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World Bank Reactions to Chinese Aid in Africa:

A Story of Great Power Competition?

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Abstract:

This thesis investigates the relationship between World Bank reactions to Chinese aid through a Great Power Competition lens, while also considering the literature on the rise of China. This paper centers on the question: **Does the treatment a given African country receives from the World Bank change if it has been a recipient of Chinese aid?** The existing literature suggests that financial institutions like the IMF in many instances act as proxies the hegemon, thus in the current global governance order following U.S. foreign policy objectives. Development aid in Africa provides an avenue for power competition between the U.S. hegemon and rising power China; Consequently, the World Bank may, similarly to the IMF follow U.S. foreign policy objectives and act as a proxy for hegemonic power, responding to Chinese investment in Africa in some way. The research question is investigated through two primary analyses using OLS regressions: The relationship between Chinese aid and aid amounts and World Bank classification (determining the conditions of loans), and the relationship between Chinese aid amounts and debt cancellation under the HIPC Initiative. The findings show a weak positive relationship between Chinese aid and World Bank classifications, and a stronger negative relationship between Chinese aid amounts and debt cancellations under the HIPC Initiative. Specifically, the more aid a given African country receives in the previous year, the more likely they are to have a higher World Bank classification, which indicates worse loan conditions. Simultaneously, under the HIPC Initiative, the amount of aid received does not seem to have a relationship with the approval for partial debt cancellation, but it does have a stronger negative relationship with the approval for full debt cancellation. Thus, receiving more Chinese aid the previous year makes a given African country less likely to be approved for full debt cancellation the following year. This suggests that the World Bank does employ limited sanctions and at times, aims to positively entice lending countries back into its sphere of influence, and thus American influence. This study serves as a first cut, and indicates that further research is needed, however, the results suggest that the World Bank to some extent does follow American policy objectives and serve as a power proxy for the U.S., although perhaps less than the IMF (as per Thacker, 1999).

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Introduction

With Chinese development aid growing, Western financial institutions have been challenged as sole lenders to developing countries. Despite claims by politicians and media, Chinese aid in developing countries is not a new phenomenon; in 1978, China began transforming her command economy, including a focus on cooperation with other developing countries. During its initial pushes into Africa, China was extremely aware of the delicacy of the term "aid," instead emphasizing economic cooperation. This reflected Chinese ambitions: Foreign aid was to also benefit China's development, allowing it to earn foreign exchange and move into new markets.[1] Over time, Chinese aid consistently increased, as did the involvement of the projects.[2] [3] The introduction of the slogan "*Being responsible to the end"* and then "helping them [African countries] to build self-reliance"[4] reflected the challenges of Chinese aid in Africa. Before "Being responsible to the end," China had a strict policy of non-interference with a country's internal affairs, also dubbed the "sovereignty trap." This meant China could not manage a project once it was completed, and many projects collapsed. Consequently, the Chinese government introduced a policy of "helping them [African countries] to build self-reliance."[5] Chinese projects became required to offer long-term partnerships to recipient aid countries.[6] This was a controversial decision, met with resistance by some African leaders who considered it an infringement on sovereignty, and vehemently critiqued by Western leaders and

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[1] Deborah Brautigam, *The Dragon's Gift: The Real Story of China in Africa.* Oxford ; New York: Oxford University Press, 2009: 51-52.

[2] Between 1986 and 1995 China consistently increased aid, solidifying the relationship and targeting weak reciprocity (Brautigam, *The Dragon's Gift,* 53-54.)

[3] Previous to 1995, China primarily made use of grants and zero-interest loans for its official developmental aid. After 1995, concessional loans were added as a tool of aid. (Deborah Brautigam, "Chinese Development Aid in Africa: What, Where, Why, and How Much?" In *Rising China: Global Challenges and Opportunities*, edited by Jane Golley and Ligang Song, 2011:203–22. ANU Press, 2011, http://www.jstor.org/stable/j.ctt24hbk1.20.)

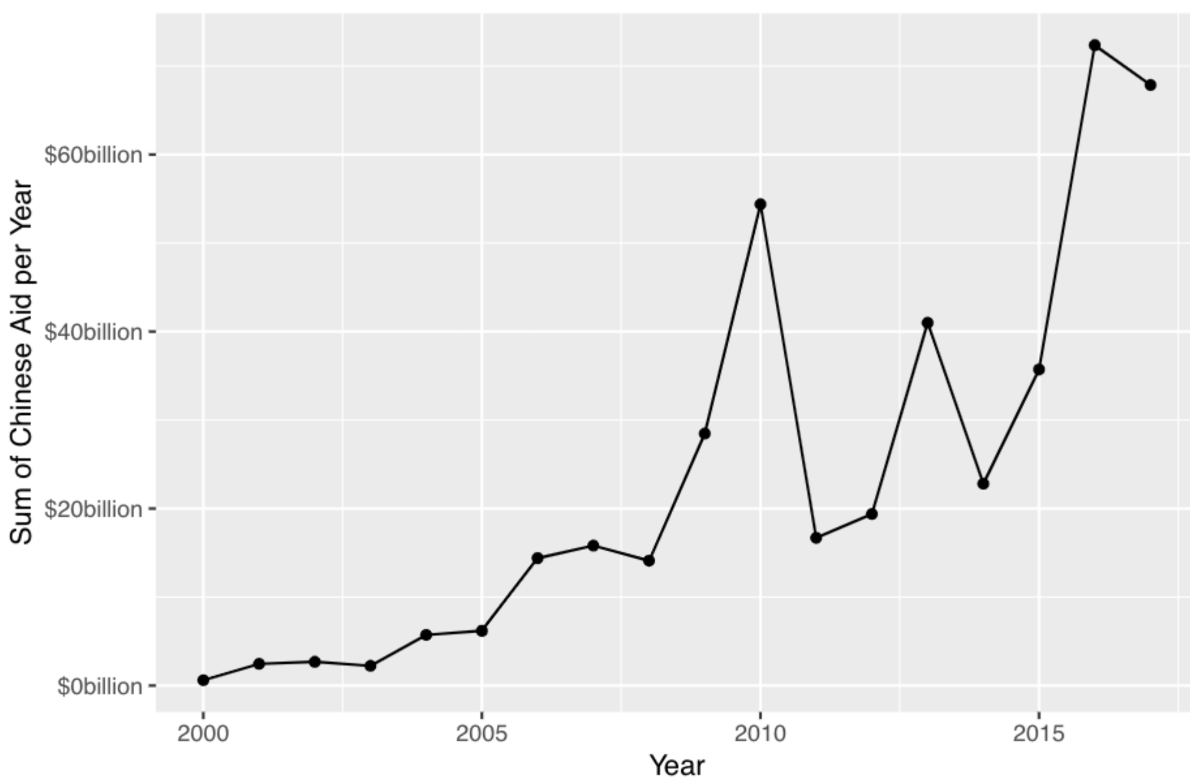
[4] Brautigam, *The Dragon's Gift,* 57.

[5] Ibid.

[6] Ibid., 56-58.

media. China's increased involvement rang alarm bells for the West, which, threatened in its hegemonic status, became increasingly aware of China's intentions for prolonged engagement in Africa, thus staging the battlegrounds for a new avenue Great Power Competition between China and the United States: Development aid in Africa.

Figure 1: Total Chinese Aid in Africa (2000-2017)



The Brookings Institute summarizes the tension of the media's stance toward Chinese aid: "China's Aid to Africa: Monster or Messiah?"[7] Similarly, the Chr. Michelson Institute writes "Chinese aid – a blessing for Africa and a challenge to western donors."[8] These articles

[7] Yun Sun, "China's Aid to Africa: Monster or Messiah?" Brookings (Brookings, February 7, 2014), https://www.brookings.edu/opinions/chinas-aid-to-africa-monster-or-messiah/.

[8] Jon Lomøy, "Chinese Aid – a Blessing for Africa and a Challenge to Western Donors," CMI (Chr. Michelson Institute, 2021), https://www.cmi.no/publications/7750-chinese-aid-a-blessing-for-africa-and-a-challenge-to-western-donors.

can serve as foils for the tension found in the academic and political discourse surrounding Chinese aid in Africa; Elusive, potentially dangerous, yet essential for African development. Hanauer and Morris (2014) characterize Chinese aid as ethically ambiguous. Chinese aid is at times morally questionable, shown by its willingness to invest in mining, oil and gas ventures, and sales of weapons and military material to Sudan and Zimbabwe.[9] Further, Chinese aid has increased Africa's dependence raw materials [10] and unskilled labor and has contributed to the loss of manufacturing jobs displaced by cheaper Chinese imports. However, as per Alden, China is not actively supporting anti-Western non-democratic regimes but maintaining relations with such states to further economic opportunities.[11] While Chinese aid has "contributed to high levels of debt, economically unviable decisions, and official corruption,"[12] it has had a positive impact on job creation, infrastructure and economic growth, staff education, and training.[13] While the West has long claimed the role of the virtuecrat, Chinese and Western aid are not so different. Despite the rhetoric in Western media and politics, China is not alone in providing funding to democratically questionable regimes; So does the U.S.. The United States has provided questionable Foreign Military Financing (FMF)[14] and is a member of the Trans-Sahara Counterterrorism Partnership (TSCP), which includes four countries ranked as "not free" by Freedom House.[15] [16] The United States also participates in economic partnerships with non-

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[9] Larry Hanauer, and Lyle J. Morris, "The Impact of Chinese Engagement on African Countries," In *Chinese Engagement in Africa: Drivers, Reactions, and Implications for U.S. Policy*, 46, RAND Corporation, 2014. http://www.jstor.org/stable/10.7249/j.ctt6wq7ss.11.
[10] China allowed countries to repay aid projects with trade; For example, Angola used oil; Senegal peanut oil; and Ghana cocoa to repay their loans to China. (Brautigam, *The Dragon's Gift*, 54-56.) This reflects the Chinese aid model of development finance used for development and repaid with resources.
[11] Hanauer and Morris, "The Impact of Chinese Engagement on African Countries," 47.
[12] Ibid.
[13] Ibid.
[14] The U.S. provided FMF to Chad, the Democratic Republic of the Congo, and Guinea.
[15] Chad, Mali, Mauritania, and Algeria.
[16] Hanauer and Morris, "The Impact of Chinese Engagement on African Countries," 47.

democratic regimes.[17] [18] This undermines the Western moral high ground and leads to the underlying theoretical argument of this thesis: Aid provides an avenue of power competition between the United States and China, with financial institutions serving as proxies for power for the current hegemon (the U.S.). This makes the investigation this thesis undertakes highly relevant to the modern Great Power politics literature in examining how Great Power competition looks now. Financial institutions like the IMF as per Thacker (1999) have been used as avenues for hegemonic power historically, suggesting that the World Bank too could be a financial institution used as a proxy for power. If it is, the current hegemon would likely react in some way to a challenge from a rising power, and one such arena for Great Power Competition could be through aid and financial institutions, thus leading to the research question: **Does the treatment a given African country receives from the World Bank change if it has been a recipient of Chinese aid?**

This thesis expands upon previous empirical analysis of international financial institutions as tools of power for Great Power Competition, and the rise of China literatures. This builds on the theoretical foundations of Schweller and Pu (2011), and Wang (2017) and their contributions to the unchartered territory of the rise of China in the absence of a major war, as well as Thacker's (1999) article on the politics of IMF, and Breen's book "Hypocrisy Trap" on the challenges in financial institutions like the IMF. Past research indicates that international financial institutions like the IMF serve as proxies for the current hegemon, and therefore U.S. power.[19] Thus, this thesis contends that the World Bank, like the IMF, would also serve as a

[17] U.S. corporations are one of Equatorial Guinea's largest investors in oil and gas, and massive funding and aid in Angola and Nigeria despite their corruption and democratically "grey" regime due to potential large future revenues from natural resources.
[18] Hanauer and Morris, "The Impact of Chinese Engagement on African Countries," 47.
[19] Strom C. Thacker, "The High Politics of IMF Lending," *WORLD POLITICS,* 1999.

proxy for U.S. power, particularly in the ongoing power competition between the current hegemon, the U.S. and rising power China. Therefore, World Bank reactions to Chinese aid are likely to reflect the competition between the United States and China for global dominance. To maintain hegemony over development aid, the U.S. may therefore make use of the World Bank as a proxy to either sanction countries that stray and seek Chinese aid, or it may attempt to positively entice countries to continue lending from the IMF, or it may do both in different situations.

This thesis conducts an empirical analysis of the data on Chinese aid in Africa using AidData's Global Chinese Development Finance Dataset, [20] Version 2.0 data set, from AidData's Research Lab at William & Mary.[21] The data set captures 13,427 development projects worth $843 billion which are financed by over 300 Chinese government institutions and state-owned entitles. Although the data set spans 165 countries across the world, this thesis uses data from 46 African countries. The data spans from 2000 to 2017. Finally, I have compiled a data set myself on the Heavily Indebted Poor Countries (HIPC) Initiative, with data collected from the World Bank's reports official report documents for each country's decision and completion point under the HIPC Initiative. The OLS regressions conducted reveal a first cut into World Bank reactions to Chinese aid in Africa, examining the research question. The results show weak positive results regarding the treatment effects from the World Bank toward countries receiving Chinese aid through the proxy of classification; It shows a weak positive relationship between classification and World Bank classification. This means the more Chinese

[20] S. Custer, A. Dreher, T.B. Elston, A. Fuchs, S. Ghose, J. Lin, A. Malik, B.C. Parks, B. Russell, K. Solomon, A. Strange, M.J. Tierney, K.Walsh, L. Zaleski and S. Zhang, *Tracking Chinese Development Finance: An Application of AidData's TUFF 2.0 Methodology*, Williamsburg, VA: AidData at William & Mary (2021).
[21] AidData employs the 2.0 version of William & Mary's Tracking Underreported Financial Flows (TUFF) methodology to systematically collect and quality-assure all projects.

aid a country received the previous year, the higher its World Bank classification was, meaning it received less favourable loan conditions. There is a clear negative indicator for a relationship between the aid amounts received and approval for full debt relief; Receiving more aid reduces the likelihood of approval for full debt relief the following year (completion point), but not for approval for partial debt relief (decision point). This suggests that while the decision-making process is not entirely politicized, there may be some limited sanctions from the World Bank toward African countries receiving Chinese, or alternatively, information signaling of Chinese aid may be at play. However, this requires further research given the weak relationship in the classification results, the lack of transparency in the data available on Chinese aid, and because the outcome variables selected provide an indirect proxy for World Bank reactions and the influence of Great Power politics. Further research with different data (i.e., a more conservative approach using BRI data), expanding the data to include countries outside of Africa, and using different outcome variables as a proxy for World Bank reactions could improve the robustness of findings.

The research question of this thesis engages with the Great Power politics literature and the rise of China literature. The rise of China literature establishes the ways that China can rise in a U.S. dominated world, as discussed by Wang (2017) and Schweller and Pu (2011), and such mechanisms are examined through international institutions in this thesis. Additionally, this thesis addresses the Great Power Competition literature, as popularized in the post-Cold War discourse. Solana (2016) asserts that despite the existing multilateralism in global governance, Great Power Competition remains relevant with a defiant Russia and more importantly, a rising China.[22] Freedman (2020) and Vuving (2020) outline modern Great Power Competition and the

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[22] Javier Solana, "Reconciling Great Power Competition with Multilateralism," *Horizons: Journal of International Relations and Sustainable Development*, no. 7 (2016): 58–65. https://www.jstor.org/stable/48573663.

mechanisms between an established hegemon and rising powers in the absence of major war due to nuclear deterrence, thus addressing the modern context of power politics in which this empirical analysis is set.

The introduction of this thesis has laid out the research question of this paper: **Does the treatment a given African country receives from the World Bank change if it has been a recipient of Chinese aid?** as well as a proposed theory of Great Power competition, building on the previous literature and evidence of corruption from the IMF. These sections were combined given that this thesis applies the existing theory to a new empirical question and examines the relevance of the theory regarding another financial institution. The data and methods section elaborates on the ways this thesis examines the research question and hypotheses, as well as considerations on the data itself, potential inaccuracies, and potential for meddling. The analysis and results section that follows contains data visualizations to clarify the data itself and two regression tables summarizing key findings for the relationship between the presence and amount of Chinese aid and World Bank classifications, and the relationship of Chinese aid amounts and debt cancellations under the HIPC initiative. Finally, the conclusions and implications section discuss the implications of the results, and a range of implications for consideration, including a potential alternative explanation for the findings.

Theory & The Contributions and Limitations of Existing Approaches

Theory: Great Power Politics

The theoretical basis of this paper rests on Great Power Politics. When examining the power politics in the World Bank, this thesis contends World Bank reactions to Chinese aid mirror the “Great Power Competition” established in the literature. Great Power competition refers to the dominant powers in the global system engaging in a push- and pull for domination of the world order. Particularly China and the U.S., and sometimes Russia have been characterized as modern Great Powers, competing for influence in the international system.[23] A Great Power is qualified by four factors: substantial military strength that reaches across distance; interests beyond their immediate locale, which are deemed important enough to be defended (potentially by force); and an economy that is large enough to generate and sustain interests and force.[24] As China has gained power economically, politically, and militarily, the United States has been challenged in its unipolar hegemony, with China emerging as a rising Great Power.

Meanwhile, the U.S. has grown nervous, looking for challengers to the status quo of the system favorable to the old hegemon. Freedman (2020) argues that despite the popularly excluded possibility for a major war due to nuclear deterrence, Great Power Competition persists in alternative modes, with Great Power Competition conflicts instead having shifted to "means short of war," including economic sanctions, information campaigns, and cyber war, and, as this thesis argues, financial institutions and development aid.[25] During the Cold War, states involved allocated aid according to the military importance of recipients. [26] Thus, it seems consequential that in the modern Great Power Competition, the U.S. and China would also use aid as an avenue of power competition and challenges, allocating aid according to new strategic needs given the lesser importance of military needs in the modern struggle (Nuclear deterrence has decreased the

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[23] Alexander L. Vuving, ed., GREAT POWER COMPETITION: LESSONS FROM THE PAST, IMPLICATIONS 6 FOR THE FUTURE," HINDSIGHT, INSIGHT, FORESIGHT: Thinking About Security in the Indo-Pacific. Daniel K. Inouye Asia-Pacific Center for Security Studies (2020): 18. http://www.jstor.org/stable/resrep26667.7.
[24] Lawrence Freedman, "Who Wants to Be A Great Power?" PRISM 8, no. 4 (2020): 4. https://www.jstor.org/stable/26918230.
[25] Freedman, "Who Wants to be a Great Power?" 6.
[26] Christina L. Davis and Tyler Pratt, "The Forces of Attraction: How Security Interests Shape Membership in Economic Institutions," *The Review of International Organizations* 16, no. 4 (October 2021): 903–29, https://doi.org/10.1007/s11558-020-09395-w.

likelihood for a military conflict, but has not rendered militaries obsolete by any means). Meernik et al. (1998) argue that different strategic needs shape development policies today, showing a transition from security-driven goals to more ideological goals of the state-centered model.[27] This aligns with the foreign policy objectives of the hegemon of a more multilateral system, pursued by the hegemon to maintain the status quo. It also fits in well with the institutional goals and the narrative propagated by multilateral institutions. Thus, it seems consequential that changing U.S. foreign policy objectives are reflected in the aid allocation pursued by the international institutions the old hegemon founded and holds power in.

Control over the financial system and lending means power, and the ability to control other states' individual actions. In the past this has served as a tool in ensuring individual states' alignment with U.S. foreign policy objectives, as for example in the case of the IMF's loan to Pakistan, approved on September 26th, 2001, for its final $135 million. Some argued the loan approval was part of the economic rewards the U.S. had promised Pakistan in return for logistical and practical support during the American war against the Taliban.[28] Although this was publicly denied, IMF staffers stated that before September 11th, the chances for board approval were 50-50. [29] [30] Additionally, contradictory to American officials' statement, there was no vote on the loan's approval.[31] Regardless, the U.S. was at least attempting to create an illusion of influence to generate power from the IMF. Further, Momani acknowledges that historically, the

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[27] James Meernik, Eric L. Krueger, and Steven C. Poe, "Testing Models of U.S. Foreign Policy: Foreign Aid during and after the Cold War," *The Journal of Politics* 60, no. 1 (1998): 63–85, https://doi.org/10.2307/2648001.
[28] Bessma Momani, The IMF, the U.S. War on Terrorism, and Pakistan." *Asian Affairs: An American Review* 31, no. 1 (April 2004): 43. https://doi.org/10.3200/AAFS.31.1.41-51.
[29] Momani, The IMF, the U.S. War on Terrorism, and Pakistan," 46-47.
[30] Paul Blustein, "A Tighter Hand in Doling Out Global Aid?" Washington Post, 30 September 2001, H01.
[31] Momani, The IMF, the U.S. War on Terrorism, and Pakistan," 48.

IMF has been politicized to achieve U.S. foreign policy objectives.[32] Thus, financial institutions like the IMF, and likely also the World Bank have been historically used as proxies of power by the United States.

Now, as China is competing with the United States in many sectors, financial institutions act as another avenue of great power competition. Specifically, as per Wang (2017), and Schweller and Pu (2011), multilateral financial institutions provide an avenue of power competition within the structures set by the hegemon. Schweller and Pu align with realist notions of a shift from unipolarity (meaning U.S. hegemony) to multipolarity as China rises. The authors diverge from other realist literature, posing that rising power China can choose from three options in its new role in the global order: China may choose to be 1) a supporter, maintaining the current global order, a 2) spoiler, seeking to destroy the existing order and replacing it, or 3) a shirker, wanting the privileges of power but unwilling to pay for the privileges by contributing to global governance. Given China's current political movement, and the added element of the possibility of nuclear war, it appears that an all-out hegemonic war à la Gilpin is unlikely.[33] The authors instead propose China will follow the initial stages of realist theory for the transition from uni- to multi-polarity, attempting to undermine the existing hegemon's legitimacy. Economic competition and growth provide an avenue for legitimacy for China as a rising power. To challenge U.S. hegemony, China currently pragmatically accommodates U.S. hegemony, playing by the hegemon's rules, while simultaneously contesting its legitimacy within these bounds.[34] Trade and multilateral financial institutions provide one such battlefield for power for China within the rules of the U.S. hegemon. Meanwhile, Wang (2017) asserts that China is no

[32] Ibid., 41.
[33] Randall L. Schweller, and Xiaoyu Pu, "After Unipolarity: China's Visions of International Order in an Era of U.S. Decline," *International Security* 36, no. 1 (2011): 44-45. http://www.jstor.org/stable/41289688.
[34] Schweller and Pu, "After Unipolarity: China's Visions of International Order in an Era of U.S. Decline," 52.

longer a rule-taker, but instead between a rule-breaker and a rule-maker, adding incremental reforms to international institutions and creating its own institutions. This does not entirely diverge from Schweller and Pu's argument. Jointly, this paints the picture of a rising power that is carefully contesting the legitimacy of the hegemon within the existing framework, pushing for incremental reforms, and simultaneously establishing alternative institutions such as the Asian Infrastructure Investment Bank (AIIB).[35]

Chinese lending to developing countries challenges the World Bank as the sole lender; and if the World Bank is influenced by the United States, similar to the IMF as illustrated by Thacker (1999), challenging the World Bank indirectly challenges the U.S.. Thus, it is consequential that the U.S., and given the precedent of international financial institutions being used as proxies for U.S. policy objectives, the World Bank, will have some kind of response to increased Chinese aid, attempting to maintain its status as a Great Power and avoiding giving up power to China. Thus, the Great Power Competition literature leads to two consequential hypotheses for the reactions to Chinese aid from the World Bank:[36]

Hypothesis 1: The World Bank sanctions developing countries taking Chinese aid.

Hypothesis 2: the World Bank attempts to positively entice developing countries taking Chinese aid, hoping to re-orient them back to the World Bank for lending, and thus back into the sphere of American influence.

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[35] ZHAOHUI WANG, "The Economic Rise of China: Rule-Taker, Rule-Maker, or Rule-Breaker?" *Asian Survey* 57, no. 4 (2017): 612. https://www.jstor.org/stable/26367769.

[36] The outcomes are likely to be a combination of these two hypotheses with the World Bank sanctioning at times and attempting to entice at others, they are not necessarily exclusive.

Existing Approaches: The IMF As a U.S. Proxy

The literature sets precedent for actors like the United States using world financial institutions to channel influence. A broad established literature scrutinizes the International Monetary Fund (IMF) as a proxy for American power politics. Thacker wrote perhaps the most significant piece for the basis of this thesis' argument. In "The High Politics of IMF Lending," he examines the extent to which multilateral institutions modify or constrain the behavior of their member states, and more specifically whether more powerful states can use these organizations as effective instruments of national foreign policy. Although the IMF's decision-making procedures prohibit political considerations, instead stating that loans are made strictly based on the "Financial Programming" model and a "Doctrine of Economic Neutrality" thus neutral to domestic and international politics and regimes. Instead, Thacker reveals inconsistencies between these regulations and reality, as well as posing that while the Fund's staff publicly remains dedicated to economic neutrality, case studies suggest political leeway. [37]As Thacker argues in "The High Politics of IMF Lending," there are three reasons to suspect that politics guide IMF action: extremely low rates of borrower compliance with IMF conditionality, and the IMF continuing to lend to these borrowers; the IMF's country representatives on the executive board are appointed by their home government, so consequentially, these representatives reflect the political interests of their home governments; finally, the weighted voting and decision-making procedures leave room for politics.[38]

Thacker proposes a macroeconomic model to characterize the economic determinants underlying the IMF's activity. For this, he poses, the balance of payments should be the first

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[37] Thacker, "The High Politics of IMF Lending", 40.
[38] Thacker, The High Politics of IMF Lending," 41-42.

indicator: without a payment deficit, a country should neither need nor be eligible for Fund lending.[39] The second factor Thacker proposes is a country's debt position in affecting supply and demand for an IMF loan. Third, the level of per capita income may determine a country's ability to secure an IMF loan, with poorer countries receiving more favorable loan conditions, and participating in IMF loans more since they are less likely to borrow on private capital markets. The fourth factor is the credit history; a poor credit history should decrease a country's chances of receiving a loan. Finally, the trade and investment exposure of firms based in the U.S. (the Fund's major shareholder) are also considered "low politics" influences as per neo-Marxist and modern political economy interpretations of patterns.[40] Through this model and the empirical evidence he provides, Thacker establishes the literary precedent this thesis builds on, particularly with the final element of the model. This thesis aims to expand Thacker's claim that the U.S. in many ways uses the IMF as a proxy for power. Instead, it also uses other global financial institutions such as the World Bank as a proxy for power, particularly in a great power competition with rising power China.

Michael Breen echoes this, stating that there is a consensus that IMF policies are not purely technocratic, and instead there are two drivers: external and internal drivers of policy change. External drivers refer to "states and private actors in the world economy. The second approach stresses the internal drivers of policy change, specifically the Fund's bureaucracy."[41] Additionally, at least a third of countries studied in a study by Killick and Bird secured favorable loan terms on their IMF programs thanks to "the intervention of major shareholding countries on

[39] Thacker, "The High Politics of IMF Lending," 44.
[40] Ibid., 44-46.
[41] Michael Breen, *The Politics of IMF Lending*. Basingstoke: Palgrave Macmillan (2013): 13.

their behalf."[42] The U.S. has repeatedly influenced the IMF to grant loans to politically friendly countries and deny them to economically worthy political enemies of the United States.[43]

Existing Approaches: Structural Factors of the IMF and the World Bank

Neither the IMF nor the World Bank operate equally. Different members receive different conditions, with some being able to influence who receives loans and to what conditions. Additionally, the weighted voting and decision-making procedures of the IMF heavily favor some actors over others, with the U.S. for example, having the largest vote weight in the IMF at 17.83% as of April 1995.[44] This number has reduced to 16.5% since (last updated April 2022) however, this still maintains voting power in favour of the U.S. [45] Since an 85% majority is required for most Fund decisions, this effectively gives the U.S. veto power.[46] Bank of Japan Governor Toshihiko Fukui argued that the distribution of IMF quotas currently represents "another form of unsustainable global imbalance."[47]

Another example is provided by Dreher et al. (2015), who argue that politically important countries are more likely to receive IMF loans, and perhaps more significantly, members of the United Nations Security Council (to date) have received loans with 30% lighter conditionality.[48] This suggests that the second conception also applies, with intersubjectively organized equality as member states under the institution have different standing and influence on the decisions the

[42] Tony Killick, *IMF Programs in Developing Countries: Design and Impact* (London: Routledge, 1995): 118-19.
[43] Thacker, The High Politics of IMF Lending," 46.
[44] Ibid., 41.
[45] "IMF Members' Quotas and Voting Power, and IMF Board of Governors," IMF, accessed April 3, 2022, https://www.imf.org/en/About/executive-board/members-quotas.
[46] Thacker, "The High Politics of IMF Lending," 41.
[47] "Statement by the Honorable Toshihiko Fukui Governor of the Bank of Japan and Alternate Governor of the IMF for Japan at Twelfth Meeting of the International Monetary and Financial Committee Washington, D.C.," September 24, 2005.
[48] Axel Dreher, Jan-Egbert Sturm, and James Raymond Vreeland, Politics and IMF Conditionality," *Journal of Conflict Resolution* 59, no. 1 (February 2015): 141. https://doi.org/10.1177/0022002713499723.

institution makes. Similarly, the United States was a leading force in the establishment of the International Bank for Reconstruction and Development in 1944. It is still the largest shareholder today, which includes veto power on certain structural changes in the World Bank's organization.[49] Furthermore, to become a World Bank member, a country must be a member of the IMF first.[50]

Weaver (1971) describes hypocrisy as an endemic, natural, enduring and even necessary feature of the World Bank.[51] Weaver counters constructivist scholars arguing for international organizations as autonomous and regulatory bodies of global governance, instead posing them as hypocritical, but not necessarily in a negative sense- instead, she presents the case that some degree of hypocrisy is necessary and predictable for organizational survival. Weaver poses organizational sociology, as per Brunsson (1989, 2003), and Olson (1993) to explain the mechanisms of hypocrisy within the World Bank, particularly the dissonance between institutional pressures and bureaucratic goals, and the underlying assumption that an organization must appear responsive to environmental demands to survive.[52]

Lipscy (2017) also outlines a bias within the staff of international organizations across the board; in fact, employment of officials has tended to favour nationals from the victors of World War II at the expense of its losers. Among the G7, the former Allied powers of World War II have on average double the prominent officers per country compared to Axis powers. Of the officials from Axis powers, the majority are educated at American institutions, which is likely to influence their own ideologies and norms. This bias also holds for developing countries

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[49] Overview." World Bank. Accessed February 11, 2022. https://www.worldbank.org/en/country/unitedstates/overview#1.
[50] Organization." World Bank. Accessed February 11, 2022. https://www.worldbank.org/en/about leadership.
[51] Catherine Weaver, *Hypocrisy Trap* (Princeton, New Jersey: Princeton University Press, 2008), 3.
[52] Weaver, *Hypocrisy Trap*, 4-5.

and rising powers such as Korea, India, and China.[53] This likely creates a high degree of path dependence and persistence of initial conditions (reflecting those at the time of institutional founding) that reinforces a U.S.-centric global governance order through institutional staffing, reminiscent of that of U.S. hegemony following World War II.

The World Bank's structure is not entirely unlike the IMF's. It is a cooperative, made up of 189 member countries which are represented by a Board of Governors which ultimately are the policymakers. Governors are typically member countries ministers of finance or development and meet once a year at the annual meeting of the Board of Governors at the World Bank Group and the International Monetary Fund. The governors delegate specific duties to 25 Executive Directors, with the five largest shareholder countries appointing an executive director, and other member countries are represented by elected executive directors.[54] Votes for the decision-making process within the World Bank are allocated by organization, including the International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), the International Finance Cooperation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). As of March 28th, 2022, for the IBRD, the United States holds 15.51% of the votes; for the IFC, the U.S. holds 19.05% of votes; for the IDA 9.8% and for MIGA 49.98% of total votes.[55] This means the United States holds the biggest amount of votes of any shareholder in every sub-organization of the World Bank Group. However, Lipscy (2017) argues the voting rights and informal influence within the World Bank much more closely mirror the economic distribution, and financial contributions made by member states than the IMF.[56] Nevertheless,

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[53] Lipscy, 2017, *Renegotiating the World Order: Institutional Change in International Relations*: 9-10.
[54] "Organization," World Bank (The World Bank), accessed April 4, 2022, https://www.worldbank.org/en/about/leadership.
[55] "Voting Powers," World Bank (The World Bank), accessed April 4, 2022, https://www.worldbank.org/en/about/leadership/votingpowers.
[56] Lipscy, 2017, *Renegotiating the World Order: Institutional Change in International Relations*: 10.

the facts reflect a U.S. hegemony in the voting share of the U.S. in all World Bank Group organizations, suggesting that while its voting distribution is perhaps more reflective of the economic order, there is American hegemony in its power distribution, which could suggest that the World Bank may serve as a weaker proxy for U.S. power and employ sanctions countries taking Chinese aid, or attempt to positively entice countries to continue lending from the World Bank over China, although perhaps less so than the IMF. Alternatively, it may also employ a combination of both sanctions and attempts to entice.

Data and Methods

This thesis proposes two main hypotheses, as introduced above. These hypotheses will be analyzed through multiple large-N regression analyses. The theory proposed in this thesis lays out that the treatment an African country receives from the World bank will likely change if it is or has been a recipient of Chinese aid, with the World Bank sanctioning developing countries taking Chinese aid in some situations, while also attempting to positively entice developing countries taking Chinese aid at times, in hopes of re-orienting them back to Western dominated financial institutions, thus bringing them back into the American hegemon's sphere of influence.

This thesis tests the proposed hypotheses using the World Bank Data Bank's current and historical classification data sets, as well as Aid Data's Global Chinese Development Finance Dataset, version 2.0 which was published September 29, 2021. [57] The data set spans from 2000 until 2017, with 13, 427 entries and a total amount of USD $843 billion tracked, financed by over 300 Chinese government institutions and state-owned entities across 165 countries. Additionally, this data set used the Tracking Underreported Financial Flows (TUFF) aimed at

[57] Custer et al., *Tracking Chinese Development Finance: An Application of AidData's TUFF 2.0 Methodology*. AidData at William & Mary.

tracking development finance from actors that do not report in existing global reporting systems.[58]

Defining Aid

When defining aid, the OECD's Development Assistance Committee is commonly cited. It characterizes "official development assistance" (ODA) as defined in 1972 as "concessional funding given to developing countries […] and to multilateral institutions primarily for the purpose of promoting welfare and economic development in the recipient country."[59] Specifically, the funding must be concessional meaning it must include some genuine subsidy from the government, and loans must have a grant element of at least 25% using a 10% discount rate. China provides ODA through grants, zero-interest loans, and concessional, meaning low-interest, fixed-rate loans. Chinese grants and zero-interest loans are managed by the Chinese Ministry of Commerce, but most of the Chinese finance and investment abroad is managed by the China Eximbank and China Development Bank, both established in 1994. These banks operate to support China's own development goals. Chinese investment in China mostly falls under "other official flows," not ODA. This includes preferential export credits, market-rate export buyers' credits, and commercial loans from Chinese banks. Additionally, the China-Africa Development Fund also provides financing through equity funds, as well as a fund to on-lend up to $1 billion to African SMEs (Small and mid-size enterprises) through local African

[58] TUFF was developed by Aid Data in collaboration with an international network of researchers from Harvard University, Heidelberg University, the University of Göttingen, the University of Cape Town, Brigham Young University, and William and Mary (Custer et al., T*racking Chinese Development Finance: An Application of AidData's TUFF 2.0 Methodology*. AidData at William & Mary: 5)
[59] Brautigam, "Chinese Development Aid in Africa: What, Where, Why, and How Much?": 204.

banks. None of these tools qualify as ODA, except for the fund for SMEs if the appropriate concessional terms were provided.

China's first official white paper on foreign aid was published in 2009, only recording instruments most closely resembling ODA. As per the official white paper, Chinese aid agreements follow diplomatic ties (as opposed to African countries with diplomatic ties to Taiwan). This includes all countries, even those who do not require aid, such as South Africa. In such cases, aid becomes symbolic, as for example the building of two elementary schools.[60] This suggests that Chinese aid is not just an economic or humanitarian tool, but a diplomatic one too. Additionally, this further illustrates the challenges of Chinese official documents on aid due to issues with transparency.

Operationalizing Aid

For the purposes of this thesis, Chinese aid and development investment are used synonymously as per Aid Data's categorization for simplicity. The data set used for the purposes of this thesis encompasses a variety of projects, broadly termed as developmental finance, including developmental aid and investment of different types. This is further complicated by the lack of transparency in investments made by the Chinese government and state-owned enterprises. Therefore, this thesis will operationalize aid as the encompassing term for all development finance transactions from China to African states as per Aid Data's Global Chinese Development Finance Dataset, in USD (2017).

[60]Brautigam, "Chinese Development Aid in Africa: What, Where, Why, and How Much?", 207-208.

Operationalizing Classification (World Bank Classification)

The World Bank classifies countries into four income categories: low-income economies, lower-middle income economies, upper-middle income economies, and high-income economies. As of 2020, low-income economies are defined as economies with a GNI per capita of $1,045 or less; those with a GNI per capita between $1,046 and $4,095 are classified as lower middle-income economies; those with a GNI per capita between $4,096 and $12,695 as upper middle-income economies, and those above $12,696 as high-income economies. For the purposes of this thesis, the World Bank classifications are coded as 1: low-income economies; 2: lower middle-income economies; 3: upper middle-income economies; and 4: high income economies. These classifications are updated every year on July 1st. These categorizations determine the loan conditions a country receives.

Countries are eligible for loans from the International Development Association (IDA) or the International Bank for Reconstruction and Development (IBRD), or a blend. [61] As of 2022, to be eligible for IDA, a country's GNI per capita must be below the threshold of $1, 205.[62] Currently, 74 countries are eligible to receive IDA. Of these, Benin, Burundi, Cameroon, Cabo Verde, the Central African Republic, Chad, Comoros, the Democratic Republic of Congo, the Republic of Congo, Cote d'Ivoire, Eritrea, Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mauritania, Mozambique, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Tanzania, Togo, Uganda, Zimbabwe, Zambia, and Djibouti are eligible recipients for IDA resources and also included in Aid Data's

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[61] "World Bank Country and Lending Groups," World Bank Country and Lending Groups – World Bank Data Help Desk, accessed April 4, 2022, https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups.
[62] "Borrowing Countries," International Development Association, accessed April 4, 2022. https://ida.worldbank.org/en/about/borrowing-countries.

dataset as recipients of Chinese aid between 2000 and 2018.[63] Countries that have GNI income-levels classifying them as low income or lower-middle income economies but that have creditworthiness qualify for both IDA, and IBRD loans making them classified as “blend.” Examples of this are Nigeria and Pakistan. Simultaneously, some countries including small island states are above the operational cutoff for IDA loans, but lack creditworthiness are therefore also classified as “blend” and eligible for loans from both IDA and the IBRD. [64]

Debt Relief and the HIPC (Highly Indebted Poor Countries) Initiative

The HIPC initiative, launched in 1996 is a joint initiative between the IMF and the World Bank’s IDA. Its self-proclaimed goal is to ensure that no poor country faces a debt burden that it cannot manage.[65] In 2005 the initiative was further supplemented with the MDRI, the Multilateral Debt Relief Initiative. The MDRI allows for 10% relief on eligible debts from the IMF, the World Bank, and the African Development Fund for countries that are completing the HIPC process. In 2007 the Inter-American Development Bank began providing additional debt relief for the five HIPC’s in the Western hemisphere. Currently there at 39 countries eligible for the HIPC initiative, with 36 receiving full debt relief after having reached their completion points. 31 of these eligible countries are in Africa.[66]

The process of becoming eligible for HIPC has two steps: The decision point and the completion point. For the decision point, a country needs to be eligible by fulfilling four

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[63] “Borrowing Countries,” International Development Association.
[64] Ibid.
[65] “Factsheet - Debt Relief under the Heavily Indebted Poor Countries (HIPC) Initiative,” IMF, March 23, 2021, https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/11/Debt-Relief-Under-the-Heavily-Indebted-Poor-Countries-Initiative.
[66] World Bank Group, “Heavily Indebted Poor Countries (HIPC) Initiative,” World Bank (World Bank Group, June 23, 2021), https://www.worldbank.org/en/topic/debt/brief/hipc.

conditions: An applicant country needs to be eligible to borrow from the World Bank's IDA and the IMF's Poverty Reduction and Growth Trust; It must face an unsustainable debt burden which cannot be addressed through traditional debt relief measures; It must have established a good track record of reform and policy through IMF and World Bank-supported programs; and finally it must have developed a Poverty Reduction Strategy Paper. If a country is eligible by these criteria, the IMF and World Bank ultimately decide on its eligibility. The second step, the completion point can be achieved by continuing a good track record under World Bank and IMF-supported programs; implementing key reforms agreed upon at the decision point; adopting and implementing the Poverty Reduction Strategy Paper for a minimum of one year. Once a country has met these criteria, it becomes eligible for the full debt relief committed at the decision point.

Operationalizing Debt Cancellations Under the HIPC Initiative

The World Bank and the IMF jointly determine the decision point and completion point for a given country which meets the eligibility criteria and has begun the application process for HIPC and MDRI. For the purposes of this thesis, a data set was compiled consisting of information from the World Bank on HIPCs. To create this data set, the official reports on the decision point and the completion point for HIPC loan cancellations for each of the countries in Aid Data's data set were drawn upon, including Algeria, Angola, Benin, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Republic of the Congo, Democratic Republic of the Congo, Cote d'Ivoire, Djibouti, Egypt, Equatorial Guinea, Eritrea, Ethiopia, Gabon, the Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Libya, Madagascar, Malawi, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, the Seychelles, Sierra Leone, South Africa, Tanzania, Togo, Tunisia, Uganda, Zambia, Zimbabwe.[67] Of these countries, not all were eligible for HIPC due to their World Bank classification, as well as some (Eritrea and Zimbabwe) due to their protracted non-accrual status.[68] The start of the decision point and thus receipt of partial aid has been denoted as 1; as opposed to 0, denoting no partial aid. The completion point, meaning the approval from the IMF and World Bank for full debt cancellation under the HIPC initiative has been coded as 1, with all years where no approval was given being coded as 0.

Potential to Manipulate Outcomes: GNI and Aid-Seeking Data Management

Kerner et al. (2015) make the case for "aid-seeking data management," a phenomenon in which countries report data that sorts them into lower development cohorts, maximizing their aid. Specifically, Kerner et al. examine "aid-seeking data management in the distribution of GNI per capita data around the eligibility threshold for the World Bank's International Development Association (IDA)." An examination of the revised data available from the World Bank Development Indicators (which this thesis also makes use of) and the less revised data from the print World Bank Atlas reveals patterns of aid data management among only aid-dependent economies.[69]

Gross national income (GNI) is made up of gross domestic product, net receipts from abroad of compensation of employees, property income, and net taxes minus subsidies on

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[67] All official documents comprising this data set can be found at: World Bank Group, "Heavily Indebted Poor Countries (HIPC) Initiative," World Bank (World Bank Group, June 23, 2021), https://www.worldbank.org/en/topic/debt/brief/hipc.

[68] "Borrowing Countries," International Development Association.

[69] Kerner, Andrew, Morten Jerven, and Alison Beatty. "Does it Pay to be Poor? Testing for Systematically Underreported GNI Estimates." *The Review of International Organizations* 12, no. 1 (03, 2017): 1-38. doi:http://dx.doi.org.proxy.uchicago.edu/10.1007/s11558-015-9239-3. http://proxy.uchicago.edu/login?url=https://www-proquest-com.proxy.uchicago.edu/scholarly-journals/does-pay-be-poor-testing-systematically/docview/1865262238/se-2?accountid=14657.

production. [70] Given the discrepancies and potential for manipulation that Kerner et al. (2015) reveal, it is consequential to theorize that beyond the reporting biases some economies may wish to create, there may also be some "wiggle room" in the GNI calculations and thus economic classifications based on GNI that the World Bank is able to undertake, thus also enabling the World Bank itself to influence classifications for favorable loan outcomes.

Contributions

This thesis allows an investigation of modern Great Power politics between China and the U.S. and the use of financial institutions as proxies for hegemonic power. This thesis proxies World Bank reactions through country classification (and thus loan conditions) and debt cancellations under the HIPC Initiative, using these as variables for analysis. A first analysis is that using the outcome variable of country classification as per the World Bank Data set, as described previously. The key explanatory variables are the granting of Chinese aid as categorized by AidData's data set. A control for GDP per capita from the USDA (The ERS International Macroeconomic Data Set)[71] has been added as classifications are based on GNI per capita, but independent data for GNI was difficult to source as most sources base their data on the data on GNI per capita published by the World Bank. This control for GDP also avoids the challenge of increases in GNI affecting classification, examining the relationship between World Bank classification and amount of Chinese aid received while controlling for economic changes that could change the classification, rather than the explanatory variable of this thesis. The

[70] "National Income - Gross National Income - OECD Data," the OECD (OECD), accessed April 4, 2022, https://data.oecd.org/natincome/gross-national-income.htm.
[71] Wendy Zeng, Kayode Ajewole, and Constanza Valdes, *Real per capita GDP (2015 base) Historical* (January 10, 2022), distributed by USDA, Economic Research Service U.S. Department of Agriculture, https://www.ers.usda.gov/data-products/international-macroeconomic-data-set/

second proposed analysis expands on the previous analyses by choosing a different proxy through the outcome variable of debt cancellation under the HIPC Initiative. This includes partial debt cancellation (approval for decision point) and full debt cancellation (approval for completion point). The data for this was compiled from the official documents available for each country from the World Bank Data website.

The data is limited in its availability: The Chinese government is notoriously not transparent with its aid or investment data, making this project challenging to code and analyze. Additionally, there are some confounding variables: The pattern may have nothing to do with China, but rather may reflect developing countries being given loans and aid more generally. This can be controlled for by controlling for the level of development, which can be proxied by GDP and GDP growth. Further, the variables used to proxy reactions of the World Bank are indirect proxies, thus meaning that their precision is unclear. Further analyses using different proxies could improve the robustness of the results. However, the analyses proposed can still provide valuable first cut and insight into the patterns existing within the data and the politics of development aid, as examined through a great power competition lens.

Analysis and Results

World Bank Classification Models

This thesis employs seven basic regression models, which are adjusted using controls and by logging data and/or removing skew when necessary.

Model 1: $Y_c(t+1) = B_0 + B_1 A_t$

Model 2: $Y_c(t+1) = B_0 + B_1 D_c(t)$

Model 3: $\Delta Y_c(t+1) = B_0 + B_1 D_c(t)$

Model 4: $Z_c(t+1) = B_0 + B_1 D_c(t)$

Model 5: $Q_c(t+1) = B_0 + B_1 D_c(t)$

In model 1, *Y* is the outcome variable denoting the classification for country, *c,* in the following year *(t+1)*; *A* is a binary variable that is 1 if the country received Chinese aid in a given year, *t*, or 0 if it did not. Model 2 includes *Y* as the outcome variable of interest for a country's classification (operationalized as 1: low income; 2: lower middle class income; 3: higher middle class income; and 4: high income), c in the following year *(t+1)*; however, *D* is a variable for the amount of Chinese aid a country, *c* received in the year, (*t).* Model 3 changes the outcome variable of interest, with *Delta Y* being a binary outcome variable that is 1 if there was a change in classification by the World Bank for a given country, *c*, in year *(t+1);* again, *D* is used to represent the amount of Chinese aid a country, *c* received in the year (*t*). In model 4, the binary outcome variable of interest is *Z*, signifying a positive change in classification for the following year (*t+1*) if it is 1; again, the aid amount is represented by *D*. In model 5, *Q* is the outcome variable of interest for a country's classification for the following year (*t+1*), where it is a binary variable that is 1 if the change in classification was negative.

Additionally, two models offer an alternative examination of the relationship between Chinese aid and world bank reactions. These are denoted as models 1 and 2 for the HIPC analysis and examine the relationship between the HIPC's decision point and Chinese aid, and the relationship between the HIPC's completion point and Chinese aid. The following section elaborates upon this analysis.

HIPC Initiative Models

To apply an alternative indirect approach for the examination of the data this thesis uses the HIPC Initiative's approval for the decision point (partial cancellation of debt to the World

Bank and IMF) and the completion point (full cancellation of debt to the World Bank and the IMF), as explained by the models below. This approach allows a proxy that is not dependent on GDP, but rather the decision-making process within the World Bank and IMF.

Model 1: $\mathrm{H}(t+1) = B_0 + B_1 D_c(t)$
Model 2: $\mathrm{I}_c(t+1) = B_0 + B_1 D_c(t)$

In model 1, the outcome variable H denotes the HIPC's approval of a decision point, coded as 1 for years where there was an approval in a given country, *c*, in year *(t+1)* and 0 in years where there was none. B represents the presence of Chinese aid, coded as 1 if there was, and 0 if there was none received. As in previous models, *D* is used to represent the amount of Chinese aid a country, *c* received in the year (*t*). Model 2 uses the same explanatory variables, however it uses the completion point, *I*, as the outcome variable, which is also a binary variable. In this case, if a completion point approval was reached under the HIPC initiative, it was coded as 1, and as 0 in years and countries where it was not. This model also employs the same controls as the other previous models for continuity.

Controls

For the analyses conducted in this thesis, multiple controls were added. These included economic indicators such as GDP per capita, and GDP growth per capita. Economic indicators are perhaps the most significant for the purposes of this analysis, since as per the World Bank, the income classifications and thus loan classifications are conducted by GNI per capita. This thesis uses GDP per capita as a control rather than GNI per capita because of the difficulty of finding independent sources. Most data available on GNI per capita is from the World Bank Group. Should there be some biases within the data, these may already show up in the GNI per capita classifications the World Bank publishes (whether these originate from the World Bank itself or à la Kerner et al. from the countries themselves). Thus, this thesis uses the USDA's ERS International Macroeconomic Data Set[72] to create better validity. An added control is the GDP growth per capita variable, found from the University of Oxford's Martin School.[73] Another control variable is population, sourced from the World Bank's Indicators data.[74] When considering controls for this data, the literature sets precedent for the supposed importance of regime type in investments, with Chinese aid having been characterized as more non-discriminate, and Western institutional aid as more ethical, as per Brautigam in "Rising China: Global Challenges and Opportunities." Brautigam characterizes this notion as false both in "Rising China," and in "The Dragon's Gift." However, regime type and the investment received from both the World Bank and China as per Aid Data's data set given the discourse makes it a valuable control variable. For the purposes of this thesis, we use the Polity 5 data set, with, following the recommendation from the Center for Systemic Peace, countries coded as autocracy (1), anocracy (2), or democracy (3).[75]

An alternative theory is considered through the final control variable: A country's alliance with the United States. This thesis uses Rice University's Alliance Treaty Obligations and Provisions (ATOP) data set[76]. Thus, it also uses the data set's operationalization and definition of an alliance as a "formal agreement among independent states to cooperate militarily

[72] Zeng, Ajewole, and Valdes, *Real per capita GDP (2015 base) Historical*, distributed by USDA, Economic Research Service U.S. Department of Agriculture, https://www.ers.usda.gov/data-products/international-macroeconomic-data-set/
[73]Max Roser (2013) - "Economic Growth". *Published online at OurWorldInData.org.* Retrieved from: 'https://ourworldindata.org/economic-growth' [Online Resource]
[74] World Bank. "Population, total." The World Bank Group. https://data.worldbank.org/indicator/SP.POP.TOTL
[75] **Polity**™ Project. POLITY5. Political Regime Characteristics and Transitions, 1800-2018. **Dataset** Users' Manual. Monty G. Marshall. https://www.systemicpeace.org/polityproject.html
[76] Brett Ashley Leeds, Jeffrey M. Ritter, Sara McLaughlin Mitchell, and Andrew G. Long, "Alliance Treaty Obligations and Provisions, 1815-1944, Codebook," *International Interactions* 28 (2002): 6.

in the face of potential or realized military conflict."[77] The data included in this data set spans 1815-2018, however this thesis will only use data from 1999-2018 for the control. The data set does not include alliances formed before that time. This thesis codes an alliance with a nation with the United States as a 1, and no alliance as a 0. Davis and Pratt (2021) outline the importance of the link between security and economic exchange, arguing that geopolitics influences membership in multilateral economic organizations.[78] Similarly, Gowa and Mansfield (1993) argue that free trade agreements in an anarchic international system are influenced by their security externalities, meaning free trade is more likely within political-military alliances, thus providing evidence for the importance of this control.[79] The definition of the ATOP data set may be a little narrow in the sense that alliances can be other than military in nature. Additionally, within the data set Morocco and Egypt renewed their alliances with the U.S. in 2016, despite already having membership in one since the 1950s and 60s. Therefore, some alliances may be renewed or reformulated to reiterate continued interest, and older alliances may carry less weight over time.

Analysis

The graph below (see fig. 2) reveals highly skewed data, with clustering around aid amounts of 0, signifying years during which no aid was received in a given African country within AidData's dataset. This skewing of the data suggests further investigation into the skew as

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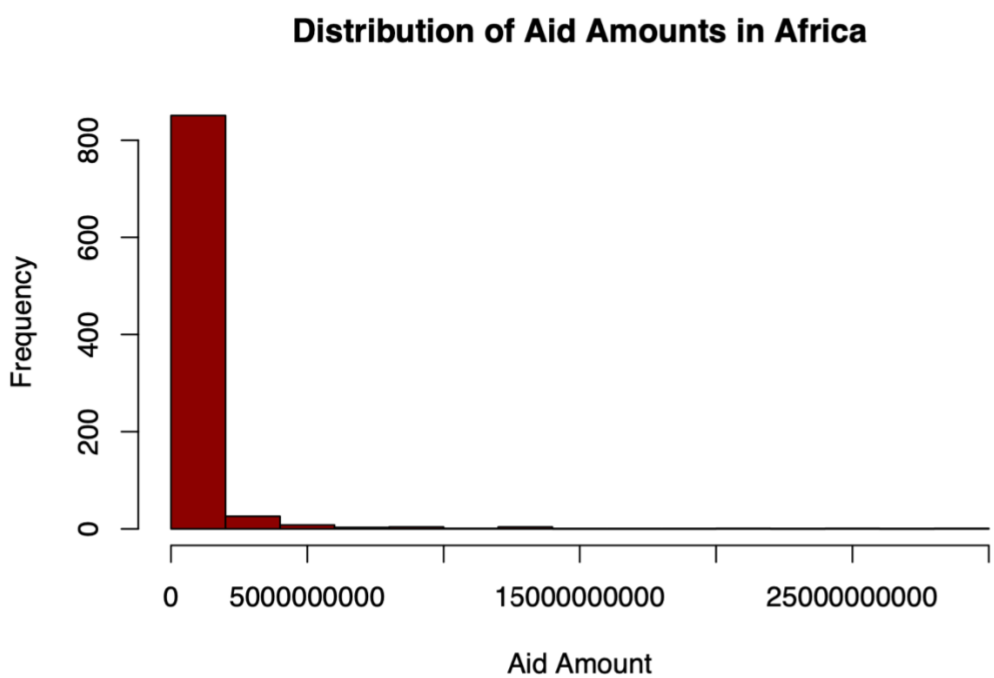
77 Leeds et al., "Alliance Treaty Obligations and Provisions, 1815-1944, Codebook": 6.
78 Christina L. Davis, and Tyler Pratt, "The Forces of Attraction: How Security Interests Shape Membership in Economic Institutions," *The Review of International Organizations* 16, no. 4 (October 2021): 903–29, https://doi.org/10.1007/s11558-020-09395-w.
79 Joanne Gowa, and Edward D. Mansfield, "Power Politics and International Trade," *The American Political Science Review* 87, no. 2 (1993): 408–20. https://doi.org/10.2307/2939050.

necessary, and potentially removing the skew to allow better analysis of the data if aid was received. This clustering of 0 values suggests the absence of aid, which is investigated through model 1 which examines the presence of aid as binary (1 denoting aid being received, 0 denoting no aid being received) and the relationship between presence of aid and World Bank classification. Thus, removing the skew would yield an analysis of the aid amount affecting classification, if there is Chinese aid present in the previous year.

Figure 2:



Following the hypotheses for the classification analysis for hypothesis 1, predicting negative sanctions from the World Bank for countries taking Chinese aid the previous year, we would expect to see a positive relationship in models 1, 2, 3, and 5 between aid and classification; aid amount and classification; aid amount and change in classification; and finally, aid amount and negative change in classification, respectively. This would mean that the presence of aid, and/or the amount of aid would result in a higher classification meaning worse loan conditions for a country. In model 4, meaning the relationship between aid amount and a negative change in classification, we would expect to see a negative relationship following hypothesis 1.

Following hypothesis 2, with the World Bank attempting to entice countries to stick with them for more favourable loan conditions, we would expect to see a negative relationship in models 1, 2, and 5. This would indicate lower classifications if there was Chinese aid received, or lower classifications when there were higher amounts of aid the previous year, resulting in more favourable loan conditions that could entice developing countries to remain and re-orient themselves back into the sphere of World Bank and thus American influence. In models 3 and 4, where change in classification and negative change in classification are the respective outcome variables with aid amount as the explanatory variable, we would expect to see a positive relationship.

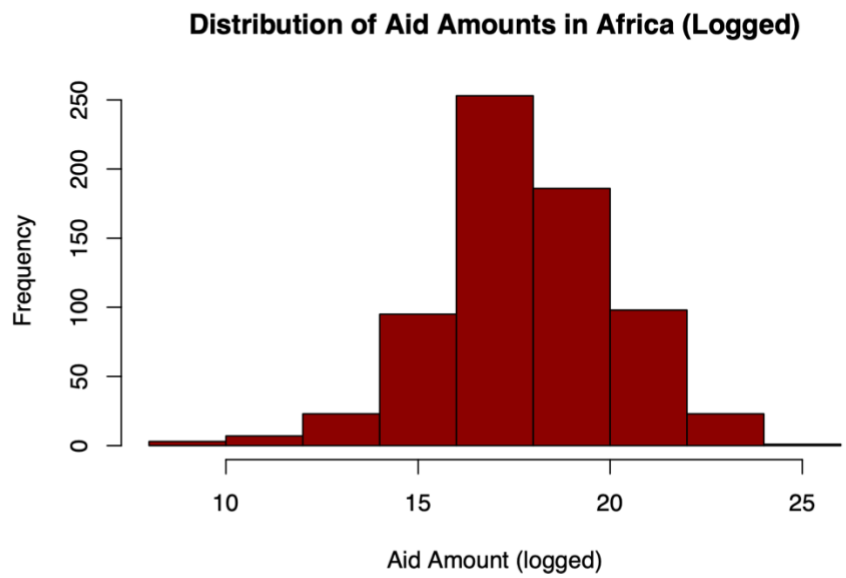
Regression table 1 models only the basic (See table 1, Appendix A) and shows significance only for the aid amount for the World Bank classification outcome variable in model 2, with a weak positive relationship, but not for the change in classification in model 3, and the positive and negative change in classification outcome variables in model 4 and 5. There also is no significance in model 1, looking at the influence of the presence of aid on classification by the World Bank. This table is based on the data without any controls or logging the data (to make it more manageable and scale it), and without removing the skew (all zero values). This analysis indicates that there is some potential for significance upon further analysis for model 2, but the significance is not particularly strong in this analysis.

A further analysis including the zero observations and adding the controls of GDP per capita (GDP_per_capita), population (Population), GDP growth per capita percentage

(GDP_growth_per_capita_percentage), ATOP (military alliance with the United States), and regime type(Regime_type) as a control reveals more significance. The aid amount independent variable becomes significant at the 5% level, showing a stronger positive relationship between Chinese aid amount received and World Bank classification. Additionally, GDP per capita seems to have a relationship with outcome variables across the board, making it a good control. GDP growth per capita, population, and ATOP, as well as regime type all also influence the outcome variables of receiving aid in the first place, and the amount of aid received in models 1 and 2.

The initial figure (fig. 4) examining the distribution of aid amounts shows a big clustering at 0, signifying no aid amount received from China from a given country in a given year. A natural logged version of the data (See fig. 4 in Appendix B.) shows a more bimodal distribution, with clustering around 0 aid received, and a natural distribution around 15 to 20. For a closer analysis of the data, removing the values skewing the data (the zeros) reveals a less skewed version of the data. Removing the zero values and thus the clustering around 0 (meaning no aid received from China by a country in a given year) results in a more normal distribution (see fig. 3). This shows an examination of the aid amounts being both logged, and only examining years in each given country where some aid *was* present.

Figure 3:



However, dropping the zero observations and thus removing the skew from the data does reveal different findings (See table 3 in Appendix A). This also means dropping model 1, since it assumes and thus investigates only countries where aid is present as a precondition. Running the same analysis models with the logged data while dropping the zero values, shows no significance in any of the models without adding controls. Similarly, adding the controls but not removing the skew from the data results in similar outcomes. It does reveal some significance in the controls on the outcome variables (which we will delve into more in the next model), but other than a weak significance in model 4, meaning a positive change in classification as an outcome with aid amount as the independent variable, there is no significance in the independent variables.

Table 5: Regression Table with Logged Data and Controls, Dropping Zero Values (Removed Skew)

	Model 1	Model 2	Model 3	Model 4	Model 5
(Intercept)	0.402***	−0.016	−0.036	−0.050	0.021
	(0.079)	(0.158)	(0.066)	(0.060)	(0.024)
GDP_per_capita	0.000***	0.000***	0.000**	0.000+	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Population	0.000*	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
GDP_growth_per_capita_percentage	−0.008*	−0.008**	0.000	0.000	0.000
	(0.003)	(0.003)	(0.001)	(0.001)	(0.000)
ATOP	0.348***	0.373***	0.041*	0.026	0.016*
	(0.048)	(0.048)	(0.020)	(0.018)	(0.007)
Regime_type	0.286***	0.286***	0.003	0.001	−0.001
	(0.030)	(0.030)	(0.012)	(0.011)	(0.005)
Aid_Amount		0.024**	0.002	0.004	−0.001
		(0.008)	(0.003)	(0.003)	(0.001)
Num.Obs.	655	655	655	655	655
R2	0.677	0.681	0.021	0.011	0.032
R2 Adj.	0.674	0.678	0.012	0.002	0.023
AIC	801.3	793.9	−356.0	−470.4	−1677.2
BIC	832.7	829.8	−320.1	−434.5	−1641.4
Log.Lik.	−393.666	−388.973	185.982	243.182	846.619
F	271.633	230.833	2.278	1.171	3.552
RMSE	0.44	0.44	0.18	0.17	0.07

+ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Finally, adding all controls and removing zero values on the logged data does show significant findings in multiple models (See Table 5 above). Model 1 becomes obsolete because dropping all the 0 values skewing the data removes the possibility of a no aid value, meaning 0. However, model 2 shows a strong positive correlation between aid amount and classification, with a p-value of below 0.01. This suggests that there is a relationship between the aid amount a given country received in a given year and the World Bank classification they received the following year, when controlling for GDP per capita, GDP per capita growth, military alliance with the United States, and the regime type. Table 5 shows a positive correlation between GDP per capita and classification, a lower negative correlation between GDP growth per capita percentage and classification across models, a strong positive correlation between a military alliance between the U.S. and a given country and their classification, a significant positive correlation between the regime type and classification. Most importantly, in model 2, there is a significant positive relationship between the aid amount and classification when considering the controls, with a p-value of below 0.01. This suggests that there may be a positive correlation between the aid amount received from China for a given African country, and the World Bank classification they receive. This means the more aid a country receives, the higher it's World Bank classification, meaning less favourable loan conditions. This is interesting considering that this regression considers GDP per capita as a control and that the World Bank bases its classifications on GNI per capita.[80] This result indicates that there is a positive relationship between the World Bank classification of a country as low income, lower middle income, higher middle income, or high income depending on the amount of Chinese aid that they receive in a given year, even when controlling for economic factors which the classification is supposedly based on, thus suggesting some limited sanctions in loan conditions for a country receiving Chinese aid. Models 3, 4 and 5 do not show significance throughout the analyses; This is likely due to the small sample size of years in which a country's classification changed. Since model 3 examines the relationship between aid amount and any change in classification, we should see a positive relationship between aid amount received and a change in classification. However, the sample size here may be too small, and if it is too small in model 3, models 4 and 5 will also be too small given that they further limit the pool to only negative and only positive changes in

[80] This thesis uses GDP per capita as a control rather than GNI per capita because of the difficulty of finding independent sources. Most data available on GNI per capita is from the World Bank Group. Should there be some biases within the data, these may already show up in the GNI per capita classifications the World Bank publishes (whether these originate from the World Bank itself or à la Kerner et al. from the countries themselves). Thus, this thesis uses USDA data on GDP per capita to create better validity.

classification. A larger analysis across all the data contained in Aid Data's set and not just Africa could yield more fruitful analysis here.

Table 7: HIPC Decision and Completion Points, Logged and Removing Skew, with Controls

	Model 1	Model 2
(Intercept)	0.132*	0.292***
	(0.059)	(0.064)
Aid_Amount	−0.003	−0.011***
	(0.003)	(0.003)
GDP_per_capita	0.000*	0.000*
	(0.000)	(0.000)
Population	0.000	0.000
	(0.000)	(0.000)
GDP_growth_per_capita_percentage	0.001	0.001
	(0.001)	(0.001)
ATOP	−0.026	−0.031
	(0.018)	(0.019)
Regime_type	−0.017	−0.020
	(0.011)	(0.012)
Num.Obs.	647	647
R2	0.016	0.033
R2 Adj.	0.007	0.024
AIC	−530.2	−409.0
BIC	−494.4	−373.2
Log.Lik.	273.113	212.490
F	1.760	3.679
RMSE	0.16	0.18

+ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Models 1 and 2 for the HIPC analysis, as presented in Table 7 provide insight into an alternative avenue of World Bank reactions. Following hypothesis 1, predicting sanctions from the World Bank for countries taking Chinese aid would lead us to expect a negative relationship between the aid amount received and both the approval for partial debt cancellation (decision point) in model 1, and the approval for full debt cancellation (completion point) in model 2. Hypothesis 2, suggesting attempts to entice and re-orient countries taking Chinese aid back into the sphere of World Bank influence would predict a positive relationship in model 1, meaning higher rates of approval for countries taking larger amounts Chinese aid for completion point and thus partial debt cancellation the following year. Hypothesis 2 is unlikely to show an effect in model 2 since by joining the process for partial debt cancellation, an African country would have already re-oriented itself into the sphere of World Bank influence.

While model 1 does not show significance for the relationship between approval for a decision point from the World Bank and the IMF to receive partial debt relief, model 2 does show significance for the approval of a completion point (receiving the full committed debt relief from the World Bank and IMF) from the HIPC. Given the negative correlation coefficient in aid amount for model 2, this would indicate that receiving Chinese aid in the previous year quite significantly affects a country's approval for full debt relief from the IMF and World Bank. It appears that GDP per capita has some impact on the approval of both decision and completion points for the HIPC. However, other controls yield no significant results.

This provides an alternative investigation of World Bank reactions to Chinese aid. The results suggest a relationship between the amount of Chinese aid receiving in a given year by a given country and the approval for full debt relief from the World Bank and the IMF the following year. Specifically, Chinese aid appears to negatively impact the approval for full debt relief from the World Bank and the IMF, however whether this is politically motivated or if it has alternative reasons is unclear. Interestingly, the amount of Chinese aid received does not appear to impact eligibility for partial debt relief, suggesting the decision-making process cannot be entirely politicized.

Conclusion and Implications

The two different analyses bear different implications and conclusions for the hypotheses. While the World Bank classification for a given African country shows only a weak positive relationship with the amount of Chinese aid, providing weak support to both hypotheses 1 and 2 (more aid is correlated with a higher classification meaning worse loan conditions, and less aid is correlated to lower classification meaning better loan conditions), the debt cancellations particularly for full debt relief show a significant relationship to the amount of Chinese aid received in the previous year. This suggests that the amount of Chinese aid received did influence the approval for the completion point and thus full debt relief under the HIPC initiative by the World Bank and the IMF. This suggests that while decision-making within the World Bank cannot be fully politicized, there might be some limited punishment or signaling of disapproval for recipients of Chinese aid, suggesting some degree of the World Bank serving as a proxy for U.S. power. This provides a higher, but still limited degree of support for hypothesis 1, indicating that the World Bank may employ limited sanctions against lenders taking Chinese aid. It remains unclear whether the delay is due to political pressures on the World Bank and attempts to punish countries working more closely with China, or if the decision is more fiscally based, and if working with China signals information about the perceived creditworthiness of the countr. Due to its brevity as a master’s thesis, and challenges within the data availability due to the lack of transparency of Chinese aid, this thesis provides a first cut into the Great Power Competition between the U.S. and China, with the World Bank serving as a proxy for U.S. power. Further, the outcome variables selected provide an indirect and rough test of expectations, thus requiring further investigation. Expanding the data set beyond Africa and using more conservative data on the BRI to run a similar analysis could improve the robustness of the findings, as could adding different proxies (i.e., repeated World Bank lending after a country defaulting). However, it does show some promising results, with aid being used as a tool to incentivize closer relationships with the World Bank and IMF (explicitly in the regulations of the

HIPC initiative requirements), and potentially countries being sanctioned through delays in approval for full aid relief through the World Bank.

The HIPC analysis carries two important caveats: Firstly, the HIPC initiative is a collaborative initiative with both the IMF and the World Bank's IDA. Given the IMF's established history for corruption and serving as a proxy for American foreign policy objectives, it is unclear whether the World Bank or the IMF is influencing the approval process. Additionally, the approval for the decision point, beginning the debt relief process does not appear to be influenced by the amount of aid received in the previous year, suggesting that maybe the World Bank is attempting to entice countries when initially offering them aid to bring them into the World Bank's and thus American sphere of influence rather than China's, while sanctioning them by delaying approval for full aid once a country has already begun the process if they turn to Chinese aid. An additional noteworthy caveat is the possibility that accepting Chinese aid may simply influence the signaling of creditworthiness of a given African country, thus making a clear causal relationship extremely challenging to establish.

An alternative explanation for the results is more favorable of the World Bank as a legitimate, independent and objective institution. Although there is some relationship between the World Bank's classification and amounts of Chinese aid receiving in the preceding year, it is not strong enough to provide stand-alone conclusions without further investigation which lies beyond the scope of this thesis. However, this also leaves room for an alternative conclusion: The World Bank is not as influenced by American foreign policy objectives as the IMF. Perhaps the World Bank doesn't function as a proxy for U.S. power in hegemonic competition? This would align with Lipscy's (2017) rational framework for the propensity of institutional change in institutions being dependent on the competition in their policy sector. While the IMF faces low competition in its sector for the management of financial crises, the World Bank faces higher competition in its policy sector of developmental aid. This results in higher propensity for institutional change in the face of pressure from its members, suggesting that perhaps the World Bank must operate more fairly to prevent losing membership to its competition, as for example to the AIIB or bilateral Chinese aid.[81] Similarly, Voeten (2021) contends that the U.S. has increasingly experienced challenges in shaping the policies of IGOs, including the World Bank.[82] This could be challenged by the outcomes of the analysis conducted for the HIPC Initiative, which suggest that there are limited negative sanctions against countries that turn to alternative options. However, these limited negative sanctions only begin *after* a country has begun the HIPC process and thus has committed to the HIPC initiative and World Bank and IMF programs. Consequently, this could provide an explanation for the delay in sanctions (only after already committing to the HIPC Initiative) we see in the results. However, it is unclear if it is the World Bank or the IMF that is influenced by U.S. foreign policy objectives during the HIPC decision-making process and thus serving as a proxy for power in Great Power Competition. Finally, this thesis presents avenues for further research into both the relationship and mechanisms between classifications and approval for loans and Chinese aid, and the potential role that Chinese aid may have in information signaling.

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[81] Lipscy, *Renegotiating the World Order: Institutional Change in International Relations*: 33.
[82] Voeten, *Ideology and International Institutions*: 93.

Appendix A: Regression Tables

Table 1: Regression Table, non-logged data, no controls

	Model 1	Model 2	Model 3	Model 4	Model 5
(Intercept)	1.712***	1.644***	0.035***	0.026***	0.006*
	(0.069)	(0.029)	(0.007)	(0.006)	(0.003)
Aid	−0.068				
	(0.075)				
Aid_Amount		0.000+	0.000	0.000	0.000
		(0.000)	(0.000)	(0.000)	(0.000)
Num.Obs.	828	828	828	828	828
R2	0.001	0.004	0.000	0.000	0.000
R2 Adj.	0.000	0.002	−0.001	−0.001	−0.001
AIC	2005.5	2003.3	−449.0	−670.5	−1880.2
BIC	2019.6	2017.5	−434.9	−656.3	−1866.1
Log.Lik.	−999.732	−998.659	227.518	338.250	943.122
F	0.810	2.956	0.056	0.005	0.263
RMSE	0.81	0.81	0.18	0.16	0.08

+ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 2: Regression Table, with Controls

	Model 1	Model 2	Model 3	Model 4	Model 5
(Intercept)	0.475***	0.456***	−0.002	−0.003	−0.001
	(0.077)	(0.072)	(0.029)	(0.026)	(0.013)
Aid	−0.031				
	(0.046)				
GDP_per_capita	0.000***	0.000***	0.000**	0.000+	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Population	0.000**	0.000+	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
GDP_growth_per_capita_percentage	−0.005*	−0.005*	0.000	0.000	0.000
	(0.002)	(0.002)	(0.001)	(0.001)	(0.000)
ATOP	0.357***	0.368***	0.024	0.016	0.010
	(0.044)	(0.044)	(0.018)	(0.016)	(0.008)
Regime_type	0.260***	0.256***	0.008	0.007	−0.001
	(0.028)	(0.028)	(0.011)	(0.010)	(0.005)
Aid_Amount		0.000*	0.000	0.000	0.000
		(0.000)	(0.000)	(0.000)	(0.000)
Num.Obs.	771	771	771	771	771
R2	0.681	0.683	0.013	0.006	0.019
R2 Adj.	0.679	0.680	0.005	−0.002	0.011
AIC	960.4	956.0	−417.9	−636.3	−1700.0
BIC	997.6	993.2	−380.7	−599.2	−1662.8
Log.Lik.	−472.221	−469.985	216.938	326.168	857.988
F	271.984	274.307	1.682	0.732	2.413
RMSE	0.45	0.45	0.18	0.16	0.08

+ p < 0.1, * p < 0.05, ** p < 0.01, *** p < 0.001

Table 3: Regression Table with Logged Data, Dropping Zero Values (Removed Skew)

	Model 1	Model 2	Model 3	Model 4	Model 5
(Intercept)	0.402***	−0.016	−0.036	−0.050	0.021
	(0.079)	(0.158)	(0.066)	(0.060)	(0.024)
GDP_per_capita	0.000***	0.000***	0.000**	0.000+	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Population	0.000*	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
GDP_growth_per_capita_percentage	−0.008*	−0.008**	0.000	0.000	0.000
	(0.003)	(0.003)	(0.001)	(0.001)	(0.000)
ATOP	0.348***	0.373***	0.041*	0.026	0.016*
	(0.048)	(0.048)	(0.020)	(0.018)	(0.007)
Regime_type	0.286***	0.286***	0.003	0.001	−0.001
	(0.030)	(0.030)	(0.012)	(0.011)	(0.005)
Aid_Amount		0.024**	0.002	0.004	−0.001
		(0.008)	(0.003)	(0.003)	(0.001)
Num.Obs.	655	655	655	655	655
R2	0.677	0.681	0.021	0.011	0.032
R2 Adj.	0.674	0.678	0.012	0.002	0.023
AIC	801.3	793.9	−356.0	−470.4	−1677.2
BIC	832.7	829.8	−320.1	−434.5	−1641.4
Log.Lik.	−393.666	−388.973	185.982	243.182	846.619
F	271.633	230.833	2.278	1.171	3.552
RMSE	0.44	0.44	0.18	0.17	0.07

+ p < 0.1, * p < 0.05, ** p < 0.01, *** p < 0.001

Table 4: Regression with Logged Data and Controls, not removing Skew

	Model 1	Model 2	Model 3	Model 4	Model 5
(Intercept)	0.475***	0.448***	−0.006	−0.018	0.007
	(0.077)	(0.077)	(0.031)	(0.027)	(0.014)
Aid	−0.031				
	(0.046)				
GDP_per_capita	0.000***	0.000***	0.000**	0.000+	0.000**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Population	0.000**	0.000*	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
GDP_growth_per_capita_percentage	−0.005*	−0.005*	0.000	0.000	0.000
	(0.002)	(0.002)	(0.001)	(0.001)	(0.000)
ATOP	0.357***	0.359***	0.025	0.019	0.010
	(0.044)	(0.044)	(0.018)	(0.016)	(0.008)
Regime_type	0.260***	0.256***	0.007	0.005	0.001
	(0.028)	(0.028)	(0.011)	(0.010)	(0.005)
Aid_Amount		0.001	0.000	0.001	−0.001
		(0.002)	(0.001)	(0.001)	(0.000)
Num.Obs.	771	771	771	771	771
R2	0.681	0.681	0.013	0.009	0.021
R2 Adj.	0.679	0.678	0.005	0.001	0.014
AIC	960.4	960.8	−417.9	−639.0	−1702.2
BIC	997.6	998.0	−380.7	−601.9	−1665.0
Log.Lik.	−472.221	−472.416	216.963	327.517	859.077
F	271.984	271.783	1.690	1.181	2.780
RMSE	0.45	0.45	0.18	0.16	0.08

+ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Appendix B: Data Visualizations

Figure 4:

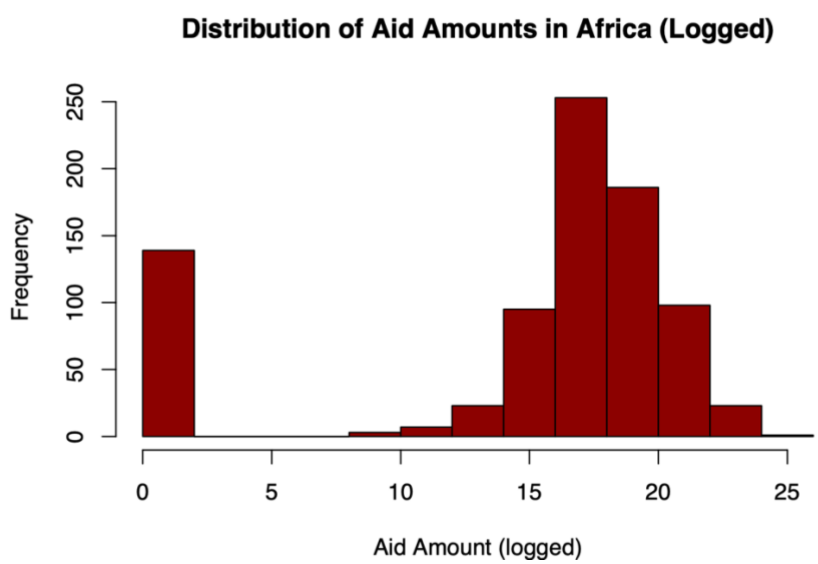
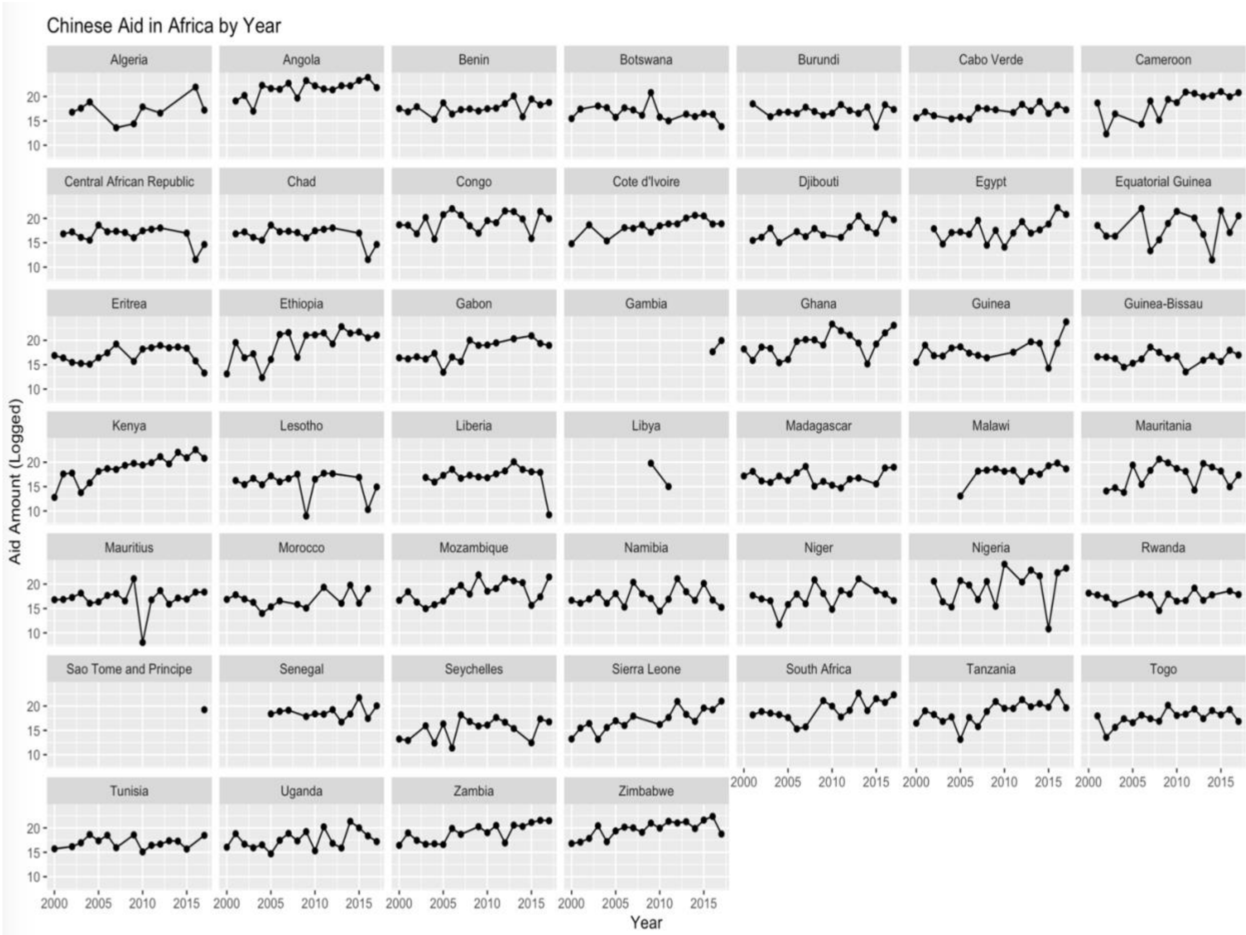


Figure 5: Chinese Aid in Africa by Year



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