model))save(Table_1.doc) append

estimate store Model5, title (Model5, FE)
outreg2 using reg.doc, replace ctitle(Model5(FE))

xtreg ln_DAC_Aid_Infra ln_Chinese_Aid_lag ln_R_GDPPC_lag R_DEMO_lag
R_NEED_lag ln_R_POPU_lag R_UNSC_lag R_NATR_lag, re
asdoc xtreg ln_DAC_Aid_Infra ln_Chinese_Aid_lag ln_R_GDPPC_lag R_DEMO_lag
R_NEED_lag ln_R_POPU_lag R_UNSC_lag R_NATR_lag, re, title(Table 6: Regression
results Hypothesis 3 (RE-Model))save(Table_1.doc) append

estimate store Model6, title (Model6, RE)
outreg2 using reg.doc, append ctitle(Model6(RE))

hausman Model5 Model6
```