

Buying influence? Rotating leadership in ASEAN and allocation of Chinese foreign aid

Taegyun Lim^{1,2}, and Sung Eun Kim ^{2,*}

¹*Department of Government, Harvard University, Cambridge, MA, USA;* ²*Department of Political Science and International Relations, Korea University, Seongbuk-gu, Seoul, The Republic of Korea*
**Email: sung_kim@korea.edu*

Accepted 30 March 2022

Abstract

China has expanded its economic footprint in Southeast Asian countries by providing a growing amount of development finance to the region. We examine the allocation of Chinese foreign aid toward Southeast Asian countries exploiting the exogenous variation of rotating leadership within Association of Southeast Asian Nation (ASEAN). As the ASEAN Chair possesses the agenda-setting power and represents the organization, China strategically allocates more development aid to the ASEAN Chair to augment its influence in the region. Our analysis of Chinese aid allocation between 2000 and 2017 finds that taking the leadership position at ASEAN appears to be significantly associated with an increase of official development aid flows from China, while other

commercial flows are only weakly associated with the leadership position. Our findings underscore the importance of considering the regional context in examining foreign aid allocation and show that a donor can target a regional organization to exert its political influence in the region.

1 Introduction

Southeast Asia is one of the most contested regions in the world, particularly given the intensifying strategic competition between the United States and China. In response to President Obama's 'pivot' policy toward Asia, Beijing has strived to expand its presence in the region via diverse channels including diplomatic, cultural, economic, and security instruments. The 10 Member States of the Association of Southeast Asian Nations (ASEAN) have long pursued a 'hedging' strategy to juggle their relationships with the world's two major powers. Yet recently, many observers of the region have noticed signs of a shift toward China. One area where China's influence is particularly evident is the economic sphere, as China is now by far the largest trade and investment partner of countries in the region (Shambaugh, 2018).

China's expanding economic footprint in ASEAN can also be seen in the rapid growth of its development finance in the region. Among the various tools China can use to promote its interests in the region, provision of development finance plays a crucial role. A growing amount of China's development finance has flowed to the region, serving the country's foreign policy objectives there. China's Official Development Assistance (ODA) to ASEAN increased from 127 million USD in 2000 to 270 million USD in 2017 after reaching a peak of 2.2 billion USD in 2015. Similarly, China's other official flows (OOF), which are also government funded but more commercially oriented, increased from 729 million USD in 2000 to 10.8 billion USD in 2017 (all in constant 2017 USD). However, the increase in Chinese development finance has not been evenly distributed across ASEAN member countries over time.

What determines China's allocation of development assistance to Southeast Asian countries? Who receives more aid or other forms of state financing from China? China's foreign aid is often considered 'rogue aid' in that it is dictated by selfish interests alone, rather than

region.¹ This agenda-setting power enables the ASEAN Chair to set priorities among a wide range of issues in the region. If China or any other donor countries intend to project their political influence in the region, targeting the ASEAN Chair as they strategically allocate foreign aid to the region could be an effective strategy.

We estimate the effects of ASEAN chairship on the extent of China's foreign aid, leveraging the annual rotation in the ASEAN leadership position among member countries. Our analysis addresses the identification problem posed by the possibility that the regional organization's leadership position is endogenously determined. If a country that is more influential or strategically important to China assumes the ASEAN chairship, identifying the independent effects of ASEAN chairship on the amount of China's foreign aid poses a challenge. The association between the chairship and Chinese foreign aid may reflect the effects of the chairing country's influence or its strategic importance rather than its chairship of ASEAN. Because the annual rotation in ASEAN's chair position is alphabetical, uncorrelated with other determinants of aid allocation, it provides a unique opportunity to identify the causal effects of the regional organization's leadership on countries' receipt of foreign aid.

Our analysis of Chinese aid allocation patterns between 2000 and 2017 finds that China allocates more foreign aid to an ASEAN member country when that country assumes the leadership position in ASEAN. Taking the leadership position at ASEAN appears to be significantly associated with an increase in ODA flows from China, a finding that remains robust to different model specifications. We also find that the financial reward for the ASEAN chair is not limited to the allocation of ODA. While the allocation of OOF is known to be largely driven by China's commercial interests rather than its foreign policy interests (Dreher et al., 2018), our findings suggest that China uses both ODA and OOF as a strategic instrument to buy influence within the ASEAN by allocating more development finance to the ASEAN Chair, a position endowed with important agenda-setting power within the regional organization.

Our findings contribute to the broader understanding of how China uses foreign aid in Southeast Asia. Despite the region's significance,

1 See <https://asean.org/asean/external-relations> (Accessed on March 3, 2021).

given the strategic competition for influence between the United States and China, previous studies on China's foreign aid allocation have mostly focused on the African continent (Naim, 2007; Dreher and Fuchs, 2015; Dreher et al., 2018; Guillon and Mathonnat, 2020). Our research highlights the importance of considering region-specific contexts to understand how China allocates its foreign aid to recipient countries in different regions.

Furthermore, our findings underscore how a donor country can target a regional organization to increase its political influence in the region as a whole. The literature on the strategic allocation of aid has focused primarily on the context of bilateral relations between donor and recipient countries (Alesina and Dollar, 2000; Lai, 2003; Fleck and Kilby, 2010; Boutton and Carter, 2014). However, as developing countries are organized around regional organizations, donor countries may shift their allocation of aid to expand their influence on these organizations. Our research demonstrates that donors can exert indirect influence on member countries of regional organizations by strategically allocating more aid to recipient countries with more influence within the regional organizations. In a world with institutional regionalism, targeting such an organization can be an effective strategy that serves donors' interests.

Below, we review the relevant literature on strategic allocation of foreign aid. We then provide historical context for Chinese foreign policy toward Southeast Asia, followed by a discussion of the theoretical expectations for the relationship between the ASEAN chairship and China's aid allocation. The subsequent sections present our data, empirical strategy, and empirical results. The concluding section discusses the broader implications of our findings for understanding the aid allocation strategies of emerging donors and their effects on developing countries.

2 Strategic allocation of foreign aid

A long line of research suggests that states strategically allocate foreign aid to advance their foreign policy goals. Morgenthau (1962, p. 309), for instance, states, 'a policy of foreign aid is no different from diplomatic or military policy or propaganda. They are all weapons in the political armory of the nation'. This framework suggests how states

can use foreign aid to serve their interests abroad ‘which cannot be secured by military means and for the support of which the traditional methods of diplomacy are only in part appropriate’ (Morgenthau, 1962, p. 301). This view emphasizes that foreign aid can serve the strategic interests of donor countries, in a manner distinct from other military and political instruments.

Donors can pursue their strategic interests by allocating more aid to their allies. The strategic use of foreign aid has attracted scholarly attention since the Cold War. Studies focusing on the United States demonstrate that its foreign aid allocation during that period was largely guided by strategic competition with the Soviet Union (e.g. McKinlay and Little, 1977; Lebovic, 1988). In the post-Cold War period, such research has continued. For instance, Lai (2003) demonstrated that the United States provides more foreign aid to states that are more important to its national security (e.g. Latin American nations or states that bordered a rogue state). Following the September 11th attack, US foreign aid allocation was largely shaped by its strategic interests in countering international terrorism (Fleck and Kilby, 2010; Boutton and Carter, 2014). Carter and Stone (2015) also find that the United States uses its aid to reward or punish other democratic countries for their voting behavior at the UNGA, although its use of aid is not as responsive to the voting behavior of autocratic countries.

More broadly, the seminal work by Alesina and Dollar (2000) expanded the empirical scope of the literature by exploring how major donor countries consider various strategic and political factors when allocating bilateral foreign aid to recipient countries. Examining the relative significance of various determinants of foreign aid, Alesina and Dollar (2000, p. 34) find that ‘the direction of foreign aid is dictated as much by political and strategic considerations, as by the economic needs and policy performance of the recipients.’ They find that a past colonial relationship and political alliances, measured in terms of similarity in voting patterns at the UNGA, are the major predictors of aid allocation. Ohtsuki (2016) also shows that donors seek to optimally allocate foreign aid to specific recipients with specific concessions in return. In a similar vein, Kuziemko and Werker (2006) have examined the effects of United Nations (UN) Security Council membership on foreign aid receipt. By leveraging the fact that 10 out of 15 seats are held by rotating members for 2-year terms, they find that recipient

countries serving on the Security Council receive considerably more foreign aid from the United States as well as the UN.

Recently, with the emergence of new donors, studies have begun to explore the determinants of aid allocation by donors who are not members of the Organisation for Economic Co-operation and Development (OECD)'s Development Assistance Committee. For instance, [Dreher *et al.* \(2011\)](#) examine how aid allocation by new donors differs from the aid allocation of longtime donor countries. They find that new donors care less about recipients' need, and provide more aid to countries with corruption than longtime donors do. The findings of [Fuchs and Vadlamannati \(2013\)](#) suggest that when distributing aid, India prioritizes both commercial and political benefits. On the whole, these studies suggest that emerging donors, like traditional donors, consider strategic self-interest when allocating foreign aid to recipient countries.

A large body of literature has examined China's role as an emerging major donor to developing countries. On the one hand, there are critical perspectives on Chinese foreign aid, which is often viewed as 'rogue aid' (e.g. [Naim, 2007](#)). Skeptics allege that Chinese foreign aid is almost entirely guided by self-interest, based on China's commercial interests and the geopolitical benefits of its aid allocation. On the other hand, [Dreher and Fuchs \(2015\)](#) demonstrate that China considers political factors when allocating aid, but the influence of such factors is not stronger than it is for Western donors. These competing perspectives on the determinants of Chinese foreign aid allocation call for further empirical research to develop a comprehensive understanding of how and to what extent Chinese foreign aid is guided by the country's strategic and political interests.

The advent of AidData, which tracks development finance projects by China and other major donor countries, has enriched the discussion of the determinants and the effects of Chinese foreign aid ([Dreher *et al.*, 2021](#)). For instance, [Broich \(2017\)](#) finds that political regimes do not significantly affect Chinese aid allocation decisions, contrary to the widespread criticism that Chinese foreign aid supports authoritarian regimes. The study by [Dreher *et al.* \(2018\)](#) underscores the importance of distinguishing the different sources of Chinese capital flows to developing countries, showing that Chinese foreign policy considerations shape the allocation of Chinese ODA considerably, while less

concessional financial flows are more driven by economic interests. Other studies have further disentangled the logic of China's foreign aid allocation by examining the allocation patterns across different industry sectors and sub-regions (e.g. [Dreher *et al.*, 2019](#); [Guillon and Mathonnat, 2020](#)).

The extant literature provides valuable insights into the allocation of Chinese foreign aid, but China's aid allocation in regions other than Africa remains underexplored. Although African countries are the major recipients of Chinese foreign aid, the findings from these countries may not be applicable to other regions. Moreover, a common pitfall of the literature is the implicit assumption that China's strategic or political interests can be captured in a uniform way regardless of regional context. While a country's recognition of Taiwan or its UNGA voting similarity with China can be an important indicator of its strategic importance or its political relations with China, there are other important region- or country-specific variations that are not captured by these indicators. Our study contributes to the literature by articulating the logic of China's strategic allocation of aid to Southeast Asia.

3 Chinese Foreign policy toward Southeast Asia

The current form of Sino-ASEAN relations date to the 1997–99 Asian Financial Crisis, when Chinese relations with Southeast Asian countries were significantly strengthened ([Ba, 2003](#)). The crisis shattered the cohesion of ASEAN, revealing the limits of the institution's ability to address the financial hardships in the region ([Narine, 2008](#)). While ASEAN countries were deeply disappointed by the harsh conditions imposed by the International Monetary Fund and the limited role of US leadership in overcoming the financial crisis, China provided vital support to ASEAN members ([Ba, 2003](#)). China's policies toward the region, including its \$1 billion in assistance to Thailand and its decision not to devalue the Yuan, helped alleviate the financial crisis, consolidating China's leadership position in the region ([Shambaugh, 2005](#)).

The period from the Asian Financial crisis in 1997 to China's entry into the WTO in 2001 was a 'critical juncture' in China's policies toward Southeast Asia ([Chin and Stubbs, 2011](#), p. 281). Strengthening its cooperation and integration with regional organizations became a key

strategy of China's foreign policy toward the region. China's perception of the regional organizations 'evolved from suspicion, to uncertainty, to supportiveness' (Shambaugh, 2005, p. 69). In the early 2000s, China and ASEAN began to hold regular dialogs at the summit and ministerial levels.² The ASEAN–China Export Group was established in 2000, and served as the ground for a free trade agreement (Chin and Stubbs, 2011). China has further engaged with the region on various fronts, and 'China's support has been critically important for ASEAN's efforts to maintain a prominent role in the regional institutional framework' (Narine, 2008, p. 424).

In its recent engagement with the region, China has used diplomatic, cultural, economic, and security instruments (Shambaugh, 2018, p. 87). Among the multiple channels China has used to expand its influence in the region, allocation of foreign aid also fits within the larger framework of foreign policy. While China's decision to allocate foreign aid to Southeast Asian countries may be influenced by multiple factors, we argue that China has a strategic incentive to allocate more foreign aid to the country that assumes the role of Chair at ASEAN. As the ASEAN Chair enjoys agenda-setting power within the institution, China can attempt to buy influence within the region by strategically providing more aid to the country serving as Chair.

Formally, the ASEAN Chair is supposed to organize two annual ASEAN summits and to arrange ministerial meetings among Member States, according to the Article 31 of the ASEAN Charter. Further, the Article 32 states that the Chair shall 'actively promote and enhance the interests and well-being of ASEAN [...] ensure an effective and timely response to urgent issues or crisis situations affecting ASEAN [...] and carry out such other tasks and functions as may be mandated'.³

Beyond simply hosting the summits, the Chair can exercise its influence through its agenda-setting power. While all member countries can make proposals and exchange compromises or concessions during the negotiation, the Chair can guide the discussion to reach to the zone of

2 For more on ASEAN's relations with China, see <https://asean.org/asean/external-relations/china/>.

3 'Charter of the Association of Southeast Asian Nations'. Available at <https://asean.org/wp-content/uploads/images/archive/publications/ASEAN-Charter.pdf>

possible agreement among all members. In the process, the Chair can decide to prioritize or exclude proposals (Suzuki, 2021).

The agenda-setting power of the ASEAN Chair is derived from two main factors: (i) consensus-based decision making and (ii) rotating leadership. First, the Chair can exert more influence over decision-making due to the consensus-based model. While ASEAN has adopted decision-making by consensus, famously characterized as the ‘ASEAN Way’, a coordination process is needed to reach agreements among Member States with conflicting interests. Since each member state essentially has veto power as they work toward consensus, the role of the Chair of setting the agenda and guiding discussions is critical to reach an agreement.

Second, the rotating leadership creates diffuse reciprocity which induces the Member States to delegate more discretion to the Chair. Compared to alternative forms of leadership selection (e.g. electing state representatives or appointing supranational officials), rotation of leadership is more likely to open up logrolling dynamics that grant the Chair room for maneuvering. In particular, this dynamic is likely to be stable when a limited number of parties hold the chairship at regular intervals (Tallberg, 2010). This is clearly observed in the case of ASEAN as Member States allow strong agenda-setting power to the Chair because each member also expects to take on the leadership role in the near future (Suzuki, 2021).

Examples of how countries assuming the chairship have led agendas within the organization abound. For example, Thailand suggested the founding of the ASEAN-Japan Cybersecurity Capacity Building Centre located in Thailand through the ASEAN Political and Security Community.⁴ Under the chairship of the Lao PDR in 2016, the ASEAN Summit declared plans to launch the Lao–Thailand–Malaysia–Singapore (LTMS) Power Integration Project.⁵ These cases illustrate the significant power of the ASEAN Chair driving the regional agenda.

One recent case that directly illustrates the agenda-setting power of the ASEAN Chair is ASEAN’s position on territorial disputes in the

4 <https://asean2019.go.th/en/infographic/the-asean-japan-cybersecurity-capacity-building-centre-ajcc-bc/>

5 ASEAN Chairman Statement, 2016, <https://asean.org/wp-content/uploads/2016/08/Final-Chairmans-Statement-of-the-28th-and-29th-ASEAN-Summits-rev-fin.pdf>

South China Sea, a subject over which ASEAN Member States are divided. While Brunei, Malaysia, the Philippines, and Vietnam have territorial disputes with China, other Member States such as Cambodia, the Lao PDR, Myanmar, and Thailand have no such territorial disputes and prioritize maintaining economic relations with China. Indonesia viewed itself as a nonclaimant in the South China Sea territorial disputes. Although the exclusive economic zone of its Natuna Islands overlaps China's 'nine-dashed line', it was not subject to territorial disputes with China until the early 2010s. It was only in 2015 when Indonesia began to increasingly discuss the Natuna Islands issue in the context of national security (Meyer *et al.*, 2019).

When Indonesia chaired ASEAN's Foreign Ministers' Meeting (AMM) in 2011, the country insisted that territorial disputes should be addressed bilaterally and use its agenda-setting power to deliberately exclude the Philippines' proposal to resolve the disputes at ASEAN. In 2012, as territorial disputes with China continued in the South China Sea, the Philippines and Vietnam sought ASEAN support for their position. While most Member States generally supported the proposals by the Philippines and Vietnam to express concern about China's actions through the AMM joint communique, Cambodia, which served as Chair at the time and received substantial amounts of development aid from China, declined to do so (Suzuki, 2021). Following this decision, some observers began to characterize Cambodia as a Chinese 'client state/and China announced over \$500 million in new loans and grants to Cambodia', noting 'the part played by Cambodia as the chair of ASEAN to maintain good cooperation between China and ASEAN'⁶ (Ciorciari, 2015).

The Philippines' stance on the South China Sea softened upon the election of President Rodrigo Duterte. The Philippines used the ASEAN to promote its appeasement policy on China when it took the ASEAN's Chairship position in 2017. Although the arbitral tribunal under the UN Convention on the Law of Sea (UNCLOS) ruled in favor of the Philippines, President Duterte decided not to raise the rulings during the ASEAN summit in 2017. Indeed, the arbitral ruling was not put on the agenda at any of the ASEAN-related meetings in 2017 (Shoji, 2019). Castro (2020, p. 348) notes, 'By accepting Chinese

6 'China gives Cambodia aid and thanks for ASEAN help', *Reuters*, 4 September 4, 2012.

economic aid and rejecting former President Aquino's confrontational stance on the South China Sea dispute. President Duterte dismissed the idea that any benefits could come out from the arbitral ruling. [...] As summit chairperson, he made sure that the communique did not include any reference to Chinese island-building and weapons development on the reclaimed land features nor did it touch on the [Permanent Court of Arbitration] ruling that declared China's excessive claim in the South China Sea as a violation of international law.' Similarly, [Shoji \(2019, p. 35\)](#) writes, 'the behavior of the Philippines as the ASEAN chair created a magnetic field that drew the whole of ASEAN strongly toward China'. This case is again illustrative of the agenda-setting power of the ASEAN Chair.⁷

These cases also illustrate why China would be incentivized to strategically allocate its development finance to the chairing state of ASEAN. The consensus-based decision-making model effectively gives each member veto power, meaning that China can influence any member to veto proposals that may go against China's interests. However, Member States would typically reserve their veto power only to crucial cases because they also recognize the costs of nonagreement that would result from its exercise of veto power. Thus, it can be more costly to induce member countries to veto negotiated proposals unless their interests are already well-aligned with China. From China's standpoint, it would be also in its strategic interests to exclude any potentially problematic issue from the agenda to begin with rather than waiting for the final negotiation outcome to be vetoed by one member state. Even if a proposal is 'successfully' vetoed at the final stage, the vetoed proposal will likely receive much attention from policymakers from the region and around the world and unavoidably reveal the tension between China and the other ASEAN members, which can be a costly diplomatic challenge for China.

Drawing on the history of China's strategic interactions with the ASEAN Chair, we expect that China distributes more foreign aid to the country that assumes the role of Chair. While China can increase its aid allocation to all member countries to exert influence over the

7 While we cannot make any causal claim on the effect of the Philippines' chairship role on the amount of Chinese development finance, China made commitment to provide \$464 million in development finance in 2017, while its average annual commitment was \$74.1 million between 2012 and 2016.

region, all else equal, China will be more likely to allocate its financial resources to buy influence over the ASEAN Chair within the budget limit. As the ASEAN Chair is empowered to set the agenda for the regional organization, the Chair's position on relations with China can be a key determinant of the overall direction of ASEAN–China cooperation. Thus, China is better able to realize its foreign policy goals vis-a-vis ASEAN if it provides more foreign aid to the ASEAN Chair.

4 Data and empirical strategy

To test whether China allocates more foreign aid to an ASEAN Member State when that state assumes leadership of ASEAN, we assemble annual time-series data capturing China's development finance to recipient countries between 2000 and 2017. Our data are drawn from AidData's Global Chinese Development Finance Dataset (Version 2.0) released in September 2021 (Custer *et al.*, 2021). The dataset includes detailed information on 13,427 Chinese development finance projects worth \$843 billion USD across 165 countries from 2000 to 2017. This is an updated version from AidData's Global Chinese Official Finance Version 1.0, which captured 4,374 projects worth \$354.4 billion between 2000 and 2014.

Drawing on information on individual projects, we construct aggregate data on the amount of China's official financial flows at the level of recipients and commitment years. We also disaggregate development finance into ODA and OOF. AidData 2.0 classifies development finance projects as ODA-like projects when they meet three conditions: (i) the donor's intent is development; (ii) they are concessional in character, with a grant element of at least 25%; and (iii) the recipient qualifies for ODA based on its income level. Projects are classified as OOF-like if they are supported by official finance but do not meet all three criteria. The rest of the projects are classified in the 'Vague (Official Finance)' category due to insufficiently detailed information for classifying the projects in either category.

Figure 1 illustrates the regional distribution of Chinese development finance by the classification of flow types. Between 2000 and 2017, 24.6, 22.8, and 21.0% of Chinese aid went to Africa (206 billion USD), America (192 billion USD), and Asia (excluding ASEAN, 176 billion

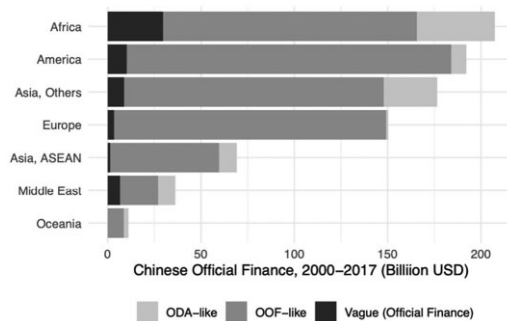


Figure 1 China's official finance across regions, by flow classification.

USD), respectively.⁸ During this period, ASEAN countries received 8.2% of Chinese aid, worth over 69 billion USD. While ASEAN countries received a relatively small amount of aid compared to countries in Africa during this period, Chinese development finance to ASEAN increased significantly in recent years, indicating the region's increasing strategic importance to China (see Fig. A1 in the [Supplementary appendix](#) for the trend in Chinese aid allocation over time).

Another notable pattern in Fig. 1 is a low share of ODA (12%) in Chinese development finance. This is very different from the pattern of other major donors who provided most of its development finance via ODA.⁹ For ASEAN, China provided 14% of its development finance via ODA, 84% via OOF, and 2% via vague projects. For our analysis, we examine the total amount of Chinese development finance commitments including all types of projects (ODA, OOF, and vague) as well as the amount of Chinese development finance in the form of ODA and OOF separately.

The dependent variable is the logged amount of China's official finance commitment to ASEAN member countries. We consider all projects commitments in a given year, only excluding umbrella projects to

8 Since China does not systematically publish data on its development finance, we calculate this aggregate number based on AidData 2.0. We include those projects formally approved, active, and completed projects, excluding all canceled projects, suspended projects, and projects that never reached the official commitment stage. We also exclude "umbrella" agreement to avoid double counting.

9 During the same period, more than 73% of official financing from the United States, 90% from the UK, and 87% from France was provided via ODA, whereas the ratio of ODA to OOF is more evenly distributed for Germany, Japan, and Canada (Custer et al., 2021: 12).

avoid double-counting. We construct three variables for all flows, ODA, and OOF. As the logarithm of 0 is undefined, we add 1 to all observations before taking logarithm. The amount is considered 0 when there is no record of relevant development finance project for a given recipient in a given year. As both donor and recipient governments have incentives to publicly announce new development projects, the AidData is likely to capture all major development projects allocated to recipient countries. For this reason, the existing empirical studies utilizing AidData consider observations with no record of aid projects to have received zero amount of aid (e.g. Dreher *et al.*, 2018; Brazys and Vadlamannati, 2021; Dreher *et al.*, 2021). While we follow this approach in the main analysis, we additionally estimate the same models by treating those observations with no record as missing observations. Table A3 in the [Supplementary appendix](#) still shows that countries receive more aid from China when they take the leadership position at the ASEAN.

Figure 2 presents the distribution of China's official finance commitment to ASEAN member countries between 2000 and 2017. Indonesia has been the largest recipient of Chinese development finance, followed by Malaysia, Vietnam, and Lao PDR, while Brunei and Thailand have received the least amount of development finance. There is a significant variation in the composition of development finance portfolio across member countries. Indonesia, Myanmar, and Cambodia are the top three ODA recipients, while Indonesia, Malaysia, and Vietnam are the top three OOF recipients. As Singapore is a high-income country, it has not received any development finance from China and is excluded from our analysis. While Brunei is also a developed country and not eligible to receive ODA according to OECD's DAC categorizations, it has received OOF from China during this period and is thus included in the analysis.

The independent variable is the rotating chairship within ASEAN, which takes a value of 1 if a country is ASEAN Chair, and 0 otherwise. ASEAN has maintained rotating leadership since its foundation. Since the current 10 Member States joined the organization, the leadership role has been shared relatively equally among them. The leadership has rotated based on the alphabetical order of member countries' English names from 2001, with very few exceptions.¹⁰ Since the

10 One recent departure from this norm was Indonesia's swapping of the Chairship with Brunei in 2011. Indonesia requested for the swap due to its scheduled hosting of the Asia

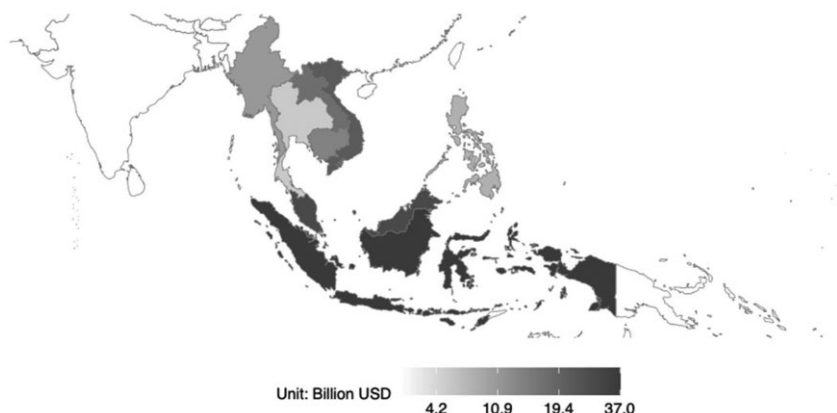


Figure 2 China's official development finance toward ASEAN, 2000–17.

variation in the chairship is largely uncorrelated with other political and economic determinants of ODA, we can exploit this variation to test the causal effects of assuming the chairship position on inflows of Chinese ODA. We present balance statistics in [Table A2 in the Supplementary appendix](#). We expect the chairship to be positively correlated with China's ODA-like flows, which are guided more by its foreign policy interests relative to OOF.

Before we turn to discuss our full statistical models and results, we visually compare the amount of Chinese development finance commitment to ASEAN's chair and nonchairs between 2000 and 2017 in [Fig. 3](#). For each year, we present the total commitment amount of Chinese development finance for the ASEAN Chair (dark gray) and its average value for all nonchairing states (light gray). Except for a few years when the chairship position was taken by developed countries such as Brunei and Singapore, which do not generally receive development finance, the figure clearly demonstrates a chairship premium that gives more aid to the ASEAN Chair relative to nonchairing states. While the Philippines received a noticeably less amount of aid

Pacific Economic Co-operation meeting in 2013, which coincided with its scheduled chairship of ASEAN. This request was unanimously accepted by the other ASEAN Member States. Another case to mention is Myanmar which was pressured to forfeit its turn at chairship due to its human rights controversy in 2005. Myanmar took the chairship position in 2014 after its political and economic reform. See Sun, Yun. 'Myanmar's ASEAN Chairmanship: An Early Assessment', Stimson Center, September 10, 2014 (Available at <https://www.stimson.org/2014/myanmars-asean-chairmanship-an-early-assessment/>.)

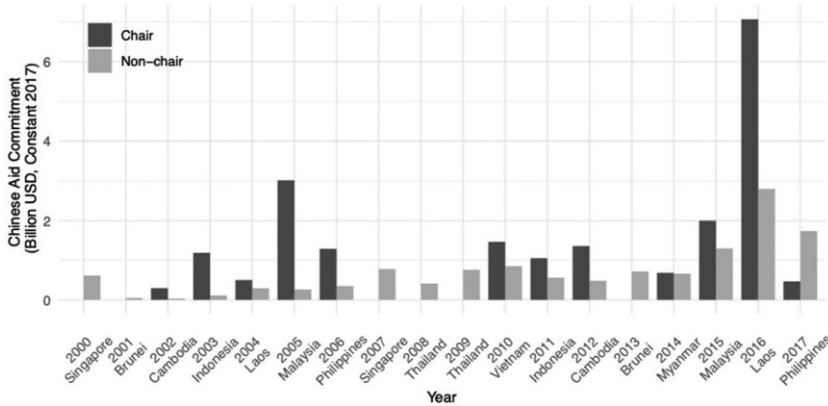


Figure 3 China's official development finance toward ASEAN by chairs and nonchairs, 2000–17.

compared to other countries in 2017, it should be noted that the amount of development finance increased by more than six times compared to the prior years as discussed in footnote 7. Overall, this pattern is on average consistent with our expectation of China rewarding the ASEAN chair with development finance.

To further ensure that our findings are not driven by any other observable characteristics, we add a wide range of covariates that may influence China's foreign aid allocation.¹¹ We first consider member countries' level of economic need by controlling for the logged values of Gross domestic product (GDP) per capita and the mortality rate for those under 5.¹² If Chinese aid projects are intended to promote development in recipient countries, China would allocate foreign aid to countries in greater need of development assistance.

To control for other self-interested political factors China may consider when allocating foreign aid, we consider member countries' non-permanent UN Security Council (UNSC) status and their voting behavior in the UNGA.¹³ Studies have noted that recipient countries

11 We do not include any time-invariant covariates (e.g. an indicator for English-speaking countries) because we estimate models with country fixed effects as discussed below.

12 We use data from the World Development Indicators (<https://data.worldbank.org/>).

13 None of the ASEAN countries have recognized Taiwan, which has been a profound political factor in China's allocation of aid. As there is no variation in this factor across ASEAN member countries, we do not consider it in our analysis.

with nonpermanent UNSC status receive more aid from Western donors aiming to expand their influence in the decision-making process at the UN (Kuziemko and Werker, 2006; Vreeland and Dreher, 2014; Reynolds and Winters, 2016). China could punish these countries for aligning with Western donors by curtailing the amount of Chinese foreign aid they receive (Dreher *et al.*, 2018). We also consider recipient countries' political alignment with China based on the recipient countries' voting behavior in the UNGA and the extent of their alignment with the United States (Bailey *et al.*, 2017). We expect that countries with greater voting similarity with China (the United States) receive more (less) foreign aid from China.

We add several variables to measure China's economic interests with regard to recipient countries. We first consider China's trade relationships with recipient countries, measured as the logged value of Chinese trade with each recipient.¹⁴ Foreign aid could function as part of an economic strategy to strengthen China's trading relationship with recipient countries, with China giving more aid to recipient countries that trade with it in larger volumes. The logged population size captures the potential market size of recipient countries. Foreign aid can raise positive awareness of the donor, which could lead citizens in recipient countries to purchase more of the donor's goods in the future. China could target larger countries from which it could expect to boost sales of its products. Natural resource rent captures China's intention to gain greater access to countries with more natural resources.¹⁵

We include a variable on control of corruption to examine how the quality of governance in recipient countries affects China's aid allocation. The data come from the Worldwide Governance Indicators (Kaufmann and Kraay, 2021). With this indicator, we can test whether China indeed provides 'rogue aid' by supporting countries with more corrupt regimes (Naim, 2007; Dreher and Fuchs, 2015).

Lastly, we consider whether ODA commitments from DAC donors impact the allocation of Chinese aid.¹⁶ Previous studies have noted

14 Data were drawn from the UN Comtrade database accessed on 24 July 2021.

15 The data on population size and natural resource rent are drawn from the World Development Indicators (<https://data.worldbank.org/>)

16 We rely on information on aid commitments from the OECD Statistics (<https://stats.oecd.org/Index.aspx?DataSetCode=TABLE3A>).

that China competes with traditional donors in its expansion of influence through foreign aid policies (Sarma and Pais, 2008; Fuchs, Nunnenkamp, and Ohler, 2015; Bueno de Mesquita and Smith, 2016). Following the approach by Dreher *et al.* (2018), we control for potential competition among donors using the residuals of an ordinary least squares regression of logged ODA from all DAC donors on all right-hand side variables.

With these variables, we estimate the following model:

$$Y_{it} = \beta_1 * Chair_{it} + X_{it} + \lambda_i + \gamma_t + \mu_{it} \quad (1)$$

where Y_{it} is the logged amount of Chinese official financial flows to recipient country i in year t . We are interested in β_1 , the coefficient on Chair, which would be positive and statistically significant if China financially rewards the country that assumes the position of ASEAN Chair. The model includes X , a set of control variables for country i in year t . Our model also includes λ , a vector of country fixed effects, in order to control for country-specific factors related to China's foreign aid allocation. Since we are interested in how assuming the chairship position changes the amount of foreign aid member countries receive from China, we employ fixed effects models. The fixed effects model estimates the effect of taking the chairship position on the amount of aid flows, essentially controlling for the average amount of Chinese aid a country received during the whole period under examination.¹⁷ The model also includes γ , a vector of year fixed effects, to account for temporal trends in Chinese aid allocation over time.

5 Results

Table 1 presents the results. Model 1 depicts the total amount of financial flows, aggregating all types of development finance including

¹⁷ We additionally estimate models with alternative specifications. In [Supplementary Appendix Table A4](#), we present the results from the pooled OLD models without country fixed effects. The main results remain robust to these alternative model specifications. In [Supplementary Appendix Table A5](#), we estimate the same models additionally controlling for the amount of development finance received in the previous year. Controlling for the amount of aid received in the previous year, we still find a significant effect of taking the chairship position on Chinese aid. In this model, our observation starts from 2001 because we cannot estimate the models from 2000 due to the lack of information on the level of Chinese development finance in 1999.

Table 1 ASEAN chairship and China's development finance (logged amount, 2000–17)

Variables	(1)	(2)	(3)
Chair	2.404 ⁺ (1.401)	3.258** (1.027)	3.950* (1.877)
GDP per capita (log)	-0.572 (4.446)	2.805 (4.715)	1.221 (7.416)
Mortality under 5	0.060 (0.063)	-0.003 (0.065)	-0.151 (0.126)
Affected from disasters (log)	0.069 (0.109)	0.097 (0.116)	0.017 (0.164)
UNSC	2.367 (2.084)	3.303 ⁺ (1.891)	4.010 (3.119)
UN voting with China	7.034* (3.203)	2.295 (3.186)	9.148 ⁺ (4.877)
UN voting with the United States	-2.058 (3.358)	1.652 (3.445)	0.931 (5.790)
Trade with China (log)	0.173 ⁺ (0.090)	0.120 (0.106)	0.234 (0.161)
Population (log)	11.740 (28.527)	3.400 (22.807)	-6.937 (38.652)
Natural resources rent	-0.201 (0.173)	0.179 (0.164)	-0.407 (0.253)
Control of corruption	-1.264 (2.347)	-0.233 (2.602)	-1.697 (3.385)
DAC OF (log, residuals)	-1.574 (1.031)	-1.295 (0.907)	-1.894 (1.580)
Country FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	162	162	162

Robust standard errors in parentheses.

⁺ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$.

ODA, OOF, and other vague official finance. Models 2 and 3 disaggregate the official financial flows into ODA and OOF, respectively. ODA is more concessional in nature, as it is designed to promote development in recipient countries. In contrast, OOF includes loans and

export credits that are not concessional or that are not primarily designed for economic development or welfare in the recipient country (Dreher et al., 2018).

The results suggest that assuming the ASEAN chairship is positively associated with official financial flows received from China (Model 1). We find that the effects of the ASEAN chairship are positive and statistically significant for both ODA (Model 2) and OOF (Model 3). Our findings show that foreign policy considerations have a meaningful effect on China's allocation of foreign aid to Southeast Asian countries. In particular, the results are consistent with our expectation that China has a strategic incentive to increase development finance to the country that assumes the ASEAN leadership position. Given the substantial influence by the ASEAN Chair in setting the overall direction of ASEAN's relationship with China, China can expect more policy concessions from the region if it provides more aid to the country serving as ASEAN Chair.

It is notable that we find the chairship premium for both ODA and OOF. This suggests that the position of the ASEAN Chair is a significant political consideration for the allocation of Chinese development finance to Southeast Asian countries. While Dreher et al.'s (2018) analysis of Chinese aid to African countries finds that ODA flows are more subject to China's foreign policy considerations than more commercially oriented OOF flows, our analysis focused on Southeast Asian countries finds that both ODA and OOF flows are guided by the consideration about ASEAN's leadership position. As OOF flows are also funded by government agencies as ODA flows, the Chinese government can exert influence to increase OOF flows to the chairing country.

Indeed, OOF can be an important strategic instrument for buying influence from receiving countries. OOF accounts for more than ODA in the portfolio of Chinese development finance, as shown in Fig. 1. O'Neill (2018) explains that China can maintain long-term influence over the receiving state by providing loans (classified as OOF) than concessional aid (classified as ODA) because China can use loans as leverage over recipient countries. When recipient countries build closer relationships with China, Beijing can then decide to gradually forgive OOFs. For these reasons, China may use both ODA and OOF strategically to buy influence over the ASEAN Chair. While China increases aid in concessional nature as a short-term incentive to the ASEAN

Chair, it also makes commitments to provide OOF in the forms of loans which should be repaid, but which China can later decide to forgive depending on its relationship with recipient countries.

We next test for another theoretical possibility that China tries to buy influence over the ASEAN Chair prior to serving its term or after having served its term as the Chair. As the order of the chairship is predetermined according to the alphabetical order, China knows in advance which country will assume the chairship in the next year and may attempt to buy influence before the chairship term starts. At the same time, it is also equally plausible that China may 'reward' the country after it serves the chairship position. [Carter and Stone \(2015\)](#) indeed found that the United States increased its aid to countries for voting in line with the United States interests at the UNGA. This can be applicable in the context of Chinese aid allocation in that China may decide to 'reward' the Chair after its term.

We test for this possibility by including the lagged and the lead terms for the ASEAN Chair in [Table A6 in the Supplementary appendix](#). We do not find any significant effects of the lead or the lagged variables of the ASEAN Chair. We find that China does not allocate more aid to recipient countries in a year prior to or after its chairship term. This suggests that China strategically commits to increase its development finance during the chairship term. As China has limited resources to allocate to development finance, it is in its strategic interests to find an optimal timing to increase its aid and China seems to have decided to concentrate its resources to the incumbent chair instead of distributing resources to the prior and the next chairing countries. At the same time, China can 'reward' the countries for serving Chinese interests after the term by utilizing its OOF commitments. It is plausible that China provides loans to the chairing state and forgives its loans afterwards depending on the degree of policy concession made during the term. This may explain why China does not necessarily increase new aid commitments after a recipient country serves its term.

Turning to other variables, we find that serving as a nonpermanent member of the UNSC is positively associated with receiving Chinese foreign aid, although it is statistically significant for explaining the pattern of ODA allocation. This is in contrast to the earlier findings that analyzed aid to countries in Africa, which show that China punishes countries for serving in the UNSC, as this aligns such countries more

closely with Western donor countries (Dreher *et al.*, 2018). In addition, we find that political alignment with China, measured using UNGA voting patterns, is positively associated in explaining China's aid allocation to Southeast Asian countries. The results suggest that China rewards countries for voting in line with their interests with an increased amount of development finance, especially in the form of OOF.

As for other control variables, we find that Chinese development finance to Southeast Asian countries does not necessarily go to the countries with the greatest economic or development need. The coefficient on *Mortality under 5* is not statistically significant in explaining the amount of all official flows and with ODA and OOF amounts from China, indicating that countries in greater need do not necessarily receive more development assistance from China, all else being equal. Also, the coefficient on *GDP per capita (log)* is not statistically significant at the conventional level. We also find that China does not necessarily provide more assistance to countries that are affected by disasters. The results on the whole suggest that recipient countries' level of need does not account for much of China's foreign aid allocation.

Lastly, we also find that Chinese aid tends to go to countries with poor governance, as indicated by the negative coefficient on *Control of corruption*, although statistically indistinguishable from 0. The findings are in line with those from the analysis of recipient countries in Africa.

6 Conclusion

As strategic competition between the United States and China has intensified, China has strived to expand its regional leadership in Southeast Asia. Among the various diplomatic and economic tools in its toolkit, development finance to Southeast Asian countries has been a major economic instrument China has used to project its influence in the region.

In this research note, we have examined China's strategic use of foreign aid to support the country serving as ASEAN Chair. Our analysis of China's foreign aid allocation to ASEAN member countries demonstrates that China increases its ODA- and OOF-like flows to the country that assumes leadership of ASEAN. Our results suggest that in its strategic use of foreign aid, China not only considers its bilateral relations with recipient countries, but also its relations with the region as a

whole. Providing more support to the ASEAN Chair is an effective strategy because the Chair has a substantial influence on the overall direction of ASEAN's relations with China.

This research note makes an important contribution to the literature on foreign aid in two ways. First, we demonstrate the importance of considering the regional context in unraveling the strategic allocation of foreign aid. While previous studies have examined how donors consider their strategic interests, focusing on a few measures that apply equally to different regions, such as voting similarity, our findings highlight the importance of considering regional contexts to better understand the motivations of donors' allocation of aid. For instance, countries' recognition of Taiwan, one of the most profound determinants of China's aid allocation, does not influence aid allocation within Southeast Asia, since no ASEAN countries have recognized Taiwan. Instead, our findings suggest that the aid allocation strategy for each region has its own unique logic. Our results suggest that greater attention be paid to the political factors tied to regional dynamics.

Second, our approach helps identify the causal effects of assuming leadership of a regional organization on foreign aid receipt. While previous studies have examined the effects of assuming various positions at international organizations (e.g. [Kuziemko and Werker, 2006](#); [Vreeland and Dreher, 2014](#); [Reynolds and Winters, 2016](#)), our study is one of the first to examine whether a country's role in a regional organization can also influence donors' aid allocation decisions. While our empirical findings pertain to ASEAN, we expect that a similar pattern can be observed in other regional organizations, such as the African Union. As regional organizations can play a central role in shaping a region's relations with countries outside of it, future work should broaden the scope of this analysis by examining how donors allocate aid to different Member States within regional organizations.

Funding

This work was supported by the Ministry of Education of the Republic of Korea and the National Research Foundation of Korea (NRF-2020S1A5A2A03045536).

References

- Alesina, A. and Dollar, D. (2000) 'Who gives foreign aid to whom and why?', *Journal of Economic Growth*, 5(1), 33–63.
- Al-Fadhat, F. 2019. *The Rise of International Capital: Indonesian Conglomerates in ASEAN*. Singapore: Springer.
- Ba, A.D. (2003) 'China and ASEAN: renegotiating relations for a 21st-century Asia', *Asian Survey*, 43(4), 622–647.
- Bailey, M.A., Strezhnev, A. and Voeten, E. (2017) 'Estimating dynamic state preferences from United Nations voting data', *Journal of Conflict Resolution*, 61(2), 430–456.
- Boutton, A. and Carter, D.B. (2014) 'Fair-Weather Allies? Terrorism and the allocation of US foreign aid', *Journal of Conflict Resolution*, 58(7), 1144–1173.
- Brazys, S. and Vadlamannati, K.C. (2021) 'Aid curse with Chinese characteristics? Chinese development flows and economic reforms', *Public Choice*, 188(3–4), 407–430.
- Broich, T. (2017) 'Do authoritarian regimes receive more Chinese development finance than democratic ones? Empirical evidence for Africa', *China Economic Review*, 46, 180–207.
- Bueno de Mesquita, B., and Smith, A. (2016) 'Competition and Collaboration in Aid-for-Policy Deals', *International Studies Quarterly*, 60(3), 413–426. <https://doi.org/10.1093/isq/sqw011>.
- Carter, D.B. and Stone, R.W. (2015) 'Democracy and multilateralism: the case of vote buying in the UN General Assembly', *International Organization*, 69(1), 1–33.
- Castro, R.C.D. (2020) 'The limits of intergovernmentalism: The Philippines' changing strategy in the South China Sea dispute and its impact on the Association of Southeast Asian Nations (ASEAN)', *Journal of Current Southeast Asian Affairs*, 39(3), 335–358.
- Chin, G. and Stubbs, R. (2011) 'China, regional institution-building and the China-ASEAN Free Trade Area', *Review of International Political Economy*, 18(3), 277–298.
- Ciorciari, J.D. (2015) 'A Chinese model for patron-client relations? The Sino-Cambodian partnership', *International Relations of the Asia-Pacific*, 15(2), 245–278.
- Custer, S., Dreher, A., Elston, T.-B., et al. (2021) *Tracking Chinese Development Finance: An Application of AidDataas TUFF 2.0 Methodology*. Williamsburg, VA: AidData at William Mary.
- Dreher, A. and Fuchs, A. (2015) 'Rogue aid? An empirical analysis of China's aid allocation', *Canadian Journal of Economics*, 48(3), 988–1023.

- Dreher, A., Fuchs, A., Hodler, R., et al. (2019) 'African leaders and the geography of China's foreign assistance', *Journal of Development Economics*, 140, 44–71.
- Dreher, A., Fuchs, A., Parks, B., et al. (2018) 'Apples and dragon fruits: The determinants of aid and other forms of state financing from China to Africa', *International Studies Quarterly*, 62(1), 182–194.
- Dreher, A., Fuchs, A., Parks, B., et al. (2021) 'Aid, China, and growth: Evidence from a new global development finance dataset', *American Economic Journal: Economic Policy*, 13(2), 135–174.
- Dreher, A., Nunnenkamp, P. and Thiele, R. (2011) 'Are new donors different? Comparing the allocation of bilateral aid between nonDAC and DAC donor countries', *World Development*, 39(11), 1950–1968.
- Fleck, R.K. and Kilby, C. (2010) 'Changing aid regimes? US foreign aid from the Cold War to the War on Terror', *Journal of Development Economics*, 91(2), 185–197.
- Fuchs, A., Nunnenkamp, P. and Ohler, H. (2015) 'Why donors of foreign aid do not coordinate: The role of competition for export markets and political support', *The World Economy*, 38(2), 255–285.
- Fuchs, A. and Vadlamannati, K.C. (2013) 'The needy donor: An empirical analysis of India's aid motives', *World Development*, 44, 110–128.
- Guillon, M. and Mathonnat, J. (2020) 'What can we learn on Chinese aid allocation motivations from available data? A sectorial analysis of Chinese aid to African countries', *China Economic Review*, 60, 101265.
- Jakobson, L. (2009) 'China's diplomacy toward Africa: Drivers and constraints', *International Relations of the Asia-Pacific*, 9(3), 403–433.
- Kaufmann, D. and Kraay, A. (2021) 'The Worldwide Governance Indicators: Methodology and Analytical Issues', *Hague Journal on the Rule of Law*, 3(2), 220–246.
- Kuziemko, I. and Werker, E. (2006) 'How much is a seat on the Security Council worth? Foreign aid and bribery at the United Nations', *Journal of Political Economy*, 114(5), 905–930.
- Lai, B. (2003) 'Examining the goals of US foreign assistance in the post-Cold War period, 1991–96', *Journal of Peace Research*, 40(1), 103–128.
- Lebovic, J.H. (1988) 'National interests and US foreign aid: The Carter and Reagan years', *Journal of Peace Research*, 25(2), 115–135.
- Lum, T. 2009. *China's assistance and government-sponsored investment activities in Africa, Latin America, and Southeast Asia*. Library of Congress Washington Dc Congressional Research Service, Washington.
- McKinlay, R.D. and Little, R. (1977) 'A foreign policy model of US bilateral aid allocation', *World Politics: A Quarterly Journal of International Relations*, 30(1), 58–86.

- Meyer, P.K., Nurmandi, A. and Agustiyara, A. (2019) 'Indonesia's swift securitization of the Natuna Islands how Jakarta countered China's claims in the South China Sea', *Asian Journal of Political Science*, 27(1), 70–87.
- Morgenthau, H. (1962) 'A political theory of foreign aid', *American Political Science Review*, 56(2), 301–309.
- Naím, M. (2007) 'Rogue aid', *Foreign Policy*, (159), 95–6.
- Narine, S. (2008) 'Forty years of ASEAN: A historical review', *The Pacific Review*, 21(4), 411–429.
- Oh, Y.A. (2020) 'Chinese development aid to Asia: Size and motives', *Asian Journal of Comparative Politics*, 5(3), 223–234.
- Ohtsuki, K. (2016) 'Buying the best favor: Foreign aid for cooperation or convenience', *International Relations of the Asia-Pacific*, 16(2), 175–208.
- O'Neill, D.C. (2018) *Dividing ASEAN and Conquering the South China Sea: China's Financial Power Projection*. Hong Kong: Hong Kong University Press.
- Reynolds, E.M. and Winters, M.S. (2016) 'Foreign aid funnel? A placebo-based assessment of aid flows to non-permanent united nations security council members', *Research and Politics*, 3(1), 1–9.
- Sarma, M. and Pais, J. (2008) 'Financial Inclusion and Development: A Cross Country Analysis', *In Annual Conference of the Human Development and Capability Association, New Delhi*, 168(10–13), 1–30.
- Shambaugh, D. (2005) 'China engages Asia: Reshaping the regional order', *International Security*, 29(3), 64–99.
- Shambaugh, D. (2018) 'US-China Rivalry in Southeast Asia: Power Shift or Competitive Coexistence?', *International Security*, 42(4), 85–127.
- Shoji, T. (2019) 'China's formation of the regional order and ASEAN's responses: from rise to center', *NIDS: China Security Report*, 25–47.
- Suzuki, S. (2021) 'Can ASEAN offer a useful model? Chairmanship in decision making by consensus', *The Pacific Review*, 34(5), 697–723.
- Tallberg, J. (2010) 'The power of the chair: formal leadership in international cooperation', *International Studies Quarterly*, 54(1), 241–265.
- Vreeland, J.R. and Dreher, A. 2014. *The Political Economy of the United Nations Security Council: Money and Influence*. New York: Cambridge University Press.