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Threat Perception and Bi-lateral Development Aid: China and Japan

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## ABBREVIATIONS

<b>ABC</b>	Brazilian Cooperation Agency
<b>ADB</b>	Asian Development Bank
<b>ADB I</b>	Asian Development Bank Institute
<b>AFD</b>	Agence Française de Développement
<b>AIB</b>	Asian Infrastructure Investment Bank
<b>AMEXCID</b>	Mexican Agency for International Development Cooperation
<b>ANU</b>	Australian National University
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>BRI</b>	Belt and Road Initiative
<b>BRICS</b>	Brazil, Russia, India, China, South Africa
<b>CAREC</b>	Central Asian Regional Economic Cooperation
<b>CCP</b>	Chinese Communist Party
<b>CCY</b>	China Commerce Yearbook
<b>CDCF</b>	Cambodia Development Cooperation Forum
<b>CGD</b>	Center for Global Development
<b>CIA</b>	Central Intelligence Agency (US)
<b>CIDCA</b>	China International Development Cooperation Agency
<b>CN</b>	China
<b>CNY</b>	Chinese Yuan
<b>CPP</b>	Cambodian People's Party
<b>CRS</b>	Creditor Reporting System
<b>CS</b>	Cross Section
<b>CV</b>	Condition Variable
<b>DAC</b>	Development Assistance Committee
<b>DOD</b>	Department of Defense (US)
<b>DOTS</b>	Direction of Trade Statistics
<b>DPP</b>	Democratic Progressive Party (Taiwan)
<b>DV</b>	Dependent Variable
<b>EEZ</b>	Exclusive Economic Zone
<b>EROA</b>	Economic Rehabilitation in Occupied Areas Fund
<b>EU</b>	European Union
<b>FDI</b>	Foreign Direct Investment
<b>FIDIC</b>	International Federation of Consulting Engineers
<b>FOCAC</b>	Forum on China Africa Cooperation
<b>FTA</b>	Free Trade Agreement
<b>FUNCINPEC</b>	Front Uni National pour un Cambodge Independant

<b>GARIOA</b>	Government Aid and Relief in Occupied Areas Fund
<b>GDP</b>	Gross Domestic Product
<b>GDP/Cap</b>	Gross Domestic Product per Capita
<b>GIGA</b>	German Institute of Global and Area Studies
<b>GLS</b>	Generalized Least Squares
<b>GMS</b>	Greater Mekong Subregion
<b>GRIPS</b>	Graduate Research Institute for Policy Studies
<b>GRUNK</b>	Gouvernement Royal d'Union National du Kampuchea
<b>HR</b>	Human Resources
<b>ICORC</b>	International Committee for the Reconstruction of Cambodia
<b>IMF</b>	International Monetary Fund
<b>IntV</b>	Intervening Variable
<b>IPEA</b>	Institute of Applied Economic Research
<b>IR</b>	International Relations
<b>ITLOS</b>	International Tribunal for the Law of the Sea
<b>IV</b>	Independent Variable
<b>JBIC</b>	Japan Bank for International Cooperation
<b>JBICI</b>	Japan Bank for International Cooperation Institute
<b>JCG</b>	Japan Coast Guard
<b>JFPR</b>	Japan Fund for Poverty Reduction
<b>JICA</b>	Japan International Cooperation Agency
<b>JICA-RI</b>	Japan International Cooperation Agency Research Institute
<b>JIIA</b>	Japan Institute for International Affairs
<b>JMSU</b>	Joint Marine Seismic Undertaking
<b>JP</b>	Japan
<b>JPEPA</b>	Japan-Philippines Economic Partnership Agreement
<b>JPY</b>	Japanese Yen
<b>KOICA</b>	Korea International Cooperation Agency
<b>LDC</b>	Least Developed Country
<b>LDP</b>	Liberal Democratic Party (Japan)
<b>LMI</b>	Lower Mekong Initiative
<b>MCC</b>	Millennium Challenge Corporation (US)
<b>MDG</b>	Millennium Development Goals
<b>MEPV</b>	Major Episodes of Political Violence
<b>MOF</b>	Ministry of Finance (Japan)
<b>MOFA</b>	Ministry of Foreign Affairs
<b>MOFCOM</b>	Ministry of Commerce (PRC)
<b>NA</b>	Not Applicable
<b>NATO</b>	North Atlantic Treaty Organization

<b>NBN</b>	National Broadband Network
<b>NEDA</b>	National Economic and Development Authority
<b>NGO</b>	Non-Governmental Organization
<b>NPO</b>	Non-Profit Organization
<b>OBOR</b>	One Belt One Road
<b>ODA</b>	Official Development Assistance
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>OECF</b>	Overseas Economic Cooperation Fund
<b>OFAC</b>	Office of Foreign Assets Control (US Treasury Department)
<b>OLS</b>	Ordinary Least Squares
<b>OOF</b>	Other Official Flows
<b>PDR</b>	Peoples Democratic Republic (Laos)
<b>PHP</b>	Philippines Peso
<b>PKK</b>	Kurdistan Workers Party
<b>PKO</b>	Peace Keeping Operations
<b>PLA</b>	People's Liberation Army
<b>PLAN</b>	People's Liberation Navy
<b>PPG</b>	Public and Publicly Guaranteed
<b>PPML</b>	Pseudo Poisson Maximum Likelihood
<b>PR</b>	People's Republic
<b>PRC</b>	People's Republic of China
<b>PRK</b>	People's Republic of Kampuchea
<b>RAK</b>	Revolutionary Army of Kampuchea
<b>RMC</b>	Revenue Memorandum Circular
<b>ROC</b>	Republic of China (Taiwan)
<b>RRP</b>	Report and Recommendation of the President
<b>SAIS</b>	School of Advanced International Studies (John's Hopkins University)
<b>SCO</b>	Shanghai Cooperation Organization
<b>SDF</b>	Self Defense Forces (Japan)
<b>SGCC</b>	State Grid Corporation of China
<b>SIPRI</b>	Stockholm International Peace Research Institute
<b>SOE</b>	State Owned Enterprise
<b>TANZAM</b>	Tanzania - Zambia Railway
<b>TICAD</b>	Tokyo International Conference of Africa's Development
<b>TJETRO</b>	Japan External Trade Organization
<b>TSC</b>	Targeted Sanctions Consortium
<b>UAE</b>	United Arab Emirates
<b>UK</b>	United Kingdom
<b>UN</b>	United Nations

<b>UNCLOS</b>	United Nations Convention on the Law of the Sea
<b>UNESCAP</b>	United Nations Economic and Social Commission for the Asia Pacific
<b>UNHCR</b>	United Nations High Commissioner for Refugees
<b>UNICEF</b>	United Nations Children's Fund
<b>UNSC</b>	UN Security Council
<b>UNTAC</b>	United Nations Transitional Authority in Cambodia
<b>US</b>	United States of America
<b>USAID</b>	United States Agency for International Development
<b>USD</b>	United States Dollar
<b>USSR</b>	Union of Soviet Socialist Republics
<b>VAT</b>	Value Added Tax
<b>WDI</b>	World Development Indicators (World Bank)
<b>WMD</b>	Weapons of Mass Destruction
<b>WTO</b>	World Trade Organization
<b>WW</b>	World Wide
<b>WWI</b>	World War One
<b>WWII</b>	World War Two



## ABSTRACT

How does threat perception change how states use foreign aid? The conventional wisdom is that donor countries provide aid to serve their commercial interest, security interests or to promote their normative values. But under what conditions do commercial, security, or normative interests dominate a donor countries aid giving decisions? This dissertation tests the proposition that the level of threat perception determines when donor countries use foreign aid to promote their commercial or security interests. Under high threat conditions, I expect donors to emphasize security interests. During low threat periods, I expect donors to emphasize commercial interests in their aid giving. I expect normative factors to be important when humanitarian crises occur but unimportant otherwise.

Based on a detailed analysis of Japan and China's aid commitments and an assessment of each countries level of threat perception, I test the explanatory power of commercial, security and normative factors on aid commitment decisions. This research uses a bespoke data set based on a mix of primary research, existing sources, and newly available project level data collected by Aiddata.org on China's worldwide aid activities from 2000-2014, which was manually adjusted specifically for this dissertation. The regression analysis is augmented by case studies on the motivations behind Japan's and China's aid commitments to the Philippines and Cambodia from the late 1990s to 2014.

This dissertation finds that, despite its reputation for utilizing aid for its own commercial benefit, aid from Japan is highly security oriented when Japan has high level of threat perception. Only immediately after the end of the Cold War when threat perception was low

did commercial factors explain Japan's aid. Even during the low threat period, security factors were a significant consideration in Japan's aid commitment decisions. As Japan's threat perception of China increased, commercial factors became nearly irrelevant in Japan's aid decisions and Japanese aid became increasingly integrated with United States security interests. Aid from China has been primarily security oriented over the entire period for which data is available (2000-2014) reflecting its elevated threat perception from the United States-Japan alliance when the 1997 revision of the Guidelines for United States Japan-Defense Cooperation were perceived as targeting and containing China. In the early period for which data is available (2000-2007), China's aid reflected its "charm offensive" strategy to reassure other Asian countries of its intentions, but from 2008 onward became increasingly punitive against other Asian states that had conflicts with China. Over the entire analysis period, China's aid was targeted at weakening the aid recipient's relations with the United States, countering United States interests, and has repeatedly been used to counter aid sanctions by Western donors. Overall, security factors have been the most important determinants of Japan and China's aid decisions.

This dissertation enriches our understanding of the motivations behind aid giving and helps explain the factors that are driving the "securitization" of foreign aid that has coincided with China's rise. The increase in aid from emerging powers has expanded the number of donors and the resources available to aid recipient countries while at the same time reducing the leverage of donors over the policies of aid recipients. Recipient countries can increasingly pit donor against donor to maximize the development resources available to them while enabling them to avoid the sometimes onerous conditions imposed by many, primarily Western, donors.

## FORWARD

Looking across a large wooden table on a bright sunny day in August 2011 in Ulaanbaatar Mongolia, I see a man with too much to do and not enough time. The Deputy Director General of the Development Financing and Cooperation Department of the Mongolian Ministry of Finance is anxious to wrap up this meeting and rush to his next one with the Japan International Cooperation Agency (JICA). Today we finalized the proposal for the Asian Development Bank (ADB) to provide \$170 million to complete the Western Regional Road, a 750 km rural highway between Russia and China through Western Mongolia, but the Mongolia Government has much more on its plate.

For the Mongolian government, this year had become a non-stop series of meetings with international financial institutions like ADB and bi-lateral aid donors, all seeking to finance project after project in the booming country. This was my third year working in Mongolia for ADB<sup>1</sup> and there had never been this much donor activity and what felt like pitched competition for the government's attention. JICA was offering grant aid for a bridge in Ulaanbaatar and a concessional loan package for the new Ulaanbaatar International Airport. While both projects had been in the planning phase for several years, JICA was pushing to conclude these aid projects with renewed fervor. Also in 2011, China and Mongolia signed a comprehensive strategic partnership complete with an offer of \$500 million worth of soft loans for Mongolia's infrastructure projects.<sup>2</sup> What was going on?

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<sup>1</sup> The author is (as of 2019) the Unit Head, Project Administration in the Asian Development Bank's Resident Mission in the Kyrgyz Republic. He was previously a Senior Transport Economist at the Asian Development Bank. He has helped plan and manage concessional loan and grant financed infrastructure projects in China, Mongolia, the Kyrgyz Republic, India, and Myanmar.

<sup>2</sup> Abanti Bhattacharya, "China and Mongolia: Realizing a 'Comprehensive Strategic Partnership'," Institute for Peace and Conflict Studies. 29 August 2014, [http://www.ipcs.org/comm\\_select.php?articleNo=4632](http://www.ipcs.org/comm_select.php?articleNo=4632).

The previous fall (September 2010), the Japan Coast Guard (JCG) arrested and detained the Chinese crew of a fishing vessel that had collided with JCG vessels near Japan's Senkaku Islands which are claimed by China (and Taiwan).<sup>3</sup> In retaliation, China blocked rare earth mineral exports to Japan; a vital commodity in many electronics products produced in Japan and over which China held a near monopoly over the supply.<sup>4</sup> While the export ban was lifted about a month later, the point had been made. China could make Japan pay in a conflict over its islands because Japan was dependent on China for certain basic materials. But what does this have to do with aid to Mongolia? For starters, Mongolia is one potential source of rare earth minerals among a vast array of other resources including coking coal (used for steel production), oil, nickel, and copper. Mongolia is also a tiny country of 3 million people between Russia and China with a strong historical distrust of China. Chinese nationals have been occasional victims of random physical attacks by Mongolians<sup>5</sup> and severe limits were placed on the importation of Chinese labor causing difficulties for ADB's own projects in Mongolia which utilized Chinese contractors. If Japan was looking for a country motivated to align itself with Japan's interests over China, Mongolia was a good choice with the side benefit of potentially providing resources that Japan and China need.

At ADB, we often find ourselves working with other development partners including bi-lateral donors like Japan and China. But often the larger forces of international politics that drive these partners to provide aid in the first place are opaque. The ADB-financed Western

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<sup>3</sup> Tania Branigan, "China cuts Japan contacts over detained trawler captain." The Guardian, 19 September 2010, <https://www.theguardian.com/world/2010/sep/19/china-japan-contacts-detained-trawler-captain>.

<sup>4</sup> Keith Bradsher, "Amid Tension, China Blocks Vital Exports to Japan." The New York Times, 22 September 2010, <https://www.nytimes.com/2010/09/23/business/global/23rare.html>.

<sup>5</sup> Michael Isenbek, "Neo-Nazis Attack Chinese Tourists in Mongolia," Travel Pulse, 5 April 2015, <https://www.travelpulse.com/news/impacting-travel/neo-nazis-attack-chinese-tourists-in-mongolia.html>.

Regional Road project was partially financed by Chinese soft loans in different sections. The Japanese government provided grant funds, through the Japan Fund for Poverty Reduction (JFPR) to build local connector roads as part of ADB's project. Three donors all appearing to work together to build one project, but did this reflect cooperation, competition, or just a coincidence?

Growing international tensions and competition for resources seemed to drive increasing aid commitments from China and Japan. It seemed that Japan and China were allocating more aid to strategically important countries, but is there quantitative evidence for this? Could aid be an effective tool to improve international relations between donor and recipient or drive two countries apart? These are the questions that inspired this dissertation. China is rapidly rising in power; a transition which Japan and the United States may perceive as a threat. At the same time, all major powers in Asia have been rapidly scaling up foreign aid commitments. In this dissertation, I seek to unravel the motivations that drive foreign aid of countries under threat.



# 1 INTRODUCTION

## 1.1 The research question

The overall research question is: *How have the motivations behind China's and Japan's aid commitments changed as their level of threat perception has increased?* This dissertation will attempt to show how threat perception in China and Japan has changed over time, show how threat perception is related to China's rise, and explain how China and Japan have altered their foreign aid programs as a result. I will try to answer questions like: What factors explain the rapid growth of China and Japan's foreign aid programs since the beginning of the millennium? Has increasing threat perception changed where, why and how much foreign aid is committed by China and Japan? Does China seek to counter United States and Japanese interests with its aid program and if so, how does it do so? Does Japan use its aid program to support United States security interests? To what extent do normative values (e.g. support for poverty reduction, democracy, human rights, and recovery and reconstruction after disasters) affect the aid commitments of Japan and China? Does China use its aid program to secure natural resources for itself? Does Chinese aid support despotic regimes and undermine democracy and good governance?

Emerging powers are establishing or expanding their foreign aid programs at a rapid rate. Existing donors often perceive aid from emerging donors as a challenge to their interests and values. However, lack of data from emerging donors, conflation of foreign aid and foreign investment, and different understandings of the purpose of foreign aid has led to misperception and mutual distrust among donors, confusion in public discourse, and a lack of understanding among recipients. As China has risen to be the second largest economy in the world, escalated its territorial claims, and become a major aid donor in its own right, Japan has begun to see it

as a threat to its security and economic interests<sup>6</sup> and appears to interpret China's burgeoning foreign aid program as a signal of its intention to displace Japan politically and strategically as well as economically.<sup>7</sup>

Japan has been one of the largest foreign aid donors in the world for decades and its aid program has long been thought of as an extension of Japan's commercial policy. Official Development Assistance (ODA)<sup>8</sup> was seen as an investment in both Japan's economy and that of the recipient country.<sup>9</sup> ODA was considered part of Japan's economic strategy, including Japan's commercial interests.<sup>10</sup> Many scholars find that China's modern approach to foreign aid resembles Japan's ODA practices beginning in the 1970s including its commercial orientation.<sup>11</sup> Others perceive a threatening edge to China's aid as a challenge to Western values<sup>12</sup> or a tool for capturing resources from developing countries.<sup>13</sup>

## 1.2 Why is this important?

This dissertation is important for three reasons. First, it is important because it addresses an under-explored pathway for both transmitting and perceiving threats between the two most important countries in Asia. If rapid increases in aid from China is perceived as threatening,

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<sup>6</sup> Chikako Kawakatsu Ueki, "The Rise of 'China Threat' Arguments," PhD diss., Massachusetts Institute of Technology, 2006.

<sup>7</sup> Masayuki Masuda, "Japan's Changing ODA Policy Towards China", *China Perspectives*, Vol. 47 (May-June 2003), 4-5.

<sup>8</sup> In this dissertation ODA and foreign aid are generally interchangeable. China does not officially provide ODA, so I attempt to limit the description of China's aid activities to foreign aid. However, the literature on foreign aid freely refer to China's foreign aid as ODA and certain citations and quotes include references to Chinese ODA.

<sup>9</sup> Robert M. Orr and Bruce Koppel, ed., "A Donor of Consequence: Japan as a Foreign Aid Power," in *Japan's Foreign Aid: Power and Policy in a New Era*, (Boulder: Westview Press, 1993), 1-18.

<sup>10</sup> Dennis Yasutomo, "Why Aid? Japan as an aid great power," *Pacific Affairs*, Vol. 62, No. 4 (Winter 1989-1990), 490-503.

<sup>11</sup> Ping Wang, "The Chinese View: Reflection of the Long-Term Experiences of Aid Receiving and Giving," in ed. Yasutami Shimomura and Hideao Ohashi, *A Study of China's Foreign Aid: An Asian Perspective* (New York: Palgrave Macmillan, 2013), 130.

<sup>12</sup> Moises Naim, "Rogue Aid," *Foreign Policy*, Vol. 159 (March/April 2007), 95-6.

<sup>13</sup> Elizabeth Economy and Michael Levi, *By All Means Necessary: How China's Resource Quest is Changing the World*, Oxford: Oxford University Press, 2014, 53-4.



Japan may increasingly use its foreign aid to balance against China and compete for influence. China may then respond in kind potentially contributing to security competition and distrust, eventually escalating any conflicts.

Second, this dissertation will enhance the general understanding of the purpose and use of foreign aid during times of escalating threats. The stated purpose of foreign aid is normally altruistic, peaceful and cooperative, but the actual purpose may not be clear from the discourse surrounding foreign aid. This disconnect between discourse and actual intent makes changes in foreign aid policy difficult to discern. Realists view foreign aid as an extension of security policy and interpret aid giving as tool for alliance building and balancing against threats. Liberals tend to view foreign aid as a commercial strategy to promote trade, investment and interdependence or to promote the development of international institutions and global values. Each of these interpretations may be correct under different conditions. This dissertation attempts explain the conditions under which foreign aid is allocated for security vs. the promotion of commercial interests based on changes in the level of threat perception of the donor.

Third, this dissertation seeks to unravel the motivations behind China's burgeoning foreign aid program. China publishes aggregate statistics about its aid budgets but does not clearly define how its aid program is distinguished from other types of economic cooperation. Further, specific aid commitments to countries are a state secret so, contrary to OECD Development Assistance Committee (DAC) members like Japan, there are no official data on how much foreign aid China gives to any specific country. Lack of data on China's aid commitments has led to varying interpretations of China's intentions. Unsurprisingly, realists tend to view China's growing aid program with alarm and see it as evidence that China's seeks

to grab developing country resources for itself, counter Western values and challenge the international system. Liberals tend to be more sanguine and assert that China's aid program is reasonable consequence of its attempts to promote its commercial or diplomatic interests, just like other donors. This dissertation makes use of a new data set on China's worldwide aid activities from Aiddata.org released in late 2017. I manually modified this dataset, developing a bespoke database of Chinese financed grant and concessional loan aid tailored to the purposes of this dissertation. This new dataset enables me to determine the motivations behind China's aid commitments and will illuminate whether the more negative realist interpretation or the more sanguine liberal interpretation of Chinese aid comports with reality.

### **1.3 The argument**

This dissertation proposes a framework for understanding foreign aid that attempts to bridge realist and liberal ideas about the role of foreign aid. I accept that foreign aid is allocated for security purposes (alliance building, countering security threats, bribery, etc...), commercial purposes (trade, export promotion, securing natural resources), and to promote normative values (humanitarian aid, poverty reduction, human rights) but states pursue these purposes to different degrees at different times depending on the security environment measured by threat perception. They may even pursue these all three goals simultaneously or pursue different goals in different regions. While accepting the multiplicity of aid purposes, I expect that higher threat perception will result in a measurable difference in the importance of security factors in explaining who gets aid and how much.

The dependent variable (DV) is foreign aid commitments. The condition variable (CV) is threat perception. The independent variables (IVs) include security variables, commercial variables, and normative variables. *Ceteris paribus*, states that perceive a significant security

threat are more likely to prioritize realist concerns and allocate foreign aid to balance against and contain security threats. States without substantial security concerns are more likely to use their aid to provide commercial or reputational benefits more consistent with liberal predictions. States may also use foreign aid to promote their normative values. Humanitarian aid is given to states that are victims of natural or man-made disasters for short to medium term recovery and reconstruction and aid may promote the welfare of the recipient. I expect that states that feel threatened are less likely to consider normative values in their aid giving.

For the purpose of this dissertation, foreign aid follows the definition of the OECD DAC. The DAC defines foreign aid as flows to countries on the DAC list of ODA recipients that is 1) intended to promote economic development and welfare in the recipient as is “main” purpose, and 2) is concessional in character with a grant element of at least 25 percent.<sup>14</sup> To analyze aid decision-making, foreign aid commitments are the preferred measure over aid disbursements. Aid commitments are defined by the OECD DAC as: “A firm obligation, expressed in writing and backed by the necessary funds, undertaken by an official donor to provide specified assistance to a recipient country....Bilateral commitments are recorded in the full amount of expected transfer, irrespective of the time required for the completion of disbursements.”<sup>15</sup> Disbursements are the actual budgetary outlays in the year they were expended and can occur well after the aid commitment was made.

By commercially oriented aid, I mean that the main purpose of the donor in making the aid commitment is to benefit the donor state’s commercial enterprises. By security-oriented

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<sup>14</sup> OECD, "Is it ODA?," *Development Assistance Committee, Factsheet* (November 2008), <http://www.oecd.org/dac/stats/34086975.pdf>.

<sup>15</sup> Commitment, DAC Glossary of Key Terms and Concepts, Paris: OECD, accessed on 15 December 2019 at <https://www.oecd.org/dac/dac-glossary.htm#ODA>.

aid, I mean that the main purpose of the donor in making the aid commitment is to improve the national security of the donor. By normative aid, I mean that the main purpose of the donor in making the aid commitment is to benefit the recipient or express the norms and values of the donor country.

I define “threat” as a danger to a nation that originates from another nation involving a military aspect. “Threat perception” is the perception of that danger. I attempt to measure threat perception based primarily on the discourse of political leaders and security agencies in the perceiving countries and augment that analysis with measures of the proliferation of threat arguments in the media and overall public opinion. The measurement of threat perception is described in detail in Chapter 4.4.

The **main hypothesis** is that *Japan and China’s foreign aid increasingly reflects security interests due to increased threat perception precipitated by the rise of China*. This hypothesis is tested by developing models of aid giving behavior based on the proposed theoretical framework. First, the level and source of threat perception of China and Japan are estimated. China's rapidly increasing power and aid programs may be interpreted by Japan as a strategic challenge and potential security threat. Japan is expected to respond by, first scaling back its own aid to China and using aid to bolster potential allies to balance against China. China is primarily threatened by the United States and the United States-Japan security alliance which China interprets as targeting China.<sup>16</sup> China’s increasing threat perception may then compel it to target its own aid program towards security goals.

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<sup>16</sup> Michael J. Green, "Managing Chinese Power: The View from Japan", in ed. Alastair Iain Johnston and Robert S. Ross, *Engaging China: The Management of an Emerging Power* (New York: Routledge, 1999), 152-175.

The main alternative hypotheses are:

- 1) There is no change in the use of foreign aid for Japan and China. Japan and China continue to focus on commercial goals in their aid allocations. Under this hypothesis, the perceived threats are insufficient to change Japan and China's aid policy.
- 2) China and Japan do not allocate aid in a manner consistent with the proposed theory. Aid from China and Japan could be given for altruistic reasons (e.g. responds to the needs of the recipient rather than the donor – i.e. poorer states receive more aid all else being equal), to express national norms, or to indicate status. If neither commercial nor security factors explain aid allocations, then altruism, norms, and status would become the default explanations and the theory disproved.

The causal mechanism that links threat perception and the allocation of aid is derived from the assumption that when states perceive a significant threat to their security, it is logical that they prioritize survival and security above all other considerations. The policy tools at their disposal to promote security include defense, diplomacy, and foreign aid, among others. The level of threat perception of decision-makers and political leaders leads them to prioritize security considerations in their aid decisions. The link between threat perception and aid decisions may vary, but in most countries, high-level decision-making bodies and political leaders have ultimate authority over aid budgets and country allocations. I claim that threat perception is like a “cloud” that affects all of the actors with influence on aid allocation decisions and empowers those actors active in national security. For example, when military forces are dispatched to a foreign state (war, UN peacekeeping missions, etc...), the aid bureaucracy is likely to be tasked with promoting stability in that state with higher aid allocations. The coordination of aid and security policy was evident for the United States where Iraq was the largest aid recipient from 2004-2007 and overtaken by Afghanistan until 2016

when Syria became the largest recipient; all countries with substantial United States military operations.<sup>17</sup> Following Walt, I propose that states that are threatened may seek allies and balance against the threatening state.<sup>18</sup> If a state seeks to balance against a threat, political leaders will respond by directing the transfer of resources, including aid, to states in conflict with or that are likely to join a balancing coalition against the threatening state. State visits by leader that perceive significant security threats may be based on security considerations. These visits by threatened donors to developing countries may then be accompanied by aid commitments to the host to secure policy actions that benefit the security of the donor. This logic underpinning the hypothesis suggests that during high threat periods security variables will be more significant than all other consideration in the aid commitment decision.

When a country perceives no significant threat to its security, it is more likely to prioritize economic and social development above other concerns more consistent with the predictions of liberalism. Under low threat conditions, I expect the “cloud” of threat perception to lift and economic policy makers to gain bureaucratic power in relation to the national security establishment. Economic arguments around employment and economic competitiveness may even begin to dominate debates about military spending. Under these conditions, I predict that decision-makers and political leaders will use the policy instruments at their disposal, including foreign aid, to promote economic wellbeing and domestic commercial interests. Rather than seek alliances, states will seek markets and investment opportunities. Leaders may begin to prioritize state visits to countries where commercial interests are strong and seek to promote

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<sup>17</sup> Source: United States Agency for International Development.

<sup>18</sup> The idea that states balance against threats rather than power is provided in Stephen Walt, "Alliance formation and the balance of world power," *International Security*, Vol. 9, No. 4 (Spring, 1985), 3-43. Many aid donors, including Japan and China, are great powers which would be unlikely to bandwagon with the threatening state and, according to Walt, much more likely to balance against threats.

expanding business ties rather than security ties. Under this logic, low threat periods will be characterized by a higher significance of commercial variables in aid commitment decisions.

In addition to the core research question and hypotheses, this dissertation addresses many other questions and puzzles in the foreign aid and international relations literature. With respect to Japan's aid program, I explore the extent to which Japanese aid has become "securitized" as Jain<sup>19</sup>, Carvalho and Potter<sup>20</sup>, and Yoshimatsu and Trinidad<sup>21</sup> have asserted and to what extent Japan has used its aid policy to as a complement to its role in the United States-Japan alliance. I also look at the role of normative values in Japan's aid decision-making. With the publication of Japan's first Official Development Assistance (ODA) Charter in 1992, the discourse around foreign aid in Japan began to change and increasingly reflects humanitarian and democratic norms (more recently called "human security") in addition to a focus on commercial benefits.<sup>22</sup> But is this increasing concern with humanitarian and democratic norms at the societal level reflected in a greater emphasis on normative factors in Japan's aid commitment decisions? This dissertation will answer these questions.

As China's aid program has expanded in scope and ambition, many observers see Chinese aid as a threat to the Western led international system.<sup>23</sup> Others see either a aid program that is essentially political and aid motivations are largely the same as most established aid

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<sup>19</sup> Purnendra Jain, "Japan's Foreign Aid: Old and New Contests." *Pacific Review*, Vol. 29, No. 1 (2016), 93–113.

<sup>20</sup> Pedro Carvalho and David M. Potter, "Peacebuilding and the 'Human Securitization' of Japan's Foreign Aid," in S. Brown and J. Gravingholt, eds., *The Securitization of Foreign Aid*, New York: Palgrave Macmillan (2016), 85–112.

<sup>21</sup> Hidetaka Yoshimatsu and Dennis D. Trinidad, "Development Assistance, Strategic Interests, and the China Factor in Japan's Role in ASEAN Integration." *Japanese Journal of Political Science*, Vol. 11, No. 2 (August 2010), 199–219.

<sup>22</sup> Keiko Hirata, "Whither the Developmental State? The Growing Role of NGOs in Japanese Aid Policymaking." *Journal of Comparative Policy Analysis: Research and Practice*, Vol. 4, No. 2 (2002), 165–188.

<sup>23</sup> Axel Dreher and Andreas Fuchs, "Rogue Aid? The Determinants of China's Aid Allocation," *Courant Research Centre 'Poverty, Equity and Growth' Discussion Paper 93*, University of Goettingen, 2012.

donors or that China's aid is actually better for aid recipients because it is less paternalistic and finances more useful and profitable projects than established donors.<sup>24</sup> The availability of a complete dataset of Chinese foreign aid worldwide enables this dissertation to test the motivations behind China's aid in a way that had been impossible. I will be able to determine whether China's aid is security or commercially oriented and whether it is meant to balance against the perceived threat posed by the United States. I can also determine if China's aid is designed to capture resources for itself or support despotic regimes.

The findings of this study also have implications for the effectiveness of aid conditions by donors. In a world where new donors are proliferating and the interests of those donors are not necessarily in line with existing donors, will aid conditions become harder to extract? For example, if an aid recipient is able to simply switch from one donor to another to finance its investment priorities, donors' leverage over aid recipients will decline. With more donors bringing more aid, recipient countries may also have the opportunity to extract more aid from donors while at the same time minimizing the need to give in to policy conditions that are often imposed by primarily Western donors.

#### **1.4 The methodology**

The overall methodology of this dissertation is a combination of quantitative analysis of aid commitment decisions by Japan and China supplemented by two case studies that detail the aid commitments of Japan and China to two key countries: the Philippines and Cambodia. The first part of the dissertation presents key definitions and details about how foreign aid developed and functions in practice and describes how the international relations literature has

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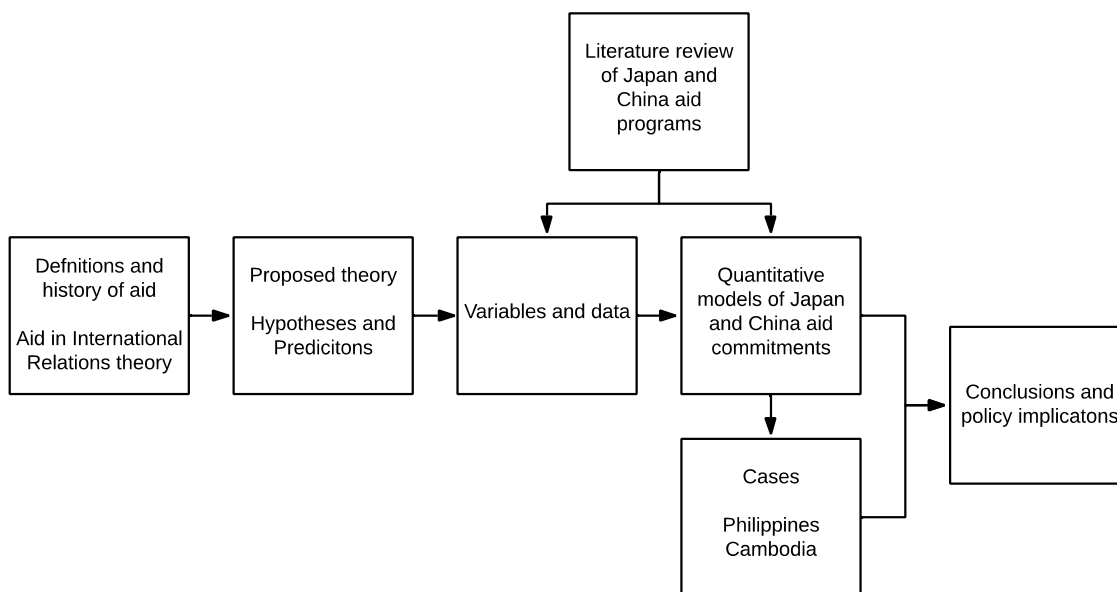
<sup>24</sup> Moyo, Dambisa, *Dead Aid: Why Aid is Not Working and How There is a Better Way for Africa*, New York: Farrar, Strauss and Giroux (2009), 164-179.



dealt with foreign aid. Next, I present a theoretical framework for understanding foreign aid. The core hypothesis and predictions are presented based on the proposed theoretical framework. I then present an overview of the historical development of Japan's and China's foreign aid programs and review the literature on foreign aid from these donors with a particular emphasis on past quantitative studies of Japanese and Chinese aid motivation. The purpose of these sections is to ensure that the reader understands how this dissertation contributes to an overall understanding of foreign aid practice, to identify useful variables that can explain aid commitments, and to show how this study contributes to and advances the existing literature on Japanese and Chinese foreign aid.

In order to conduct a quantitative analysis, I developed a panel dataset of aid commitments and a large set of explanatory variables based on the theory. The dataset contains detailed information on the aid commitments of Japan and China to specific recipient countries (DVs) and numerous security, commercial and normative variables (IVs). Regression models are developed to estimate the explanatory power of security, commercial, and normative factors in determining the foreign aid commitments of China and Japan during high and low threat periods.

The Philippines and Cambodia were chosen for supplementary case studies because they best illustrate the statistically significant variables in the regression models. The overall findings of the quantitative models and the case studies combine to provide a rich picture of the motivations of Japan and China in their aid commitments over a long period of time and under varying levels of perceived threat to their national security. Figure 1-1 on page 12 presents a simplified roadmap for the thesis.

**Figure 1-1: Dissertation roadmap**

### 1.5 Structure of the dissertation

This dissertation unfolds over seven chapters. Chapter 2 describes the theoretical framework for understanding the purpose of foreign aid and how we should expect foreign aid commitments to change when threat perception is high. This section concludes with hypotheses and predictions based on the theoretical framework. Chapter 3 describes how international relations theory has treated the issue of foreign aid and provides an overview of the development and main characteristics of Japan's and China's aid programs. In Chapter 4, I present the dependent and independent variables and describe the methodology that I will use to test the hypotheses and provide an overview and justification for the research design. Chapter 5 contains the quantitative regression analysis and Chapter 6, the case studies. Chapter 7 is the conclusion. I provide substantial detail on technical and methodological matters, data collection and processing in the Appendices.

## 2 THEORETICAL FRAMEWORK<sup>25</sup>

In this section I attempt to establish a coherent framework for understanding foreign aid as a policy tool. This theoretical framework forms the basis of the regression analysis that forms the heart of this dissertation and guides the interpretation of actions and motivations in the case studies. The theory should help answer the following questions: When is aid provided for security and when is it commercial? Does aid have normative motivations? How can we tell the difference? Without a framework for understanding aid, certain aid allocations could be misinterpreted. We need to look at aid through different theoretical lenses depending on the conditions we observe but avoid attempting to explain every nuance or allocation of aid giving behavior.

The theoretical framework provides a roadmap to explain what is going on when donors provide foreign aid and allows us to infer donor intent to foreign aid policy and allocations. The framework should be able to establish the purpose and likely allocation of foreign aid by key donors and help clarify whether or not aid is or is likely to be commercial, security, or normative in nature. Commercial or normative aid should not be perceived as threatening while security oriented aid may be threatening to other donors if national interests are highly divergent between donors. For example, if Chinese foreign aid is meant to promote authoritarian regimes to give itself legitimacy or facilitate access to the recipient state by the People's Liberation Army (PLA) or Navy (PLAN), that aid may appear threatening to other donors. But if Chinese aid is primarily to give foreign work to Chinese construction companies, promote Chinese

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<sup>25</sup> Portions of this chapter are expected to be included in the forthcoming ADB publication tentatively titled, *50 Year of Asian Growth and Transformation*. I contributed to the chapter called, "ODA and Development Finance in Asia" which was partially drawn from this section.

exports, or assist in disaster recovery, then its aid should not be interpreted as a security threat to other donors.

## 2.1 What is foreign aid?

For the purpose of this dissertation, foreign aid or Official Development Assistance (ODA) follows the definition of the OECD DAC. It does not include military aid. Military aid is security assistance from one state to another and its purpose is not in question. Foreign aid is either grant aid or concessional loan aid from a donor country to a developing country whose purpose is the development and welfare of the recipient. Japan follows the DAC definition of ODA. The DAC collects comprehensive data from all its members<sup>26</sup> on their aid activities and publishes project level data on every donor project to every recipient country. China is not in the DAC and its aid does not have to meet this definition though I apply a similar framework designed to determine if the recipient and China would consider the financial flow to be “aid” which is consistent with the DAC definition of ODA.

Loan aid comes in various forms that can provide clues to the donor’s intent. Untied loans are generally made for a specific project and do not have any restrictions on the supplier or contractors selected to implement the eventual project, though competitive bidding is generally required. Tied loans restrict the borrower to using only contractors from the donor country for a certain percentage of the project cost. The percentage that must be reserved from donor country contractors is generally 50-100% depending on the donor. The purpose of aid

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<sup>26</sup> The DAC has 30 current members (2018) including Australia, Austria, Belgium, Canada, Czech Republic, Denmark, European Union, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom and the United States (Source: <http://www.oecd.org/dac/dacmembers.htm#members>).

tying is to maximize the commercial benefits to the donor. From the recipient's perspective, tied loans can significantly erode the perceived benefits of even highly concessional lending. Generally, tied concessional loans will be a better deal overall than what is available to the recipient country using market rate financing. Otherwise, the recipient would simply borrow on the international capital markets and implement the project itself. In some cases, when there are cost overruns or bids come in higher than expected, tied loans can be detrimental to relations between donor and recipient since tying locks recipients into paying higher than market price for development projects that, in some cases, would have been procured from local firms in the recipient country. For this reason, tied loans are sometimes rejected by potential recipients if the terms are not sufficiently beneficial. Tied loans may indicate that the donor is prioritizing commercial benefits over political influence on the recipient.

Bi-lateral grants can include project grant aid, or more commonly, technical assistance. Most grants are tied to donor suppliers and contractors. They may also be given in the form of grants in-kind such as food aid. Bi-lateral grants are usually much smaller than loan projects meant to finance infrastructure and generally fund technical assistance, studies and consulting, or smaller projects often for education or health. Bi-lateral grants are tied primarily to reduce the donor's cost and improve the political viability of providing them. For example, it is much easier politically for a donor to offer food aid directly procured in the donor country than to provide a free grant for the recipient to buy food on the open market.

Last are untied grants which are rare in the world of bi-lateral aid. Some small donors, primarily Scandinavian countries, provide untied grants, but most of this funding is only available in small amounts from multilateral development institutions such as the Asian

Development Bank and the World Bank and financed by donor trust funds. Only bi-lateral aid is included as foreign aid in this dissertation.

### **2.1.1 When did aid begin?**

Giving state resources to another state is a relatively recent phenomenon stemming from the destruction of WWII. First, the aftermath of that war was characterized by economic and humanitarian devastation across Europe and Asia. Second, the Cold War between the United States-led Western Bloc organized under NATO and the Soviet Union-led Eastern Bloc organized under the Warsaw Pact military alliance began to vigorously compete for influence and advantage. And Third, the decolonization movement in Africa and Asia quickly gathered force resulting in a great number of newly independent and very poor countries historically dependent on a more developed colonizer. These three events compelled most developed countries to transfer substantial resources to developing or recovering states.

The Marshall Plan (1948-1951) is considered the beginning of modern foreign aid programs. It provided about \$13 billion<sup>27</sup> to European countries before it was replaced by the Mutual Security Act of 1951<sup>28</sup> which channeled over \$7 billion per year to United States allies explicitly to prevent the spread of communism. The Mutual Security Agency implemented the program until 1961 when it was replaced by the United States Agency for International Development (USAID). As its name implies, the Mutual Security Act was designed to strengthen countries within the United States sphere of influence to promote the security interests of the United States.

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<sup>27</sup> Source: <http://marshallfoundation.org/marshall/the-marshall-plan/history-marshall-plan/> (Accessed 2/9/2016).

<sup>28</sup> Robert Donovan, *The Second Victory: The Marshall Plan and the Postwar Revival of Europe* (New York: Madison Books, 1987), 120.

Asia did not receive the same level of assistance enjoyed by Europe, but the establishment of the Colombo Plan heralded the beginning of a concerted effort to provide aid to South and Southeast Asia. The Colombo Plan for Cooperative Economic Development in South and Southeast Asia was established in 1950 by the commonwealth countries of Australia, Britain, Canada, Ceylon (now Sri Lanka), India, New Zealand and Pakistan but soon joined by many other countries including the United States (joined in 1951) and Japan (joined in 1954). Like the Marshall Plan, the impetus for the Colombo plan was to combat communism in South and Southeast Asia, but it was a multilateral effort rather than an initiative of the United States. Though the United States provided the largest contributions, the Colombo Plan sought a coordinating role for international assistance rather than directly disbursing funds. The Colombo Plan continues to operate and has focused increasingly on South-South cooperation, human resource development and drug abuse prevention.<sup>29</sup>

The outbreak of the Cold War between the United States and the Soviet Union affected how and where foreign aid was allocated. The United States used its aid program to support regimes that would be considered repellent as long as they supported the United States rather than the Soviet Union. Humanitarian factors were secondary and subordinate to the prevention of the spread of communism and the influence of the Soviet Union and the People's Republic of China (PRC). The Soviet Union and China each competed with the "Western" (including Japan) donor states for influence and primacy across the developing world.

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<sup>29</sup> The Colombo Plan Secretariat. *The Story of the Colombo Plan: Resource Book 2012* (Colombo, 2012), 49-55.

The decolonization movement also had a major effect on the foreign aid programs of colonial powers. France and the UK had amassed a large number of colonies spread across the world and, by the end of WWII, it became clear that colonization was unsustainable as well as morally indefensible. The foreign aid programs of both France and the UK grew out of their colonial administration apparatus's and, at least initially, focused aid primarily on former colonies. France established the Ministry of Cooperation in 1959 to manage aid to former colonies and provided both technical and military assistance. In the UK, the Ministry of Overseas Development was established in 1964. As early as the 1920s, France and the UK began systems for investing in and improving the infrastructure in their colonies.<sup>30</sup> The institutions established to manage these investment and development programs provided the foundation for the foreign aid programs of both countries.

### **2.1.2 Who gives it?**

Aid is provided by nearly all developed countries and increasing numbers of developing countries, many of whom still receive aid themselves. Japan and China each began offering foreign aid soon after the end of WWII and each was an aid recipient when their aid programs were initiated. ODA disbursements (net of repayments) of DAC countries are shown in Figure 2-1 on page 19. Real net ODA disbursements increased by over 300% between the levels that prevailed in the 1970s and 2016. ODA levels rose strongly from the late 1970s and 80s, stagnated and declined in the 90s and rose rapidly in the early 2000s and have continued to grow through 2016. The United States has been the largest donor for most of this period though Japan was the largest donor in 1989 and for several years in the 1990s. Together, the United

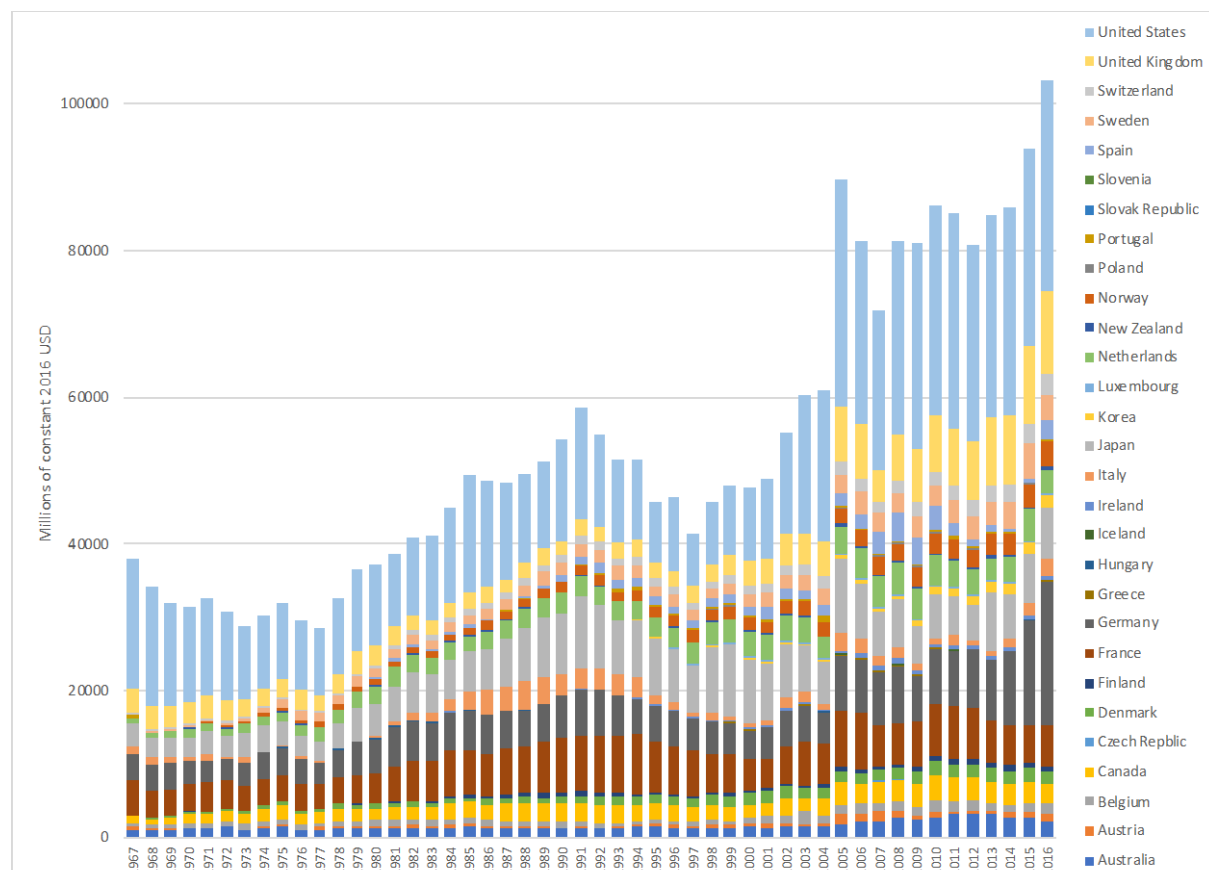
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<sup>30</sup> François Pacquement, "How Development Assistance from France and the United Kingdom Has Evolved: Fifty Years on from Decolonisation," *International Development Policy*, Vol. 1 (2010), 51-75.



States, Japan, the UK, France and Germany have accounted for about 70 percent of all DAC ODA since the 1970s.

**Figure 2-1: Total Net Bi-lateral ODA from DAC Donors by Year and Donor, 1967-2016 (Constant 2016 \$)**



Source: OECD

DAC members provide most ODA but their proportion of total aid is shrinking. By 2014 the OECD estimated that non-DAC gross ODA disbursements reached over \$30 billion which would account for over 20 percent of all ODA though Saudi Arabia alone was estimated to make up close to half of all non-DAC ODA in 2014 (see Table 2-1 on page 20). Further, the ODA attributable to China is underestimated. The estimates of China's foreign aid used in the analysis section of this dissertation, based on a newly available dataset, are substantially higher than the OECD totals for China referenced in Table 2-1 on page 20. The description of the base

data, issues, and methodology used to compile the dataset are described in Chapter 4.2.2. The overall importance of non-DAC ODA is increasing and should continue increasing in future years as the economies of major aid providers such as China, India, Turkey, and the major oil producers in the Middle East increase in relative economic and political power compared to DAC members.

**Table 2-1: Total Gross ODA Disbursements, non-DAC donors, 2011-2015 (Current \$ millions)**

Donor Country	2011	2012	2013	2014	2015
<b>Non-DAC but reporting to OECD voluntarily</b>					
Azerbaijan	NA	NA	NA	16	13
Bulgaria	48	40	50	49	41
Croatia	NA	21	45	72	51
Cyprus	38	25	20	19	18
Estonia	24	23	31	38	34
Israel	206	181	202	200	233
Kazakhstan	NA	NA	8	33	43
Kuwait	526	482	541	598	632
Latvia	19	21	24	25	23
Liechtenstein	31	29	28	27	24
Lithuania	52	52	50	46	48
Malta	20	19	18	20	17
Romania	164	142	134	214	158
Russia	479	465	714	876	1,161
Saudi Arabia	5,239	1,436	5,825	13,785	6,979
Taiwan	381	305	272	274	279
Thailand	41	30	55	86	79
Timor-Leste	NA	NA	NA	3	4
Turkey	1,273	2,533	3,308	3,591	4,169
United Arab Emirates	796	854	5,493	5,193	4,490
<b>Non-DAC non-reporting (as estimated by OECD)</b>					
Brazil <sup>1</sup>	469	411	316	NA	NA
Chile	24	38	44	49	33
China	2,785	3,123	2,997	3,401	3,113
Colombia	22	27	42	45	42
Costa Rica	NA	NA	21	24	10
India <sup>2</sup>	794	1,077	1,223	1,398	1,772
Indonesia	16	26	49	56	NA
Mexico	99	203	526	169	NA
Qatar	733	543	1,344	NA	NA
South Africa <sup>2</sup>	229	191	191	148	100
<b>Total Bi-lateral Non-DAC ODA Disbursed (Gross)</b>	<b>14,509</b>	<b>12,297</b>	<b>23,571</b>	<b>30,455</b>	<b>23,567</b>
<b>Total Bi-lateral DAC ODA Disbursed (Gross)</b>	<b>150,195</b>	<b>140,247</b>	<b>151,785</b>	<b>151,142</b>	<b>143,132</b>

<b>Non-DAC Share</b>	9.7%	8.8%	15.5%	20.1%	16.5%
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Sources: OECD/DAC Statistics; [oecd.dac/stats](http://oecd.dac/stats) for Total ODA figures.

Estimates for ODA-like flows estimated by OECD from published donor government sources as follows:

Brazil: Institute of Applied Economic Research (IPEA) and Brazilian Cooperation Agency (ABC).

Chile: Chile Ministry of Finance.

China: China Fiscal Yearbook, Ministry of Finance.

Columbia: Strategic institutional plans, Presidential Agency of International Cooperation.

Costa Rica: Annual budget laws, Ministry of Finance.

India: Annual budget figures, Ministry of Finance.

Indonesia: Ministry of National Development Planning.

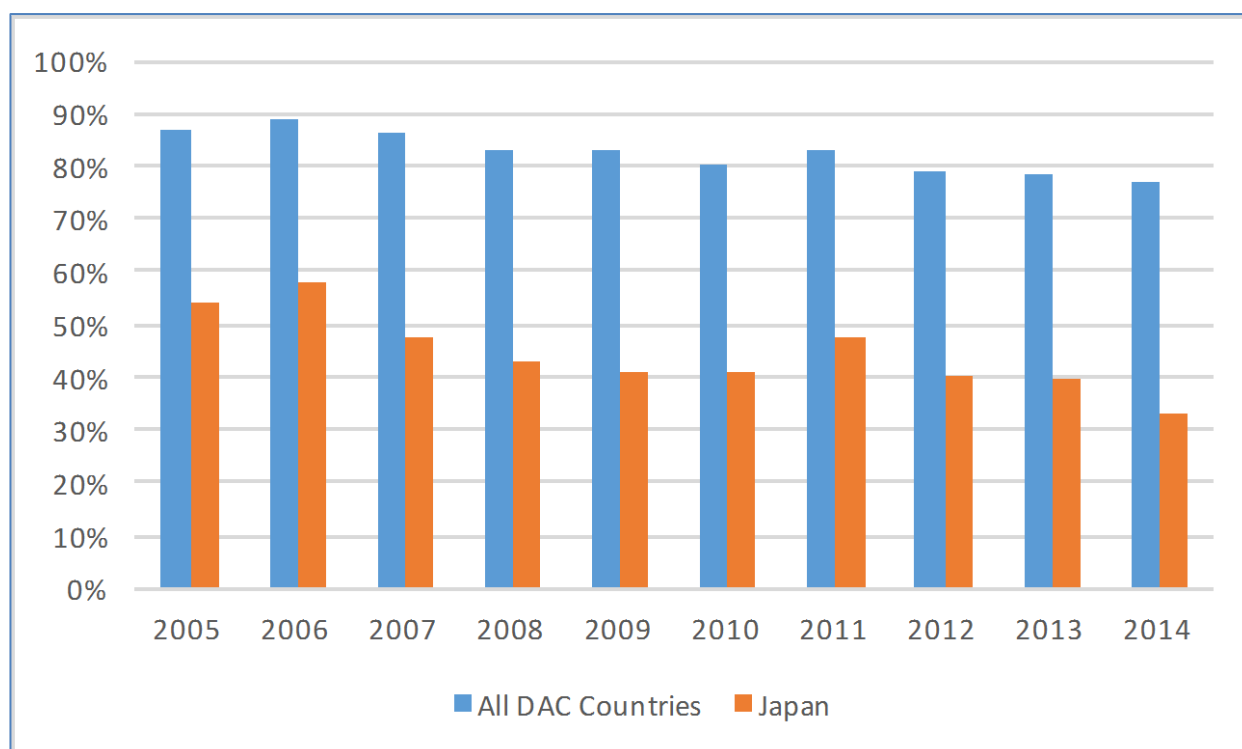
Mexico: Mexican Agency for International Development Cooperation (AMEXCID).

Qatar: Foreign aid reports, Ministry of Foreign Affairs.

South Africa: Estimates of public expenditures, National Treasury.

See <http://www.oecd.org/development/stats/non-dac-reporting.htm> for detailed source information.

Most donors, whether established DAC donors or emerging powers, provide all types of aid. The United States provides its aid as mostly grants while Japan provides about 50% or more of its aid as concessional lending. Emerging donors tend to provide larger proportions of their aid as concessional loans while DAC countries tend to offer a larger proportion of grants. The proportion of grants within total ODA has been declining (see Figure 2-2 on page 22) in recent years and the decline for Japan has been particularly pronounced. The reason for the declining level of grants is unclear but may indicate more limited budgets for aid among DAC members or a greater focus on infrastructure or other types of project more appropriate for loan financing. The emergence of China as a donor primarily financing infrastructure has highlighted to existing donors the demand by aid recipients for infrastructure. This may be leading to a competitive response by DAC donors to provide ODA that resembles China's aid.

**Figure 2-2: Proportion of Grants in Total ODA, 2005-2014**

Source: OECD

### 2.1.3 How does aid work in practice?

Understanding the role of the donor and the recipient in the aid relationship is necessary to interpret and establish donor intent and make sense of the data on aid commitments. There is a wide variety of practices used by donors and recipients to develop aid programs. Developed countries with professionalized aid programs, which includes most DAC members, have ongoing country aid programming processes managed by aid agency staff based in recipient countries. Most donors prepare, with the input of recipient countries, a country strategy which outlines the main areas of assistance that the donor will target its assistance towards. These country strategies usually cover multiple years, describe the development needs of the country, specify the areas where the donor will assist the recipient, and describe how the assistance will support the recipient's development. Country strategies are prepared by both bi-lateral and multi-lateral donors and development partners.

Based on these country strategies, donor country staff based in the recipient country will periodically meet with government counterparts to discuss project ideas and priorities for aid funding. The country strategies only address the types of projects on which the donor and recipient agree to work. The decision to allocate foreign aid by the donor is made at high levels of the donor government during the development and approval of the national budget. The decision to select a specific project depends on project readiness and country priorities and is often made by staff of bi-lateral development agencies. DAC donors endeavor to have some degree of donor coordination so that multiple donors do not end up duplicating the work of other donors. Donor coordination is often accomplished by formal donor coordination committees established in many recipient countries and, in some cases, joint aid programming meetings are held between most donors and the recipient country. Such joint meetings are often held when there is post-conflict or disaster reconstruction effort where donors hold a pledging conference. Examples of this include the Brussels Conference on Afghanistan (2016) after and International Ministerial Conference on Rebuilding Cambodia (Tokyo Conference, 1992). At these meetings, most donors pledge to provide aid to the recipient in a coordinated way so as to prevent duplication and increase efficiency.

Many donors utilize technical assistance grants as a tool to generate projects for aid financing. Japan is a prime example of this approach where grant aid is often used to generate infrastructure master plans which contain prioritized lists of potential projects in the sectors where Japan has chosen to concentrate its aid efforts. Sometimes the recipient states adopt such donor prepared master plans as their own infrastructure development strategies, but most have their own priorities. The donor and the recipient then negotiate on which projects will be financed by the donor, when, and on what terms. Most donors, including Japan, have annual programming meetings where the donor and recipient decide on the new projects to be

implemented in the upcoming year or two and which projects will be developed in the future. Most aid recipient countries have large infrastructure deficits and high demand for aid resources so donor proposals to finance projects are generally well received.

Donors depend on having a pipeline<sup>31</sup> of potential projects that can be financed by aid commitments. These project pipelines are developed over time in cooperation with the recipient and enable donors to scale up aid when in the donor's interest. When aid commitments increase, the implementation of the project pipeline speeds up and when aid is reduced, it slows down offering a level of flexibility to the donor. This ready pipeline enables leaders of donor countries to announce new aid packages during state visits to aid recipient countries. These project pipelines also enable other donors to join as co-financiers if they do not have their own ready projects developed and sometimes take over financing of projects identified and prepared by other donors. Bi-lateral donors may add funds to multi-lateral donor projects as in the case of Agence Française de Développement (AFD) providing \$150 million in cofinancing to the ADB financed Peshawar Sustainable Bus Rapid Transit Corridor project in Pakistan.<sup>32</sup> In this way, donors that wish to scale up their aid giving can participate in other donor's projects when it suits their interests.

Finally, donors who wish to scale up aid activities quickly can rapidly increase aid to key recipients by offering direct budget support or by cancelling debt incurred on previous aid financed projects. For example, Japan forgave over \$5 billion of Myanmar's debt to Japan over

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<sup>31</sup> A project pipeline refers to a set of projects at various stages of preparation that are under development and can be financed if and when a donor provides funding. Bilateral aid agencies spend much of their efforts preparing pipelines of development projects to absorb the aid allocations of the donor government.

<sup>32</sup> Project description found at <https://www.adb.org/projects/48289-002/main#project-pds> (accessed 31 March 2019).

the span of only 2 years (2012-2013).<sup>33</sup> In 2011, China cancelled \$6 billion in Cuba's debt.<sup>34</sup> These large debt forgiveness actions generally reflect a desire on the part of the donor to make a gain a major public relations win to improve their reputation and influence in the recipient. Direct budget support is not frequently utilized. In 2017, for example, out of \$124.7 billion in total ODA from DAC members, just \$2.4 billion was budget support. Debt cancellation amounts are generally much higher than direct budget support and more relevant to donors with a high proportion of loan aid, such as Japan and China.

Emerging donors often do not have robust aid bureaucracies through which to develop and implement aid programs. China only established its first aid agency, the China International Development Cooperation Agency, or CIDCA, in April 2018 after being an aid donor for over 60 years. Going forward CIDCA may develop into a large and capable aid bureaucracy which develops future projects, but as of this writing, there are rarely China developed project pipelines in aid recipient countries ready to accept China's aid commitments. China tends to rely on the recipient to propose projects or offers general concessional financing packages that will later be targeted at specific projects. In 2011, for example, China signed a strategic partnership agreement with Mongolia and accompanied the agreement with a pledge of \$500 million in China Ex-Im Bank financing at concessional rates for unspecified projects.<sup>35</sup> At the time the soft loans were offered, Mongolia had not proposed any specific projects to China. Mongolia proposed projects to China for financing under this loan over the next several

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<sup>33</sup> Daniel DeFraia, "Japan forgives Myanmar debt, offers investment and aid," *Agence France-Presse*, 26 May 2013 accessed 31 March 2019, <https://www.pri.org/stories/2013-05-26/japan-forgives-myanmar-debt-offers-investment-and-aid>.

<sup>34</sup> Kenneth Rapoza, "China has forgiven nearly \$10 billion in debt. Cuba accounts for over half," *Forbes*, 29 May 2019, accessed 8 June 2019, <https://www.forbes.com/sites/kenrapoza/2019/05/29/china-has-forgiven-nearly-10-billion-in-debt-cuba-accounts-for-over-half/>.

<sup>35</sup> Alicia J. Campi, "China seeks to strengthen Mongolia trade links during August trilateral summit," *The Jamestown Foundation: China Brief*, Vol. 14, Issue 14 (17 July 2014).

years. Chinese largesse is often preceded by visits from Chinese leaders and signing of other agreements. These aid commitments, since they often do not have specific projects identified, may take many years to be implemented or may not be implemented at all. Because China has relied on the recipient to propose projects, recipients sometimes propose projects prepared by other donors. Planning and engineering work may be paid for by a DAC donor and then the project eventually financed by China. The prevalence of this has bred some degree of competitive hostility from other donors towards China's aid activities.

One overlooked aspect of foreign aid research is that recipient countries have agency in the aid commitment decision. Some recipient countries are actively shopping their highest priority projects to potential donors to gain financing. Countries that are particularly dependent on aid often develop lists of potential projects that include all the high priority projects left over after all of their domestic resources have been exhausted. These unfunded projects then become the basis for requests from the donor community.

Donors that offer a relatively high percentage of their aid as loans can also increase their aid giving more readily than countries that have grant based aid programs because the budget impact of offering a concessional loan is less than a grant. The peculiarities of the way the DAC defines ODA allowed some countries including Japan to actually provide loans that qualified as ODA but that were in reality reasonably profitable for the country. For instance, Japan can borrow yen for 30 years at less than 1% interest (as of March 2019 the coupon rate on a 30-year Japanese government bond was 0.7%). Japan could then offer a 1% ODA loan to a developing country, earning more interest from ODA lending than the government's own borrowing cost.



## 2.2 Foreign aid and international relations theory

Foreign aid policy and practice has long helped to define the character of relations between the more advanced countries and the so-called developing world. The theoretical framework proposed later in this chapter and tested in Chapters 5 and 6 blends aspects of different theoretical paradigms in international relations (IR). The purpose of this section is to present the various theoretical lenses through which international relations scholars attempt to understand the purpose and effectiveness of foreign aid. I will then describe where this dissertation's research fits in the existing literature and how it contributes to understanding foreign aid policy and practice and its effect on international security.

### 2.2.1 Purpose of foreign aid

Scholars have characterized aid's purpose in a variety of ways, but the most common purposes in the literature are (i) commercial, (ii) security, (iii) diplomatic, (iv) developmental, (v) cultural, and (vi) humanitarian.<sup>36</sup> Some scholars studying the purposes of foreign aid have developed simpler groupings. One common way to conceive of aid purposes is to divide certain types of aid into its overarching goal. For example, development aid given to develop a port that can be used to export raw materials important to the donor could be considered commercially oriented since the overall goal of the project is to improve the economic well-being of the donor. Likewise, diplomatic aid or aid meant to improve relations between states could be commercial or security oriented, depending on the overall purpose of improving relations. For example, aid for diplomacy when the donor is attempting to negotiate a security agreement with the recipient would be aid for security goals. Aid for development that has no potential commercial or security benefits to the donor would be altruistic and, therefore, be

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<sup>36</sup> Carol Lancaster, *Foreign Aid*, Kindle location 133 of 4132.

similar to humanitarian assistance. By focusing on the overarching goal, it becomes clear that most aid can be considered either 1) commercial, for the economic benefit of the donor, 2) security, to enhance the national security of the donor, or 3) normative, for the economic or social benefit of the recipient. This simpler taxonomy of aid purposes has been used by Barthelemy<sup>37</sup> in his quantitative study on donor interests vs. recipient interests. Other researchers have combined commercial, security and diplomatic purposes into single models of donor interests vs. recipient interests to determine how aid is allocated and for whose benefit.<sup>38</sup> In this dissertation, I have adopted the three-purpose taxonomy of aid: commercial, security and normative.

One useful way to make sense of foreign aid purposes is to map those purposes to the predictions of the dominant theories used by international relations scholars to understand world politics. In the foreign aid literature, there are three dominant paradigms used to understand foreign aid: realism, liberalism and constructivism. While there is substantial variation within these schools of thought, most states that provide foreign aid fit the expectations of one or more of these theoretical constructs when it comes to aid policy. The next sections summarize the views on foreign aid under each paradigm.

### **2.2.2 Realism**

The core realist argument is that foreign aid is first and foremost to promote the security self-interest of the donor. In a world characterized by anarchy, security is the primary interest of major powers in the international system. States act in the international system to maximize

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<sup>37</sup> Jean-Claude Berthelemy, "Bi-Lateral Donors' Interests vs. Recipients' Development Motives in Aid Allocation: Do all donors behave the same?," *Review of Development Economics*, Vol. 10, No. 2 (2006) 183-6.

<sup>38</sup> Alfred Maizels and Michiko Nissanke "Motivations for Aid to Developing Countries," *World Development*, Vol. 12, No. 9 (1984), 879-900.

their power vis-à-vis other states and aid is one of the tools available with which to pursue gains in relative power. Realists/neorealists such as Morgenthau,<sup>39</sup> Banfield,<sup>40</sup> Walt,<sup>41</sup> Schelling,<sup>42</sup> and Liska<sup>43</sup> argue that foreign aid is essentially bribery meant to solidify alliances and buy policy concessions. Hans Morgenthau<sup>44</sup> considered foreign aid to be an indispensable part of foreign policy because there are state interests that cannot be secured militarily or diplomatically. Morgenthau was critical of implying that foreign aid should promote economic development because it confused both donor and recipient on the purpose of aid. For Morgenthau, all aid was political, even if it was branded economic development assistance.

George Liska more concretely put foreign aid in the context of national security.<sup>45</sup> He summarized the goal of foreign aid as the optimal use of donor resources both domestically and internationally to maximize security. Writing in the context of the Cold War, he said that the United States needs cooperation in political, economic, and military matters. Its main methods short of force to induce cooperation are the granting and withholding of aid and political subversion. Contrary to many scholars who point to post WWII as the beginning of foreign aid as a policy tool, Liska links the granting of foreign aid to the use of subsidies in Renaissance Europe. Cross state subsidies were used to induce desirable behavior at less present cost than possible future military conflict. In addition, the support of allies during wars in this period often took form of monetary transfers. Tribute is also seen as a sort of a reverse subsidy in that the donor is the weak state buying off the aggression of the powerful state. All these subsidy

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<sup>39</sup> Hans Morgenthau, "A Political Theory of Foreign Aid," *The American Political Science Review*, Vol. 56, No. 2 (June 1962), 301-309.

<sup>40</sup> Edward Banfield, *American Foreign Aid Doctrines* (Washington DC: American Enterprise Institute for Public Policy Research, 1963), 24-5.

<sup>41</sup> Stephen Walt, *The Origins of Alliances* (Ithaca: Cornell University Press, 1987), 236-7.

<sup>42</sup> Thomas Schelling, "American Foreign Assistance," *World Politics*, Vol. 7, No. 4 (July 1955), 606-62.

<sup>43</sup> George Liska, *The New Statecraft: Foreign Aid in American Foreign Policy* (Chicago: University of Chicago Press, 1960), 30.

<sup>44</sup> Hans Morgenthau, "A Political Theory of Foreign Aid," 301-309.

<sup>45</sup> George Liska, *The New Statecraft*, 184.

relationships had an explicit quid pro quo and reciprocity was assumed. For realists like Liska, the key objectives of foreign aid are: (i) to strengthen economies of allies, (ii) to strengthen non-communist regimes, and (iii) to strengthen the strategic position of United States by developing and holding military assets in foreign countries. Liska notes that objective (i) is a long-term security strategy while (ii) and (iii) are short term security strategies.

Thomas Schelling highlights the problem with distinguishing military from economic aid.<sup>46</sup> There was a consensus that economic aid can be either for military or economic purposes, while military aid can only serve military purposes. Schelling noted that the real net effect of aid cannot be known from the aid type because the fungibility of aid means that the true impact of military aid could be economic or that economic aid could result in more military spending.<sup>47</sup> Aid fungibility means that economic aid can have military benefits for the recipient and security benefits to the donor. For this reason, where military aid is difficult to provide for political reasons, economic aid may suffice to serve the same purpose.

This idea of aid fungibility implies that we cannot distinguish the purpose of aid simply on the basis of what type of project is undertaken with the aid. As any aid professional can attest, those offering aid packages will utilize the fact that aid money used for a specific purpose frees up regular budget resource in the recipient country which can be put to other uses. For example, a donor may provide funding for a highway that the recipient government would build anyway with the understanding that the recipient would use the savings to do something else, such as invest in border protection, military cooperation, or purchase weapons. This is a useful

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<sup>46</sup> Thomas Schelling, "American Foreign Assistance," *World Politics*, Vol. 7, No. 4 (July 1955), 606-626.

<sup>47</sup> *Ibid.*, 613.

feature for states like Japan that are legally prohibited from offering military assistance. Economic aid can effectively serve as security assistance due to its fungibility.

Realists have also argued that economic aid can be useful if it strengthens a donor's allies against a common threat. However, realist scholars have argued amongst themselves about the usefulness of aid for this purpose. Many realists prefer military assistance to economic assistance because of doubts about the effectiveness of economic assistance to transform economies and produce economic development that would strengthen the potential ally.

Since foreign aid is primarily given by powerful donors to weaker and often seemingly inconsequential states, foreign aid tends to be ignored in the realist literature. Some aid relationships also defy the predictions of realists. How would realists interpret the fact that the United States provided over \$52 million<sup>48</sup> in grant aid to China as recently as 2013? Most realists believe the United States is in pitched competition with China for power in the international system so providing aid to a peer competitor appears incomprehensible. If states seek only power and care only about relative gains, then United States aid to China makes little sense. At the other extreme, after the end of the Cold War aid to small states with little power is also hard to understand from a realist perspective. What value can that aid provide to great powers when the recipient state is incapable of providing much meaningful security assistance to the donor? To answer these questions, we need to acknowledge that states do not always act according to realist principles and may pursue goals beyond scraping for relative gains against competitor states.

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<sup>48</sup> Source: OECD.

### 2.2.3 Liberalism

While realists<sup>49</sup> and liberals<sup>50</sup> generally assume that foreign aid promotes the “national interests” of the donor, they diverge with regard to relative gains and economic interdependence. Liberals sometimes argue that foreign aid could be given even if it increases the relative power of the recipient as long as domestic actors in the donor country also benefit. Realists would argue that this is unlikely. Liberals would also assert that foreign aid that promotes interdependence is useful for promoting peaceful relations while realists tend to see interdependence as threatening.

Liberal/neoliberals emphasize the use of aid to enhance the donor's "soft" power and international prestige,<sup>51</sup> the commercial benefits to the donor (commercial liberalism)<sup>52</sup>, and the development of international institutions (institutional liberalism).<sup>53</sup> Some liberals admit that aid can serve security interests. For example Nye and Welch categorize foreign aid as one type of international intervention which is less costly and disruptive than military action but more coercive than speeches or information dissemination.<sup>54</sup> Like realists, liberals tend to view foreign aid as self-interested, but have a more expansive view of state interests which include

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<sup>49</sup> Stephen Walt, "Alliance formation and the balance of world power," *International Security*, Vol. 9, No. 4 (Spring, 1985), 3-43.

<sup>50</sup> Galia Press-Barnathan, "The Neglected Dimension of Commercial Liberalism: Economic Cooperation and Transition to Peace," *Journal of Peace Research*, Vol. 43, No. 3 (2006), 262-3.

<sup>51</sup> Joseph Nye, *The Paradox of American Power: Why the World's Only Superpower Can't Go It Alone* (Oxford: Oxford University Press, 2002).

<sup>52</sup> Peter J. Schraeder, Stephen W. Hook and Bruce Taylor, "Clarifying the Foreign Aid Puzzle: A comparison of American, Japanese, French and Swedish Aid Flows," *World Politics*, No. 50 (January 1998), 294-323.

<sup>53</sup> Tsukasa Takamine, "The Political Economy of Japanese Foreign Aid: The Role of Yen Loan in China's Economic Growth and Openness," *Pacific Affairs*, Vol. 79, No. 1 (Spring 2006), 29-48.

<sup>54</sup> Joseph S. Nye and David A. Welch, *Understanding Global Conflict and Cooperation: An Introduction to Theory and History* (9th ed.) (New York: Pearson, 2013), 201.

economic and trade relations, roles and power of states within institutions, and the notion of national reputation and “soft power.”<sup>55</sup>

Disagreements about foreign policy behavior between realists and liberals are based on different understandings of the role of domestic factors and structural factors in compelling state behavior. Liberal theories are based on the notion that states have preferences based on domestic society and institutions. These preferences come from the bottom up in that international politics depends on the demands of individuals and groups in domestic society. Governments represent different subsets of groups in society and the interests of those groups determine state preferences. International cooperation and interdependence within the international system can influence these domestic groups and, hence, state behavior.<sup>56</sup>

This liberal view is contradicted by the neorealist view that international structure determines state behavior rather than preferences. For neorealists like Kenneth Waltz, the notion that state preferences or the character of states determines state behavior is reductive. That is, he asserts that such a view reduces to the facile finding that states go to war because they are “war-like” and stable international order is the result of most states being “orderly”.<sup>57</sup> Liberals argue that basing behavior on state preferences is not reductionist as state preferences can transmit the results of international interactions. Further, state action is not only based on a single state’s preferences, but partially on the preferences of other states linked by a degree of interdependence.<sup>58</sup>

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<sup>55</sup> Joseph Nye defines soft power as “getting others to want what you want...” in Joseph Nye, *The Paradox of American Power*, 9.

<sup>56</sup> Andrew Moravcsik, “Taking Preferences Seriously: A Liberal Theory of International Politics,” *International Organization*, Vol 51. No. 4 (Autumn 1997), 514-521.

<sup>57</sup> Waltz, Kenneth N., *Theory of International Politics*, Reading: Addison-Wesley Publishing Company, 1979, pp. 63-64.

<sup>58</sup> Moravcsik, Andrew, “Taking Preferences Seriously,” 522-523.

Foreign aid can serve to burnish the image of the donor and promote the values and desires of the donor state among the people and leaders of the recipient, and according to liberals, these goals can be more important than seeking relative gains. Nye argues<sup>59</sup> that the small United States foreign aid budget has a negative impact on its soft power as the United States only spends about one-third the level, relative to the size of the economy, of European governments on foreign aid. He argues that if the United States is concerned about its soft power, it needs to make economic aid a higher foreign policy priority.<sup>60</sup> Even leading realists with liberal foreign policy tendencies such as Zbigniew Brzezinski lament the low level of United States foreign aid and lack of more concrete support for the UN Millennium Development Goals.<sup>61</sup> He points to the global alienation from American values that has resulted from this lack of generosity<sup>62</sup>, which is a soft power argument.

#### 2.2.4 Constructivism

Constructivist views on foreign aid are diverse. Some constructivist scholars (and much of the foreign aid establishment) emphasize the role of values and the humanitarian dimension of aid as a reflection of the moral values of the donor<sup>63</sup> though constructivism is such a varied and diverse approach to international relations that many explanations for foreign aid fall within the paradigm. Some constructivists have argued that aid expresses the moral value of helping those who are less fortunate.<sup>64</sup> Others argue that aid establishes a social relationship between

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<sup>59</sup> Joseph Nye, *The Paradox of American Power: Why the World's Only Superpower Can't Go It Alone* (Oxford: Oxford University Press, 2002).

<sup>60</sup> Ibid., 146.

<sup>61</sup> Zbigniew Brzezinski, *Second Chance: Three Presidents and the Crisis of American Superpower* (New York: Basic Books, 2007).

<sup>62</sup> Ibid, 175.

<sup>63</sup> Iain Watson, *Foreign Aid and Emerging Powers: Asian Perspectives on Official Development Assistance* (Routledge: New York, 2014), 6-7.

<sup>64</sup> David Lumsdaine, *Moral Vision in International Politics: The Foreign Aid Regime, 1949-1989* (Princeton NJ: Princeton University Press, 1993), 22.



donor and recipient meant to perpetuate a dominant/submissive social and economic relationship.

Much of the constructivist reasoning on foreign aid is a reaction to the near universal dismissal of ethical justifications for foreign aid within mainstream international relations. Hattori notes that even liberals who strongly favor foreign aid tend not to make any moral claims about it, but look at it as a technical method to facilitate trade and commerce, indirectly resulting in peace and prosperity.<sup>65</sup> However, aid practitioners and agencies use the language of moral values to justify their programs and are reticent about explicitly claiming aid is self-interested. For example, the USAID statement on Mission, Vision and Values begins:

“Our Mission: On behalf of the American people, we promote and demonstrate democratic values abroad, and advance a free, peaceful, and prosperous world. In support of America's foreign policy, the U.S. Agency for International Development leads the U.S. Government's international development and disaster assistance through partnerships and investments that save lives, reduce poverty, strengthen democratic governance, and help people emerge from humanitarian crises and progress beyond assistance.”<sup>66</sup>

Constructivists can reasonably ask why international relations scholars reject what the vast majority of those working in development say they are doing? Hattori argues that it is impossible to separate morality from aid purpose because this divorces aid practice from its social context.<sup>67</sup>

Scholars such as Lumsdaine assert that: (i) international relations are governed by the principles and morality of the actors in the international system, (ii) that states are influenced

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<sup>65</sup> Tomohisa Hattori, “The moral politics of foreign aid,” *Review of International Studies*, Vol. 29 (2003), 229-247.

<sup>66</sup> See <https://www.usaid.gov/who-we-are/mission-vision-values> (accessed on 21 May 2019).

<sup>67</sup> Tomohisa Hattori, “The moral politics of foreign aid,” 231.

by domestic political institutions and the state's role in international society, and (iii) that international relations have "inherent social meaning" so that changes in international practices tend to be based on moral norms that are ongoing and changing.<sup>68</sup> For Lumsdaine, it is not surprising that European governments spend much more on foreign aid than the United States since they have much more generous domestic social welfare systems which reflect their moral priorities. These same priorities and moral norms also manifest themselves in generous foreign aid budgets. Some liberals and constructivists like Lumsdaine argue that:

"foreign aid cannot be accounted for on the basis of the economic and political interests of the donor countries alone; the essential causes lay in the humanitarian and egalitarian principles of the donor countries...."<sup>69</sup>

A significant body of literature on aid norms and values based on gift theory comfortably fits into the constructivist camp. Hattori argues that aid is an unreciprocated gift from one state to another. The importance of the gift is in the social relations that are created by the gift rather than the gift itself.<sup>70</sup> In other words, what aid is, is more important than what aid does. Analogizing aid to a gift also adds insight into the Japanese practice referred to as "omiyage" diplomacy ("omiyage" is a gift given on meeting a host or returning from a trip) when Prime Ministerial visits were accompanied by large aid packages to the host.<sup>71</sup> For Hattori, an unreciprocated gift becomes a symbol of domination and by not repaying the gift, the recipient becomes a willing participant in the order of things – in this case the structure of the international system.

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<sup>68</sup> David Lumsdaine, *Moral Vision in International Politics*, 228.

<sup>69</sup> *Ibid.*, 30.

<sup>70</sup> Tomohisa Hattori, "The moral politics of foreign aid," 232.

<sup>71</sup> Alan Rix, "Managing Japan's Aid: ASEAN," in ed. Robert M. Orr and Bruce Koppel, *Japan's Foreign Aid: Power and Policy in a New Era* (Boulder: Westview Press, 1993), 19-40.

Hattori further analogizes the aid relationship to Confucian values that hold that social responsibilities are determined by social status. Performance of duties to assist those of lower status should accord recognition. In this way, the provision of foreign aid confirms the virtue and moral superiority of the donor in the eyes of its own society and confirms its elevated status. By accepting, the recipient acquiesces to its subordinate position.<sup>72</sup> One could question how this notion comports with the history of the Chinese suzerainty where status was conferred to the dominant state by gifts from the subordinate state – the opposite direction of foreign aid.

Lastly, constructivists have asserted that foreign aid is used to project particular identities that reflect the donor states power and prestige in the international system. Western donors tend to emphasize the symbolism of charity and humanitarianism while emerging donors tend to emphasize mutual benefit and shared identity. Under this notion, the establishment of foreign aid programs can serve as a symbol of a state arriving as an advanced country – in essence, joining the “club” of developed countries by aligning its practices with those of the existing donors.<sup>73</sup>

Aid from certain emerging donors (especially those that are still developing countries) is sometimes couched as “South-South” cooperation to emphasize the idea that it is not “aid” per se, but a mutually beneficial exchange without the power dynamic implicit in the Western model. In fact, China and India tend to avoid the word “aid” when referring to their foreign aid programs preferring “international cooperation”. In these cases, constructivist scholars have

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<sup>72</sup> Tomohisa Hattori, “The moral politics of foreign aid,” 237.

<sup>73</sup> Hisahiro Kondoh, Takaaki Kobayashi, Hiroaki Shiga, and Jin Sato, “Diversity and Transformation of Aid Patterns in Asia’s ‘Emerging Donors’,” JICA Research Institute Working Paper No. 21, October 2010.

argued that these aid programs are meant to communicate solidarity with other developing countries and assert a shared identity and development experience.<sup>74</sup>

Constructivist scholars approach aid from diverse viewpoints and hold a variety of views on foreign aid practice and policy. However, much of the foreign aid literature from this perspective suffers from two problems. First, much of this literature conflates states with people and therefore applies the methods of anthropology and sociology to explain government policy. States are not people – they do not need to die or reproduce, for instance – and do not interact in ways analogous to social interactions among people. This is a mistake regarding the level of analysis where the actions and motivations of the individual are conflated with the action and motivations of the state. This means that it is also not necessarily true that the purpose of the aid professionals implementing foreign aid is the same as the donor’s purpose in providing foreign aid. The purpose of one actor in a complex process may not be the same as the overall purpose of the endeavor.

Secondly, the need to build domestic coalitions to support particular national policies confuses the analysis of the overall purpose of those policies. Like any major program requiring substantial budgetary outlays and no obvious domestic constituency, foreign aid attracts a coalition of supporters. Carol Lancaster demonstrates the ways that certain interest groups affect the size and purpose of foreign aid allocations. She notes the increases and decreases in aid amounts from the United States coincide with well-publicized humanitarian crises.<sup>75</sup> She gives particular emphasis to the growing impact of NGOs interested in international

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<sup>74</sup> Emma Mawdsley, *From Recipients to Donors: Emerging Powers and the Changing Development Landscape* (New York: Zed Books, 2012), 153.

<sup>75</sup> Carol Lancaster, *Foreign Aid*, Kindle location 1135 of 4132.

development along with the rise of Christian groups within the United States Republican Party who support foreign aid out of the religious duty to help the poor. Republicans had long been the main opposition to more foreign aid believing it to be at best ineffective and at worst counterproductive and corrupt. The increasing clout of Christian groups within the party may have reduced the opposition to aid allowing its budget to grow again. While this may be true, it does little to explain the growth of United States foreign aid since 2001. The vast majority of that new aid went to post conflict reconstruction and development activities associated with combatting terrorism and extremism. Further, it is impossible to explain why Christian groups would prefer foreign aid spending to domestic welfare spending for the poor. Why was this power of altruism limited to foreign aid? The answer may be that security issues became much more important so that the Department of Defense and its contractors and interest groups jumped on the foreign aid bandwagon.

While tempting to give credence to domestic political debates and processes, this approach can produce more confusion than clarity. International relations scholars need to devise usable theories that explain major movements in foreign policy and the relations between states. In the same way it is not illuminating to interpret major increases or decreases in defense spending in terms of the interests of defense contractors, it is not particularly illuminating to interpret foreign aid policy in terms of the domestic interest groups that support it. Defense policy is meant to promote national security, not to promote employment and foreign aid is meant to promote national interests, not fund NGOs or serve the charitable ideals of certain groups of citizens even if it incidentally does all of those things.

The explanations of foreign aid policy based on constructivist thinking is difficult to square with reality. Some aid surely is meant to benefit the recipient and reduce poverty, but

this cannot explain why aid declined in the 1990s and rapidly grew after 2000. In fact, global poverty has declined significantly since 1990<sup>76</sup> which, if aid is primarily to reduce poverty, we would expect declining rather than increasing aid commitments – the opposite of what happened. The notion of aid as social domination is also unsatisfactory since this cannot explain why emerging states provide substantial and growing amounts of aid. Many emerging donors like China and India still receive substantial amounts of aid themselves. It is difficult to understand why emerging powers establish aid programs and at the same time choose to continue receiving aid if aid is primarily to signify domination and submission in international relations.

### **2.2.5 Theoretical eclecticism**

Overall, past scholarly work on foreign aid has shown that both realist and liberal notions of the role and purpose of foreign aid can explain aid giving behavior at different times. During the Cold War, the realist position on aid was dominant. After the Cold War and foreign aid budgets were cut in most DAC member countries, the realist arguments for foreign aid seemed to wane and liberal arguments for foreign aid came to the fore. Arguments for using aid to bolster trade and investment and to socialize states into international institutions were common. However, aid budgets continued to wane until the terrorist attacks on 11 September 2001. Aid has been rapidly growing since then and seemed to validate the realist view that security threats drive aid allocations. However, this ignores two features of aid in the post 9/11 period. First, the explicit incorporation of democratic peace theory into United States foreign aid policy debates which offers a different argument for promoting democracy and governance

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<sup>76</sup> According to the poverty focused NGO World Vision, since 1990, 25 percent of the world's population has risen out of what is referred to as "extreme poverty" defined as surviving on less than \$1.90 a day. See <https://www.worldvision.org/sponsorship-news-stories/global-poverty-facts>.

reform using aid. Second, the justification of foreign aid for post-conflict recovery and reconstruction. DAC donors, the United States, UK, and Japan in particular began to pay close attention to promoting democratic governance and state building to counter terrorism and promote peace, an approach to aid that seems to bridge realist and liberal thinking on aid policy. The foregoing discussion leads directly to the combination of theoretical traditions to enhance the explanatory power of theories that explain foreign aid giving and allocation.

Democratic peace theory cuts across, some ideological boundaries in the debate on foreign aid. If democratic institutions are the key to peaceful relations between nations, the logical conclusion is to promote democracy in other states and one tool for supporting development of democratic institutions abroad is foreign aid. The rationale of democratic peace was incorporated by "neoconservatives" who had key positions in the United States national security establishment under the administration of George W. Bush. The policy of promoting democracy worldwide was articulated in the National Security Strategy (2002).<sup>77</sup> One rationale offered for the 2003-2011 Iraq War was to establish a liberal democracy in the Middle East to spread democratic ideals to other countries in the region. The neoconservatives expected that a democratic Iraq would promote democratic peace between countries of the Middle East and between those countries and other democratic states.<sup>78</sup> The result of this policy was that foreign aid was directed towards developing democratic institutions in recipient countries as an integral part of post-conflict reconstruction and recovery efforts related to the war on terror.

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<sup>77</sup> The White House, "The National Security Strategy of the United States of America," September 2002, <http://www.dtic.mil/dtic/tr/fulltext/u2/a407178.pdf>.

<sup>78</sup> John Mearsheimer, "Hans Morgenthau and the Iraq War: realism vs. neoconservatism," OpenDemocracy.net (18 May 2005), [https://www.opendemocracy.net/democracy-americanpower/morgenthau\\_2522.jsp](https://www.opendemocracy.net/democracy-americanpower/morgenthau_2522.jsp).

The increasing threat of international terrorism from failed states has changed how some foreign policy experts think development aid can support national security. Scholars such as Patrick Cronin, et. al.<sup>79</sup> have argued that foreign aid for economic development is now a national security imperative because poverty and failed states have become breeding grounds for terrorists and regional conflicts. These scholars believe the national security of the United States depends, in part, on addressing poverty and development of democratic institutions in the developing world. The foreign policy establishment in the United States was thinking primarily of using aid to bolster failed or failing states and to assist in post conflict recovery and reconstruction; a purpose that cuts across theoretical boundaries and encompasses both liberal and realist ideas about foreign aid.

### **2.2.6 Aid competition**

Realist scholars emphasized the competitive aspect of foreign aid during the Cold War though few studies have quantitatively shown that aid is allocated competitively in the sense the donors actively compete with each other using aid. Donors during the Cold War took sides between the United States led liberal order and the Soviet led communist movement. The rapid growth in aid in the post WWII period, first from the United States, and later from Europe and Japan, was explained by the perceived need to contain Soviet expansion. This competition seemed to play out across the developing world and saw relatively little concern for governance, democratic ideals, and corruption in the pursuit of allies.

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<sup>79</sup> Patrick Cronin and Tarek Ghani, "The Changing Complexion of Security and Strategic Assistance in the Twenty-First Century," in ed. Lael Brainard, *Security by Other Means: Foreign Assistance, Global Poverty and American Leadership* (Washington DC: Brookings Institution Press, 2007), 195-224.



When competing for influence in recipient countries, the donor's leverage depends on its ability to grant or withhold aid. George Liska<sup>80</sup> held that the United States is inevitably disadvantaged vis-a-vis the Soviet Union because the United States must spread resources in peacetime through its containment strategy, to keep countries in its sphere away from Soviet Union influence. The Soviet Union, as the expansionist power, was able to shift resources from one country to another to find weak spots and concentrate on them. Liska highlights Nasser's Egypt as a country given United States aid even though it was relatively hostile to the United States at the time. The Soviet Union could compete for influence by offering more aid and the United States would have to either offer competitive aid or offset it with aid to neighboring countries. In Cold War competition, aid would likely become a very expensive proposition for the power trying to defend its position (the United States) if the challenger (the Soviet Union) was willing to strategically use aid to probe for countries willing to break away for a price.

The Soviet Union did actively compete for influence and allies during the Cold War. Khrushchev believed that aid could be used to entice former colonies to choose socialism over the Western capitalist model. In addition, if newly independent states could be enticed into the Soviet sphere of influence, the capitalist world would be deprived of key resources and weaken their economies and international ambitions.<sup>81</sup> This is an example of using aid to signal state power within the international system. Aid provided national credibility in a strategic competition between superpowers.

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<sup>80</sup> George Liska, *The New Statecraft: Foreign Aid in American Foreign Policy* (Chicago: University of Chicago Press, 1960), 30.

<sup>81</sup> Emma Mawdsley, *From Recipients to Donors*, 49.

There is surprisingly little literature addressing aid competition outside the Cold War context and what little exists focuses on bidding between China and Taiwan for recognition among small states primarily in Africa and Pacific Islands states.<sup>82</sup> Several Pacific Island countries have basically auctioned diplomatic recognition to the highest bidder.<sup>83</sup> Van Fossen (2012) refers to the practice as “renting diplomatic recognition” and documents the pitched competition using escalating aid commitments from Taiwan and China prior to 2008.<sup>84</sup> China’s aid to Pacific Islands rose by a factor of seven between 2005 and 2008 which effectively prevented Taiwan from gaining any additional countries to recognize it despite large aid increases over the same period. In 2008, Taiwan’s President Ma announced that it would unilaterally cease the aid competition with China for recognition and while China never publicly agreed, the number of Pacific Island states that recognize Taiwan has been relatively steady since 2008. Since the election of the Democratic Progressive Party, which China perceives as pro-independence, in 2016, there are some indications that China and Taiwan have reignited the competition.<sup>85</sup>

Few studies have demonstrated actual competition more generally. Even the book by Kim and Potter (2012) entitled, *Foreign Aid Competition in East Asia*, does not actually demonstrate competition in aid giving beyond the Pacific Islands case and instead simply describes the aid practices of Japan, China, and Korea. This dissertation will attempt to use quantitative methods to discern if there is evidence of aid competition between Japan and China

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<sup>82</sup> Anthony Van Fossen, “Aid Competition Between China and Taiwan in the Pacific Islands,” in ed. Hyo-sook Kim and David M. Potter, *Foreign Aid Competition in Northeast Asia*, Sterling (VA): Kumarian Press, 2012.

<sup>83</sup> Hyo-sook Kim and David M. Potter, ed., *Foreign Aid Competition in Northeast Asia* (Sterling, VA: Kumarian Press, 2012), 172.

<sup>84</sup> *Ibid*, p. 177.

<sup>85</sup> Alexandre Dayant and Jonathan Pryke, “How Taiwan Competes with China in the Pacific,” *The Diplomat*, 9 August 2018, accessed on 6 December 2018, <https://thediplomat.com/2018/08/how-taiwan-competes-with-china-in-the-pacific/>.

(and the United States) by including the ODA of other powers as an explanatory variable in the models used to estimate aid commitments. Including aid from the potential competitor as an explanatory variable will test if aid allocations of Japan or China depend on the prior aid allocations of the other country. The findings and evidence for aid competition is described in Chapter 5.5 on page 258.

### **2.2.7 Aid from emerging powers**

The purpose of this section is to put the aid programs of China and Japan into context as one-time emerging donors and support the development of the theoretical framework used to guide the analysis of this dissertation. As one-time emerging donors, Japan and China have many similarities in their approach to providing aid. Japan's early aid program (and continuing to the present though to a lesser degree) and China's current program are characterized by high percentage of loans, emphasis on infrastructure finance, explicit statements about mutual benefits of aid, and the coordination of aid with other types of economic cooperation such as trade and foreign direct investment. Considering emerging donors gives insight into the reasons that growing powers establish aid programs.

Emerging donors challenge many assumptions about foreign aid. Some see threats to Western values and influence and support for "rogue" regimes.<sup>86</sup> Others admire an alternative approach that deemphasizes aid conditionality and may better align with the interests of recipients.<sup>87</sup> But the lack of data on aid from emerging powers has limited the ability of scholars

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<sup>86</sup> Moises Naim referred to China's aid as "rogue aid" that would prop up despotic regimes and undermine the development efforts of advanced countries to promote good governance. See Moises Naim, "Rogue Aid," 95-6.

<sup>87</sup> For example, see Deborah Brautigam, "Chinese Development Aid in Africa: What, where, why and how much?" in ed. Ligang Song and Jane Golley, *Rising China: global challenges and opportunities* (Canberra: ANU Press, 2011), 203-22.

to align observed aid practices of emerging donors with international relations theories. Many non-DAC donors report their aid activities to the DAC, but two of the largest non-DAC donors, China and India, do not. The DAC makes an effort to track overall ODA budgets for non-reporting non-DAC members from published budget data, but most observers have found that Chinese aid in particular is far higher than the reported aid budget in the China Fiscal Yearbook published by the Ministry of Finance which is used by the OECD in its estimates of Chinese aid.<sup>88</sup>

Many new donors such as South Korea have joined the OECD DAC and largely follow the norms of the DAC group of established donors. Other emerging donors have not joined the DAC and keep their aid programs under some level of secrecy due to the political sensitivity of sending resources abroad while the countries are still poor and the likelihood that aid is meant to serve security goals. The controversy regarding emerging donors rests on the degree to which they are perceived as challenging the values and norms of the DAC group.<sup>89</sup> The criticisms directed at some non-DAC emerging donors include the assertion that such aid fragments the aid system causing inefficiency, enables the violation of international standards and norms, free-rides on past debt relief efforts by DAC donors, and promotes resource extraction based development to the eventual detriment of the recipient country. Most negative critiques of emerging donors point to China as the primary source of concern,<sup>90</sup> even though Saudi Arabia's aid is similarly large and it is not a liberal democracy. While Naim singled out

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<sup>88</sup> Data sources: OECD DAC1 dataset for gross disbursements of ODA from DAC members and reporting non-DAC members. For non-reporting non-DAC members OECD (2017), Development Co-operation Report 2017: Data for Development, OECD Publishing, Paris, <https://doi.org/10.1787/dcr-2017-en> (Table 38.1).

<sup>89</sup> Soyeun Kim and Sam Lightfoot, "Does DAC-ability Really Matter? The Emergence of Non-DAC Donors: Introduction to Policy Arena," *Journal of International Development*, Vol. 23 (2011), 711-721.

<sup>90</sup> For examples, see Moises Naim, "Rogue Aid," 96 and Kondoh, Hisahiro, Takaaki Kobayashi, Hiroaki Shiga, and Jin Sato, "Diversity and Transformation of Aid Patterns in Asia's 'Emerging Donors'," JICA-RI Working Paper, No. 21, October 2010, p. 2.

Saudi Arabian aid as a threat, most others focus on China. Defenders of emerging donors point to the faster implementation of Chinese aid in particular which enables recipient countries to derive benefits from aid much quicker. Such aid is often less bureaucratic and burdensome to the recipient.<sup>91</sup> It is likely that it is not the aid that is a threat but the country providing the aid that is perceived as a threat to the international system and the sheer size of China relative to other emerging donors makes its burgeoning aid program appear more threatening.

Emma Mawdsley (2012) in her major work on emerging donors offers a balanced assessment of China's aid practices in the context of international relations theory and highlights the similarities between existing major donors and emerging ones. She notes that critics of emerging donors say such aid props up autocratic leaders, funds war and conflict, and promotes harmful economic policies; even as the same can be said of aid from existing donors. And while some donors like Venezuela explicitly challenged international norms and the international system, most, including China, are not explicitly revisionist in their rhetoric, though may be revisionist in intent.<sup>92</sup> She notes that while China has supported despots in Sudan and Zimbabwe with aid, the West has supported equally despicable regimes in the past. China takes more criticism than other states for similar behavior because it is seen as a legitimate threat to the Western led international order.

From a recipient country perspective, many appreciate the attitude of emerging donors that emphasizes cooperation rather than the perceived condescension of traditional donors. The Western discourse on aid is heavily influenced by notions of morality and charity. The emerging donors tend to have a different discourse. They emphasize shared experience and

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<sup>91</sup> Soyeun Kim and Sam Lightfoot, "Does DAC-ability Really Matter?," 715.

<sup>92</sup> Emma Mawdsley, *From Recipients to Donors*, 11.

shared identity as developing countries. They reject explicit hierarchies, make statements of mutual respect and non-interference in domestic affairs of the recipient states, and promote the idea of mutually beneficial arrangements in their economic cooperation efforts.<sup>93</sup>

The idea that recipient countries can avoid policy conditions in accepting aid from emerging donors and the focus of emerging donors on hard infrastructure rather than soft sectors like governance, health and social justice is powerfully attractive to aid recipients.<sup>94</sup> Most aid recipients have severe infrastructure deficits and may perceive the types of projects financed by emerging donors to be more directly beneficial than the soft sector aid often preferred by Western donors.<sup>95</sup> Further, the focus of traditional donors on governance and democracy promotion is often perceived as a threat to the recipient state's leaders causing great resistance to using aid as it was intended. Moyo Dambisa in her highly influential book, *Dead Aid*, claims that most aid is never used for its intended purpose, that it increases corruption and preempts the link between taxes and government accountability. She claims that Chinese aid is much preferred to the traditional DAC aid because it is investment rather than aid in the traditional sense. It is not charity but investment designed to develop sustainable enterprises that benefit both the donor and the recipient.<sup>96</sup>

Much of the literature on aid from emerging donors does not address why developing countries establish or expand aid programs in the first place. One possible explanation is the role of state identity in providing aid. Iain Watson (2014) posits that establishing or scaling up

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<sup>93</sup> Ibid., 151-52.

<sup>94</sup> Felix Zimmermann and Kimberly Smith, "More actors, more money, more ideas for international development co-operation," *Journal of International Development*, Vol. 23, No. 5 (2011) 722-38.

<sup>95</sup> Andrew Rosser and Czeslaw Tubilewicz, "Emerging donors and new contests over aid policy in Pacific Asia," *The Pacific Review*, Vol. 29, No. 1 (2016), 5-19.

<sup>96</sup> Dambisa Moyo, *Dead Aid*, 16 and 101-103.

aid programs confers prestige on the emerging power putting it on the same level as developed countries. He notes that emerging donors with past imperial influence (Turkey as the seat of the Ottoman Empire and China with its suzerainty relations in Asia) are some of the first and most aggressive at scaling up aid programs.<sup>97</sup> A few other scholars emphasize the strategic uses of foreign aid to buy benefits for the donor. India is an example of this more modest purpose. Purushothaman argues that India's scaling up of its aid program in the 2000s is to promote its economic interests. He claims that India's aid to African countries is largely an export promotion policy. Indian aid to its immediate neighbors is more security oriented and meant to maintain peaceful relations with its immediate neighbors and counter its main rivals Pakistan and China. Aid is seen as a way to project power and influence when military means would be prohibitively costly.<sup>98</sup>

### 2.3 A theory of aid

This purpose of this section is to describe the theoretical framework to be tested in this study. The theoretical framework proposed here combines the predictions of realism and liberalism. Put simply, states perceiving threats to their security will prioritize realist concerns becoming sensitive to relative gains, avoiding mutual dependence and enhancing ties with states that can balance against potential threats. States that are secure will prioritize liberal concerns such as expanding commercial ties, support for international institutions, mutual benefits, and promote interdependence. The proposed theory challenges both realist and liberal thinking on international relations by attempting to explain why and when states prioritize

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<sup>97</sup> Iain Watson, *Foreign Aid and Emerging Powers*, 6.

<sup>98</sup> Chithra Purushothaman (Jawaharlal Nehru University), "Foreign Aid and South-South Cooperation: Emerging Powers as Donors," Centre for International Politics, Organization and Disarmament, 2014, accessed on 10 April 2017, <http://web.isanet.org/Web/Conferences/FLACSO-ISA%20BuenosAires%202014/Archive/fb22e0c3-90e3-4649-87e7-d3de70049593.pdf>.

security concerns as realists predict and when they prioritize commercial benefits and interdependence as liberals predict. States, in fact, appear to switch between prioritizing security and commercial benefits depending on their place in the international system and the perceived threats to that position.

The literature on foreign aid to date has largely focused on explaining the motivations of donors<sup>99</sup> and whether or not aid is effective. Few studies have considered the conditions that lead to changes in state behavior with respect to foreign aid over time. In order to provide a useful story about how states use foreign aid under different conditions, we need a theoretical framework that links realism and liberalism. The following examples that represent changes over time are difficult to explain using one international relations paradigm:

1. Japan provided high levels of aid to China in 1990s but stopped in mid 2000s. Realists cannot explain why Japan's aid program supported a rising and potentially hostile power in the 1990s. Liberals cannot explain why Japan would stop ODA lending to China during its highest growth period when commercial opportunities were at their most attractive.
2. Rapid increases in aid from emerging donors – liberals cannot make sense of China's aid to poor countries during the Mao period when China could not reasonably have benefited economically from engagement with Africa. Realists cannot explain why the United States has continued to provide aid to China (nearly \$500 million from 2008-2017)<sup>100</sup> which many consider to be a future peer competitor and threat to the United States.

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<sup>99</sup> Alberto Alesina and David Dollar, "Who gives foreign aid to whom and why?," *Journal of Economic Growth*, Vol. 5, (March 2000) 33-63.

<sup>100</sup> Source: OECD Dataset DAC2a on net ODA disbursements.



In the following section, I propose a combined theory based on commercial liberalism and balance of threat realism to understand changes in aid programs over time. The key to understanding these changing aid priorities is the level of threat perception of the donor country.

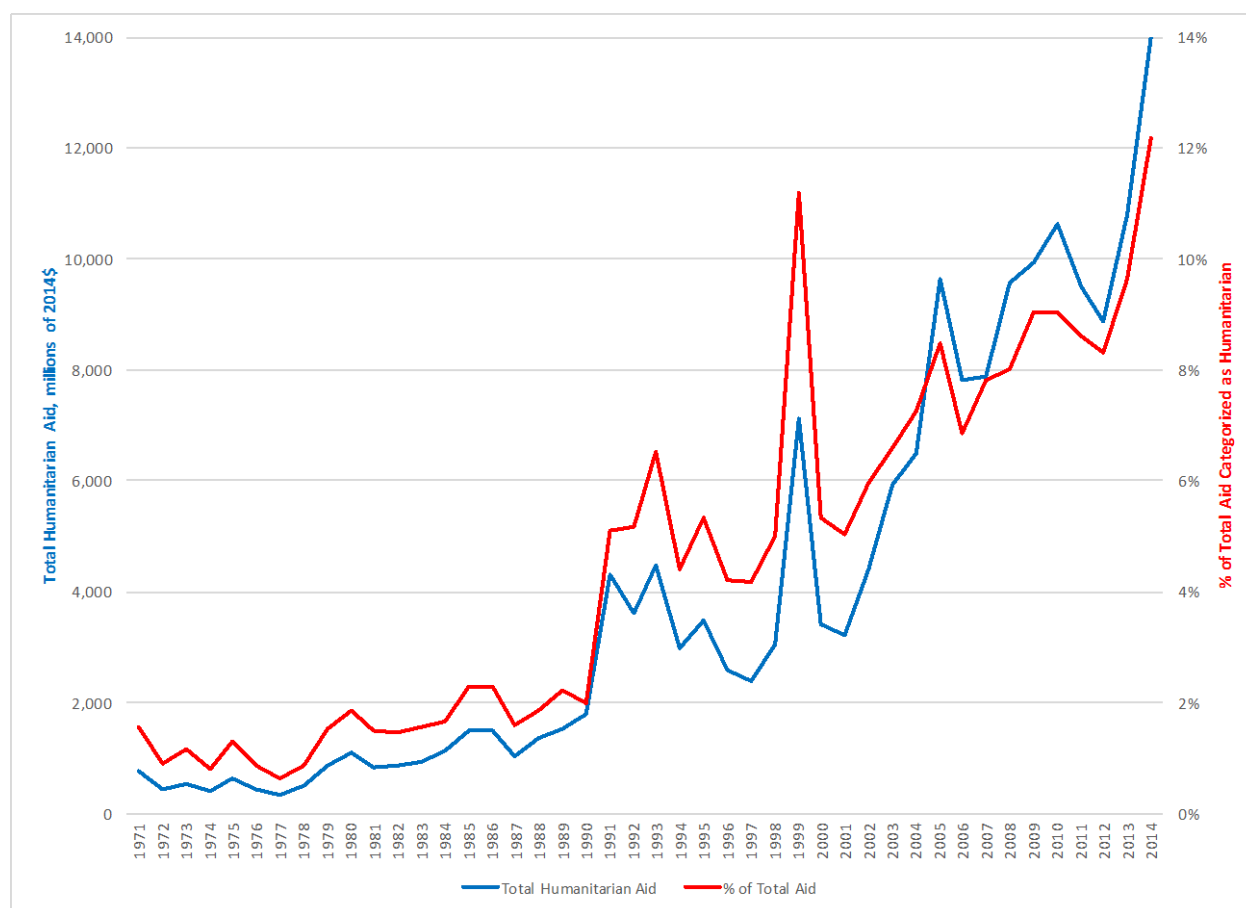
### **2.3.1 Rationale**

I assume states are rational actors with a reasonable amount of information regarding the effectiveness of their aid giving. States allocate aid for three main purposes: security, commercial benefits, and to promote normative values. Security oriented aid is provided to build and support donor alliance networks, to weaken the alliance networks and counter the interests of adversaries, to influence international institutions by compelling aid recipients to support the donor's interests, to signal that the donor is not a threat to the recipient or the international system, and to directly address security threats posed by unstable countries. Commercial aid is provided to provide economic benefits to the donor by supporting trade and investment, secure access to resources needed by the donor, and support mutual beneficial economic relations and interdependence. Normative factors are included in the theoretical model to capture the influence of humanitarian needs, altruistic intent and donor country values on aid commitments.

I expect that most foreign aid will be provided for security and commercial purposes though some aid is meant to promote normative values such as promoting democratic norms, human rights and humanitarian assistance. The level of aid defined by the OECD DAC as "humanitarian" is presented in Figure 2-3. Humanitarian aid is defined as "emergency and distress relief in cash or in kind, including emergency response, relief food aid, short-term reconstruction relief and rehabilitation, disaster prevention and preparedness. Excludes aid to

refugees in donor countries.”<sup>101</sup> The data show that humanitarian aid has generally increased by much more than aid generally. The proportion of total aid that is humanitarian in nature has gone from around 1% in the early 1970s to over 12% in 2014. This may reflect a general move by donors to emphasize aid that is more effective and directly addresses recipient needs, but even at 12%, humanitarian aid is a small part of total foreign aid allocations. There may also be an information effect where advances in communications and social networking have enabled more people to understand the effects of disasters and conflicts and pressure their governments to respond.

**Figure 2-3: Humanitarian Aid from DAC Donors, 1971-2014 (Constant 2014\$)**



<sup>101</sup>Source: [http://stats.oecd.org/OECDStat\\_Metadata/ShowMetadata.ashx?Dataset=TABLE5&Lang=en&Coords=\[SECTOR\].\[700\]](http://stats.oecd.org/OECDStat_Metadata/ShowMetadata.ashx?Dataset=TABLE5&Lang=en&Coords=[SECTOR].[700]).

Source: OECD

Donor states might differentiate between humanitarian aid recipients based on the commercial or security importance of the victim state or based on whether the victim state has friendly relations with the donor. For example, the United States or Japan may offer more aid to an ally suffering a natural disaster than a potential or actual adversary. If there is a high level of threat perception in the donor state, they may discriminate against certain disaster victim states with their humanitarian assistance. A state that perceives a substantial external threat may provide more generous disaster relief aid packages to states within their alliance network or at least to states perceived as sympathetic to the donor's interests. For instance, in periods where Japan feels threatened, it may be less generous with its humanitarian aid for disasters in North Korea or China than for disasters in India or the Philippines.

To summarize, the overall purpose of foreign aid is expected to mainly promote the national interests of the donor. Donors pursue their national interests for commercial benefits and security benefits through their aid allocations. Normative aid may be provided for the benefit of the recipient for purposes such as poverty reduction, promoting democratic and human rights, or for humanitarian relief during crises (natural disasters, war, famine, public health...etc.). States may discriminate in their normative aid allocations in ways that enhance their influence over potential allies and punish potential adversaries.

### **2.3.2 When do states begin to offer aid?**

The research question concerns how the motivations behind China and Japan's aid commitments have changed as their threat perception has increased. Both China and Japan have transitioned from aid recipients to aid donors and were the primary example of emerging

donors at different times. In order to understand the motivations behind major changes in aid policy, I describe in this section the factors and conditions that lead to states starting aid programs with particular attention to Japan and China as typical emerging donors.

States initiate aid programs when the benefits of doing so exceed the costs. But when do the benefits begin to exceed the costs and why? Why did rich states initiate aid programs after WWII and emerging powers do the same in recent decades? The two primary purposes for foreign aid can help us understand the answer. Commercially oriented aid is given when the economic opportunities presented to donor state enterprises in foreign countries require additional resources in order to be realized. Security oriented foreign aid is given when the donor state perceives a security threat and it has the resources to counter that threat using foreign aid.

**Commercial Aid.** At the point when developing countries produce a commercial sector which seeks international markets but is effectively excluded by lack of international experience, the state will consider using foreign aid as a tool to enable expansion of its commercial sector internationally. If a state at this stage of development has the resources needed to implement aid programs, they will likely do so. Even very poor countries with a large internal market can develop enterprises capable of competing internationally. If the donor state already has a security oriented foreign aid program to address perceived threats, the aid program will move towards a more commercial orientation once the commercial opportunities grow.

Many states that participate actively in the international capitalist system eventually develop domestic enterprises that can grow and prosper in the international market. As a

country begins actively developing from an agrarian to industrial society, subsistence farming declines and cash crop agriculture expands. In some states, resource extraction industries may grow or even dominate the economy when economically significant deposits of important minerals and energy resources are found. As countries develop, commercial enterprises will grow and require increasing inputs of labor, capital and materials and their increasing levels of production needs access to markets, first domestically and later, internationally. Infrastructure is required to enable the development and growth of fledgling enterprises. A developing economy, therefore, requires increasing investments in roads, power, public transport, ports and water systems. In most developing countries, some of the first major enterprises to develop domestically are construction firms for road building. Roads are relatively simple and require some heavy equipment and imported materials for cement and asphalt but mostly rely on access to machinery, low-cost labor and organizational skills. Even very poor developing countries can build roads and highways and the firms capable of building them tend to become large in rapidly developing large countries. These firms can, if market conditions allow, further develop into major construction and engineering companies capable of more complex projects such as buildings, stadiums, ports, railways, and bridges. Once these firms become large and internationally competitive, opportunities for further expansion can come only from participation in the international market through the implementation of projects in other countries.

There are always international firms capable of providing construction and engineering services, so when will domestic firms become internationally competitive in a state with access to international contractors? This is likely to occur in states that host large internal markets that may be initially protected from international competition. Construction projects for roads, though often simple, require large inputs of labor so access to a substantial pool of reasonably

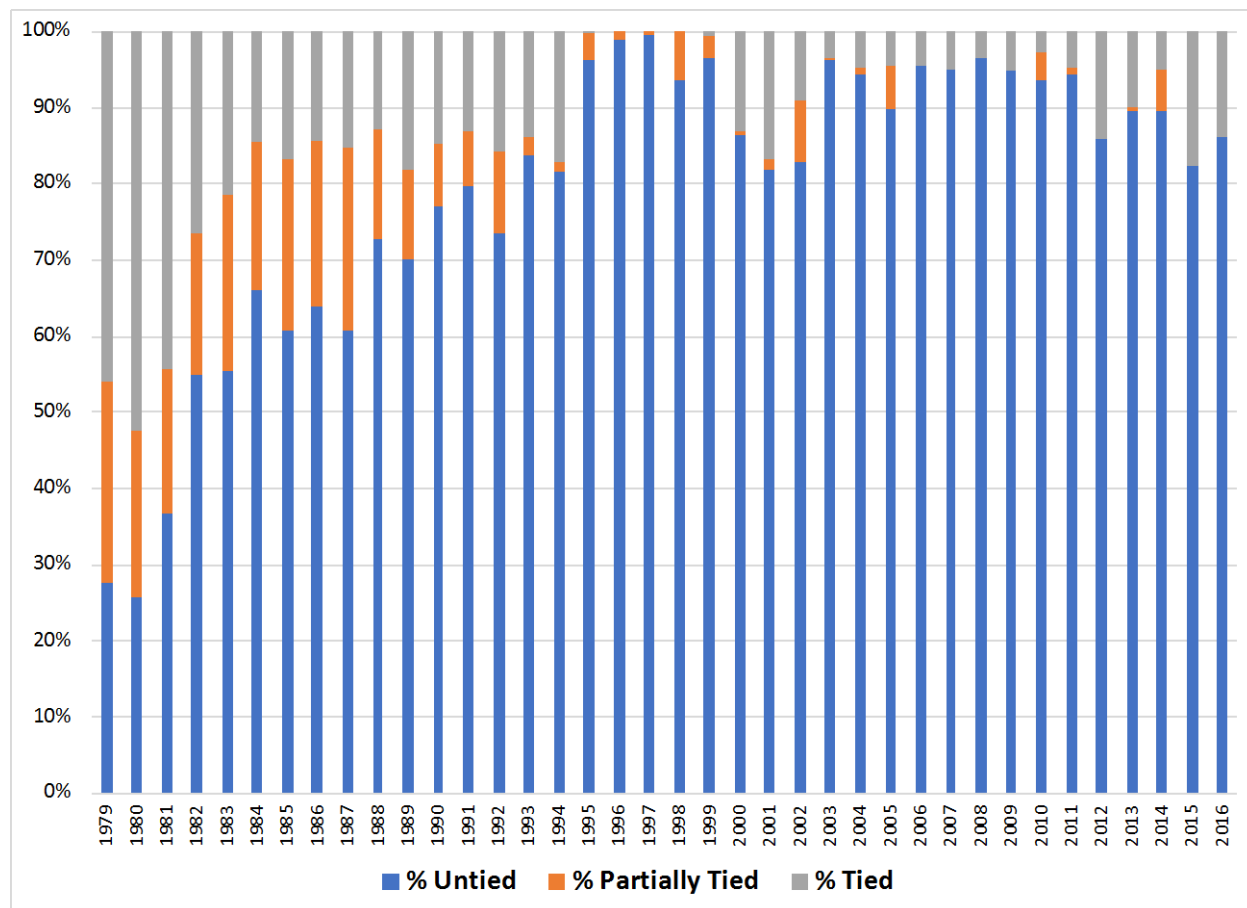
capable equipment operators and manual laborers is needed to allow domestic contractors to flourish. As developing countries build out their road and other infrastructure networks, the amount of new work available in the domestic markets tend to level off and domestic competition may become fierce, leading contractors to want to compete in other countries. Large developing countries like China, India, and Brazil are well down this path with big pools of capable low-cost labor and contractors that can skillfully implement big construction projects within their own countries, and increasingly, abroad.

The problem faced by construction firms that may be capable, but have no international experience is that competing for projects procured through international competitive bidding is difficult. International competitive bidding tends to run in two phases. The first is firm qualification and the second is bid evaluation. Firms from developing countries with primarily domestic experience often cannot make it past the qualification phase in the bidding process or have a difficult time understanding the procedures under the international regime that governs the bidding process (typically the International Federation of Consulting Engineers which goes by the French abbreviation, FIDIC). The result is that developing country firms that are potentially competitive internationally may find themselves effectively locked out of international procurements. The effect is to limit the development potential of those countries that have reached this point in the development process.

States can use foreign aid programs that tie the project procurement to firms from the donor state to ensure that donor state firms win international projects. Under open competitive bidding, it is unlikely these firms could win the projects against competitors with extensive international experience. For this reason, almost all foreign aid from emerging powers such as China, India and Brazil, is tied aid. When Japan was an emerging power in the 1960s and 70s,

most of its aid was tied to procurement from Japanese firms, but over time, the percentage of tied aid from Japan has declined markedly as shown in Figure 2-4 on page 57.

**Figure 2-4: Japan's Share of Tied Aid, 1979-2016**



Source: OECD

Tied aid is likely to decline over time for two related reasons. First, as donor state firms become more adept at international competition, they no longer require direct state assistance to win foreign procurements and tend to rely on the donor's export-import bank (Ex-Im Bank) to provide financing rather than the foreign aid programs. Ex-Im Bank financing is not generally considered foreign aid even though it can be lower cost to the borrower than they could receive

in the market.<sup>102</sup> Second, aid may become more security oriented as donor states develop and it is easier to influence the leaders of states if the recipient state benefits more from the aid. Aid that primarily benefits donor state firms is less likely to buy cooperation from the recipient.

**Security aid.** Threatened states provide resources to other countries as foreign aid when that aid can potentially reduce threats to themselves. Not all threatened states are willing or capable of providing foreign aid. A few preconditions required for states to initiate a foreign aid program include a reasonably capable civil service and sufficient foreign diplomatic presence. These conditions are required in order to negotiate and manage a foreign aid project. Failed or failing states without effective governing institutions, even under the gravest threats cannot be expected to establish a foreign aid effort, even to improve their security.

There are two different scenarios for states to develop aid programs to counter security threats. First are states under threat from peer competitors that arise external to conditions in the donor state. The external threat forces the threatened state to search for allies and support from other states. If the threatened state has the economic capability to develop an effective foreign aid program it will do so. For example, India can be expected to provide foreign aid to its immediate neighbors to ensure its influence, rather than Pakistan's, holds sway in South Asia. The Soviet Union and the United States during the Cold War largely allocated foreign aid for this reason. China began its foreign aid program in the 1950s to promote its status vis-à-vis Taiwan and to secure its own interests in the three-way competition between itself, the United States, and the Soviet Union. China and Taiwan continue to compete over a few small African, Pacific Island, and Latin-American countries for official recognition. China's

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<sup>102</sup> This is because the providers of Ex-Im Bank financing generally have higher credit ratings than the borrowers and can pass along the better rates available to the governments providing the financing.



cultivation of allies in Africa beginning in the 1950s helped it regain its UN seat in 1971.<sup>103</sup> China's attainment of widespread recognition in the early 1970s, its opening to the world in 1979, followed by the end of the Cold War in the late 1980s substantially reduced the security rationale behind China's aid program which shrank significantly between the mid-70s and late 1990s and only revived to support the "Going Out" policy around the beginning of the millennium.

States in active conflicts will allocate aid to give them an advantage. For example, after the terrorist attacks on the United States in September 2001, United States foreign aid policy went into wholesale revision to both recruit allies in the "war on terror" and to rebuild Iraq and Afghanistan after full scale invasions of those countries. The decade of the 1990s was characterized by declining aid budgets and the ascendance of ideas that supported the use of foreign aid to promote democracy and international institutions. This was dramatically reversed in 2001 to focus intently on security. In essence, the United States was likely using foreign aid to promote liberal goals like democratic peace and economic interdependence in the 1990s and prioritized security in the 2000s.<sup>104</sup>

A second scenario for developing a security focused aid program occurs when rising powers want to project their own power and influence. As developing countries become established as emerging powers, their international ambitions may grow with their power and capability. If the rise of an emerging state is potentially destabilizing to the international system, other powers may seek to limit the emerging powers rise through a containment strategy. The

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<sup>103</sup> Anshan Li, "China and Africa: Policy and Challenges," *China Security*, Vol. 3. No. 3 (2007), 78.

<sup>104</sup> Steven Lewis-Workman, "Bidding for Allies: US Economic Aid to Central Asia in Wartime," *International Journal of Politics and Good Governance*, Vol. 8, No. 1 (Quarter I 2017) 1–25.

emerging power perceives effort to contain its rise as a security threat. This heightened threat perception leads them to counter the efforts to contain their rise and influence the international system in ways than benefit themselves commensurate with their growing power. At this point, foreign aid for security purposes may become increasingly useful. For example, there is evidence that Japan has used foreign aid to improve the likelihood of its selection to a non-permanent seat on the UN Security Council in 2014<sup>105</sup> and to garner support for its long running campaign for a permanent seat.<sup>106</sup> This use is a broadening of Japan's past focus on commercial gains due to its expanding interest in playing a role in the international system and influencing the rules to its benefit.

If a rising state such as China is perceived by other states to threaten the balance of power and destabilize the international system, they are likely to react by balancing against the emerging power and seek to contain its rise. The rising state will seek to counter these moves by attempting to entice states to bandwagon with it to establish their own spheres of influence and groups of states that will support the rising power's position within the international system. In a world where emerging states are ascendant in relative power and perceive that their rise is being contained and threatened, those states will begin to target an increasing portion of their aid to address security concerns.

The greater the perceived threat in the donor state, the more weight will be given to security concerns in foreign aid allocation decisions. Poorer states will likely only provide foreign aid when the perceived threats are severe while richer states can allocate their more

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<sup>105</sup> Purnendra Jain, "National Interest and Japan's Foreign Aid Policy," *Kokusai Mondai (International Affairs)*, No. 637 (December 2014), [https://www2.jiia.or.jp/en/pdf/publication/2014-12\\_003-kokusaimondai.pdf](https://www2.jiia.or.jp/en/pdf/publication/2014-12_003-kokusaimondai.pdf).

<sup>106</sup> David Arase, ed., *Japan's Foreign Aid: Old Continuities and New Directions* (London: Routledge, 2005), 11.

substantial resources to address smaller and more diffuse threats. States have multiple preferences so even states under severe security threat may also promote commercial interests with their aid and could even promote both commercial and security benefits with the same aid packages. The theory proposed here holds is that different levels of security threat will alter the balance in predictable ways. A state that is primarily greedy will have a commercially focused program. A state that is primarily scared will have a security focused program. A state that is both greedy and scared will have a mix of the two.

China's growing economic and military power over the past several decades has led the United States and Japan to increasingly perceive a threat from China.<sup>107</sup> China in turn believes that the United States and Japan are attempting to contain it and prevent its rise.<sup>108</sup> Under the conditions of mutual threat perception (China threatened by the United States and the United States-Japan alliance and Japan threatened by China), foreign aid programs of China and Japan are expected to increasingly support security goals at the expense of commercial benefits and normative values.

**Normative aid.** In addition to commercial and security oriented aid, states sometimes transfer resources to other states for the (perceived) benefit of the recipient state. This type of aid includes humanitarian assistance to help victims of natural or man-made disasters, to promote public health, and to promote values such as democracy and human rights. Often, even relatively small and poor countries provide aid to victims of particularly horrifying

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<sup>107</sup> Chikako Kawakatsu Ueki, "The Rise of 'China Threat' Arguments," PhD diss., Massachusetts Institute of Technology, 2006, 463.

<sup>108</sup> Lyle Goldstein, "How China sees America's moves in Asia: Worse than containment," *The National Interest*, 29 October 2014, accessed on 5 June 2019, <https://nationalinterest.org/feature/how-china-sees-americas-moves-asia-worse-containment-11560>.

disasters. Humanitarian aid is given by almost all donors that have foreign aid programs and dominates the aid given by certain donors such as the Gulf States (Saudi Arabia, Qatar, UAE, Kuwait) that are in a volatile region with numerous failing states and ongoing conflicts resulting in continuous humanitarian crises and need for stabilization and capacity building to enable them to govern themselves. Normative aid to promote democratic values and human rights is generally given by developed Western countries, Japan and Korea. I expect that states that are threatened will not just reduce commercial aid but also reduce aid to promote its normative values. For example, during the Cold War the United States repeatedly supported regimes that grossly violated human rights and democratic values as long as those states supported the United States rather than the Soviet Union. When states feel threatened, security is prioritized above all other concerns.

### **2.3.3 Where will states give aid?**

The allocation of aid to specific states is a consequence of the donor's purpose for its aid. The simplest case is humanitarian aid. Aid will be provided to states that are the victim of natural or anthropogenic disasters. Most states that provide aid will offer some assistance to victim states though the amounts would be expected to vary based on the commercial and strategic importance of the recipient to the donor. For instance, when a state is the victim of a disaster, potential donors that are in active security competition or conflict with the victim state are unlikely to be particularly generous but may provide a token amount in order to maintain their international reputation. When the victim state is a particularly attractive potential market for the donor state's products, a commercially oriented donor is likely to be more generous in its allocation of humanitarian aid in order to improve the donor's image in the victim state, provide opportunities for more commercial contacts and better relations among elites in both states.

Security oriented aid will flow to recipients that can help improve the donor's security. The most straightforward case is balancing where a donor attempts to use aid to bolster the power of an ally or a state in conflict with its main adversary. Donors can also use security oriented aid to induce a potential balancer to bandwagon with the donor instead of balance against it. We would expect that a donor under threat will use aid allocations to reduce the influence of aid from its adversary by providing aid to reward recipient countries for defying its adversary. For example, a donor would be expected to increase aid to an ally of its adversary if the relations between the two allies deteriorate, thereby reducing the power of the alliance against it.

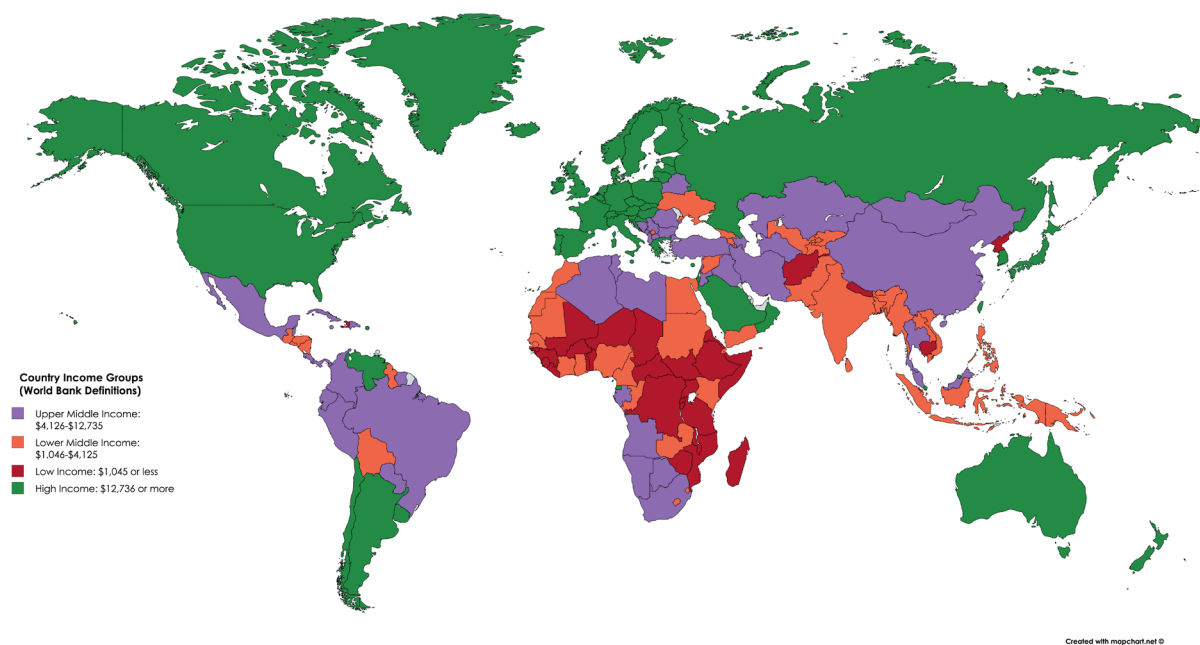
Aid for commercial purposes should be correlated with measures of the economic relationship and economic opportunity for the donor in the recipient country. Recipients with large resource endowments needed by the donor, growing trade relations with the donor, and/or significant investments by donor country firms would be expected to receive more aid.

#### **2.3.4 How does wealth (economic power) affect aid behavior?**

In order to understand emerging donor behavior, we need to understand the effect of economic power on the desire and ability to provide foreign aid. For the purpose of this dissertation, emerging donor refers to states that have initiated or rapidly expanded their foreign aid programs since the 1990s. The focus of many observers has been on those donors that remain outside the DAC and do not provide much public information about their foreign aid programs.

Establishing a meaningful foreign aid program requires a certain level of resources and organization in order to provide the funding and administer the projects. Very poor countries defined as “low income countries” (shown in Figure 2-5 on page 64) are very unlikely to be able to provide funds to establish an aid program and most do not have the requisite organizational capacity. Even under extreme security threat, these states would find it very difficult to provide aid. China and India are exceptions. China established a significant aid program in the 1950s during its battle for recognition with Taiwan and India has for decades provided aid to its immediate neighbors as it struggled to stabilize South Asia after independence and partition in 1947. China and India, as the world’s most populous countries, were able to afford surprisingly robust aid programs during this time due to their massive size and relatively effective government institutions. While two of the world’s poorest countries at the time, they could spread the cost of aid over their billion or so people.

**Figure 2-5: Country Income Categories, 2016**



Source: World Bank 2016 definitions.

### **2.3.5 Path dependence and project development**

Foreign aid policies are subject to path dependency. That is, past decisions with respect to foreign aid have an influence on current and future aid decisions. For this reason, I expect that there will be serial correlation in the statistical models of foreign aid commitments from China and Japan which must be dealt with in the regression analysis. The technical details are discussed in [APPENDIX 8](#).

Path dependency is primarily the result of bureaucratic familiarity and the need to implement multi-year projects. Bureaucratic familiarity is the idea that implementing a successful aid project is rewarding to the civil servants involved and makes them more likely to propose and process additional projects in the same country. This factor is likely to hold sway when there are disagreements about aid policy or no strong political or security imperative driving aid allocation decisions at the highest levels of government.

Aid bureaucracies tend to be risk averse and, hence, prefer to provide aid to projects that are well prepared with a reasonable level of engineering and design work completed. This tends to lengthen the process for preparing and approving aid allocations and is especially true for the most complex and expensive infrastructure projects which may be the result of several years of planning effort on the part of donors and recipients. For this reason, aid allocations may not be annual but can come in large allocations several years apart. Table 2-2 on page 66 illustrates that grant allocations tend to be much more consistent than loans commitments. Between 2005 and 2006, Japan's ODA grants to Cambodia increased by about 20 percent while loans dropped nearly 90 percent. The following year loans increased over 10 times (1000 percent) while grants declined by 26 percent. This pattern is caused by the fact that loan projects need to be ready for implementation before a loan commitment is made and project readiness

takes longer and is more uncertain than for the types of projects funded by grants. This pattern of ODA will be exaggerated in countries that receive a higher proportion of ODA loans. Countries that provide a high percentage of ODA grants relative to loans tend to have more consistent year-to-year allocations of foreign aid.

**Table 2-2: ODA Commitments from Japan to Cambodia, Millions of 2013JPY**

<b>Year</b>	<b>ODA Grant Commitment</b>	<b>ODA Loan Commitment</b>	<b>Total ODA Commitment</b>
1996	10,576	968	11,543
1997	18,953	-	18,953
1998	4,763	-	4,763
1999	9,620	4,949	14,568
2000	10,646	-	10,646
2001	17,848	-	17,848
2002	16,825	-	16,825
2003	7,742	-	7,742
2004	14,249	4,805	19,055
2005	13,019	3,332	16,351
2006	15,653	345	15,998
2007	11,618	3,910	15,528
2008	8,687	3,875	12,561
2009	14,125	11,320	25,445
2010	20,993	-	20,993
2011	14,487	4,340	18,826
2012	8,311	7,198	15,509
2013	15,082	8,853	23,935
2014	7,860	14,040	21,901

Source: OECD DAC database. Converted to constant 2013 JPY.

### **2.3.6 Causal mechanism between threat perception and aid decisions**

The causal mechanism between the level of threat perception and the allocation of aid is summarized in this section. The hypothesis is based on the idea that when states perceive a significant threat to their security, they prioritize survival and security above all other considerations. The policy tools at their disposal to promote security include defense,



diplomacy, foreign aid, among others. A high level of threat perception among decision-makers and political leaders leads them to prioritize security considerations in their aid decisions. The link between threat perception and aid decisions may vary, but in most countries, high-level decision-making bodies and political leaders have ultimate authority over aid budgets and country allocations. I assert that threat perception is like a “cloud” that affects all of the actors with influence on aid allocation decisions and empowers those actors active in national security. For example, when military forces are dispatched to a foreign state (war, UN peacekeeping missions, etc.), the aid bureaucracy is likely to be tasked with promoting stability in that state with higher aid allocations. For example, the coordination between the United States’ aid and security policy is evident in Iraq becoming the largest aid recipient from 2004-2007 and overtaken by Afghanistan in 2007 until 2016 when Syria became the largest recipient; all countries with substantial United States military operations in those years.<sup>109</sup>

States that are threatened will seek allies and balance against the threatening state. Political leaders will respond by directing the transfer of resources, including aid, to states in conflict with or that are likely to join a balancing coalition against the threatening state. State visits by leader that perceive significant security threats will often be based on security considerations. For example, Japan’s Prime Minister Abe was reported to have visited 49 countries in his first 20 months in office; far more than any previous prime minister. The purpose of many of these visits, especially to India, Australia and ASEAN in particular, was reportedly to discuss and counter Chinese influence.<sup>110</sup> State visits by threatened donors to developing countries are usually accompanied by aid commitments to the host to secure policy

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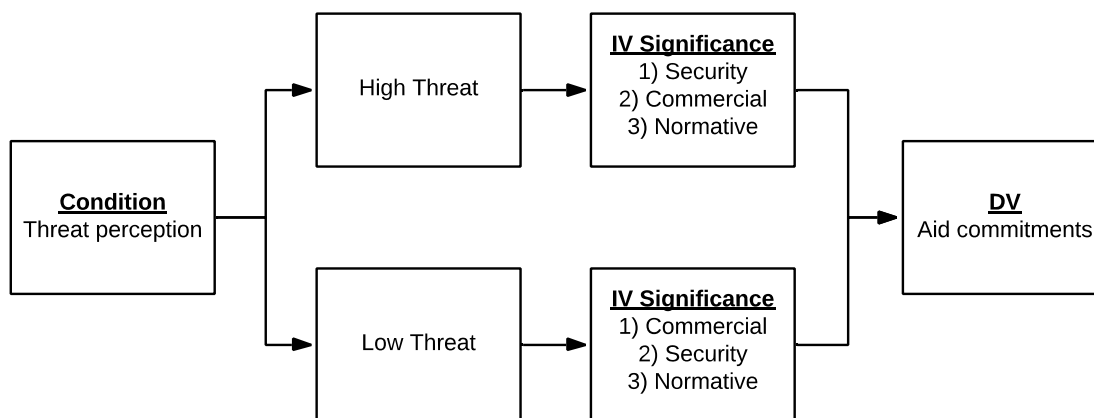
<sup>109</sup> Source: United States Agency for International Development.

<sup>110</sup> Ankit Panda, “Shinzo Abe has visited a quarter of the world’s countries in 20 months: why?,” *The Diplomat*, 11 September 2014, accessed on 29 December 2019 at <https://thediplomat.com/2014/09/shinzo-abe-has-visited-a-quarter-of-the-worlds-countries-in-20-months-why/>.

actions that benefit the security of the donor. All of these effects will manifest by higher significance of security variables than all other consideration in the aid commitment decision during high threat periods.

When a country perceives no significant threat to its security, it is more likely to prioritize economic and social development above other concerns. Under these low threat conditions, based on the logic underpinning the hypothesis, the “cloud” of threat perception will lift and economic policy makers will gain bureaucratic power in relation to the national security establishment. Economic arguments around employment and economic competitiveness may even begin to dominate debates about military spending. Under these conditions, decision-makers and political leaders will use the policy instruments at their disposal, including foreign aid, to promote economic wellbeing and domestic commercial interests. Rather than seek alliances, states will seek markets and investment opportunities. Leaders may begin to prioritize state visits to countries where commercial interests are strong and seek to promote expanding business ties over security ties. These effects will manifest through the higher significance of commercial variables in the aid commitment decision during low threat periods.

The theorized relationship between the aid commitments (the DV) to specific recipient countries, changes in the level of threat perception, and the explanatory power of the IV categories is summarized in Figure 2-6 on page 69.

**Figure 2-6: Theoretical framework**

Notes: IV = independent variable, DV = dependent variable

The condition variable (CV) that determines the weight given to security and commercial importance is *threat perception*. The measurement of threat perception is described in detail in Chapter 4.4 beginning on page 186.

The IV are categorized as either commercial, security, or normative variables which can influence the donor to change its aid commitments. The commercial IVs are based on recipient country resources and the extent of the economic and trade relations between to donor and the recipient. Security variables will indicate the importance of the recipient to the donors security either to balance against an adversary, entice bandwagoning, or to buy security cooperation from the recipient. Normative IVs indicate the need of the recipient (e.g. poverty and humanitarian crises) or factors that indicate normative values of the donor (either positively or negatively) would indicate democracy, freedom, and human rights. Each variable (DVs, CV, and IVs) are explained and justified in detail in Chapter 4 beginning on page 151.

I note that the theory implicitly assumes that the aid recipient has no agency in the aid relationship. The quantitative models assume that the DV (aid commitments by a donor) is a

donor decision based on a set of explanatory variables. Some of those variables are under the partial control of the recipient (whether to have a territorial conflict with the donor, for example), but overall, the model assumes that the amount given is a donor decision. This is a reasonable simplification because aid is highly concessional and most recipients accept the aid that is offered. But sometimes recipients may choose to reject an offer of aid based on their own political or security interests. States that become dependent on one donor may attempt to diversify their aid donor base in order to prevent excessive dependence on one benefactor. While the regression models implicitly assume that aid commitments are a donor decision, the case study analysis enables me to consider the impact of recipient actions on the aid commitment decisions of donors which provides a richer analysis of the donor-recipient relationship.

#### **2.4 Core hypothesis**

*Japan and China's foreign aid increasingly reflects security interests due to increased threat perception precipitated by the rise of China.*

The core hypothesis is a logical result of the idea that the states without a significant security threat will prioritize their economic wellbeing and will be willing to pursue policies that enable other states to achieve relative power gains as long as their own economy and domestic enterprises also benefit. States without a security threat will be willing to pursue economic interdependence and will use the policy instrument of foreign aid towards that end. If a state perceives that it is under threat from an adversary, it will prioritize security interests over commercial benefits and become sensitive to relative gains. Threatened states will avoid economic interdependence and will use the policy instrument of foreign aid to balance against the threatening state and increase its own relative power through strengthening of alliances.

The hypothesis in this dissertation holds that China's rise has resulted in an increasing perception of threat in Japan and the United States. The rapid increase in China's military capability and increasingly belligerence regarding territorial claims including against Japan has caused Japanese threat perception to increase. China's increasingly hostile views toward Taiwan and its intent to counter the ability of the United States to defend Taiwan, its claims in the South China Sea, combined with China's lack of progress towards democracy and lack of respect for human rights have caused the United States and Japan to increasingly perceive China's security interests as opposed to their own. This has led to increasing China threat discourse in both countries which, I claim, reflects an actual increase in threat perception. China in turn, perceives that the United States, and Japan through its alliance with the United States, seek to contain China's rise. The strengthening of the United States – Japan alliance around 1996-1997 was perceived as targeting China and to counter China's intent to eventually take control of Taiwan. China's rise did not cause China's threat perception to increase, but its rise set in motion a threat spiral that resulted in moderate to high levels of threat perception in Japan and China.

Initially, Japan saw China as an economic opportunity. When China opened itself to aid in 1979, Japan was the first country to provide it. Japan rapidly expanded its foreign aid giving to China and was consistently the largest single aid donor to China through the 1990s. During this time, China's economy consistently grew at 10% or more and China was then a source of raw materials, coal and oil. Until the mid-1990s, China was not a significant threat to Japan but was a huge potential commercial opportunity. Beginning in the mid 1990s with China's nuclear tests and increasing belligerence around territorial disputes with Japan and in the South China Sea, combined with China's growing economic power and aid program, Japan's perception of

a security threat from China has slowly increased. For a detailed analysis of the security factors that led to Japan ending its ODA lending to China, see APPENDIX 6.

China's perception of the West's and Japan's intentions were always wary, especially after the international reaction to the Tiananmen Massacre which saw most countries cut off aid to China. The reaffirmation and strengthening of the United States-Japan Security Alliance expressed in the 1996 United States-Japan Joint Declaration on Security and the 1997 Guidelines for Japan-United States Defense cooperation emphasized that the alliance extended to situations surrounding Japan that influence Japan's security. China interpreted those moves as targeting China. The United States is the dominant military power in Asia so China's threat perception is most likely to be tied to its perception of the United States intentions and the degree to which Japan supports them as its most powerful ally. China's rapidly increasing power and big expansion of its aid programs under the "Going Out" initiative may be interpreted by Japan as a strategic challenge and potential security threat. Japan would be expected to respond by scaling back its own aid to China (which has occurred – see APPENDIX 6) and to use aid programs to bolster potential allies and balance against China (which will be tested in this dissertation). These changes are likely to be interpreted by China as a containment strategy by Japan and the United States<sup>111</sup> which compels China to increasingly target its own aid program towards security goals (which will be tested in this dissertation).

The core hypothesis asserts that China and Japan have increasing levels of threat perception. That increase in threat perception has changed how both countries utilize their foreign aid programs. As both countries become more sensitive to relative gains and attempt

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<sup>111</sup> Michael J. Green, "Managing Chinese Power," 152-175.

to balance against threats (China in the case of Japan and the United States in the case of China), the factors that determine who gets aid from Japan and China and how much will increasingly be security variables rather than commercial variables. Normative factors are expected to be a minor factor in aid decisions of both countries when under a significant security threat because states under threat prioritize survival above all other considerations.

The United States is not included in the hypothesis but plays a major role in the international relations between Japan and China and both countries' relationships with the international system. The main threat to China is not Japan by itself but the threat of the Japan-United States alliance and the ability of the United States, using its military assets based in Japan and Korea, to defend Taiwan. As Japan's main security guarantor, Japan is also likely to base its security decisions on its place in the alliance and the need to gain reassurance from the United States that its security will be protected. As China becomes more threatened, it is likely to counter both United States and Japanese security interests. As Japan becomes more threatened, it is likely to support United States security interests.

#### **2.4.1 Predictions**

The following predictions logically follow from the hypothesis:

1. Commercial orientation of foreign aid should decline as threat perception increases. I expect commercial variables to be most significant during low threat periods and less significant during high threat periods.
2. Security orientation of foreign aid should increase as threat perception increases. I expect security variables to be most significant during high threat periods and less significant during low threat periods.

3. Japan's aid policy should support United States security goals as threat perception increases because of the dependence on the United States-Japan alliance for Japan's security.
4. China's aid policy should increasingly counter United States security interests as its threat perception of the United States and the Japan-United States alliance increases.

#### **2.4.2 Hypothesis testing**

The core hypothesis of the dissertation will be tested using regression analysis of panel data to estimate the statistical significance of commercial, security and normative factors in explaining variations in aid commitments from Japan and China. Two case studies will supplement the panel regressions to confirm the validity of the statistical findings and elaborate on the factors that drove Japan and China to make aid commitments over the analysis period. In this way, each of the predictions above will be either confirmed or not.

Predictions 1 and 2 will be tested statistically in two steps. First, panel regressions will estimate the statistically significant variables that cause aid commitments from Japan and China to increase or decrease during high and low threat periods. The number of statistically significant variables of each category (commercial, security and normative) will be identified to provide a general indication of the main variables driving aid commitments. In step 2, three separate regressions which include only the regressors from a single category will be run for



each period and the adjusted<sup>112</sup>  $R^2$  calculated. Adjusted  $R^2$  is the percent of variation in aid commitments explained by the variables included in the model. In this way, the explanatory power of each variable category is estimated.

Predictions 3 and 4 will be confirmed or not based on an analysis of the type of security variables that are estimated to be significant and the direction of causation. Security variables that represent United States security interests will be tested to determine whether Japan is basing its aid commitment decisions on support for United States security goals or not. Likewise, the same variables will be estimated for China to determine if it is basing its aid commitment decisions on countering United States security interests. During high threat periods, I expect the variables representing United States security interests to be significant and positive for Japan and significant and negative for China. During low threat periods, United States security interest variables should become less significant.

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<sup>112</sup> Adjusted  $R^2$  is used to correct for the fact that there are a different number of regressors in each category with security variables being the most numerous. Adjusted  $R^2$  weights  $R^2$  by the degrees of freedom in the regression to correct for the fact that adding more variables to a regression, even if not significant, will increase  $R^2$ .

### 3 FOREIGN AID PROGRAMS OF JAPAN AND CHINA<sup>113</sup>

This literature review chapter describes the development of Japan's and China's foreign aid programs over time and concludes with a review of the quantitative research on their foreign aid programs. This section is important to enable the reader to understand the context and scale of the aid programs established by these major donors and to place this dissertation in relation to the existing literature on the foreign aid of Japan and China. I also critique the methods and approach of the quantitative research on foreign aid motivation and highlight areas where this dissertation improves on past studies.

#### 3.1 Japan: The first emerging power donor

Although Japan is one of the largest established DAC donors with a program largely in line with the standards of other DAC members, many of the criticisms leveled at emerging donors were also leveled at Japan when its aid program was first established.<sup>114</sup> The purpose of this section is not to review the entire history of Japan's foreign aid program. The point is to place Japanese foreign aid in context, highlight the key points when Japanese foreign aid policy changed, and set the stage for the quantitative analysis later in the dissertation.

It is often said that Japan's ODA began in the 1950s with war reparations to Southeast Asian countries, but this is not entirely accurate. Japan used special loans (so called "Nishihara loans") to China as early as 1916 to induce China to declare war on Germany in WWI.<sup>115</sup> Orr

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<sup>113</sup> Portions of this chapter are expected to be included in the forthcoming ADB publication tentatively titled, *50 Year of Asian Growth and Transformation*. I contributed to the chapter called, "ODA and Development Finance in Asia".

<sup>114</sup> Robert M. Orr, "Collaboration or Conflict?," 476-489.

<sup>115</sup> Quansheng Zhao, "Japan's Aid Diplomacy with China," in ed. Robert M. Orr and Bruce Koppel, *Japan's Foreign Aid: Power and Policy in a New Era*, 163-187.

describes these as the first concrete example of Japanese aid. The loans were in the form of credits provided by Japanese banks, backed by the government. By 1918, seven loans were provided for 145 million yen for infrastructure and investment in various enterprises. Japan's occupation of Manchuria also coincided with financial schemes, similar to modern aid, to incentivize concessions from the Chinese government.<sup>116</sup>

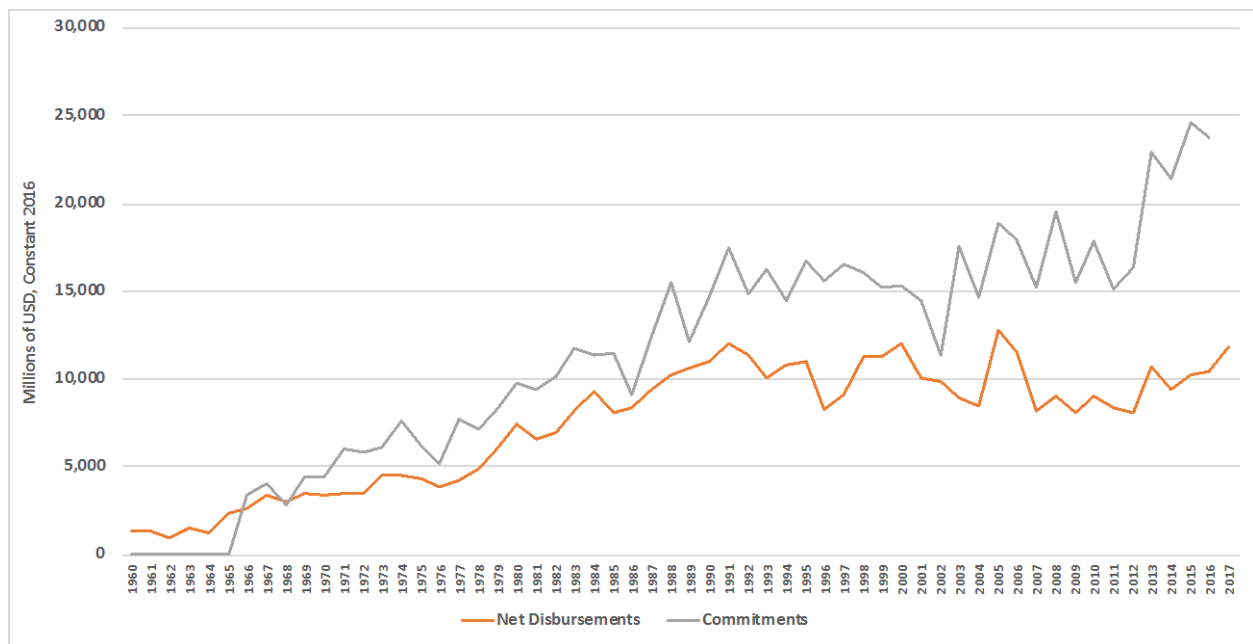
After WWII, Japan was initially an aid recipient rather than a donor and was once one of the World Bank's largest borrowers. From 1946 to 1951, Japan received about \$5 billion through the Government Aid and Relief in Occupied Areas Fund (GARIOA) and the Economic Rehabilitation in Occupied Areas Fund (EROA).<sup>117</sup> Japan received its last World Bank loan in 1966 and ceased to be a developing member country of the World Bank in 1967.

Japan joined the OECD DAC in 1964 and reported its economic aid activities to the DAC reaching back to 1960. Japan included both traditional ODA and reparations payments in this data. The history of Japanese ODA commitments and net disbursements is shown in Figure 3-1 on page 78.

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<sup>116</sup> Robert M. Orr, *The Emergence of Japan's Foreign Aid Power* (New York: Columbia University Press, 1990), 71.

<sup>117</sup> Fumitaka Furuoka, Mikio Oishi and Iwao Kato, "From Aid Recipient to Aid Donor: Tracing the Historical Transformation of Japan's Foreign Aid Policy," *Electronic Journal of Contemporary Japanese Studies (EJCJS)*, Article 3 (2010), <http://www.japanesestudies.org.uk/articles/2010/FuruokaOishiKato.html>.

**Figure 3-1: Japan's Official Development Assistance, 1960-2017 (constant 2016 USD)**

Source: OECD Development Assistance Committee

Figure 3-1 on page 78 above highlights the periods of growth and decline in Japan's foreign aid program. Care should be taken in interpreting "net disbursements". Since Japan gives a substantial portion of its ODA in the form of concessional lending, repayments on prior loans are subtracted from new ODA to arrive at the net disbursements figure. This means that if Japan receives substantial repayments, even while growing its overall ODA budget, the net disbursements figure could decline, and this is what actually occurs in the mid 2000s. The large increases in ODA from the late 80s to the mid 90s were being repaid and subtracted from outgoing ODA disbursements. Even though ODA commitments had been rising strongly since 2001, the disbursement (net) shows a stagnant program. The net disbursement data is misleading, yet the narrative of a stagnant or declining aid budget is the conventional wisdom in Japan.

The trajectory of Japan's aid policy in many ways bears striking resemblance to the aid programs of emerging donors like China, India, Turkey, and Brazil since 2000. In trying to

understand the purposes and practices of emerging donors today as well as the reaction of established powers, Japan's experience and history as an emerging donor remains the best prior example. The following sections introduce the phases and evolution of Japan's aid program from the 1950s to the present.

### **3.1.1 Phase 1 – reparations and commercial orientation**

As part of its efforts to reestablish diplomatic relations with its neighbors after WWII and following the signing of the Treaty of San Francisco in 1951, Japan agreed to provide reparations to the United States and its allies and signed additional peace treaties and bilateral agreements with most East Asian states and Micronesia. Japan's foreign aid grew from this reparations program. Japan paid reparations to Burma (Myanmar), the Philippines, Indonesia, and South Vietnam and provided economic and technical assistance to Laos and Cambodia who had renounced the right to receive reparations. By the mid-1970s, most other countries in South and East Asia entered into agreements to accept economic aid and technical assistance from Japan. In the cases of South Korea and China,<sup>118</sup> reparations were not provided but the economic aid programs established by Japan to assist those countries were mutually understood to represent aid in lieu of reparations.<sup>119</sup> While reparations do not meet the current definition of foreign aid since they are meant to compensate victims for costs incurred during wartime rather than support donor interest or recipient development. However, if reparations could also lead to the benefits that can be derived from providing foreign aid, it would have been foolish not to take advantage of the opportunity.

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<sup>118</sup> Alan Rix, *Japan's Economic Aid: Policy Making and Politics* (London: Croom Helm Ltd., 1980), 235-36.

<sup>119</sup> Shaokui Feng, "Japanese aid to China: A comparison of ODA from Japan and Europe" in ed. David Arase, *Japan's Foreign Aid: Old Continuities and New Directions*, 206.

In 1954, the same year it began paying reparations, Japan joined the Colombo Plan and commenced providing technical cooperation to its Asian neighbors in addition to reparations payments. Japan's first non-reparations related aid was in the form of soft loans to India in 1958. Japan explicitly integrated its foreign aid program with its economic interests. To quote a Japanese government official, "In the 1960s, the main motives for Japan's economic cooperation were to promote its exports and assist its industries in overseas investment...Promoting commercial and industrial interests was the main purpose of such cooperation."<sup>120</sup>

To summarize, the key features of Japan's first phase of ODA were:

- Established initially as war reparations
- Economic aid and technical assistance provided at modest levels
- Focused almost entirely on Asian countries
- Largely focused on commercial benefits including access to resources and export promotion<sup>121</sup>

### **3.1.2 Phase 2 – resource (and other) shocks**

The 70s and 80s were the period of rapidly growing foreign aid from Japan which became the world's largest provider of foreign aid by 1989. We should be careful about inferring policy meaning to the of the growth in Japanese aid during the 1980s since much of it was the result of exchange rate fluctuations including a 50% depreciation in the United States

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<sup>120</sup> Koichiro Matsuura, "Japan's Role in International Cooperation," *National Development*, (September 1981), 64-65 as quoted in Dennis Yasutomo, "Why Aid? Japan as an aid great power," *Pacific Affairs*, Vol. 62, No. 4 (Winter 1989-1990), 490-503.

<sup>121</sup> Robert M. Orr and Bruce Koppel, "A Donor of Consequence: Japan as a Foreign Aid Power," in ed. Robert M. Orr and Bruce Koppel, *Japan's Foreign Aid: Power and Policy in a New Era*, 1-18.

Dollar (USD) relative to the Japanese Yen (JPY). Though exaggerated by this exchange rate movement, nevertheless, Japan did substantially grow its aid budget during the second phase of Japanese aid.

The period 1973-1974 was a major turning point in Japanese ODA policy. First, the “Nixon Shock” in 1971 signaled the end of the convertibility of the USD to gold and the era of fixed exchange rates established under the Bretton Woods System came to an end by 1973. Second, Nixon’s visit and opening to China had a profound effect on Japanese foreign policy and eventual approach to foreign aid. Third and most important was the oil price shock of 1973-74. The economic impact of rapid oil price escalation clarified Japan’s resource dependency in startling fashion. Japan’s economy was thrown into recession after a remarkable period of economic growth. Though the economy recovered by the mid 1970s, economic growth never again approached the 10% levels seen in the 1960s. The oil crisis was the turning point of Japan moving from a rapid growth, developing economy to a moderate to slow growing developed country. According to Orr and Yasutomo, Japan quickly moved to include states in the Middle East<sup>122</sup> in its ODA programs to ensure a steady supply of oil to its economy.<sup>123</sup>

Overall, the purpose of Japan’s foreign aid broadened in during this phase. Foreign aid first became a major tool for Japan's public diplomacy in 1970s<sup>124</sup> based on the oil shock and Prime Minister Kakuei Tanaka's ASEAN trip in January 1974 which was met with riots in Thailand and Indonesia. Japan changed its foreign aid policy in Southeast Asia to expand aid amounts and ease the terms and conditions of Japanese aid. Japan explicitly tied its aid policy

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<sup>122</sup> Dennis Yasutomo, “Why Aid? Japan as an aid great power,” 492-3.

<sup>123</sup> Robert M. Orr, *The Emergence of Japan's Foreign Aid Power*, 39.

<sup>124</sup> Dennis Yasutomo, “Why Aid? Japan as an aid great power,” 493.

to the goal of improving interstate relations between Indochina and ASEAN states.<sup>125</sup> Japan also initiated the idea of “omiyage gaiko” or souvenir diplomacy.<sup>126</sup> Prime Ministerial visits were coordinated with foreign aid packages that were usually announced with some fanfare during the visit garnering positive publicity for Japan’s largesse. This practice also had the effect of increasing the political influence on aid within the Japanese bureaucracy. Prime Ministers could influence aid amounts and allocations simply by scheduling state visits which the Japanese aid bureaucracy would then assist by developing aid packages that would be announced during the visit.

The literature on Japan’s foreign aid highlights several key purposes in Japan’s foreign aid during this period which to some degree persist to this day. Commercial interests continued to play a role in Japanese aid decisions often combining with foreign direct investment from the private sector. But in addition to commercial goals and public diplomacy, aid was finally conceived of as a way to promote Japanese national security during this phase. In the late 70s, an advisory group to Prime Minister Ohira first coined the term “comprehensive national security” and saw a place for foreign aid to support that goal for Japan. The “Report on Comprehensive National Security,” sometimes called the Inoki Report, was submitted to the government in 1980.<sup>127</sup> It defined security broadly and stressed military preparedness and maintaining alliances, included energy and food security as well as dealing with natural disasters.<sup>128</sup> The Diplomatic Blue Book (1981) defined comprehensive national security as follows: “to secure our national survival or protect our social order from various kinds of

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<sup>125</sup> Ibid., 492.

<sup>126</sup> Alan Rix, “Managing Japan’s Aid: ASEAN,” 33.

<sup>127</sup> The Study Group on Comprehensive National Security, “Report by the Study Group on Comprehensive National Security,” (2 July 1980) accessed on 10 December 2019 at [http://www.ioc.u-tokyo.ac.jp/~worldjpn/documents/texts/JPSC/19800702\\_01J.html](http://www.ioc.u-tokyo.ac.jp/~worldjpn/documents/texts/JPSC/19800702_01J.html).

<sup>128</sup> *The Asia-Pacific Security Lexicon (Updated 2nd Edition)*, ISEAS–Yusof Ishak Institute (2015), 65-76.



external threats which will or may have serious effects on the foundation of our nation's existence, by preventing the arising of such threats, or by properly coping with them in the case of their emergence, through the combination of diplomacy, national defense, economic and other policy measures."<sup>129</sup> The policy of "comprehensive national security" was formally introduced by Prime Minister Suzuki in 1980.<sup>130</sup> The policy began to articulate how foreign aid would be combined with defense and diplomacy as an integrated approach to national security and promoting Japan's security interests.<sup>131</sup>

By the late 1970s, according to Koppel and Orr, Japan increasingly saw foreign aid as part of its contribution to the United States-Japan Security Alliance.<sup>132</sup> At the time, many in the United States saw Japan as a security free-rider and the Japanese hoped that its foreign aid contributions that complimented United States security priorities would lessen trade frictions between the United States and Japan.<sup>133</sup> As a state with exceptional limits on its military, Japan was using its burgeoning aid budget as a way to play a role in international affairs in partnership with the United States. Japan repeatedly used aid as a stand-in for more direct contributions to the United States-Japan military alliance. In this sense, Japan's aid program took on an increasing role as a strategic tool and, while still supportive of Japan's commercial interests, also came to serve its security interests.

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<sup>129</sup> Japan Ministry of Foreign Affairs, "Diplomatic Bluebook 1981 Edition: Review of Recent Developments in Japan's Foreign Relations," Tokyo: Government of Japan (1981), see Chapter 2, paragraph 7.

<sup>130</sup> Steve Chan, "Humanitarianism, Mercantilism, or Comprehensive Security? Disbursement Patterns of Japanese Foreign Aid," *Asian Affairs, an American Review*, Vol. 19, No. 1 (1992), 3-17.

<sup>131</sup> Robert M. Orr, *The Emergence of Japan's Foreign Aid Power*, 58.

<sup>132</sup> Bruce Koppel and Robert M. Orr, "Power and Policy in Japan's Foreign Aid," in ed. Robert M. Orr and Bruce Koppel, *Japan's Foreign Aid: Power and Policy in a New Era*, 357.

<sup>133</sup> James Fallows, "Containing Japan," *The Atlantic*, Vol. 263, No. 5 (1989), 40-54.

Lastly, this period of Japanese ODA was characterized by large and sustained current account surpluses that needed to be dealt with to placate trading partners and prevent destabilizing the international financial system.<sup>134</sup> The two options for dealing with such large sustained surpluses were 1) to reduce the current account deficit by raising domestic demand (through tax cuts and/or raising investment in Japan), and 2) to “recycle” the surplus as investment in countries with corresponding current account deficits.<sup>135</sup> The government announced its first “recycling program” in 1987 with a goal of sending \$65 billion overseas within 5 years.<sup>136</sup> Of the \$65 billion, about \$12.5 billion was ODA. The goal of the government was to deflect criticism and argue that Japan’s large surpluses were actually beneficial to the rest of the world and, through support for countries of particular interest to the United States, should be considered part of Japan’s contribution to the United States – Japan Security Alliance.<sup>137</sup>

### 3.1.3 Phase 3 – post Cold-War

Like in many countries, foreign aid became confusing and controversial to Japanese policy makers in the aftermath of the Cold War. The conventional wisdom has been that Japan provides aid as a supplement to its economic policies to promote its own export sector<sup>138</sup> and secure resources for itself.<sup>139</sup> Orr<sup>140</sup> has argued that the commercial orientation of Japanese aid had lessened over time as evidenced by the fact that Japan reduced the amount of aid tied to

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<sup>134</sup> Arjun Sengupta, “Recycling the Japanese Surplus to the Developing Countries,” *Economic and Political Weekly*, Vol. 23, No. 36 (3 September 1988), 1851-56.

<sup>135</sup> Terutomo Ozawa, *Recycling Japan’s Surpluses for Developing Countries*, Paris: OECD Development Centre (1989).

<sup>136</sup> James Sterngold, “Japan’s ‘Recycling’ of Its Trade Surplus Declines,” *The New York Times* (22 February 1993).

<sup>137</sup> Dennis Yasutomo, “Why Aid? Japan as an ‘Aid Great Power’,” 492.

<sup>138</sup> David Arase, *Buying Power*, 2-3.

<sup>139</sup> Jean-Claude Berthelemy, “Bi-Lateral Donors’ Interests vs. Recipients’ Development Motives in Aid Allocation,” 179-194.

<sup>140</sup> Robert M. Orr, “Collaboration or Conflict?,” 476-489.

Japanese contractors throughout the 1980s which reduced the commercial benefits to Japan of its aid program. By the early 1990s, most of Japan's ODA was untied and the Japanese business community began to disengage from aid policy debates. Japanese businesses won fewer and fewer contracts and, by the late 1990s, had largely lost interest in aid policy.<sup>141</sup>

Japan has transformed its own discourse around aid. Stung by criticisms of its past aid practices, Japan issued its first ODA Charter in 1992 to explain its rationale for providing aid and ground it in Japan's respect for international norms and values. Subsequent revisions have further sharpened the focus on promoting democratic norms, peace, humanitarian assistance, environmental benefits and economic development while acknowledging the potential for mutual benefits for Japan. At its Houston Summit in 1990, the G7 policy statement adopted democracy promotion as an international norm which was quickly adopted in Japan's 1992 ODA Charter. See Table 3-1 on page 89 for an overview of the key elements of the 1992, 2003, and 2015 ODA/Development Cooperation Charters.

The ODA charters do not emphasize commercial benefits directly. Hirata points to the discrediting of the "development state" as the key to understanding the shift away from commercially oriented foreign aid.<sup>142</sup> Corruption scandals and economic mismanagement led to a lack of confidence in existing government institutions and big business among the Japanese public and led to demands that Japan change its ODA policies to reflect the norms and values becoming more prevalent among the public. Hirata claims that Japanese citizens and NGOs have become more socially active and have adopted the international norms and values of

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<sup>141</sup> Keiko Hirata, *Civil Society in Japan: The Growing Role of NGOs in Tokyo's Aid and Development Policy* (New York: Palgrave Macmillan, 2002), 57.

<sup>142</sup> Keiko Hirata, "Whither the developmental state? The growing role of NGOs in Japanese Aid Policymaking," *Journal of Comparative Policy Analysis: Research and Practice*, Vol. 4 (2002), 165-88.

humanitarianism. The result, she says, has been increasing pressure on the government to reflect these values in its ODA.

In addition to Japan's policy statements in the charters, Japan's ODA/Development Cooperation White Papers have increasingly emphasized the promotion of universal values and norms as a major purpose for Japanese ODA. For instance, the White Paper on Development Cooperation 2015 begins with a detailed explanation of the Millennium Development Goals (MDGs) adopted at the United Nations (UN) Millennium Summit in 2000 and details Japan's specific contributions to achieving the MDGs through its ODA.<sup>143</sup> These goals have little relation to what is normally considered national interests. They include eradicating extreme poverty, universal primary education, gender equality, reducing child mortality, improving maternal health, combating infectious diseases, ensuring environmental sustainability, and developing global partnerships for development.

In 1998, the Japanese government first adopted the idea of human security, defined as “freedom from want and freedom from fear”, as a motivation for ODA.<sup>144</sup> The appointment of Sadako Ogata, the former UN High Commissioner for Refugees, as the head of JICA in 2003 was seen as a watershed in the incorporation of humanitarian norms in Japan's aid policy. At that time, Ogata and Amartya Sen co-chaired a Japanese government commission on human security that asserted the ODA should fund “human-centered development, peace building, and human security.”<sup>145</sup>

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<sup>143</sup> Japan Ministry of Foreign Affairs, “Japan's International Cooperation: White Paper on Development Cooperation 2015,” Tokyo: Government of Japan, 2015.

<sup>144</sup> Keichi Tsunekawa and Ryutaro Murotani, “Working for human security: JICA's experiences”, in ed. Brendan M. Howe, *Post-conflict development in East Asia* (Farnham (UK): Ashgate, 2014), 175-93.

<sup>145</sup> *Ibid.*, 178.

Since the early 1990s, Japan has increasingly described ODA as a tool to promote basic human needs and democratic values. Even before the 1992 ODA Charter, Japan cut ODA to Myanmar in 1988 in response to the military coup<sup>146</sup> and cut aid to China after the Tiananmen Massacre<sup>147</sup>. From 1991 to 2000, the Japanese government reported that it applied negative sanctions using ODA 18 times.<sup>148</sup> When Japan restarted aid to Myanmar in 1995 after Aung San Suu Kyi was released from house arrest, ODA focused heavily on meeting basic human needs.<sup>149</sup> Japan also utilized ODA to address post conflict humanitarian disasters in Sri Lanka (2004), Timor Leste (1999) and Afghanistan (2003). According to Kamidohzono, Gomez and Mine, Japan has incorporated the international norms of poverty reduction and disaster response in its ODA policy.<sup>150</sup>

Following a peak in giving after the Asian financial crisis (1997), Japanese ODA stagnated at much lower levels than pre-1996. In 2002, Japan's aid commitments reached the lowest point since 1989 potentially signaling a turning point in the amount and purpose of Japanese ODA in a changing security environment.

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<sup>146</sup> David Sternberg, "Japanese Economic Assistance to Burma: Aid in the Terengashi Manner?", in ed. Robert M. Orr and Bruce Koppel, *Japan's Foreign Aid: Power and Policy in a New Era*, 148-49.

<sup>147</sup> Akitoshi Miyashita, "Consensus or compliance: Gaiatsu, interests, and Japan's foreign aid", in ed. Akitoshi Miyashita and Yoichiro Sato, *Japanese Foreign Policy in Asia and the Pacific: Domestic Interests, American Pressure and Regional Integration* (New York: Palgrave, 2001), 37-52.

<sup>148</sup> Yasutami Shimamura "The Political Economy of Japan's Aid Policy Trajectory," 82.

<sup>149</sup> Keichi Tsunekawa and Ryutaro Murotani, "Working for human security," 183.

<sup>150</sup> Sachiko G. Kamidohzono, Oscar A. Gomez, and Yoichi Mine, "Embracing Human Security: New Directions in Japan's ODA for the 21st Century," in ed. Hiroshi Kato, John Page, and Yasutami Shimomura, *Japan's Development Assistance: Foreign Aid and the Post-2015 Agenda* (New York: Palgrave Macmillan, 2016), 205-221.

The recent literature on Japan's foreign aid policy has pointed to a "securitization" of ODA. Some scholars (Jain<sup>151</sup>; Yoshimatsu and Trinidad<sup>152</sup>; Carvalho and Potter<sup>153</sup>) point to Japan's perception of a threat from China as a driver of Japan's policy changes. Relations with China deteriorated sharply in 2004 after a series of incidents perceived as threatening to Japan's security including escalation of the Senkaku dispute, China drilling in an area where Japan's and China's declared Exclusive Economic Zones (EEZ) overlap, and the intrusion of a Chinese nuclear submarine in Japanese territorial waters in southern Okinawa. There is evidence of increasing perception of a China threat in Japan after 2000 (which is explored in more detail in Section 4.4 beginning on page 186). By 2013, Prime Minister Abe gave an interview with the *Washington Post* where he laid out plans for deterring China, which included boosting military spending and strengthening ties with Thailand, Vietnam, Indonesia and other nations that share concerns about Chinese actions.<sup>154</sup> Whether Japan's aid program has entered a new phase more tied to Japan's national security strategy will be analyzed in detail later in this dissertation.

### 3.1.4 Japanese ODA charters

Japan made major changes to its approach to national security in 2013 which was further elaborated and codified in the 2015 Development Cooperation Charter.<sup>155</sup> The National Security Strategy published in 2013 describes Japan's security situation as increasingly "severe". The first security challenge identified is the changing balance of power which largely refers to the relative increase in China's power vis-a-vis Japan and the United States. Japan's economy

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<sup>151</sup> Purnendra Jain, "Japan's Foreign Aid: Old and New Contests," 93-113.

<sup>152</sup> Hidetaka Yoshimatsu and Dennis D. Trinidad, "Development Assistance, Strategic Interests, and the China Factor in Japan's Role in ASEAN Integration," 199–219.

<sup>153</sup> Pedro Carvalho and David M. Potter, "Peacebuilding and the 'Human Securitization' of Japan's Foreign Aid," 85–112.

<sup>154</sup> Chico Harlan, "Japan's Prime Minister Shinzo Abe: Chinese Need for Conflict is 'Deeply Ingrained'", *The Washington Post*, 20 February 2013.

<sup>155</sup> Japan Ministry of Foreign Affairs, "Cabinet Decision on the Development Cooperation Charter," Tokyo: Government of Japan, 10 February 2015, accessed 30 January 2017, <http://www.mofa.go.jp/files/000067701.pdf>.

depends on secure trade routes which necessitate secure shipping in the East and South China Seas. Japan sees China's increasing assertiveness with respect to territorial claims as a growing threat to its national security. Japan continues to rely on the United States-Japan Security Treaty as the foundation of its national security strategy, but also seeks to make Japan a "proactive contributor to peace". To achieve this, a fundamental rethinking of Japan's international cooperation initiatives resulted in a removal of the term ODA from the charter to emphasize the broader notion of development cooperation.

Since 1992, Japan has published periodic charters to lay out the policy thinking behind its foreign aid program. The policy statements do not always coincide with policy changes as policy is more reactive to international conditions than policy statements that require extensive political discussion and broad-based consensus. The following table highlights the key elements of each ODA Charter (now referred to as the Development Cooperation Charter). Key differences are highlights in *italics*.

**Table 3-1: Japanese Aid Charters**

	<b>1992 ODA Charter<sup>156</sup></b>	<b>2003 ODA Charter<sup>157</sup></b>	<b>2015 <i>Development Cooperation Charter</i><sup>158</sup></b>
Overall objective	Promote world peace and global prosperity. Promote <i>friendly relations between Japan and other countries</i>	Contribute to peace and development of international community thereby helping to <i>ensure Japans security and prosperity</i>	" <i>Proactive</i> contribution to peace". Secure Japan's security and prosperity. <i>Maintain international order based on universal values</i>
Principles	1) Recipient <i>request</i> (based on self-help taking into account socioeconomic	1) Recipient <i>need</i> <sup>159</sup> (based on self-help taking into account socioeconomic	1) Avoid use of development cooperation for military purposes or aggravation of conflicts

<sup>156</sup> Japan Ministry of Foreign Affairs, "Japan's Official Development Assistance Charter" Tokyo: Government of Japan, Cabinet Decisions, 30 June 1992, <http://www.mofa.go.jp/policy/oda/summary/1999/ref1.html>.

<sup>157</sup> Japan Ministry of Foreign Affairs, "Japan's Official Development Assistance Charter," Tokyo: Government of Japan, 29 August 2003, <http://www.mofa.go.jp/policy/oda/reform/revision0308.pdf>.

<sup>158</sup> Japan Ministry of Foreign Affairs, "Cabinet Decision on the Development Cooperation Charter," (2015).

<sup>159</sup> Consultation and policy dialogue needed before request for ODA.

	conditions and bi-lateral relations) 2) <i>Non-intervention in domestic affairs</i> 3) Avoid use of ODA for military purpose or aggravation of conflicts 4) Take account of military spending, development of WMD and arms exports 5) Promote democracy, <i>market economy</i> and human rights	conditions and bilateral relations) 2) <i>Non-intervention in domestic affairs</i> 3) Avoid use of ODA for military purpose or aggravation of conflicts 4) Take account of military spending, development of WMD and arms exports 5) Promote democracy, <i>market economy</i> and human rights	2) Promote human security 3) Assist self-help efforts, but <i>also proactively propose cooperation projects</i> (taking into account socioeconomic conditions and bilateral relations) 4) Promote democracy, rule of law, basic human rights
Geographic focus	Focus on <i>East Asia</i> in general, <i>ASEAN</i> in particular. Extend to rest of world based on LDC status.	Focus on East Asia including ASEAN, due consideration to poverty in <i>South Asia</i> and democracy and market economy transition in <i>Central Asia</i> . Prioritize assistance to other regions based on needs and Japan's ODA priorities	ASEAN highlighted.
Priority issues	1) Global problems such as environment and population 2) Basic human needs and humanitarian crisis response 3) HR and technology 4) Infrastructure 5) Structural adjustment	1) <i>Poverty reduction</i> 2) Sustainable growth 3) Global problems such as global warming, environment, health, terrorism, crime, disasters... 4) <i>Peace building</i>	1) Environment and climate change 2) Ensure equity for vulnerable populations 3) Promote women's participation 4) Prevent fraud and corruption

Source: summarized by the author from the charters.

A number of changes in language are notable in Table 3-1 on page 89. The 2003 charter first highlights that the purpose of ODA is to ensure Japan's security and economic well-being and 2015 adds Japan's adherence to universal values. Under aid principles, Japan's charters begin with responding to recipient request, which is altered to recipient need in 2003 and removed entirely in 2015. The non-intervention principle is also dropped in 2015. Overall, the trend is to increasingly emphasize Japan's values and needs rather than the needs of the recipients.



Another policy change involves how Japan uses ODA for quasi-military activities. While explicitly stating that Japan will not provide aid for military purposes, the 2015 Charter now allows Japan to provide aid to the armed forces of recipient countries for nonmilitary activities such as peacekeeping and disaster response<sup>160</sup>. These policy changes, combined with Japan's recent practice of providing quasi-military equipment in the form of coast guard patrol ships for the Philippines, Indonesia, and Vietnam<sup>161</sup>, imply that the security factors are increasingly important to Japanese aid commitment decisions.

### **3.1.5 Japan's aid decision-making system**

Japanese aid institutions have gone through multiple reorganizations since the founding of Japan's first professional aid agency, the Overseas Technical Cooperation Agency (OTCA) in 1962 and its first loan aid fund, the Overseas Economic Cooperation Fund (OECF) in 1961. OCTA was reorganized into the JICA under the Ministry of Foreign Affairs (MOFA) in 1974 and combined the technical assistance and training activities of multiple ministries and agencies. JICA was primarily responsible for technical assistance and training while MOFA administered grant aid. JBIC was formed in 1999 with the merger of the Japan Export Import Bank (JEXIM) and OECF. In 2003, JICA was converted to an Incorporated Administrative Agency technically independent of MOFA. In 2008, the ODA lending function of JBIC and some of the grant making authority of MOFA were transferred to the "new JICA".<sup>162</sup>

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<sup>160</sup> Japan Ministry of Foreign Affairs, "Cabinet Decision on the Development Cooperation Charter," (2015), 11.

<sup>161</sup> Purnendra Jain, "Japan's Foreign Aid: Old and New Contexts," 93–113.

<sup>162</sup> Japan International Cooperation Agency, "JICA Annual Report 2016," Tokyo: Government of Japan, accessed on 8 December 2019 at [https://www.jica.go.jp/english/publications/reports/annual/2016/c8h0vm0000aj21oz-att/2016\\_58.pdf](https://www.jica.go.jp/english/publications/reports/annual/2016/c8h0vm0000aj21oz-att/2016_58.pdf).

The overall trend beginning in the late 1990s with the establishment of JBIC and followed by centralization of aid functions in JICA in 2008, has been an attempt to simplify the ODA system structure and to elevate aid policy and decision-making authority to the political leadership. In 2006, as a result of a top to bottom review of ODA institutions and policy making, the Japanese government established the Overseas Economic Cooperation Council (OECC) chaired by the Prime Minister and led by a committee of cabinet ministers. The OECC was responsible for formulating basic ODA strategies, deciding ODA support for specific countries, reviewing implementation of important projects, and for leading revisions of ODA charters and medium-term policy statements. The ODA implementation system was reorganized and consolidated under the “new JICA”.

The OECC, however, was disbanded by the Democratic Party administration in 2011 leaving no standing high-level committee to review overall ODA policy.<sup>163</sup> However, the overall elevation of ODA policy making to the highest levels of government during this time appeared to lead to some controversial aid allocation for quasi-military equipment in Indonesia and the Philippines and an increasing focus on national interests in aid policy.<sup>164</sup> Even before the establishment of the OECC, Tsukasa Takashi (2015) shows that the power over Japan’s aid policy to China had already shifted dramatically from MOFA to the Liberal Democratic Party (LDP) beginning in the late 1990s.<sup>165</sup> This elevation in decision-making authority resulted in Japan’s decision to stop ODA lending to China, which is reviewed in detail in APPENDIX 6:

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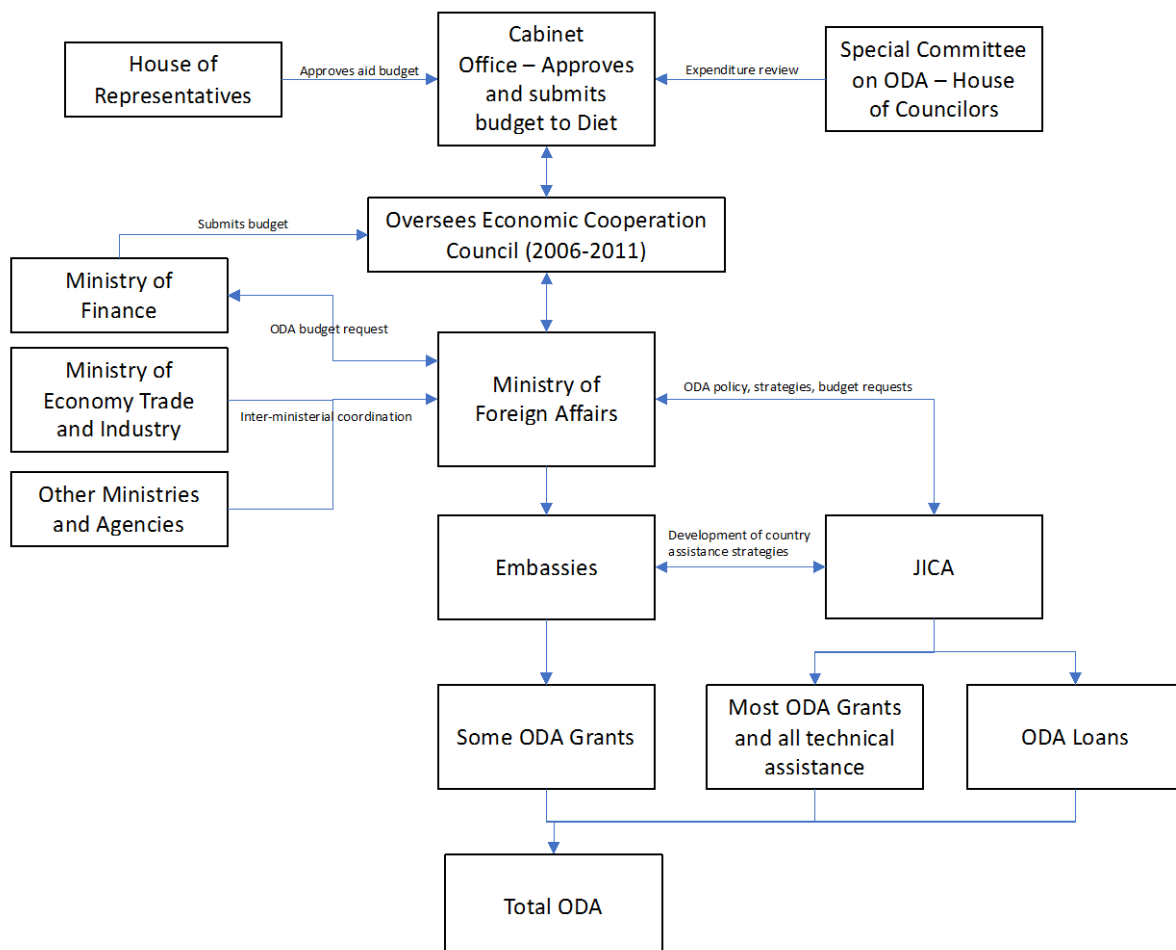
<sup>163</sup> Keiichi Tsunekawa, “Objectives and Institutions for Japan’s Official Development Assistance (ODA): Evolution and Challenges, Tokyo: JICA Research Institute, Working Paper No. 66 (February 2014), 19.

<sup>164</sup> Ryota Kato, “Koizumi Administration’s ODA unification discussions with citizens and NGOs,” Graduate School of Policy and Management, Doshisha University (2007), 154 (in Japanese – accessed on 8 December 2019 at <https://doors.doshisha.ac.jp/duar/repository/ir/13040/019008020009.pdf>).

<sup>165</sup> Takashi Tsukasa, “Japan’s Foreign Policymaking Process: A Case Study of the Changing Balance of China Aid Policymaking Power between the Liberal Democratic Party and the Ministry of Foreign Affairs,” *The Meio University Bulletin*, Vol 20 (2015), 1-14.

Supplemental Case Study: Japan's Aid to China. According to the OECD 2014 Development Cooperation Peer Review for Japan, the 2013 National Security Strategy also elevated ODA policy as an element of national security by emphasizing the “three Ds” (diplomacy, development and defense) under the guidance of the National Security Council.<sup>166</sup> The overall structure of Japan's ODA decision-making and allocation system (after the 2006 reform) is presented in Figure 3-2 on page 93.

**Figure 3-2: Japan's aid system after 2006 reforms**



Sources: Adapted from Izumi Ohno, “Japan's ODA Policy and Reforms since the 1990s and Role in the New Era of Development Cooperation,” Tokyo: National Graduate Institute for Policy Studies, 2014; OECD, *Development Cooperation Peer Reviews: Japan*, Paris: Development Assistance Committee, 2014; and Likki-Lee Pitzen, “Japan's Changing Official Development Assistance: How Institutional Reforms Affected the Role of Japan's Private Sector in ODA Delivery,” Lund University: Center for East and South-East Asian Studies, 2015.

<sup>166</sup> OECD, *Development Co-operation Peer Reviews: Japan 2014*, Paris: Development Assistance Committee (2014), 14.

### 3.2 Evolution of China's foreign aid

The purpose of this section is to trace key points in the evolution of China's aid program, review the literature of China's foreign aid, and identify shifts in China's approach to foreign aid that can be tested in the quantitative analysis later in the dissertation. Though China's aid program has garnered a great deal of attention in recent years, China is not a new donor. China's aid was initially used to support the spread of international communism, then declined after China opened to the world in the late 1970s, before becoming a major emerging donor since the late 1990s. China's aid program has changed over the past 50 years responding to changes in both the international system and China's domestic conditions and needs and has now become a major tool in China's engagement with the rest of the world.

China declines to publish much detailed information on its foreign aid activities. China has shown recent signs of openness in publishing the *White Paper of China's Foreign Aid*, which provides a general policy overview, summary data, and useful information about China's aid structure and distribution.<sup>167</sup> It does not provide any detailed information on the country, project, or timing of aid allocations or disbursements. This lack of specificity and transparency<sup>168</sup>, combined with a general distrust<sup>168</sup> of Chinese intentions among Western countries, has led to both unease about China's aid motivations and impacts and an expanding scholarly interest in understanding China's aid activities. While China began providing aid in the 1950s, it has only become especially controversial since the early 2000s. There is widespread suspicion that China uses its aid to draw countries away from the Western powers,

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<sup>167</sup> China State Council, "China's Foreign Aid", Information Office of the State Council, People's Republic of China, 21 April 2011.

<sup>168</sup> Sven Grimm, Rachel Rank, Matthew McDonald, and Elizabeth Schickerling, "Transparency of Chinese Aid: An analysis of the published information on Chinese external financial flows," *London: Center for Chinese Studies at Stellenbosch University and Publish What You Fund* (August 2011), 23.

enable despotic governments to legitimize its own lack of democratic governance, and secure access to natural resources.<sup>169</sup>

Most of the scholarly work on China's ODA activities has focused on Africa<sup>170</sup> where China's ODA has rapidly expanded<sup>171</sup> and overlaps with large aid programs from OECD DAC member countries.<sup>172</sup> This supposed aid "competition" has spawned a backlash in DAC members due to the lack of information and a perception that such aid is self-interested, rewards despotic regimes, and diminishes the supposed effectiveness of aid from DAC members. Though such criticism may be self-serving, the lack of data on aid flows by country and by project has provided critics of China's ODA with enough uncertainty to make unprovable claims regarding the amount, impact and intent of China's ODA.

Recent work by scholars knowledgeable of China's aid practices have generally found that China's aid is not so different from the aid of DAC members. Kobayashi<sup>173</sup> presents a comprehensive outline of China's foreign aid policies and practices and notes the historical focus of Chinese aid on increasing the number of countries friendly to China and predisposed to its interests; a view that corresponds to a realist interpretation of aid. One of China's main principles for providing aid is the notion of mutual benefit, which parallels Japan's focus on stimulating its domestic economy as a co-benefit of foreign aid. Brautigam<sup>174</sup> claims that the aid packages prepared by China resemble the programs promoted by Japan as a means of

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<sup>169</sup> Moises Naim, "Rogue Aid," 95-6.

<sup>170</sup> Deborah Brautigam, "Chinese Development Aid in Africa," 203-22.

<sup>171</sup> China State Council, "China-Africa Economic and Trade Cooperation," Information Office of the State Council, The People's Republic of China, August 2013.

<sup>172</sup> Soyeun Kim and Sam Lightfoot, "Does DAC-ability Really Matter?," 711-21.

<sup>173</sup> Takaaki Kobayashi, "Evolution of China's Aid Policy".

<sup>174</sup> Deborah Brautigam, "Aid with 'Chinese Characteristics': Chinese Foreign Aid and Development Finance meet the OECD-DAC Aid Regime," *Journal of International Development*, Vol. 23 (2011), 752-64.

fostering commercial and investment opportunities in East and Southeast Asia; a view that comports with commercial liberalism.

Researchers that have more carefully delved into the question of aid intent have not found that China is much different than any other country in their use of aid. Dreher and Fuchs<sup>175</sup> utilize the first publicly available project level data set<sup>176</sup> on Chinese ODA to Africa and found that there is no empirical evidence that China's ODA is inferior from a humanitarian point of view and that the criticisms are largely unjustified. Many international relations scholars find little evidence that DAC donors are motivated by humanitarian concerns, so the assertion that China is the same as other donors may or may not calm any nerves regarding the intent of China's aid. Dreher and Fuchs find that political factors are important for determining aid allocations from China, but this also turns out to be true for most other major donors including Japan and the United States.<sup>177</sup> Aid allocations from traditional donors are often associated with security interests and tend to be correlated with UN voting patterns.<sup>178</sup> Criticizing China for behaving the same as DAC members may be disingenuous, but if China's interests are in conflict with Western powers and promoting competing institutional frameworks in the international system, concern about China's aid may not be entirely unfounded.

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<sup>175</sup> Axel Dreher and Andreas Fuchs, "Rogue Aid? The Determinants of China's Aid Allocation," *Courant Research Centre 'Poverty, Equity and Growth' Discussion Paper 93*, University of Goettingen, 2012.

<sup>176</sup> Source: AidData.org

<sup>177</sup> Axel Dreher and Andreas Fuchs, "Rogue Aid? The Determinants of China's Aid Allocation," prepared under project "Foreign Aid of Emerging Donors and International Politics" supported by the Deutsche Forschungsgemeinschaft (DR 640/4-1) (October 2011), 28.

<sup>178</sup> Alberto Alesina and David Dollar, "Who gives foreign aid to whom and why?," 33-63.

Many studies looking at donor motivations for foreign aid allocations find a mix of diplomatic and security goals,<sup>179</sup> political self-interest,<sup>180</sup> commercial self-interest,<sup>181</sup> as well as some degree of humanitarian intent.<sup>182</sup> So the question is not whether China's aid is like aid from existing donors, but to what extent are China's interests in conflict with existing donors and whether China's aid harms the interests of DAC members? If China's aid program is meant to support Chinese business and commercial interests, this competition may not be alarming and can simply be taken as normal international competition for business. However, if China's aid allocations are meant to challenge existing institutions in the international system, undermine relations between other donors and aid recipients by displacing existing donor-recipient relationships, or support despotic regimes that reject the established norms, its aid could still be destabilizing.

One source of confusion with respect to Chinese aid is the difficulty identifying which financial flows from China are aid and which are simply commercial loans and investments. If we do not understand what flows represent aid, we can easily confuse trade finance and FDI with foreign aid. For example, a report for the United States Congressional Research Service lumps foreign aid and government financed projects together and asserts that China's aid activities grew from around \$1.5 billion in 2003 to \$27.5 billion just three years later in 2006.<sup>183</sup> Both of these figures are probably inflated. Work by Kitano and the JICA Research Institute

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<sup>179</sup> Ibid, 33.

<sup>180</sup> Bruce Buena de Mesquita and Alastair Smith, "A Political Economy of Aid", *International Organization*, Vol. 63, No. 2 (Spring 2009), 309-340.

<sup>181</sup> Peter J. Schraeder, Stephen W. Hook and Bruce Taylor, "Clarifying the Foreign Aid Puzzle: A comparison of American, Japanese, French and Swedish Aid Flows," *World Politics*, No. 50 (January 1998), 294-323.

<sup>182</sup> Jean-Claude Berthelemy, "Bi-Lateral Donors' Interests vs. Recipients' Development Motives in Aid Allocation: Do all donors behave the same?," *Review of Development Economics*, Vol. 10, No. 2 (2006), 179-194.

<sup>183</sup> Thomas Lum, Hannah Fischer, Julissa Gomez-Granger, and Anna Leland, "China's Foreign Aid Activities in Africa, Latin American and Southeast Asia," *Congressional Research Service (R40361)*, 25 February 2009. Figures based on research from: NYU Wagner School, "Understanding Chinese Foreign Aid: A Look at China's Development Assistance to Africa, Southeast Asia, and Latin America," April 25, 2008.

used publicly available Chinese budget information from multiple agencies to estimate that China's gross foreign aid (using the DAC ODA definition) was about \$826 million in 2003 and reached \$1.482 billion in 2006 and about \$5.8 billion in 2013.<sup>184</sup> Kobayashi's and Kitano's estimates are probably underestimated because China does not count aid allocations the same way the DAC members do and much of what would count as ODA is not reported in official Chinese data.<sup>185</sup> The lack of a consistent definition of aid used by Lum, et. al., Brautigam, Kitano, and others and the fact that many Chinese enterprises are state owned leads to misattribution of trade finance and outward FDI as Chinese aid in many published sources. Brautigam has shown that much of the purported Chinese aid would be categorized as Other Official Finance (OOF) rather than ODA if subjected to the same standard definitions as DAC members. The Chinese government itself argues its export financing tools are largely consistent with OECD norms and practices with regards to state support for commercial activities.<sup>186</sup>

Observers need to be cautious about measuring China's foreign aid and interpreting the amounts in context. However, China's aid activities now appear to be substantial and much larger than the estimates from Kitano based on Chinese Statistical Yearbooks.<sup>187</sup> Based on the newly available data provided by Aiddata.org and the manual adjustments made to prepare the database used in this dissertation, China's aid reached a peak of \$18.9 billion in 2012 before declining to around \$14 billion in 2014. At these levels, China's aid commitments are comparable to Japan's (\$16 billion in 2014) and Germany's (\$15.4 billion) but substantially

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<sup>184</sup> Naohiro Kitano, "Estimating China's Foreign Aid II: 2014 Update," *JICA Research Institute*, JICA-RI Working Paper No. 131 (June 2016), 27.

<sup>185</sup> China's budget documents count only the interest rate subsidy as "aid" rather than the entire concessional loan amount for China Ex-Im Bank administered aid projects. DAC members count the entire amount of concessional loans as "aid" as long as the grant component is sufficient (25%). Arguably, China's approach is a more honest accounting of actual aid than the DAC approach but comparisons between programs should be based on the same definition.

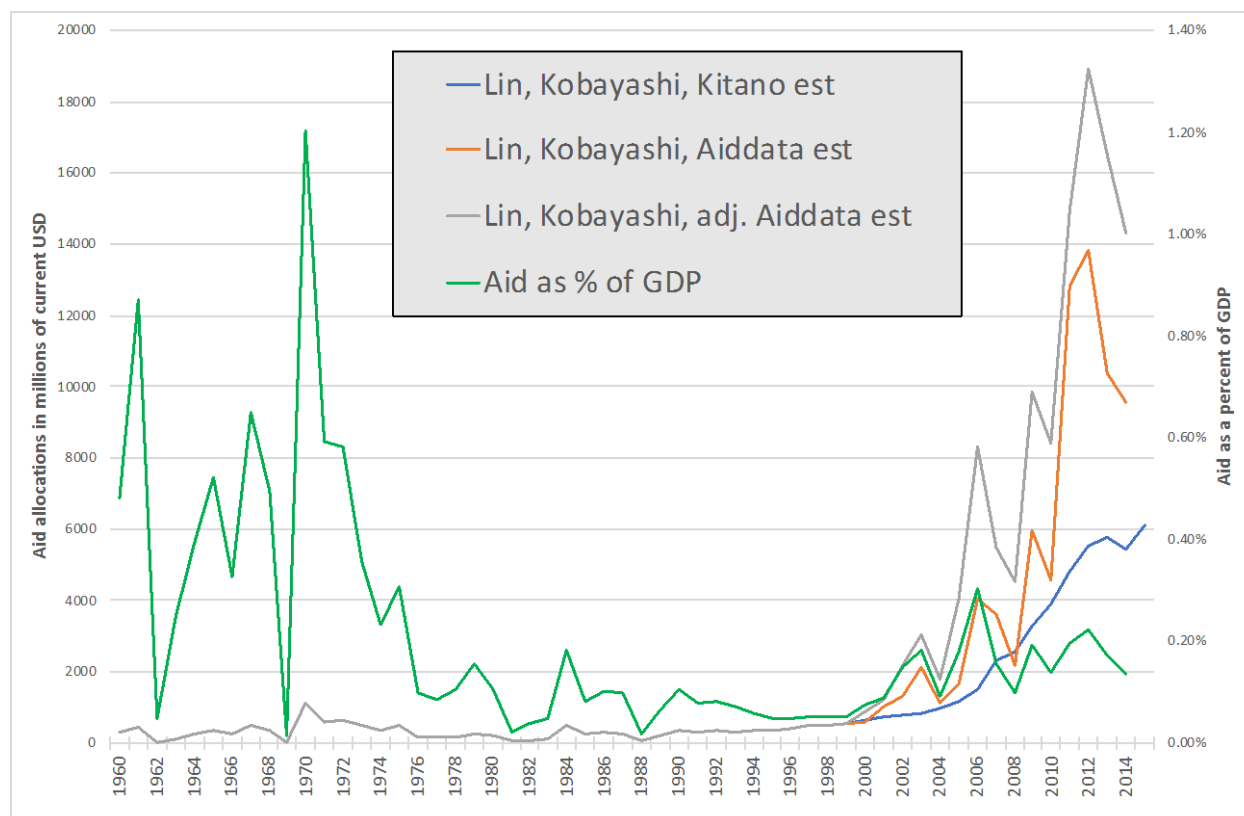
<sup>186</sup> Deborah Brautigam, "Aid with 'Chinese Characteristics'," 752-64.

<sup>187</sup> Naohiro Kitano, "Estimating China's Foreign Aid II: 2014 Update," *JICA Research Institute*, JICA-RI Working Paper No. 131 (June 2016).



less than the United States at \$29 billion in 2014. Figure 3-3 on page 99 displays the various estimates of China's overall aid program using the estimates by Lin for 1960-1992, Kobayashi for 1993 to 2005, and Kitano, Aiddata.org, and the adjusted Aiddata.org dataset (used in this study) from 2000 – 2014.

**Figure 3-3: Historical data on China's aid budget, 1960-2015 (current USD equivalent)**



Note: Aid as a % of GDP based on highest estimated aid amount and China current GDP in USD provided by the Federal Reserve Bank of St. Louis, USA.

Sources: 1960-1992 from Lin, Teh-chang, "Beijing's Foreign Aid Policy in the 1990s: continuity and Change," *Issues and Studies: A Journal of Chinese Studies and International Affairs*, Vol. 32, No. 1 (January 1996).

1993 to 2005 from Kobayashi, Takaaki, *Evolution of China's Aid Policy*, Tokyo: JBIC Institute Working Paper No. 27, April 2008.

2000-2014 from Aiddata.org and Aiddata.org adjusted by author (top estimate) – see methodology in Chapter 4.2.2.1.

2001 to 2015 from Kitano, Naohiro, *Estimating China's Foreign Aid II: 2014 Update*, JICA Research Institute, JICA-RI Working Paper No. 131, June 2016.

China's foreign aid is not the same as aid from most DAC donors. In some respects, China's foreign aid is more like Japan's foreign aid when it too was an emerging donor. China, like Japan before it, provides most of its aid in the form of tied concessional and no-interest

loans rather than grants. Grants are given but are a much smaller percentage than most DAC donors. Almost all projects financed by Chinese loan aid must choose from a list of approved Chinese contractors.<sup>188</sup> Chinese companies, usually State Owned Enterprises (SOEs), do not have an official role in aid decisions, but do approach recipient governments with proposals and help prepare aid requests to win the eventual contracts.<sup>189</sup> This process is reminiscent of the practice of Japanese trading companies in the past. In the early stages of Japan's ODA program, Japanese trading companies would propose projects to aid recipient governments and support the governments requests to Japan for ODA while lobbying the Japanese government to approve the ODA project. This was a common practice at the time when Japan provided mostly tied loans.<sup>190</sup> As one of the largest recipients of Japanese ODA in the 1990s, China was well aware of Japanese aid practices and later adopted a similar approach in its own program.<sup>191</sup>

Another feature of Chinese aid is that most of the aid projects are provided as “turn-key” projects.<sup>192</sup> This term refers to the provision of a project as a completed item that is turned over to the recipient with little input or contribution from the recipient. The recipient must only “turn the key” to start using the road, port, or building. This is in direct contrast to the standard way that most DAC donors approach aid projects. DAC member aid is often given to the recipient government which is expected to implement and manage the construction of the project under the oversight and supervision of the donor's office in the recipient country. The

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<sup>188</sup> Shuaihua Cheng, Fang Ting, Lien Hui-Ting, “China's International Aid Policy and its Implications for Global Governance,” *Indiana University Research Center for Chinese Politics and Business (RCCPB Working Paper #29)*, June 2012, 23.

<sup>189</sup> *Ibid.*, 6.

<sup>190</sup> Yukiko Nishikawa, *Japan's Changing Role in Humanitarian Crises* (London: Routledge, 2005), 146.

<sup>191</sup> Hisahiro Kondoh, Takaaki Kobayashi, Hiroaki Shiga, and Jin Sato, “Diversity and Transformation of Aid Patterns in Asia's ‘Emerging Donors’,” JICA-RI Working Paper, No. 21 (October 2010), 17.

<sup>192</sup> Deborah Brautigam, “Aid with ‘Chinese Characteristics’,” 761.

stated purpose is for the recipient government to take “ownership” of the projects and learn to plan and implement these types of projects themselves.

Sometimes, as in the case of the United States Millennium Challenge Corporation (MCC), donors set up project implementation and management offices in the recipient countries to directly implement and manage aid projects including tendering. These offices tend to hire the most competent staff available in the recipient country, often directly from the government. This can deprive the government of its most competent staff and the skills learned working in donor offices can mean those staff are now able to earn much more outside of government or in the quasi-public aid sector managing development projects as consultants and contractors to DAC donors. Hiring qualified people from the government can have the unintended consequence of a brain-drain from developing country government agencies harming their ability to implement projects on their own. China’s approach of providing a completed project avoids these issues and greatly accelerates project delivery but does not build domestic capacity for project implementation in the recipient.

In contrast to most DAC aid, Chinese aid money often never leaves China. Until 2018, China had no dedicated aid agency and operated its aid program out of the Ministry of Commerce (MOFCOM) which is responsible for foreign aid planning, regulations, and the review and approval of projects.<sup>193</sup> MOFCOM was responsible for grant aid and interest free loans while China Ex-Im Bank was responsible for concessional lending. When a project has been approved, a contractor is competitively selected from the preapproved list of Chinese companies using China’s tendering systems specifically set up to conduct tenders for China’s

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<sup>193</sup> Lixia Tang, Ma Jiewen and Li Xiaoyun, “China’s Foreign Aid: History, Current Situation and Challenges”, *Journal of International Development Cooperation (KOICA)*, No. 4 (2013), 22.

aid financed projects in foreign countries.<sup>194</sup> Payment to the contractor generally occurs within China directly from the Chinese government to the contractor with funds rarely going through the recipient government. The benefits of China's approach are clear. Project delivery is faster and more efficient compared to the typical DAC funded aid project since the money largely stays in China. These benefits are often valued by many governments who appreciate receiving projects faster. Ironically, many democratic governments may appreciate aid from China more than others because they can deliver the project while still in power and claim credit. Many governments are tired of the inefficiency and lack of implementation progress dealing with DAC aid agencies and appreciate the Chinese approach that delivers a project quickly and reliably, even if the recipient government has less involvement in the implementation.

On the other hand, local governments do not learn much that will help them plan and develop projects themselves. Critics point to the lack of social, environmental and labor standards in Chinese financed project.<sup>195</sup> China also does not place many policy conditionalities on its aid. Naim (2007) related the story of proposed World Bank loan to Nigeria to help upgrade and reform the Nigerian Railways sector that was cancelled in preference to an offer from China to rehabilitate the railway network with no need to reform the institutions.<sup>196</sup> Further criticisms have been leveled at the willingness of China to provide aid to Zimbabwe under Robert Mugabe and to Sudan during its civil conflict without imposing requirements for political reform or respect for human rights.<sup>197</sup>

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<sup>194</sup> Deborah Brautigam, *The Dragon's Gift*, 110.

<sup>195</sup> Dambisa Moyo, *Dead Aid*, Kindle Location 1794 of 3414.

<sup>196</sup> Moises Naim, "Rogue Aid," 95-6.

<sup>197</sup> Dambisa Moyo, *Dead Aid*, Kindle Location 1804 of 3414.

The main criticism from aid recipients (rather than other donors) has been the flip side of China's efficient project implementation system. The language barrier and access to low-wage labor within China makes it easier for Chinese contractors to use all or mostly Chinese labor even for tasks that require limited skills in countries with a large amount of surplus labor. The importation of labor that into impoverished countries where people are desperate for jobs has led to social frictions around some Chinese aid financed projects.<sup>198</sup>

Like Japan before it, the rapid growth of aid from China combined with a lack of understanding about the practices and interests at work shaping the aid programs engender suspicion. Japan was even criticized for its desire to quickly resume lending to China after the Tiananmen Massacre as an example of its tendency to shy away from policy conditions to its aid. However, Japan was an OECD DAC member and quite transparent about its aid program. In the case of China, the unease is magnified by the lack of transparency and inability to distinguish aid from other financial flows.

The following sections detail the phases of China's aid program. I have largely taken the broad 3-phase framework proposed by Tang et. al.<sup>199</sup> and Brautigam<sup>200</sup> but adjusting the endpoints between Phase 2 and Phase 3 to match the year of implementing China's "Going Out" policy (1999)<sup>201</sup> which marks the beginning of China's concerted effort to develop internationally competitive enterprises through outward engagement and foreign direct

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<sup>198</sup> Shuaihua Cheng, Fang Ting, Lien Hui-Ting, "China's International Aid Policy," 25.

<sup>199</sup> Lixia Tang, Ma Jiewen and Li Xiaoyun, "China's Foreign Aid: History, Current Situation and Challenges", *Journal of International Development Cooperation (KOICA)*, No. 4 (2013).

<sup>200</sup> Brautigam, Deborah, *The Dragon's Gift: The Real Story of China in Africa*, Oxford: Oxford University Press, 2009.

<sup>201</sup> Meibo Huang, "Policies and Practices of China's Foreign Aid: A Comparison with Japan," in Hiroshi Kato, John Page, and Yasutami Shimomura, (eds), *Japan's Development Assistance: Foreign Aid and the Post-2015 Agenda*, New York: Palgrave Macmillan (2016), 136.

investment. China's own report on the 60-years of its aid program specifies four periods dividing what I call Phase 2 into two sections: 1) the "reform" period (late 70s and 80s) and 2) the "market" mechanism period (1990s).<sup>202</sup> I choose not to distinguish between these periods because there is a consistent policy of economic opening and reform during this period and the level of foreign aid provided was small over the entire period. Any choice of phases is to some degree arbitrary but the three-phase framework adopted here has the benefit of simplicity and corresponds to easily identifiable policy changes on the part of the Chinese Government including China's opening under Deng Xiaoping in 1979 and the "going out" policy of 1999. In Phase 1, China's ideologically driven aid was substantial and far above what other countries at China's level of development provided. This was followed by a period of retrenchment and dropping aid budgets while China, at the same time, became one of the largest aid recipients in the world. By the end of Phase 2, China was a marginal aid provider with annual budgets well below \$1 billion USD. During Phase 3, China quickly became a donor on par with the largest DAC donors.

### **3.2.1 Phase 1 – international recognition and ideology (1950s-1978)**

The purpose of this section is to describe the conditions that led to China establishing its aid program and the aid policy principles that continue to the present. The end of WWII did not end war in China. The Chinese civil war broke out and continued to rage until 1949 when Chiang Kai-shek's nationalist forces were pushed to Taiwan and mainland China became the People's Republic. Almost immediately after the establishment of the People's Republic of China, North Korea invaded the south and the United States (and its allies) entered the Korean war under UN Security Council Authorization. China responded with support for North Korea

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<sup>202</sup> Hong Zhou (ed) and Xiong Hou, (asst. ed), *60 Years of China's Foreign Aid*, Beijing: Social Science Academy Press, 2012 (in Chinese).

which can be interpreted as the initial steps in China's foreign aid. China's aid to North Korea was of critical importance to China's security as it had only recently established itself as a state and was ideologically aligned with the Soviet Union against the Western international order. China perceived the Korean War as a potential existential threat with United States and UN forces which were avowedly anti-communist moving towards China's land border. In similar fashion, China aided North Vietnam in the 1950s in its fight against France in the First Indochina War which resulted in the establishment of a communist government in North Vietnam in 1954. China continued to aid both North Korea and North Vietnam to help them recover and rebuild from these conflicts.<sup>203</sup>

Zhao Enlai, China's first premier, established the eight principles of foreign aid at a conference in Ghana in 1964 and are still referred to as guiding principles today. These are:

- 1) equality and mutual benefit,
- 2) respect for sovereignty and no conditionality,
- 3) reflect the needs of the recipient,
- 4) assistance in self-reliance,
- 5) emphasis on quick results,
- 6) high quality materials and equipment,
- 7) full acquisition of technology by local staff, and
- 8) Chinese aid workers will live at the same standards as local staff.<sup>204</sup>

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<sup>203</sup> Shino Watanabe, "China's Foreign Aid," in ed. Hyo-sook Kim and David M. Potter, *Foreign Aid Competition in Northeast Asia*, (Sterling: Kumarian Press, 2012).

<sup>204</sup> Shino Watanabe, "Donors' impact on China: How have major donors affected China's economic development and foreign aid policy?," in ed. Jin Sato and Yasutami Shimomura, *The Rise of Asian Donors: Japan's impact on the evolution of emerging donors* (London & New York: Routledge and GRIPS, 2013), 95.

The two most important principles with respect to foreign aid were respect for sovereignty and equality and mutual benefit. By sovereignty, China means its sovereignty over Taiwan. All recipients of China's aid are expected to adhere to the one-China principle and recognize the PRC rather than Taiwan. This policy continues to this. Aid from China is also explicitly expected to benefit both China and the recipient. The other principles distinguished China from other donors as China tried to establish itself as a leader of the non-aligned movement against aggression from initially the United States-led Western order, and later the Soviet sphere after China's and the Soviet Union's relations deteriorated.

At the beginning, China's aid was not commercially oriented as China was desperately poor and had almost no ability to benefit from trade relations with recipient states. The United States and most other developed countries did not recognize the PRC so China used its aid program to support its quest for international recognition. In the 1950s and early 1960s, it also offered aid to like-minded communist regimes such as North Korea, North Vietnam, Cambodia, Mongolia, and Cuba.<sup>205</sup> The Chinese nationalist government in Taiwan, supported by most Western nations, continued to claim legitimacy over the Chinese mainland. As a result, it is reasonable to conclude that China's aid was intended to support China's quest for survival, ideological solidarity, and international legitimacy.

Beginning in the 1950s, China offered aid packages to multiple African countries fighting to win their independence from their European colonizers but aid to China's communist neighbors dominated its aid giving in the 1950s. After relations with the Soviet Union deteriorated to the point of an official split in 1961, China's aid program shifted toward

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<sup>205</sup> Teh-chang Lin, "The Foreign Aid Policy of the People's Republic of China: A Theoretical Analysis" (PhD. Dissertation, Department of Political Science, Northern Illinois University, DeKalb, Illinois, 1993, 319-42.



promoting its own international legitimacy and leadership of the non-aligned movement against both Soviet and United States influence resulting in much higher aid allocations to African states. Though China did provide aid to revolutionary forces in Africa (Zhao Enlai stated that Africa was “ripe for revolution” in 1964<sup>206</sup>) and provided relatively more aid to countries inclined towards socialism, aid was provided to most African countries that were willing to recognize the PRC as the rightful government of China rather than Taiwan without much regard to their commitment to communism.

Providing aid in substantial amounts to African countries succeeded in making many African countries positively disposed to China’s interests. Africa is the single largest regional grouping of countries in the UN and provided a substantial boost to the PRC being recognized as the government of China over Taiwan in the UN in 1971. Li Anshan (2007) quotes Mao Zedong: “We were brought back into the United Nations by our black African friends.”<sup>207</sup> African countries provided 26 out of 76 votes to grant recognition to the PRC as the government of China and strip Taiwan (ROC) of its UN membership.<sup>208</sup>

Assistance during this phase was quite generous compared to China’s national income. In 1970, China’s GDP/capita was only \$111 and its total GDP was only \$91.5 billion. China was providing foreign aid to countries such as Egypt (GDP/Cap of \$220), Algeria (GDP/Cap of \$334) and Morocco (GDP/Cap of \$245) that had much less poverty than China itself.<sup>209</sup> China’s aid allocations during this phase reached nearly 1% of GDP,<sup>210</sup> in excess of the 0.7%

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<sup>206</sup> Deborah Brautigam, *The Dragon's Gift*, 37.

<sup>207</sup> Anshan Li, “China and Africa: Policy and Challenges,” *China Security*, Vol. 3. No. 3 (2007), 75.

<sup>208</sup> *Ibid.*, 78.

<sup>209</sup> Source: GDP and GDP/capita were from the World Bank’s World Development Indicators data set. Figures are in current USD equivalent units.

<sup>210</sup> Lixia Tang, Ma Jiewen and Li Xiaoyun, “China’s Foreign Aid,” 13-15.

ODA/national income target promoted by the OECD DAC. For the sake of comparison, according to the OECD, only Sweden, Norway, Luxembourg and Denmark have exceeded 1% of gross national income for one or more years since 2000 and the average for all DAC donors from 1960 to 1978 was only 0.39% of GDP.<sup>211</sup> Some estimates of China's aid allocations suggest that by 1971, foreign aid amounted to as much as 6 percent of government spending; a level that was unsustainable.<sup>212</sup> China reduced its aid giving in the mid-70s to save money.<sup>213</sup> The early 1970s remain exceptional for aid provided by China based on the official statistics<sup>214</sup> which show China only exceeding these levels again by the late 2000s. This was also a time when China had achieved one of the key purposes behind its aid giving – international recognition over Taiwan – potentially reducing the motivation of Chinese leaders to offer aid. These budget pressures led to continuing declines in China's aid budget after peaking in the early 1970s (see Figure 3-4 on page 109).

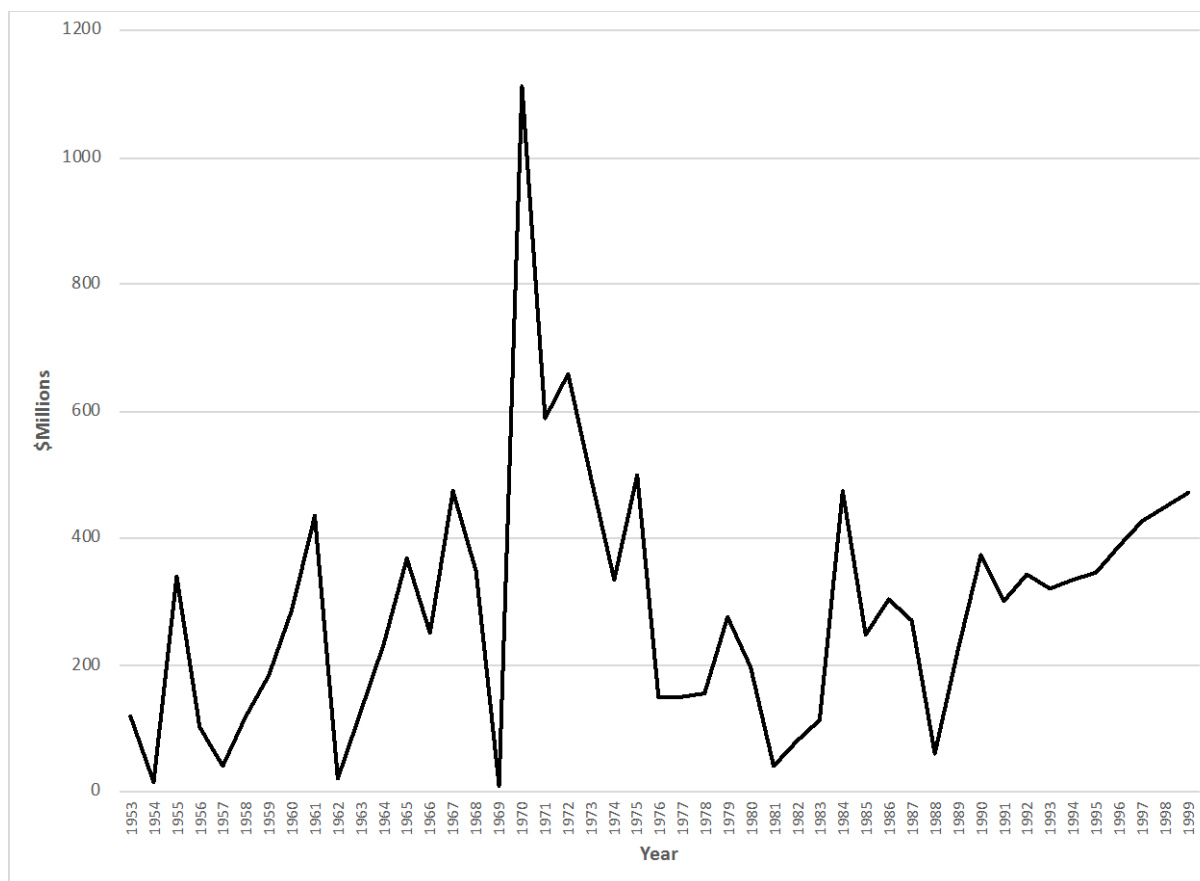
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<sup>211</sup> OECD. See <https://data.oecd.org/oda/net-oda.htm>.

<sup>212</sup> Emma Mawdsley, *From Recipients to Donors*, 54.

<sup>213</sup> Shino Watanabe, "China's Foreign Aid," 63.

<sup>214</sup> Note: China's official aid statistics are based on different aid definitions than the OECD DAC definitions and include military aid but do not consider the loan amounts to be aid like DAC but only count the interest rate subsidies as aid in the statistics. Therefore, authors attempting to express China's ODA consistent with the DAC definition (Kitano's JICA (2014) Study and AidData.org) will have different (larger) estimates for China's ODA.

**Figure 3-4: Estimate of China's Foreign Aid, 1953-1999**

Sources: 1953-1992 from Lin, Teh-chang. Beijing's Foreign Aid Policy in the 1990s: Continuity and Change. *Issues and Studies: A Journal of Chinese Studies and International Affairs*, Vol. 32, No. 1 (January 1996). 1993-2005 from Kobayashi, Takaaki, Evolution of China's Aid Policy, Tokyo: JBIC Institute Working Paper No. 27, April 2008, based on Finance Yearbook of China.

During phase 1, China provided aid in the form of grants and interest free loans. Interest free loans were by far the largest share of aid provided by China. For example, between 1956 and 1973, Bartke (1975) estimates that less than 10% of China's aid was in the form of grants (\$309.2 million out of \$3.384 billion).<sup>215</sup> Bartke finds that Chinese aid during this period was on better financial terms (often zero interest) than most aid provided by both Western countries and other communist states and demand for Chinese aid was high. Further, the requirement that Chinese experts were to be paid and live per the standards of citizens in the recipient country was a stark contrast to the high salaries and comparatively luxurious accommodations

<sup>215</sup> Wolfgang Bartke, *China's Economic Aid*, Institute of Asian Affairs, Hamburg, London: C. Hurst & Company, 1975.

of Western aid bureaucrats (although the United States Peace Corps volunteers are one exception and also agree to live per local standards<sup>216</sup>).

China's aid during this period also established the practice of providing turn-key projects. They were largely implemented with Chinese labor under the management of Chinese engineers. For example, the Tanzania-Zambia Railway project (Tan-Zam Railway) was China's largest aid project and was constructed between 1970 and 1975 utilizing 16,000 Chinese workers at its peak and requiring enormous amounts of materials shipped from China.<sup>217</sup> Chinese aid projects are still implemented in similar fashion.

Grants paid for Chinese experts such as doctors, nurses, agricultural experts and construction engineers. One of the more effective features of Chinese aid were its mobile medical teams that provided free medical care in rural areas. These teams provided services to large numbers of people providing major propaganda benefits to China.<sup>218</sup> China emphasized that its aid came without conditions to emphasize that China did not want to meddle with the internal affairs of other countries in contrast to the conditions attached to Western aid. This was an exaggeration. China's aid depended crucially on acceptance of the one-China principle and recognition of the PRC instead of Taiwan. Countries with poor relations with China were punished with less aid and China consistently used its aid program to support states in territorial conflicts where China had an interest. For example, after annexing Tibet in the 1950s China

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<sup>216</sup> U.S. Peace Corps, see <https://www.peacecorps.gov/volunteer/benefits/>.

<sup>217</sup> Deborah Brautigam, *The Dragon's Gift*, 41.

<sup>218</sup> Bartke, *China's Economic Aid*, 25.

consistently aided states along its border with Tibet (Bhutan and Nepal) and provided very large aid packages to Pakistan<sup>219</sup> which it backed in its conflict with India.<sup>220</sup>

### **3.2.2 Phase 2 – reform and opening up (1979-1998)**

During this phase, ideology became less important and China's focus shifted to domestic development. Mao Zedong died in 1976 setting off a period of domestic political instability before Deng Xiaoping could solidify power in 1978. The Third Plenary Session of the Chinese Communist Party in December 1978 established the period of opening and reform that transformed China and initiated the increasing emphasis on China's own economic development. China made the decision to accept foreign aid from other countries, reduced its own aid giving to conserve its limited resources, and further emphasized win-win aspects of its remaining foreign aid to ensure that aid projects also supported its own economic development. Brautigam (2009) references serious disagreements within the Chinese leadership about whether China should even have an aid program at all given the extreme poverty and need for capital within China at this time.<sup>221</sup> The disagreements led to a stagnating aid program that rose and fell at levels that rarely exceeded the amounts of aid routinely given in the 1960s and 70s (see Figure 3-4 on page 109). This marks the beginning of the second phase of China's aid program.

This period was a time of change in China's ideas about foreign aid. China's interests with respect to its economy and security were rapidly transitioning. Economic growth in China has been exceptionally high for a generation (shown in Figure 3-5 on page 112), yet China only

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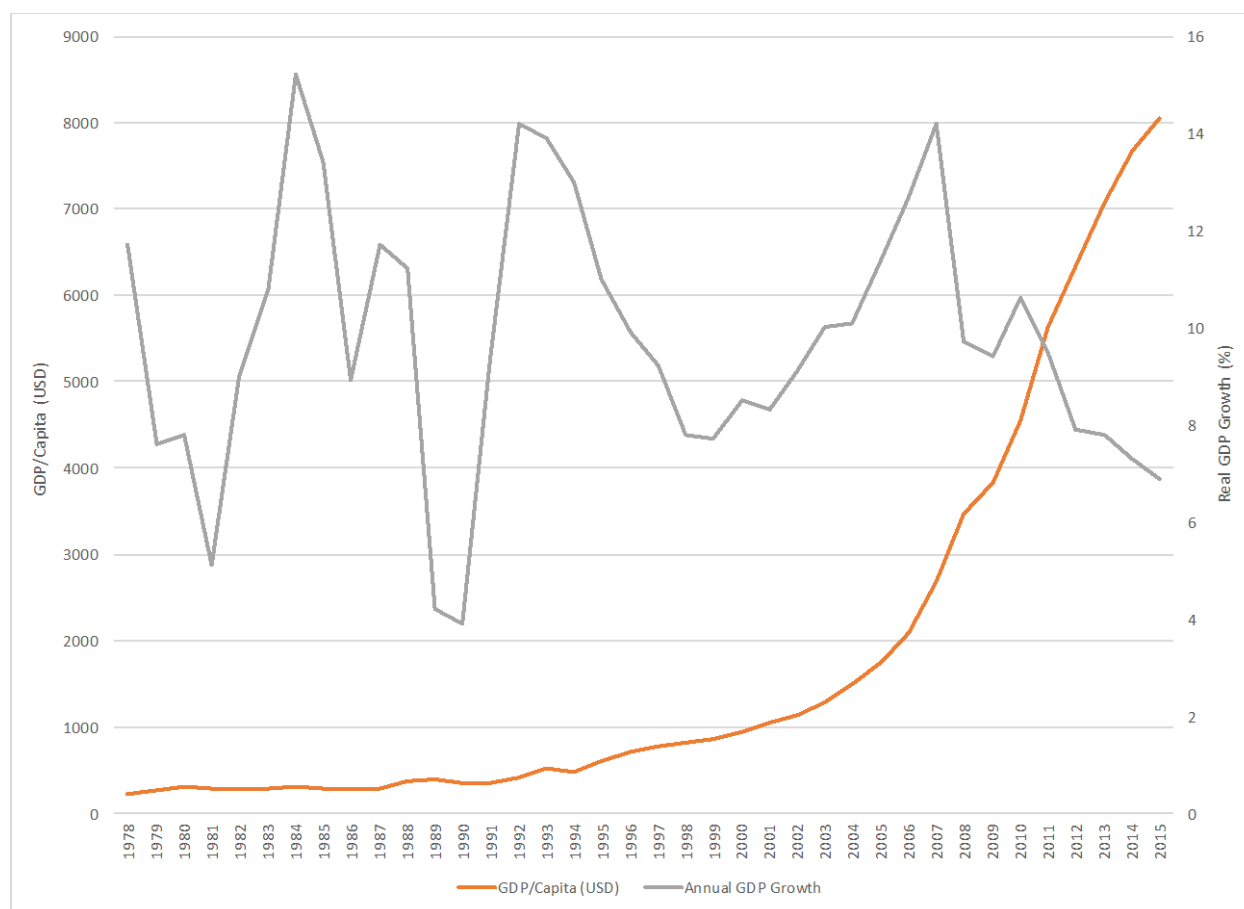
<sup>219</sup> Bartke, *China's Economic Aid*, 15.

<sup>220</sup> Stephen Browne, *Aid and Influence: Do Donors Help or Hinder?*, London: Earthscan, 2006.

<sup>221</sup> Deborah Brautigam, *The Dragon's Gift*, 46.

surpassed GDP per capita of \$1,000 in 2001. Most countries receiving China's foreign aid during this period had similar or higher GDP per capita than China itself. As such, China's aid policy during this period increasingly sought out mutually beneficial projects that could logically support its own development and development of China's domestic enterprises.

**Figure 3-5: Economic Growth and GDP/Capita in China, 1978-2015**



Source: National Bureau of Statistics of China (<http://data.stats.gov.cn/english/easyquery.htm?cn=C01>)

After Mao's death, China became less interested in Africa as a political force. China's alignment with the United States against the Soviet Union made ideological conformity less important as economic concerns were increasing. At the time, China was a resource exporter rather than importer and did not need Africa's resources. China continued aid to Africa, albeit at lower levels than before with an emphasis on mutual benefit. China also began to base aid

decisions more on economic and financial viability than on political and ideological factors. Brautigam (2009) describes a 1982 proposal to finance a sugarcane plantation and factory from Liberia that was rejected by the Chinese due to the finding that the eventual enterprise was unlikely to survive without subsidies.<sup>222</sup>

China's eventual behavior as a donor after the 1990s was influenced by its experience as an aid recipient in the 1980s and early 1990s. The decision to accept foreign aid under Deng Xiaoping quickly led to China transitioning to a net recipient of foreign aid rather than a net donor. China only became a net donor again, using Kitano's (2016) estimates, around 2006.<sup>223</sup> Aid to China peaked in 1995 and began to steadily decline until 2008 after which aid allocations to China fell precipitously (see net foreign aid to China on Figure 3-6 on page 114). China both valued the aid they received and resented it which also informed China's approach to aid. The response by donors to the Tiananmen massacre in 1989 and the subsequent sanctions<sup>224</sup> and crystalized in the minds of China's leadership the importance of relations with countries that could be counted on to side with China. The Chinese leadership resented the perceived meddling in China's sovereign affairs and particularly the use of ODA as a tool of leverage over Chinese policy.<sup>225</sup> After Tiananmen, China's aid to Africa began to increase again in large

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<sup>222</sup> Deborah Brautigam, *The Dragon's Gift*, 55.

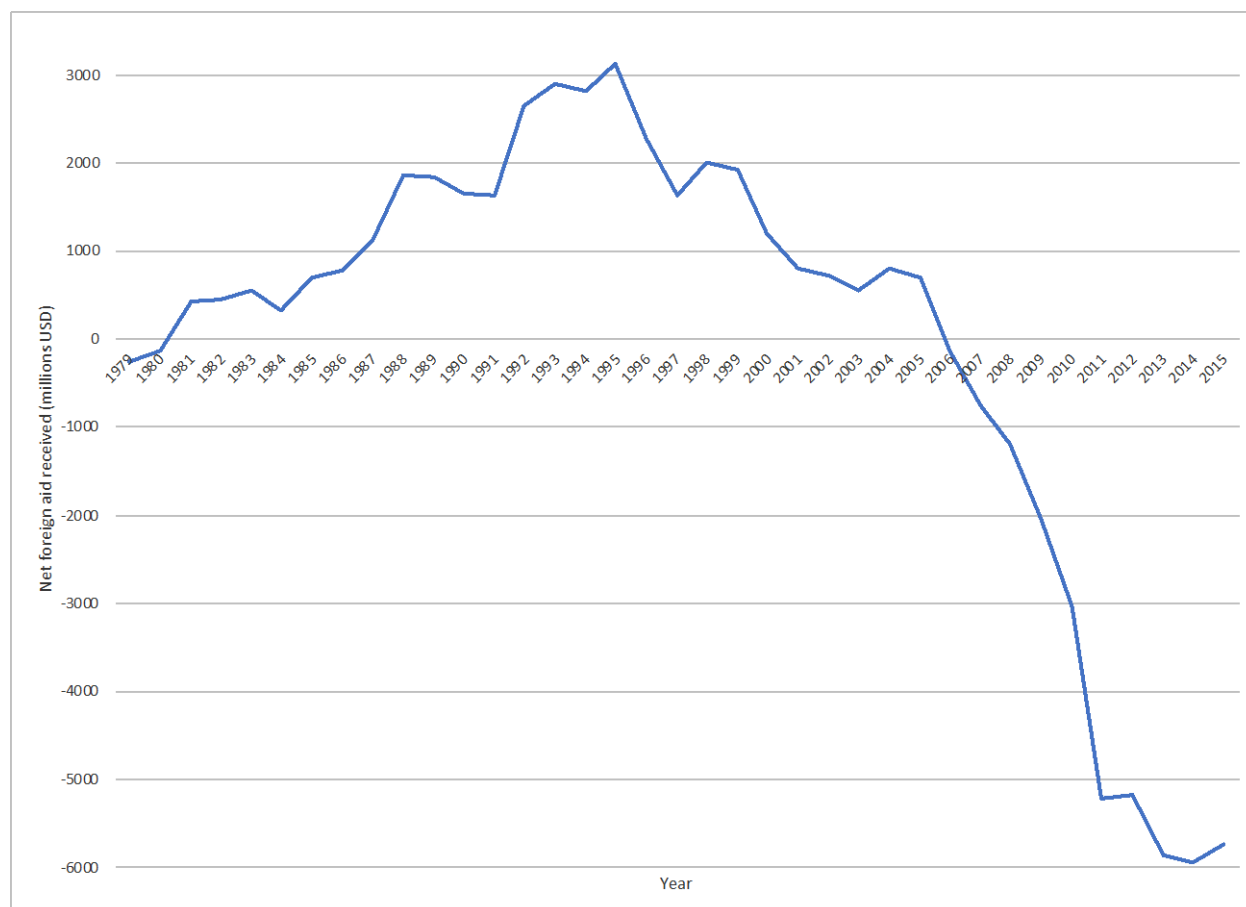
<sup>223</sup> The World Bank data on net foreign aid received does not include data on aid from China. To determine if China is a net donor, the estimate of total aid from China in 2006 (\$1.5 billion USD from Naohiro Kitano, JICA Research Institute, 2016) is subtracted from the total aid received by China (\$1.2 billion USD in Figure 3-6). Note that aid to China becomes negative in 2011 due to repayments of ODA loans which are calculated as negative ODA.

<sup>224</sup> Wang Jisi, "China's Search for a Grand Strategy: A Rising Power Finds its Way, *Foreign Affairs*, Vol. 90, No. 2 (March/April 2011), 70.

<sup>225</sup> Emma Mawdsley, *From Recipients to Donors*, 57.

part because African states generally refused to criticize China<sup>226</sup> and could be counted on to support it in international institutions.<sup>227</sup>

**Figure 3-6: Net foreign aid received (Millions USD)**



Sources: For net ODA and official aid received (1979-2015): World Bank World Development Indicators based on OECD data. (<http://data.worldbank.org/indicator/DT.ODA.ALLD.CD?locations=CN>)

For China ODA disbursements 1979-1992: Lin, Teh-chang. Beijing's Foreign Aid Policy in the 1990s: Continuity and Change. *Issues and Studies: A Journal of Chinese Studies and International Affairs*, Vol. 32, No. 1 (January 1996).

For China ODA disbursements 1993-2000: Kobayashi, Takaaki, *Evolution of China's Aid Policy*, Tokyo: JBIC Institute Working Paper No. 27, April 2008, based on Finance Yearbook of China.

For China ODA disbursements 2001-2015: Kitano, Naohiro. 2017. A Note on Estimating China's Foreign Aid Using New Data: 2015 Preliminary Figures. JICA Research Institute, May 26.

<sup>226</sup> Machiko Nissanke and Marie Soderberg, "The Changing Landscape of Aid Relationships in Africa: Can China's Engagement Make a Difference to African Development?," *Swedish Institute of International Affairs: UI Papers* (2011/12), 10.

<sup>227</sup> Emma Mawdsley, *From Recipients to Donors*, 57.



During this period, China was also learning about foreign aid policy and practice from donor countries active in China, especially Japan. Japan was the first country to offer foreign aid to China in 1979 and quickly became its largest single donor before beginning a steady reduction in aid in 2000 (as shown in Figure 7-1 on page 420). Initially, Japan was primarily interested in access to Chinese resources such as coal and oil.<sup>228</sup> Japan's initial batch of ODA loans to China in 1978 were to be repaid in oil.<sup>229</sup> China reportedly appreciated that access to technology and credit that resource-backed lending provided as an aid recipient and decided to utilize the same mechanism in its aid to resource rich African states.<sup>230</sup>

In the early 1990s, China began to internally reformulate its own approach to foreign aid resulting in the aid reform of 1995. This effort was largely focused on aid administration, but it laid the groundwork for the eventual ramping up of China's foreign aid in the next phase. The 1995 reform followed the establishment of the China Export-Import (Ex-Im) Bank in 1994 and initiated many of the coordination mechanisms between government agencies that were developed and adopted in Phase 3. Until the aid reform of 1995, China's aid program remained primarily interest free loans and grants. Grants included both cash and in-kind contributions of food, equipment and commodities. Loans were on very good terms of zero-interest with 5 to 10-year grace periods that were often extended at the request of the recipient.<sup>231</sup> With the establishment of the China Ex-Im Bank in 1994, China began transitioning away from interest free loans to concessional lending (low interest rates but not zero).<sup>232</sup> Loans are offered in Chinese Yuan (CNY) with government interest rate subsidies to China Ex-Im. China has

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<sup>228</sup> Greg Story, "Japan's Official Development Assistance to China: A Survey," Pacific Economic Papers, No. 150, Australia-Japan Research Centre, Research School of Pacific Studies, Australian National University (1987).

<sup>229</sup> Deborah Brautigam, *The Dragon's Gift*, 47.

<sup>230</sup> Emma Mawdsley, *From Recipients to Donors*, 77.

<sup>231</sup> Teh-chang Lin, "Beijing's Foreign Aid Policy in the 1990s: continuity and Change," *Issues and Studies: A Journal of Chinese Studies and International Affairs*, Vol. 32, No. 1 (January 1996).

<sup>232</sup> Shino Watanabe, "Donors' impact on China," 108.

increasingly emphasized concessional lending through China Ex-Im as its primary foreign aid tool.<sup>233</sup> Reportedly, zero-interest loans were to be phased out with the introduction of concessional lending,<sup>234</sup> but grant aid and zero-interest loans administered by the China Ministry of Commerce (MOFCOM) remain a part of the foreign aid menu. China Ex-Im Bank provides much more than foreign aid. Its main function is like the Export-Import Banks of other countries that provide trade finance such as export buyers credits and suppliers credits. These credits are not considered ODA and vastly exceed the ODA-like concessional loans with interest rate subsidies.<sup>235</sup>

The 1995 reform laid the groundwork, but China's 'Going out' policy was first articulated in 1997 at the 15<sup>th</sup> plenary session of the Chinese Communist Party.<sup>236</sup> There is not a clear moment when China's aid policy changes, but a continuum of change through the 1980s and 1990s of increasing emphasis on China's domestic economic considerations, less emphasis on ideology, and increasing reliance on concessional lending. After the Asian Financial Crisis of 1997, there was a strong reaction in Asia to policy conditions and structural adjustment lending from Western and multilateral donors. China saw this as an opportunity to emphasize its long-held view on policy conditions and respect for state sovereignty in its aid.<sup>237</sup> China's increased credibility after the 1997 crisis coincided with its burgeoning business ties with foreign countries. These factors helped push China towards its 'going out' strategy in 1999.<sup>238</sup>

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<sup>233</sup> Shino Watanabe, "China's Foreign Aid".

<sup>234</sup> Takaaki Kobayashi, "Evolution of China's Aid Policy," 20.

<sup>235</sup> Deborah Brautigam, "Aid with 'Chinese Characteristics'," 752-64.

<sup>236</sup> Takaaki Kobayashi, "Evolution of China's Aid Policy," 40.

<sup>237</sup> Iain Watson, *Foreign Aid and Emerging Powers*, 158.

<sup>238</sup> Meibo Huang, "Policies and Practices of China's Foreign Aid: A Comparison with Japan," in ed. Hiroshi Kato, John Page, and Yasutami Shimomura, *Japan's Development Assistance: Foreign Aid and the Post-2015 Agenda* (New York: Palgrave Macmillan, 2016), 135-148.

### 3.2.3 Phase 3 – “going out” (1999-)<sup>239</sup>

Like emerging countries before it, China’s domestic enterprises needed help from the state to compete abroad. Chinese companies were unfamiliar with foreign markets and could not compete with established firms in developed countries prior to gaining international experience. One way to ensure foreign markets for firms of emerging countries is to use tied foreign aid to ensure contracts are won by the donor’s domestic companies. Over time, these companies would presumably establish themselves in the recipient states and transition to standard export-import financing or compete on a level playing field with established firms from other states. Like Japan’s use of tied foreign aid before it, China used and continues to use tied foreign aid to support the external expansion of Chinese enterprises. China’s so called “going out” policy was intended not just to extend China’s influence abroad but also to build Chinese brands, increase the value of its exports, and support more overseas investments by Chinese firms.<sup>240</sup>

The groundwork for the going out policy was laid in the 1995 aid reform, but the policy was fully articulated and put into practice in the 10<sup>th</sup> Five Year Plan (2001-2005). The plan included statements of the need to acquire natural resources, diversify its export markets and promote more trade, and to encourage overseas investments by Chinese enterprises.<sup>241</sup>

The Going Out policy bears similarity to the notion of the “Aid Trinity” model espoused by Japan.<sup>242</sup> The Aid Trinity model is the explicit combination of aid, trade and investment

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<sup>239</sup> China’s “going out” strategy was announced by the Government of the People’s Republic of China in 1999. The announcement in Chinese is available at: [http://www.gov.cn/node\\_11140/2006-03/15/content\\_227686.htm](http://www.gov.cn/node_11140/2006-03/15/content_227686.htm) (accessed 7 September 2019).

<sup>240</sup> Deborah Brautigam and Xiaoyang Tang, “China’s Engagement in African Agriculture: ‘Down to the Countryside,’” *The China Quarterly*, Vol. 199 (September 2009), 686-706.

<sup>241</sup> Takaaki Kobayashi, “Evolution of China’s Aid Policy,” 38-40.

<sup>242</sup> Meibo Huang, “Policies and Practices of China’s Foreign Aid,” 135-148.

often facilitated by comprehensive packages that could combine all three types of flows between donor and recipient.<sup>243</sup> China's adoption of this approach is often ascribed to its positive experience as an aid recipient and for many years, the largest recipient of Japan's ODA.<sup>244</sup> Notwithstanding the differences in China's approach due to the concentration of its economy in the government-owned sector through state owned enterprises (SOE),<sup>245</sup> the role of both private businesses and SOEs in China's aid program strongly resembles to way in which Japanese companies and trading houses used to influence Japan's ODA policy. Combined with a similar approach in the emerging South Korean aid program, the Aid Trinity model is a distinctive feature of aid from all the major East Asian donors, including China.<sup>246</sup>

The Aid Trinity model as implemented by China during the Going Out phase is highly conducive to propagandizing Chinese generosity. The packaging of aid along with trade agreements and investment commitments from Chinese businesses inflates the numbers that can be announced publicly as China's commitment to a recipient state. These packages are usually announced at bi-lateral summit meetings with attendant publicity and news media coverage.<sup>247</sup> The approach bears more than a passing resemblance to Japan's Omiyage diplomacy. China's commitments can be even more impressive given the state control over SOEs that Japan never enjoyed. This level of coordination can ensure that big foreign direct investments from Chinese state companies accompany its aid announcements.

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<sup>243</sup> Yasutami Shimomura, "The Political Economy of Japan's Aid Policy Trajectory: With Particular Reference to the Changes and Continuity under the ODA Charter," in ed. Hiroshi Kato, John Page, and Yasutami Shimomura, *Japan's Development Assistance: Foreign Aid and the Post-2015 Agenda* (New York: Palgrave Macmillan, 2016), 72-87.

<sup>244</sup> Hisahiro Kondoh, Takaaki Kobayashi, Hiroaki Shiga, and Jin Sato, "Diversity and Transformation".

<sup>245</sup> Nissanke, Machiko and Marie Soderberg, "The Changing Landscape of Aid Relationships in Africa," 14.

<sup>246</sup> Sojin Lim, "Can There be an East Asian Donor Model? A Comparative Study of South Korea, China and Japan," *Journal of International Development Cooperation (KOICA)*, No. 4 (2013).

<sup>247</sup> Hidetaka Yoshimatsu and Dennis D. Trinidad, "Development Assistance, Strategic Interests, and the China Factor in Japan's Role in ASEAN Integration," 201.

The types of projects financed by Chinese aid also changed in this period. Historically, China provided aid in the form of investments in local industrial plants and production facilities in natural resource processing and simple manufacturing. Kobayashi (2008) notes that after the 1995 aid reform, Chinese aid to projects in the manufacturing sector dropped from 40% in 1995 to just 2.9% by 2005.<sup>248</sup> This coincided with a scaling up of support for infrastructure finance and social sector aid as the China Ex-Im bank increasingly took on the role of providing concessional loans.

Finally, the early Going Out phase of Chinese aid coincided with the so called “charm offensive”.<sup>249</sup> The discourse from China accompanying its aid and external cooperation efforts emphasized win-win relations and that everyone will benefit from China’s “peaceful rise”. The Charm Offensive sought to increase high level diplomatic engagement through state visits and the signing of multiple agreements, the offer of coordinated aid packages, and increased participation in multilateral institutions, especially around ASEAN.<sup>250</sup> The Charm Offensive was a public relations strategy to minimize the perception of a China threat especially in South East Asia where China has had historical conflicts with countries like Vietnam and the Philippines. China wanted to reassure ASEAN states that China did not pose a threat and keep regional states from aligning with the United States and Japan against China’s interests.<sup>251</sup> The discourse around China’s growth as “peaceful rise” combined with aid, trade and investment in

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<sup>248</sup> Takaaki Kobayashi, "Evolution of China's Aid Policy," 36.

<sup>249</sup> Dennis Trinidad, "China and Japan's Economic Cooperation with the Southeast Asian Region: The Foreign Aid of a Rising and a Mature Asian Power," *Tokyo: Japan Institute for International Affairs* (2014, revised draft).

<sup>250</sup> Ian Storey, *Southeast Asia and the Rise of China: The search for security* (London: Routledge, 2011), 66-7.

<sup>251</sup> Ian Tsung-Yen Chen and Alan Hao Yang, "A harmonized Southeast Asia? Explanatory typologies of ASEAN countries' strategies to the rise of China," *The Pacific Review* (2013), <http://dx.doi.org/10.1080/09512748.2012.759260>. 4-5. <http://dx.doi.org/10.1080/09512748.2012.759260>.

the “Going Out” phase reinforced China’s growing influence around the world and promoted itself as a responsible stakeholder in the international order.<sup>252</sup>

China’s charm offensive and peaceful rise discourse nicely complemented its rapid expansion in aid during the “Going Out” phase. However, since Xi Jinping became the President of the China, a new discourse has replaced the more cooperative stance of the past 20 years. Xi first promoted the idea of the “China Dream” in 2012 and conceived of the dream as the “great rejuvenation of the Chinese Nation.”<sup>253</sup> The idea was to fuse the values of the Chinese Communist Party with traditional Chinese culture to justify the return of China to regional primacy in Asia and discredit Western values and norms. Xi asserted a “new Asian security concept” where he implied that the United States as a non-Asian state should not have a role in regional security, expressed resentment towards existing security alliances, and asserted China’s rightful place as the primary security guarantor for Asia.<sup>254</sup>

Yinan He asserts that not only does China reject Western norms such as democracy and human rights but insists that other countries in Asia including United States treaty allies “accommodate China’s power, acquiesce to illiberal norms, and ideally, depend on China, not the United States, for security and prosperity.”<sup>255</sup> In short, the peaceful rise narrative of the Charm offensive is a thing of the past. If China feels a threat to its core interests, it now asserts its right to militarily defend itself and secure its core interests with violence claiming that China

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<sup>252</sup> Zhongyi Pan and Zhimin Chen, “Peaceful Rise, Multipolarity, and China’s Foreign Policy Line,” in ed. Takashi Inoguchi and John G. Ikenberry, *The Troubled Triangle: Economic and Security Concerns for the United States, Japan, and China* (New York: Palgrave Macmillan, 2013).

<sup>253</sup> Yinan He, “The Impact of Chinese National Identity on Sino-Japanese Relations,” in ed. Gilbert Rozman, *Joint U.S.-Korea Academic Studies*, Korea Economic Institute of America, Vol. 28 (2017), 81-96.

<sup>254</sup> Xi Jinping’s Remarks at the Fourth Summit of the Conference on Interaction and Confidence Building Measures in Asia,” May 21, 2014, [http://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1159951.shtml](http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1159951.shtml).

<sup>255</sup> Yinan He, “The Impact of Chinese National Identity on Sino-Japanese Relations,” 85.

“does to want trouble, but it’s not afraid of any foreign countries and will not tolerate any threat to its sovereignty, security or development.”<sup>256</sup> This was stated in anticipation of its loss to the Philippines in the UNCLOS ruling on the South China Sea claims.

### 3.2.4 China’s aid decision-making system

This section will describe how the Chinese government organizes its aid system and which Ministries and government bodies are responsible for aid decision-making. The Department of Foreign Aid was first established in 1982 under the Ministry of Foreign Economic Relations and Trade and remained in this Ministry through several name changes culminating in the renaming of the ministry as the Ministry of Commerce in 2003<sup>257</sup> where the Department of Foreign Aid remained until the establishment of the China International Development Cooperation Agency (CIDCA) in 2018. This dissertation analyzes Chinese aid behavior from 2000 until 2014. Therefore, this section describes China’s aid system as it operated between those years.

The main institutions involved in aid decision making were the State Council, the Ministry of Commerce, and the Ministry of Foreign Affairs. The Department of Foreign Aid under the Ministry of Commerce is in charge of programming interest free loans and grants, prepares the aid budget which is approved at the level of the State Council and coordinates with the China Export-Import Bank on concessional loans and preferential buyers credits.<sup>258</sup> The China Ex-Im Bank is responsible for conducting project appraisals and monitoring implementation of aid projects financed with concessional loans and preferential buyers

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<sup>256</sup> Jinping Xi, “China Is a Persistent Constructor of World Peace, Contributor to Global Development, and Defender of International Order,” July 1, 2016, <http://cpc.people.com.cn/n1/2016/0701/c405440-28516035.html> .

<sup>257</sup> Deborah Brautigam, *The Dragon’s Gift*, 107.

<sup>258</sup> *Ibid*, 108-9.

credits,<sup>259</sup> and acts as the lender.<sup>260</sup> The Ministry of Finance prepares the national budget, but does not control the amount of foreign aid. That authority rests with the National Development and Reform Commission (NDRC) which is the planning agency under the State Council.<sup>261</sup> The Ministry of Finance pays the interest rate subsidies for China Ex-Im Bank administered concessional lending.

The Ministry of Foreign Affairs is involved with Chinese foreign aid primarily through the embassies which house the economic councilors' offices. As the agency that develops and manages China's overall foreign policy, the Ministry of Foreign Affairs makes recommendations to the Ministry of Commerce on which countries to offer aid and how much. Aid projects are supervised by the economic and commercial councilors in Chinese embassies on the ground, although these councilors are under the Ministry of Commerce.

The State Council sits atop the decision-making hierarchy in China's aid system and has broad oversight responsibility for aid and acts through the NDRC. The State Council approves the annual aid budget, grants over \$1.5 million, projects over 100 million CNY, aid to "politically sensitive countries", and requests to exceed the approved aid budget.<sup>262</sup>

The flow chart shown in Figure 3-7 on page 123 summarizes the decision making system for Chinese foreign aid. This chart focuses only on provision of flows that are considered bi-lateral foreign aid. Multilateral foreign aid and lending by the China

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<sup>259</sup> Preferential buyers credits may or may not be considered foreign aid since such credits can be provided private importers of Chinese goods and services. Only when provide to government's as concessional lending would such credits be considered foreign aid.

<sup>260</sup> Takaaki Kobayashi, "Evolution of China's Aid Policy," 16-20.

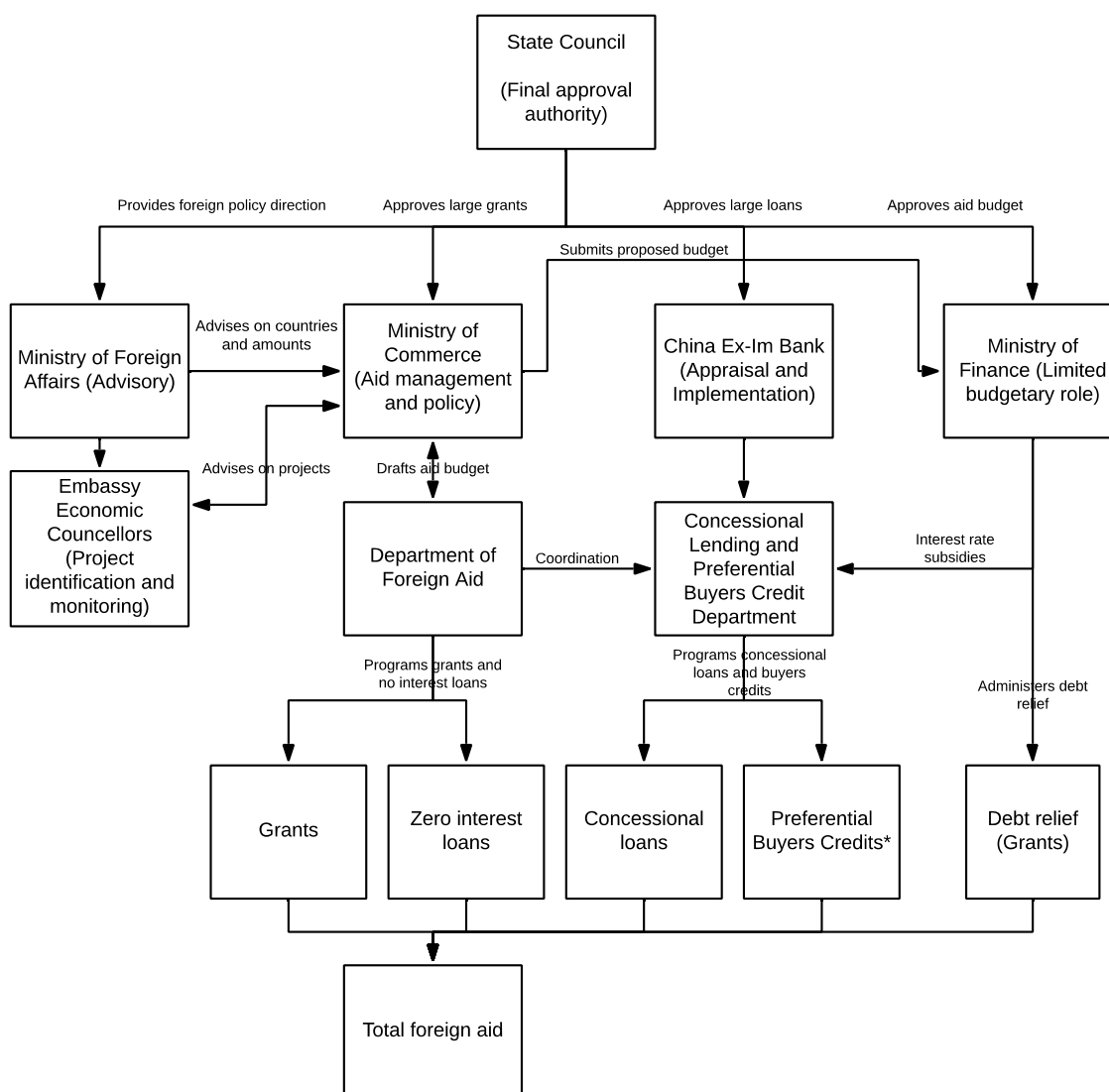
<sup>261</sup> Shino Watanabe, "Implementation System: Tools and Institutions," in ed. Yasutami Shimomura and Hideo Ohashi, *A Study of China's Foreign Aid: An Asian Perspective* (New York: Palgrave Macmillan), 72-4.

<sup>262</sup> Deborah Brautigam, *The Dragon's Gift*, 107.



Development Bank are not considered here. Further, the multiple agencies responsible for aid project implementation which are not included in this chart to maintain a level of simplicity. For example, the Ministry of Health dispatches Chinese medical teams primarily to address humanitarian disasters while the Ministry of Agriculture provides agricultural advice in developing countries.<sup>263</sup> Other ministries and agencies provide a wide array of technical assistance on a grant basis though the amounts a small fraction of China's concessional lending.

**Figure 3-7: China's aid system before 2018**



<sup>263</sup> Shino Watanabe, "Implementation System: Tools and Institutions," 76.

\* Only preferential buyers credits provided to governments for development projects would be considered foreign aid. Other such credits to private sector importers of Chinese goods and services would be considered Other Official Finance.

Sources: Flow chart adapted from Deborah Brautigam, *The Dragon's Gift*, 108 (Fig. 4.1) and modified based on Shino Watanabe, "Implementation System: Tools and Institutions," 75-6 and Takaaki Kobayashi, "Evolution of China's Aid Policy," 14-21.

Outside the structure above, like Japan, China uses a version of “omiyage gaikou”. High-level visits by Chinese leaders are often accompanied by large aid donations. These offers of aid may or may not have specific projects associated with them to enable the Chinese government to have flexibility in offering aid. These offers tend to come in the form of a pledge of concessional financing using preferential buyers credits through the China Ex-Im Bank which can be used for many types of projects decided at a later date as long as they are implemented by approved Chinese contractors. In this way, top leaders of China can directly influence the flow of aid to specific countries to serve their foreign policy goals.

### **3.2.5 Belt and Road Initiative (BRI)**

This dissertation is concerned with bi-lateral development assistance and its role in commercial, diplomatic and security policy and competition so I do not dwell on multi-lateral initiatives and programs that may have limited connection to bi-lateral development aid. However, the Belt and Road Initiative (BRI) is an indication of China’s overall strategy for its bi-lateral and multilateral aid initiatives.

Initially introduced as the One Belt One Road (OBOR) initiative, the BRI was first described by Xi Jinping in September 2013 as an organizing principle for regional cooperation around China reaching towards Europe.<sup>264</sup> It consists of two conceptual corridors linking

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<sup>264</sup> China Office of the Leading Group for the Belt and Road Initiative, “Building the Belt and Road: Concept, Practice and China’s Contribution,” (Beijing: Government of the People's Republic of China, May 2017).

Europe to China through Central Asia (the Silk Road Economic Belt) and strengthening the existing sea routes to Europe through Southeast Asia, South Asia, the Middle East and Africa. One corridor is a maritime route while the other is an overland route. The OBOR was formally adopted as Chinese policy at the National Party Congress in 2017 and its English title adjusted to the BRI.<sup>265</sup>

The BRI is less a program than an organizing principle for China's external economic cooperation. There is no BRI agency in China coordinating projects and lining up financing. The BRI is an initiative to guide bilateral engagement between China and its neighbors to finance mutually beneficial infrastructure, but also utilizing multilateral institutions in which China is a participant including the Asian Infrastructure Investment Bank (AIIB), the New Development Bank, ADB, and the World Bank.

On an economic level, land routes through central Asia have limited utility due to the cost advantages of ocean shipping. Current maritime shipping costs far less than using railways for containerized freight. In 2016, the cost of shipping a 20-foot container from Europe to China is 5 times more on railway than via ocean shipping leading logistics professionals to predict that the rail route will not account for more than 2 percent of the freight volumes via ocean shipping.<sup>266</sup> However, railway transport between China and Europe takes only half the time than ocean transport and may be able to capture some of the freight market now using air freight which is far more expensive and environmentally damaging than either rail or maritime

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<sup>265</sup> John Hurley, Scott Morris and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective," (Washington DC: Center for Global Development, CGD Policy Paper 121, March 2018).

<sup>266</sup> Turloch Mooney, "New Asia-Europe rail service added among weak ocean rates," *JOC.com*, 31 May 2016, accessed 13 October 2017, [https://www.joc.com/rail-intermodal/international-rail/asia/china-europe-rail-routes-continue-add-services\\_20160531.html](https://www.joc.com/rail-intermodal/international-rail/asia/china-europe-rail-routes-continue-add-services_20160531.html).

freight. Freight services between Europe and China by railway are a minor part of the overall freight transport market and are likely to remain so but are an important strategic consideration for China. China has gone so far as to provide subsidies to shippers to enable the Europe-China rail freight market to stabilize.

China has two main strategic goals with the BRI. First, ocean shipping to Chinese ports from Europe and the Middle East passes through the Straits of Malacca which is controlled by the United States Navy through its liberal use of Singapore's military facilities which are capable of serving United States aircraft carriers. The United States Navy's Western Pacific Logistics Group has been headquartered in Singapore in 1992 while the United States Air Force has a combat training squadron based in Singapore. In the event of hostilities between the United States and China, the United States has the ability to disrupt trade and access to energy from the Middle East currently sent via ocean shipping. China has a strong incentive to develop alternative shipping routes for vital commodities to counter the United States' ability to disrupt these vital sea lanes.

Second, China envisions the BRI as a way of inducing neighboring countries into its sphere of influence. China's Action Plan on the BRI puts it, "...to build a community of shared interests, destiny and responsibility featuring mutual political trust, economic integration and cultural inclusiveness."<sup>267</sup> The BRI gives China entree to negotiate and sign agreements with countries around the region. These agreements are bilateral, ensuring China is the dominant partner, and provide a way to package multiple types of assistance and financing. The fact that

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<sup>267</sup> China State Council, "Full text: Action plan on the Belt and Road Initiative," Government of the People's Republic of China, 30 March 2015, accessed on 5 September 2018, [http://english.gov.cn/archive/publications/2015/03/30/content\\_281475080249035.htm](http://english.gov.cn/archive/publications/2015/03/30/content_281475080249035.htm).

the Chinese government decided to approach the BRI as a series of bilateral agreements rather than work through existing multilateral initiatives such as the ADB sponsored Central Asian Regional Economic Cooperation (CAREC) and Greater Mekong Subregion (GMS) initiatives or the United Nations Economic and Social Commission for the Asia Pacific (UNESCAP) in which China is a member suggests that existing multilateral initiatives are insufficiently oriented towards China's benefit.

### 3.3 Quantitative research on foreign aid

This section details the findings of quantitative research on Japanese and Chinese foreign aid in the international relations literature. Scholars have used qualitative case studies on foreign aid policy to attempt to demonstrate the commercial orientation of China's aid to Africa<sup>268</sup> and Japan's aid to China<sup>269</sup> and Southeast Asia.<sup>270</sup> Qualitative research however depends on either one or a collection of case studies of specific donor recipient dyads. Most donor countries provide aid to dozens of countries and may have specific purposes for each. Therefore, quantitative statistical analysis on the overall aid programs is particularly valuable for making generalizable findings about the overall purpose and intent of foreign aid programs.

Research using big-N statistical methods to understand foreign aid tends to fall into two major categories: aid effectiveness (development economics) and aid motivation (international relations). This dissertation falls into the aid motivation category in that I am not interested in determining whether aid results in faster economic growth or development impacts in the

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<sup>268</sup> Deborah Brautigam, *The Dragon's Gift: The Real Story of China in Africa* (Oxford: Oxford University Press, 2009).

<sup>269</sup> Reinhardt Drifte, "The ending of Japan's ODA loan programme to China: All's well that ends well?," *Asia Pacific Review*, Vol. 13, No. 1 (August 2006), 94-117.

<sup>270</sup> Several chapters in Robert M. Orr and Bruce Koppel, ed., *Japan's Foreign Aid: Power and Policy in a New Era* (Boulder: Westview Press, 1993) cover aid to specific Southeast Asian countries.

recipient country; I am only interested in determining the reasons that donors commit foreign aid to specific countries. The following sections review the quantitative research on Japanese and Chinese foreign aid.

### 3.3.1 Japanese aid models

There is an extensive body of literature using quantitative methods to analyze Japanese ODA policy and practice. One of the first to use regression techniques to analyze Japanese aid was Maizels and Nissanke who sought to test why aid is given by the United States, France, the UK, Germany and Japan.<sup>271</sup> They use net aid per capita as the dependent variable and compare two periods, 1969-1970 and 1978-1980 by applying two models: a donor interest model and a recipient need model to determine which has more explanatory power. Recipient need does not explain the aid allocations for any of the countries in the study. The donor interest model is much better at predicting aid flows than the recipient need model. The authors find that politics and security factors dominate and that the significance of these variables increases in the later period. On a donor country basis, the United States is heavily security oriented; France and the UK are focused on their spheres of influence with France more commercially focused than the UK; Germany is primarily interested in trade promotion while Japan is focused on its relations with Asian countries and trade promotion.

Steve Chan (1992) used the distribution patterns of Japanese foreign aid to try to understand the motivations of Japan's leaders. He found that Japanese aid was not overtly commercial in nature but driven by regional interests in East and Southeast Asian sea lane access and provided relatively more aid to larger and more influential countries. Japan's aid is

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<sup>271</sup> Alfred Maizels and Michiko Nissanke "Motivations for Aid to Developing Countries," *World Development*, Vol. 12, No. 9 (1984), 879-900.

also negatively correlated with per capita GDP which Chan claims is evidence of humanitarian intent.<sup>272</sup>

Mark McGillivray and Howard White (1993) reviewed the quantitative literature on foreign aid with a view to providing methodological guidance for future studies.<sup>273</sup> This research identified several of the problems of past regression studies; namely, that aid commitments rather than disbursements should be the dependent variable and that lagged independent variables should be used to prevent issues with simultaneity. While the author's purpose is primarily to critique the methods used to evaluate the foreign aid allocations of donors, the authors also produce several regressions that demonstrate that political and security interests dominate the aid allocation decisions of France, Japan and the UK. Interestingly, the authors find the United States aid is only explained by arms transfers and population (both positively correlated) and the other security variables were not significant.

Schraeder, Hook and Taylor (1998) take an international relations theory testing approach to the aid giving decision question comparing United States, Japanese, French and Swedish aid policies.<sup>274</sup> At the time of their research, foreign aid was in a state of flux after the end of the Cold War. Some countries reduced aid in 1990s and some refocused aid priorities and increased scrutiny on aid effectiveness. The authors assert that foreign aid is a national security policy for most states and highlight the theoretical perspectives through which foreign aid can be understood. Realists focus on security interests of nation-states. Liberals focus on

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<sup>272</sup> Steve Chan, "Humanitarianism, Mercantilism, or Comprehensive Security?," 15.

<sup>273</sup> Mark McGillivray and Howard White, "Explanatory Studies of Aid Allocation Among Developing Countries: A Critical Survey, *The Hague: Institute for Social Studies*, Working Paper Series No. 148 (April 1993).

<sup>274</sup> Peter J. Schraeder, Stephen W. Hook and Bruce Taylor, "Clarifying the Foreign Aid Puzzle: A comparison of American, Japanese, French and Swedish Aid Flows," *World Politics*, No. 50 (January 1998), 294-323.

cooperative relations among states and assert the importance of humanitarian need and broadly shared economic development. Neo-Marxists disagree and focus on economic interests of donors claiming aid is given to ensure access to resources and force recipients into economic dependency to preserve exploitative relations between richer and poorer countries. To test these theories, the authors conduct panel regressions of aid allocations based on i) humanitarian need, ii) strategic importance, iii) economic potential, (iv) cultural similarity, (v) ideological similarity to the donor, and (vi) regional favoritism. The authors modeling suggests that the United States is predominantly interested in security and ideological similarity. Japan wanted access to raw materials, support for Japanese exports to Africa, rewarded capitalist regimes and favored countries relatively better off. Sweden supported socialist and progressive governments, provided more aid to poorer countries though life expectancy was not correlated with aid. Swedish aid had a positive and significant relationship with trade. France supported the spread of French culture with aid with a strong preference for aid to former colonies and heavily influenced by perceived strategic interests to maintain their sphere of influence. This study emphasizes the multiplicity of aid purposes with certain countries like the United States and France more consistent with realist principles and Japan and Sweden more consistent with liberalism.

Alesina and Dollar (2000) try to determine if donors (all DAC donors) use aid to reduce poverty or reward good governance or if they are targeting political and security goals.<sup>275</sup> They use DAC data and panel regressions to forecast bilateral aid as function of trade openness, democracy, civil liberties, colonial status, foreign direct investment, income, and population, UN voting patterns and cultural affinity. Overall the findings for all donors together are that:

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<sup>275</sup> Alberto Alesina and David Dollar, "Who gives foreign aid to whom and why?," 33-63.



1. Countries that are more “open” and more democratic receive more aid
2. Former colonies receive more aid
3. UN voting affinity with Japan receives more aid
4. Egypt and Israel receive more aid than otherwise expected

The country by country analysis shows that Japan has largest coefficient on “UN friend” of all donors in the study. Past colonial relations is a strong predictor of aid from France and UK and has some influence on Japanese aid. UN voting affinity is significant for all donors. Nordic countries and the United States favor the poorest countries while France and Japan do not. Openness and democracy are rewarded with more aid, but this factor is less important than being a former colony or UN friend. The authors claim that the political and strategic orientation is the reason that aid is not more effective at promoting growth and poverty reduction; in essence that aid is not allocated with the purpose of producing growth and poverty reduction, so it is not surprising that it does not do so.

Berthelemy (2006) uses two-step regression models to characterize country aid programs as “altruistic” or “egoistic”.<sup>276</sup> The author includes geopolitical variables for colonial ties, special cases (e.g. United States-Egypt) and regional dummy variables; commercial interests based on exports and indebtedness to the donor; and altruism indicated by poverty levels, freedom house ratings, military spending and conflict status. As might be expected, especially given the unusual characterization of military spending and conflicts and “altruism” indicators rather than the more logical characterization as security indicators, the results suggest a mix of altruistic and self-interested motives. Berthelemy finds that all countries are at least

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<sup>276</sup> Jean-Claude Berthelemy, "Bi-Lateral Donors' Interests vs. Recipients' Development Motives in Aid Allocation," 179–194.

partly self-interested. Nordic countries and most small donors are relatively altruistic, major donors such as the United States, Japan, Germany, Canada and the UK are “moderately egoistic”, while the most egoistic donors are Australia, France and Italy.

Other scholars claim that Japan’s aid program is becoming “securitized,” meaning that ODA increasingly serves Japan’s national security interests rather than promoting humanitarian values or its commercial interests. Carvalho and Potter<sup>277</sup> claim that the notion of human security was repurposed by Prime Minister Koizumi away from its original altruistic meaning toward traditional “hard” security interests as Japan’s contribution to the “War on Terror”. Yoshimatsu and Trinidad<sup>278</sup> find that Japan’s ODA policy toward ASEAN countries increasingly reflects a mixed strategic approach of balancing and accommodation of China. The authors claim that Japan’s ODA seeks to finance an East-West “arc of freedom” across Southeast Asia to counter Chinese influence. Japan promotes human rights and democratic values, but only as a way to enhance Japan’s image and strategically pull like-minded countries away from China. Jain<sup>279</sup> also claims that Japan perceives a significant threat from China and its growing aid program. He says that the reduction in Japan’s aid to China in the mid-2000s and its recent growth in aid to countries that share concerns about China’s growing power such as India, Vietnam, the Philippines, and Indonesia indicate a growing emphasis on security interests in Japan’s ODA.

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<sup>277</sup> Pedro Carvalho and David M. Potter, “Peacebuilding and the ‘Human Securitization’ of Japan’s Foreign Aid,” 90.

<sup>278</sup> Hidetaka Yoshimatsu and Dennis D. Trinidad, “Development Assistance, Strategic Interests, and the China Factor in Japan’s Role in ASEAN Integration,” *Japanese Journal of Political Science*, Vol. 11, No. 2 (August 2010), 215.

<sup>279</sup> Purnendra Jain, “Japan’s Foreign Aid: Old and New Contexts,” 105-6

Most prior quantitative studies have weaknesses that may have limited their explanatory power. Chan's<sup>280</sup> study looked only at a single year failing to capture variations in Japanese ODA policy over time. Chan, Tuman and Strand, and Sato and Asano all use ODA disbursements as the dependent variable. This is problematic because most aid projects are prepared and implemented well after the aid package was offered and accepted. Infrastructure projects often have construction periods that extend over many years, so the disbursement of the ODA is increasingly disconnected from the political and security environment in which the decisions were made. When attempting to understand the aid decision-making process and the determining factors that drive aid allocations, ODA commitments are much preferred as the dependent variable. Berthelemy (2006)<sup>281</sup> and McGillivray and White (1993)<sup>282</sup> used aid commitments as the dependent variable. However, McGillivray and White tested only a limited set of explanatory variables over only three years (1978-1980). Berthelemy found that Japanese aid was moderately "egoistic" and responded to trade variables but did not publish his modeling results making it difficult to assess the findings on the specific factors that drive Japan's ODA commitments. Berthelemy based his model on 1980 to 1999 data but did not test for changes over time.

Tuman and Strand as well as Sato and Asano further confuse the dependent variable by using net disbursements rather than gross disbursements. Net disbursements consider repayments of ODA loans as backward aid flows from the recipient to the donor. In fact, states that have graduated from receiving new ODA loans, but are still in repayment, appear as

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<sup>280</sup> Steve Chan, "Humanitarianism, Mercantilism, or Comprehensive Security?," 3-17.

<sup>281</sup> Jean-Claude Berthelemy, "Bi-Lateral Donors' Interests vs. Recipients' Development Motives in Aid Allocation," 179-194.

<sup>282</sup> Mark McGillivray and Howard White, "Explanatory Studies of Aid Allocation Among Developing Countries: A Critical Survey, *The Hague: Institute for Social Studies*, Working Paper Series No. 148 (April 1993).

“donors” back to Japan in the net disbursements data. It is incorrect to use data that incorporate repayments when the research question focuses on Japanese aid decision-making. In the case of Japan which utilizes a high proportion of loans in its ODA portfolio, using net disbursements will distort the effect of current political and security conditions on current foreign aid commitments.

Further, many quantitative studies of Japanese ODA have expressed the DV in USD particularly when comparing the aid policies of several countries (e.g. Berthelemy, Tuman and Strand, Alesina and Dollar). However, expressing Japan’s aid in USD adds exchange rate variation which is not relevant to the research question. The decisions of policy makers in Japan are based on assessments of their own financial resources in JPY. If Japan increases its ODA budget in JPY by 2 percent, but the JPY depreciates 10 percent against the dollar, ODA allocations measured in USD would decline by 8 percent even though policymakers increased their aid commitment. Models trying to understand Japanese aid decisions should measure Japan’s ODA in JPY.

Lastly, most studies have found that Japanese ODA allocations decline with GDP per capita (e.g. Chan, Sato and Asano, McGillivray and White). This suggests poorer countries receive more ODA than richer countries, all else being equal. This finding is reasonably robust across studies, but the interpretation of the finding is suspect because Japan utilized a strict graduation policy in its ODA (until the recent revision of the 2015 Development Cooperation Charter). When countries achieve the status of “high income countries” per the World Bank definition for 3 consecutive years, those countries “graduate” from receiving new Japanese

ODA commitments (MOFA).<sup>283</sup> Adherence to this policy will result in countries receiving small or zero ODA as their incomes pass the threshold which can result in the negative correlation between income and ODA in regression models. Researchers have interpreted this negative correlation to be evidence of altruistic intent. However, in the case of Japan which provides mostly ODA loans and have given ODA to several graduated countries (e.g. Singapore, South Korea, Taiwan), these countries may simply transition to standard export-import bank financing at somewhat higher interest rates. Per capita income is a reasonable basis on which to assess the credit worthiness of the borrower which can be used to give preferential pricing to countries that may not be able to repay at market rates. For this reason, negative correlation between income and aid could reflect Japanese export promotion policy as much as altruism. There may be altruistic intent, but that is a generous interpretation. Buena De Mesquita and Smith (2009)<sup>284</sup> identify the difficulty with distinguishing the impact of per capita GDP on aid allocations as humanitarian intent or simply policy concessions. For this reason, definitive statements about the degree of humanitarian intent in Japanese ODA based solely on the negative correlation between income and ODA are best avoided.

### 3.3.2 Chinese aid models

Until recently, much of the research on China's foreign aid program has been descriptive, qualitative or based on case studies. This study attempts to analyze the purpose and intent of China's aid program by analyzing the allocation of Chinese aid to specific countries in a similar manner as the analysis conducted for Japan's aid program. While the lack of data has limited the number of quantitative studies of China's foreign aid, there are a few

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<sup>283</sup> Japan Ministry of Foreign Affairs, See (in Japanese) [http://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/hakusyo/12\\_hakusho/honbun/b0/yogo.html](http://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/hakusyo/12_hakusho/honbun/b0/yogo.html).

<sup>284</sup> Bruce Buena de Mesquita and Alastair Smith, "A Political Economy of Aid," 325.

studies that attempted to collect country specific Chinese aid data to analyze its purpose. Few used country specific data for statistical analysis due to data limitations and the nature of the early Chinese aid programs which provided aid to no more than 10 countries annually until 1970.<sup>285</sup> Further, the following studies do not agree with each other on aid amounts and recipients and some studies look at commitments while other look at disbursements. For example, Bartke (1975) finds that Chinese aid in 1971 was \$567.7 million, Tansky (1972) finds \$467 million, and Lin (1996) finds \$590 million in the same year. The difficulty of collecting data on Chinese aid limited the ability to make judgements about the overall intent and purpose of China's aid at that time.

One of the earliest enumerations of specific aid allocations by country was prepared in a 1972 report to the United States Congress on the China's foreign aid.<sup>286</sup> Like much of the analysis of this period, China's aid program was interpreted through the lens of the Cold War and competition with both the West and the Soviet Union for international influence and legitimacy. Aid allocations to individual countries were published confirming the focus on African states followed by Asian countries but no statistical analysis was done on this data. The late 50s and 60s were a time when many African states were gaining independence and were receptive to Chinese aid, especially those countries with a revolutionary bent.<sup>287</sup> As competition between China and the Soviet Union intensified, Chinese aid increased rapidly. China sought to distinguish itself from other donors by emphasizing Zhao Enlai's eight principles for foreign aid (see Section 3.2.1 beginning on page 104). Tansky notes a change in the early 1970s towards a less ideological aid program more focused on diplomatic benefits to

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<sup>285</sup> Teh-chang Lin, "Beijing's Foreign Aid Policy in the 1990s," 32-56 (Table 1: 38).

<sup>286</sup> Leo Tansky, "Chinese Foreign Aid," in People's Republic of China: An Economic Assessment, Joint Economic Committee of the U.S. Congress, Washington DC: U.S. Government Printing Office, 1972, 371-382.

<sup>287</sup> *Ibid.*, 373.

China. This change coincided with the warming of relations with the United States and the PRC's replacement of the Republic of China (Taiwan) in the UN in 1971 with the support of many countries receiving aid from China. For Tansky, foreign aid from China was intended to support diplomatic recognition and solidify China's leadership position in the developing world.

Bartke (1975) published one of the first detailed assessments of Chinese aid allocations using country specific aid data to determine the purpose of Chinese aid. The author collected data on the majority of loans and grants provided by China from 1956 until 1973 and analyzed the overall practices of Chinese foreign aid compared to aid provided by other, primarily Western, donors.<sup>288</sup> Over his analysis period, China provided about \$3.384 billion in aid commitments, of which 70.2 million was in the form of loans at 2.5% interest, \$2.99 billion was interest free loans, and \$309.2 million was grant aid. Aid to Asian countries was 32.2% of the total while aid to African countries was about 48.6%; remarkably similar to the allocation of Chinese aid between 2000 and 2014 (regional commitments are shown in Figure 5-2 and Figure 5-3 on page 237).

Bartke criticized aid from both Western countries and other socialist countries besides China for the lack of altruistic intent. Aid donors, except for China he says, were motivated by profit while Chinese aid represented the only "selfless" foreign aid.<sup>289</sup> Bartke's asserted that aid from China was not self-interested but provided for the benefit of the recipient based mostly on the distinguishing characteristics of Chinese aid which were: 1) extremely low interest or no interest with terms much more favorable than other donors, and 2) Chinese aid workers which were paid in accordance with the standards of the receiving country. Bartke's argument that

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<sup>288</sup> Bartke, *China's Economic Aid*.

<sup>289</sup> *Ibid.*, 9.

Chinese aid was “selfless” is belied by his own analysis of the purpose of China’s aid, particularly in Asia. He finds that competition between the Soviet Union and China for influence in Pakistan drove China to allocate more aid to Pakistan (\$445.7 million) than any other single country over the period. It is difficult to imagine that aid meant to prevent Soviet influence in Pakistan in favor of China’s reflects an entirely “selfless” purpose. Bartke argues that aid to Asian countries was intended to improve relations between China and its immediate neighbors and that aid to Africa was intended to cement China’s place as a representative of the “Third World”.<sup>290</sup> In Bartke’s view, as long as aid was not commercial in nature, it was “selfless” even though he argued that its real purposes were security and diplomacy.

One of the most comprehensive research studies on China’s aid practices up until the early 1990s was done by Teh-chang Lin, first in his dissertation<sup>291</sup> and in a subsequent article based on that research.<sup>292</sup> This is one of the first quantitative big-N studies on Chinese foreign aid commitments. The author began by collecting agreements on economic and technical cooperation and loan agreements based on recipient country reports, the Xinhua News Agency, a variety of PRC government reports, and government reports produced by agencies in Taiwan. He then methodically attempted to weed out duplicate records and distinguish between commitments and completed projects. Lin’s methodology is a mix of descriptive and qualitative analysis with regressions to test particular hypotheses. For example, he regresses economic variables including GDP, national income, economic growth, trade balance and government budget balance on aid commitments to determine if domestic economic factors explain total aid commitments (though not specific commitments to individual countries). He

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<sup>290</sup> *Ibid.*, 18.

<sup>291</sup> Teh-chang Lin, “The Foreign Aid Policy of the People’s Republic of China: A Theoretical Analysis” (PhD. Dissertation, Department of Political Science, Northern Illinois University, DeKalb, Illinois, 1993).

<sup>292</sup> Teh-chang Lin, “Beijing’s Foreign Aid Policy in the 1990s,” 32-56.



finds that none of the economic indicators are significant suggesting to Lin that China's aid was primarily politically motivated.<sup>293</sup> Lin traces the changes in political leadership and domestic political conflicts in China and finds that some changes in PRC aid commitments in the 60s and early 70s were related to domestic political factors. The ideological fervor in the 60s led to support for mostly leftist regimes, while the waning power of Mao and the struggle for succession in the 1970s led to drops in aid commitments overall. China's opening under Deng Xiaoping led to a focus on domestic development and economic factors (rather than domestic politics) resulting in a continued drop in aid commitments in the 1980s.<sup>294</sup>

Lin then tests the variables that determine China's aid commitments to specific countries. The following explanatory variables are tested: geographical proximity, historical association, diplomatic relations, security concerns (neighbor countries with deteriorating security situation and military alliances for example), UN voting, regime type, independence, inertia (what I refer to as path dependence), population, trade, recipient country economic situation, and ODA from other donors. He then analyzes these factors in four different time periods ('53-'63, '64-'71, '72-'78, '79-'89) reflecting different domestic political conditions in China.

Lin utilizes bi-variate regression (limited to analyzing the relationship between two variables) and multiple regression (several explanatory variables and one dependent variable) to test his hypotheses. He tests both the selection of aid recipients (which countries receive aid) and the determination of the amount of aid. In periods 1 ('53-'63) and 2 ('64-'71), Lin finds that foreign aid was tightly tied to China's foreign policy goals focused on leftist regimes and

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<sup>293</sup> Teh-chang Lin, "The Foreign Aid Policy of the People's Republic of China," 89-90.

<sup>294</sup> *Ibid.*, 118.

countering both United States and Soviet influence as well as support for its legitimacy campaign against Taiwan.<sup>295</sup> Communist ideology was the best predictor of aid amounts during this period. In the third period ('72-'78), China's aid continued to reflect its antagonism to the Soviet Union, but the United States Ally variable was no longer significant reflecting the rapprochement between China and the United States. In addition, economic factors began to have explanatory power with China exports becoming a significant predictor of aid from China. In the last period, Lin finds a dramatic change to China's aid policy which is much less ideological and emphasized lower income countries, historical relations (prior suzerainty countries) and countries with large ODA flows from other states.<sup>296</sup> Overall, China's aid programs in all periods reflect the foreign policy and security goals of China while increasing emphasis on commercial factors is noted in the 1980s.

Lin's subsequent research found that China scaled down its aid programs significantly in the early 1990s and focused more on economic interests and less on foreign policy and security interests. It targeted a few high-profile projects and attempted to secure good publicity for China as a responsible member of the international community.<sup>297</sup> China's aid commitments in the 1990s dropped significantly though the number of recipients increased. At the same time aid flows into China from DAC countries increased substantially.

Dreher and Fuchs set out to quantitatively test, using several incomplete data sets, whether the common criticisms of China's aid program (e.g. "rogue aid"<sup>298</sup>) were justified

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<sup>295</sup> *Ibid.*, 221.

<sup>296</sup> *Ibid.*, 274.

<sup>297</sup> Teh-chang Lin, "Beijing's Foreign Aid Policy in the 1990s," 55.

<sup>298</sup> Moises Naim, "Rogue Aid," 95-6.

based on actual aid allocations from China.<sup>299</sup> The authors made use of whatever extant datasets on China's aid flows could be readily utilized including:

- 1) a data set prepared by Bartke (1989)<sup>300</sup> based on news reports of China aid from 1956 to 1987;
- 2) the China Commerce Yearbook (CCY)<sup>301</sup> from 1984 to 2009 which gives number of aid projects completed and the size of dispatched medical teams;
- 3) CIA data from its periodic reports on aid from communist countries (unclassified)<sup>302</sup>;
- 4) OECD data on commitments for 1970 – 1985 from a study conducted in 1987<sup>303</sup>; and
- 5) data on food aid through the UN World Food Program which includes tons of foodstuffs provided by donors including China since 1988.

The authors test the determinants of China's aid by running regressions for 5 different periods: 1956-69, 1970-78, 1979-89, 1990-95, and 1996-2005. The primary dependent variable used by Dreher and Fuchs was the number of aid projects completed by China (data sets 1 and 2 above) which, by definition, does not include the aid amount nor the year of commitment; both factors that would be important for understanding the strategic environment and the importance placed by China on the recipient country. Estimated aid amounts are given in the CIA and OECD datasets, but only through the mid 1980s. The explanatory variables included commercial factors (exports, oil production, population), security factors (Taiwan recognition, UN voting, proximity to China), and normative factors (GDP per capita, natural disasters,

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<sup>299</sup> Axel Dreher and Andreas Fuchs, "Rogue Aid?," 2012.

<sup>300</sup> Wolfgang Bartke, *The Economic Aid of the PR China*.

<sup>301</sup> China Ministry of Commerce, 1984-2001, *Almanac of China's Foreign Economic Relations and Trade* (Hong Kong: China Foreign Economic Relations and Trade Publishing House); for 2002-2003, *Yearbook of China's Foreign Economic Relations and Trade* (Hong Kong: China Foreign Economic Relations and Trade Publishing House); for 2004-2009, *China Commerce Yearbook* (Beijing: China Commerce and Trade Press).

<sup>302</sup> U.S. Central Intelligence Agency, 1975-76 and 1980-84, *Communist Aid to less Developed Countries of the Free World, CIA Intelligence Handbook*, available at <https://www.cia.gov/library/readingroom/>.

<sup>303</sup> OECD, "The Aid Programme of China," Paris: OECD, 1987.

democracy). The regression models were estimated using Poisson Maximum Likelihood (PPML) in order to compensate for the large number of zeros in the data which are problematic in OLS and Tobit regressions.<sup>304</sup> I also adopt this method in the quantitative analysis in Chapter 5.3.2 for the same reason. Further, to account for volatility in China's aid allocations (i.e. large variations from year to year) the authors model five cross-sections, one for each time period, with explanatory variables averaged over each period, rather than using a pooled time series approach.

The results indicate that geographic proximity is not significant while population is significant after 1990 with larger countries receiving fewer projects. Recipient need, measured by GDP per capita, is significant from 1970 onward but natural disasters are not significant in any phase. Democracy is not important except in the 1979 to 1987 period when China provided less aid to democracies and Taiwan recognition is significant and negatively affects China aid. UN voting is significant in all periods with more aid flowing to countries that vote with China. On commercial factors, exports are significant in the 1979-1987 and 1996-2005 periods, but the effect is minor. Oil production is significant during 1979-1987 period but in no other.<sup>305</sup> Overall, the authors find that China's aid is mostly political (what I would characterize as security oriented based on the factors tested) and only weakly commercial in nature. Dreher and Fuchs claim the GDP per cap estimates indicate China considers recipient need in its aid though this interpretation is generous (see discussion in Chapter 5.2). The authors then go on to test whether the determinants of Chinese aid are any different than other donors grouped as: 1) large donors (United States, Japan, UK, Germany, France), 2) "good" donors (Denmark, Netherlands, Sweden and Norway), and 3) emerging donors (Korea, Saudi Arabia and Kuwait).

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<sup>304</sup> Axel Dreher and Andreas Fuchs, "Rogue Aid?," 14.

<sup>305</sup> *Ibid.*, 17-20.

Overall, there is little evidence that China's aid is any more or less "political" than aid from others. For example, even the "good donors" allocate less aid to democracies and the United States and Japan also reward UN voting. Further, the authors do not find that China's aid is provided to secure natural resources, a common criticism of Chinese aid.<sup>306</sup>

The finding by Dreher and Fuchs essentially claim that the criticisms of China's aid program are misdirected because other countries aid programs are just as political and self-interested as China's. The implicit assumption in Dreher and Fuchs assertion that China's aid is unfairly criticized rests on the assumption that there is no difference between China and Western countries self-interests; that those interests are equally valid and there would be no reason for a disinterested observer to question the overall preferability of one countries interests over another. Critics of China's aid program may be reasonable from the perspective of DAC countries if China's interests are opposed to the interests of the DAC countries or the larger international community. Foreign aid programs are one means of pursuing a state's national interests which may conflict with the interests of existing donors. If this is the case, it is natural that existing donors would criticize China's program. If China's aid program is primarily political (or security oriented as I define it), it may engender more criticism from existing donors if China's security interests' conflict with those donors.

There are a variety of problems with the analysis by Dreher and Fuchs caused mostly by limitations on the datasets. The only information on aid commitments came from a 1987 study by the OECD which was based on news reports. Recent aid estimates (1990 and later) were only from the completed project lists in the China Commerce Yearbooks. These data have

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<sup>306</sup> Ibid., 24-26.

no aid amounts, no start date, no commitment date and no information on commitments of aid projects that were never completed. Further, it included no information on China Ex-Im Bank financing which, especially after the Chinese aid reforms in 1995, took an increasing role in delivering Chinese aid through interest rate subsidies for major development projects. This is rather flimsy data on which to base the authors findings, particularly in more recent time periods.

More recent studies have made use of the first Aiddata.org China aid dataset focusing on Africa and first published in 2012.<sup>307</sup> Aiddata.org collected detailed project information on 1,422 projects in 50 African countries and distinguished aid commitments from disbursements and categorized financial flows as ODA-like, OOF-like or vague-official finance. Strange et al. (2012) find that Chinese aid to Africa, while significant and growing rapidly, was still dwarfed by DAC donor aid and investment flows. China provided aid to nearly every country in Africa from 2000-2011 except for Burkina Faso, Swaziland, the Gambia, and Sao Tome and Principe which did not have diplomatic relations with China.<sup>308</sup>

Scholars at Aiddata published a study using a dataset covering 2000 to 2013 to test the determinants of China's aid allocations to Africa.<sup>309</sup> The authors posit a theory of official flows which suggests that non-concessional official finance (OOF-like flows) should reflect the types of factors that determine private commercial flows, namely, market size, political stability, governance quality, repayment capacity, and expected returns while concessional aid (ODA-like flows) would reflect political and foreign policy interests. The Aiddata study used pooled

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<sup>307</sup> Austin M. Strange, Bradley Parks, Michael J. Tierney, Andreas Fuchs, Axel Dreher, and Vijaya Ramachandran, "China's Development Finance in Africa: A Media Based Approach to Data Collection," Washington DC: Center for Global Development, Working Paper 323, April 2013.

<sup>308</sup> Ibid., 35.

<sup>309</sup> Axel Dreher, Andreas Fuchs, Bradley Parks, Austin M. Strange, and Michael J. Tierney, "Apples and Dragon Fruits: The Determinants of Aid and Other Forms of State Financing from China to Africa," AidData Working Paper 15, October 2015.

time series regression techniques estimated first using OLS and then adding in country fixed effects to estimate the determinants of China's aid commitments to Africa over the analysis period. Their findings show that China's ODA-like flows are indeed different than OOF-like flows. OOF-like flows are more commercial in nature and less political/security oriented than ODA-like flows.<sup>310</sup> The authors claim that much of the antagonism of Western donors and observers towards Chinese aid is a result of the failure to distinguish ODA-like flows from OOF-like flows.

The Aiddata.org findings, while interesting, are rather limited. First, it is quite obvious that OOF-like flows should be commercially oriented since OOF-like flows are predominantly trade finance and foreign direct investments by SOEs. Second, it is unclear why Western donors and observers should be less critical of or threatened by China's ODA-like flows if these flows are less commercial and more political/security oriented. If Western donors perceive China as a threat to their interests or a state bent on challenging the status quo, it seems reasonable to interpret China's ODA-like programs as a direct threat to other donors' interests. Third, the Aiddata study was based only on flows to Africa (this was the only data available at the time) which, while important to Western aid agencies and China, is a limited sample and geographically distant from China. Fourth, the period of analysis covers a time when China's aid flows were growing extremely rapidly. Aid to Africa increased from about \$760 million in 2000 to over \$10 billion in 2012 before dropping to around \$5.3 billion in 2014. A pooled time series analysis with so much variation in the total amount of aid will potentially give spurious results since much of the variation in aid to specific countries may have more to do with total budget fluctuations rather than any of the explanatory variables. A supplementary regression

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<sup>310</sup> Ibid., 15-17.

using percent of total aid commitments given to a recipient by year rather than the financial amount of aid to a recipient country by year, as I do in the China regressions in this dissertation, would enable the authors to correct for this potential problem. And finally, the authors test a fairly limited set of variables with only a few indicators for each type (e.g. security variables limited to Taiwan recognition, regime type and UN voting, commercial variables limited to trade and energy resources) which may limit that range of commercial, diplomatic and security interest that could be tested for their influence on aid commitments.

### **3.3.3 Learning from the literature**

While many studies in the literature have made valuable contributions to understanding the foreign aid motivations of Japan and China, many quantitative studies have flaws which may affect their findings.

- 1) **Aid commitments not disbursements.** The point of the analysis in this dissertation is to understand aid motivations at the time the decision to allocate aid was made. Aid disbursements happen well after the commitment decision was made and are not as useful as commitment data for understanding aid motivation.
- 2) **Donor aid data should be in domestic currency units.** Many past studies used aid allocation data in USD rather than the currency of the donor. This injects exchange rate fluctuations into the data and obscures the decisions of the donor which are made in the donor's own currency.
- 3) **Use lagged IVs.** Independent variables should usually be lagged one period so that the donor can make a decision based on knowledge of the value of the IV. This is particularly important for economic variables such as trade and foreign direct investment where endogeneity is a concern (that the DV is causing the IV rather



than the other way around). If the causal variable and the decision are likely to happen in the same period, lags should not be used.

## **4 METHODS AND DATA**

Most research on foreign aid is based on quantitative techniques for the obvious reason that good quantitative data normally exists. OECD data on the foreign aid programs of most major donors has allowed a body of research on aid policy and practice as well as aid effectiveness to develop. Even when regression models are not used, the richness of the quantitative information available at the project level makes case study analysis much easier. However, there have always been data challenges when researchers have looked at aid from non-OECD DAC members, but the recent completion and release of the China dataset on worldwide financial flows from Aiddata.org has finally enabled the analysis of Chinese aid practices using panel regression techniques. The following sections detail the research design, variable selections and sources, and the role of the supplementary case studies.

### **4.1 Research design**

The nature of the research question and data availability drove the decisions on research design. The research question is about broad factors that drive aid commitment decisions from the perspective of the overall aid program. Aid commitments is a quantitative variable that is well suited to statistical analysis. It rises and falls based on policy decisions of the donor and it can be measured precisely on an annual basis. Subject to sufficient data over a long enough period of time, statistical analysis using regression is the most appropriate available method. The literature on aid decision-making bears this out. Most studies of aid purpose are based on regression analysis, either using panel data or cross-section analysis.

To estimate the overall motivations driving aid commitments from China and Japan, the most appropriate tool is panel regression. Panel data enables the analysis of the determinants

of aid commitments to specific countries in ways that control for heterogeneity of countries and enables the simultaneous estimation of effects that vary over time and across countries. Panel data enable more variability in the regressors, more degrees of freedom and higher estimation efficiency compared to cross-section analysis. Panel regression is also particularly well suited to the analysis of change over time which is the key to answering the research question. However, data requirements for panel regression are high and have prevented most prior studies of China's foreign aid from using panel regression. The research design used in this study was made possible by the release of the first comprehensive dataset on China's worldwide aid activities.

The dissertation will test the hypothesis using a nested analysis following Lieberman,<sup>311</sup> which combines large-N regression analysis techniques with nested qualitative case studies. Case study analysis would be subject to doubts about selection bias and whether the cases are unique or representative. Subject to sufficient data, Large-N studies have the benefit of establishing more generalizable results across many cases simultaneously. Further, since several IVs (alliances, geographic location, regime type, territorial disputes, resource endowments) tend not to change within cases, many country cases would be required to establish variation in the IVs making the small-N case study approach impractical as the sole method.

Typical criticisms of large-N quantitative studies include direction of causation, spurious correlation, coding, and data measurement issues. A nested analysis incorporating small-N case studies can provide a check on spurious correlation, can establish the order of

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<sup>311</sup> Evan S. Lieberman, "Nested Analysis as a Mixed-Method Strategy for Comparative Research," *American Political Science Review*, Vol. 99, No. 3 (August 2005), 435-452.

causation, and can provide information that is useful for revising and fine-tuning the theoretical framework, including identification of other useful IVs or CVs.<sup>312</sup> In the nested approach, large-N quantitative research and small-N case studies complement each other and make up for the weaknesses in each approach.

Supplementary case studies are conducted to deconstruct the sequence of events leading to aid increases, decreases and the types of projects being funded by China and Japan. Key factors that drive aid commitments from Japan and China are identified in the regressions. Countries that best illustrate the effects of key independent variables are selected and the aid behavior of China and Japan carefully traced to illustrate how the independent variables caused China and Japan to change their aid commitments. The case studies are not intended to look inside the decision-making processes of Japanese and Chinese aid officials but to demonstrate the plausibility of the estimated relationships in the regression models. It is not possible to see inside the heads of the key decisionmakers so the case studies are designed only to demonstrate that the aid commitment decisions can be reasonably attributed to the factors that the regression analysis has shown to be statistically significant. In the nested analysis approach, one or more cases are chosen to illustrate the important relationships between IVs and the DVs. In this study, two cases are sufficient to achieve enough variation across the key explanatory variables to confirm the regression findings.

To summarize, the research design chosen for this dissertation takes advantage of a newly available dataset than enables the application of the most appropriate quantitative methods to analyze aid commitment decision-making. The relationships estimated in the

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<sup>312</sup> *Ibid.*, 442.

statistical models are then confirmed based on case studies chosen to illuminate the impact of the most important independent variables on the dependent variable.

## 4.2 Dependent variables

The dependent variables in this dissertation are the *share of total aid commitments* of the donor country to the recipient country in a specific year. The regression analysis utilizes a large panel data set on aid commitments from China and Japan. The definition of aid commitments follows the definition of ODA commitments established by the OECD DAC. ODA is defined as follows: “resource flows to countries and territories on the DAC List of ODA Recipients (developing countries)...which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms....Technical co-operation is included in aid.”<sup>313</sup> Commitments are defined by the OECD DAC as: “A firm obligation, expressed in writing and backed by the necessary funds, undertaken by an official donor to provide specified assistance to a recipient country....Bilateral commitments are recorded in the full amount of expected transfer, irrespective of the time required for the completion of disbursements.”<sup>314</sup>

The OECD publishes detailed project level foreign aid data for Japan from 1964. China does not publish any project level or country specific data on its foreign aid requiring alternative non-official sources to be used. The dissertation used the data collected by Aiddata,<sup>315</sup> and processed and adjusted by the author to produce a bespoke dataset on Chinese project level

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<sup>313</sup> Official Development Assistance (ODA), *DAC Glossary of Key Terms and Concepts*, Paris: OECD, accessed on 15 December 2019 at <https://www.oecd.org/dac/dac-glossary.htm#ODA>.

<sup>314</sup> Commitment, *DAC Glossary of Key Terms and Concepts*, Paris: OECD, accessed on 15 December 2019 at <https://www.oecd.org/dac/dac-glossary.htm#ODA>.

<sup>315</sup> Aiddata is a research lab based at the College of William and Mary (Virginia, USA) dedicated to developing and disseminating data on aid levels, allocations, and effectiveness (See <http://aiddata.org>).

foreign aid. Aiddata first developed a dataset on China's foreign aid to African countries<sup>316</sup> and completed a new dataset in 2017 covering 2000 to 2014 for China's worldwide aid allocations.<sup>317</sup> The China dataset follows the OECD DAC definition of ODA commitments as closely as possible.

The dissertation is concerned with bi-lateral aid, rather than multilateral aid for the simple reason that bi-lateral aid is more clearly tied to political decisions by the donor and recipient. Aid channeled through multilateral institutions and aid given regionally rather than to a specific recipient is more difficult to interpret and predict because national interests are diffused among partners and the decision making is often not directly with the donor. The purpose of aid channeled through multilateral agencies may reflect the desire of the donor country to influence the policies of the multilateral institution rather than influence the eventual recipient. Since the purpose of this research is to predict and analyze the commitment patterns of ODA to specific recipients, multilateral and regional ODA are excluded from the DV, which is based on bi-lateral aid commitments.

All ODA allocations are expressed in constant 2013 Japanese yen (JPY) in the case of Japan and in CNY in the case of China. The data is reported in USD equivalent units by OECD and Aiddata.org, but I have converted these measures back to the national currencies because budget decisions are made in the national currency. Using ODA allocations expressed in USD would inject irrelevant variation based only on exchange rate movements that are external to the decision-making that I want to model.

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<sup>316</sup> Austin M. Strange, Bradley Parks, Michael J. Tierney, Andreas Fuchs, Axel Dreher, and Vijaya Ramachandran, "China's Development Finance in Africa: A Media Based Approach to Data Collection," Washington DC: Center for Global Development, Working Paper 323, April 2013.

<sup>317</sup> Available online at: <http://china.aiddata.org/>

#### 4.2.1 Japan's aid commitments

For Japan and other members of the OECD DAC, the OECD International Development Statistics online database provided annual foreign aid data by donor and recipient. Japan's share of total ODA commitments to the recipient are the DV in the models of Japanese foreign aid. Japan's ODA commitments are tested as an IV in the regression on Chinese aid commitments. This dissertation is concerned with aid *decisions* rather than aid *effectiveness*. For this reason, I utilize the DAC3a data set<sup>318</sup> which provides aid commitments from DAC donors to all recipients in the year in which they are promised rather than aid disbursements which occur over time, sometimes years after the initial commitment. Aid commitments are defined by the OECD as written obligations by the donor to provide the stated funds under specific terms and conditions for the benefit of the recipient. Aid disbursements are the annual payments based on the commitment and may not reflect the political conditions predominant at the time the commitment was made. Sometimes aid commitments are not fulfilled. However, for the purposes of this research, the commitment should reflect the decision-making at the time it was made. If the recipient and donor have a conflict at some later date and the project is canceled, the political conditions at the time of cancellation will be reflected in a lack of new aid commitments from the donor. The aid commitment to the recipient is converted to the share of total ODA committed that year to correct for large changes in the overall aid budgets of Japan and China.

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<sup>318</sup> Available online from OECD.Stat at: <http://stats.oecd.org/Index.aspx?ThemeTreeId=3>

#### 4.2.2 China's aid commitments

There are two main methods to determine why China gives aid. The first is to construct a database of aid activities to replicate, as much as possible, the type of data available from DAC donor countries. The second approach is the case study method where either China's aid practices are interpreted by looking at specific aid projects funded by China or by looking at China's overall aid to specific countries, often through the data available only from the recipient country and analyzing the economic, political, and security factors that help explain those aid commitments.

In this dissertation, I utilize both approaches. The fact that China is an emerging donor with rapid year-on-year increases as well as a less professionalized aid program which was without a dedicated aid bureaucracy until the establishment of the China International Development Cooperation Agency (CIDCA) in 2018,<sup>319</sup> the project by project data may not be sufficient to reveal China's systematic aid purposes. Therefore, I begin with a big-N analysis of China's overall aid program using a modified bespoke dataset based on the dataset developed by AidData.org to track China's underreported financial flows.<sup>320</sup> This analysis is then augmented by carefully selected case studies that can show why China increased or decreased aid to specific countries.

The Aiddata.org effort is not the first effort at developing a comprehensive dataset on Chinese foreign aid. Past efforts include a seminal work by Wolfgang Bartke (1989), *The*

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<sup>319</sup> Marina Rudyak, "The Ins and Outs of China's International Development Agency," Carnegie-Tsinghua Center for Global Policy (September 2019), 1-3.

<sup>320</sup> Austin M. Strange, Brian O'Donnell, Daniel Gamboa, Bradley Parks, and Charles Perla, *AidData's Methodology for Tracking Underreported Financial Flows, Version 1.1* (AidData.org, December 2013).



*Economic Aid of the PR China to Developing and Socialist Countries*.<sup>321</sup> The key problem with the Bartke study for the purposes of this dissertation is that Bartke's data provide information on project completions for the years 1956 to 1987. The analysis in this dissertation seeks to understand the motivation of the decision to commit aid funds which occurs well before and project is complete. Bartke's data will also miss any commitments that were made but later abandoned for whatever reason. The analysis in this dissertation is not particularly concerned with whether or not an aid project has been completed or not.

The United States Central Intelligence Agency (CIA) has released a series of reports entitled "Communist Aid to Non-Communist LDCs" which were prepared at least until 1987.<sup>322</sup> These reports include estimates of both the aid extended and the aid utilized which generally conform to the commitment and disbursement categories in the OECD DAC data. However, the reports are declassified decades after their preparation. As of this writing (2018) 1987 is the last available report. These data have either not been collected since 1987 or the reports remain secret which limits their usefulness except as historical information. Problematically, the CIA data excludes aid to other communist countries and includes loans that would not be categorized as aid. The tables include grants and economic credits if the loan terms are longer than 5 years but does not try to determine if the loan is concessional in character. The CIA also publishes no information on the data collection methodology and provides limited information on data definitions. Each published version of the reports from 1981 include annual estimates of aid from China to specific non-communist countries for the prior 10 years. Previous reports only provided data on aid estimates as cumulative sums over many years (i.e. 1954-1971). Therefore,

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<sup>321</sup> Wolfgang Bartke, *The Economic Aid of the PR China to Developing and Socialist Countries*, 2nd edition (Munich: K. G. Saur, 1989).

<sup>322</sup> U.S. Central Intelligence Agency, *Communist Economic Aid to Non-Communist LDCs: A Reference Aid, Intelligence Handbook* (U.S. Government, 1987), accessed on 10 February 2018, <http://www.foia.cia.gov/>.

annual CIA estimates of China's economic aid can only be presented for 1972 until 1987, a period when China's aid was relatively low, and fails to separately identify grants and loans in the annual country allocation data.

Other authors have attempted to make use of the data published by the China Ministry of Commerce's China Commerce Yearbooks. The problem with these data is that they only indicate if an aid project was completed in a country in a given year, not the amount of aid. Datasets based on these data simply list the number of aid projects completed in a given year. The problem with these data is that there is no way to distinguish large projects from small projects and no way to determine when the commitment was made.<sup>323</sup>

The alternative data sources of Chinese foreign aid allocation all have significant drawbacks compared to the Aiddata.org worldwide dataset. Aiddata's methodology is transparent and replicable, the year of commitment is clear, the amount of grant or loan financing is usually clear, and the time period covered by the dataset is relevant to this dissertation and coincides with China's emergence as a significant new donor and its rise as a potential superpower. The Aiddata.org dataset is the best available source of information on China's foreign aid flows worldwide and the most appropriate source of data for quantitative analysis.

AidData.org's dataset of worldwide Chinese development activities was the result of a five-year effort between the College of William and Mary and the National University of Singapore and augmented by other data collected by associated researchers including this

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<sup>323</sup> Axel Dreher and Andreas Fuchs, "Rogue Aid?," 2012.

author.<sup>324</sup> The methodology used to build this database is based on an augmented media-based data collection methodology which is described in more detail in APPENDIX 7. This data set is similar to the OECD CRS data set in that it is project level with substantial detail about the scope, sector and terms of the identified project. Projects are categorized as ODA-like, OOF-like, or Vague-official finance. OOF refers to Other Official Flows and includes direct investments by SOEs and import-export bank financing that is not subsidized. Vague-official finance means the AidData was not comfortable categorizing the specific flow as ODA or OOF. AidData attempts to follow the OECD definitions of ODA and OOF to ensure the comparability of the variables in each data set. For this research, I inspected every project categorized by AidData as Vague-official finance to determine if they should be recoded as ODA-like or OOF-like. This manually modified dataset of ODA-like projects is then used to generate China's aid allocations by recipient country. Like Japanese ODA, China's aid is converted to domestic currency units – constant 2013 CNY – and measured as commitments rather than disbursements for the same reasons articulated previously.

While the AidData.org dataset provided a comprehensive list of probable aid projects financed by China, there are some issues with both China's aid program and the data that need to be dealt with, particularly for statistical analysis. The main problems that must be dealt with include:

- 1) Erratic nature of China's aid program.** Unlike Japan and most other DAC donors, during the analysis period of this dissertation China did not have a professional aid agency (CIDCA was established in 2018), did not develop country strategies to

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<sup>324</sup> I was provided early access to AidData's worldwide China dataset to check for errors and provided additional project level data from ADB project approval documents and case study project data from the Philippines. The dataset was made publicly available by AidData.org in October 2017.

guide aid activities, and therefore did not have a consistent program that allocates funds every or nearly every year. The practical result is that there are many zero values in China's aid commitment data. Addressing this problem is not a simple matter but various approaches are described in APPENDIX 8.

**2) Extraordinary growth.** China's aid program has grown exceedingly quickly over the analysis period. Based on the Aiddata.org dataset and my recoding, I estimate that China's foreign aid increased from around \$1 billion equivalent in 2000 to around \$19 billion in 2014. This is a problem for time series regression analysis because the models in this dissertation are designed to illuminate the purpose of China's foreign aid by explaining its variation among recipients. If a substantial portion of the variation is explained by changes in the donor's own economy and national budget, that will reduce the explanatory power of a regression that uses China's annual aid commitments as the dependent variable. The solution is to transform the dependent variable (aid commitments in 2013CNY) into the share of China's total aid program in the year in which it is made. This approach then focuses on the relative importance of a specific recipient country compared to all other countries that year, rather than simply the amount of aid provided. Since Japan's aid is also growing, the same approach was used in the analysis of Japan's ODA.

**3) China foreign aid does not conform to DAC definitions.** The Chinese government is not concerned about meeting the definition of the OECD DAC for ODA. China provides a wide array of assistance that includes flows that meet the DAC definition of ODA, but other flows might not. As discussed in some detail in Chapter 3.2, many past studies of China's foreign aid have mistakenly categorized

trade finance or non-concessional lending as the equivalent of ODA leading to large overestimation of China's foreign aid program. The Aiddata.org worldwide dataset of Chinese official flows attempts to maintain the DAC definition of ODA when categorizing possible aid projects.

**4) Peculiarities of Aiddata.org coding conventions.** Aiddata.org takes a very conservative approach to categorizing projects as “ODA-like” and when a definitive determination regarding the degree of concessionality cannot be made, the project is categorized as “vague – official finance”. The problem with this approach is that a large percentage of China's official flows are categorized as neither ODA nor OOF in the Aiddata.org database even when it is clear from the project description that the recipient is highly likely to consider the project an aid project.

Overall, the Aiddata.org worldwide China aid dataset is imperfect, but represents the only comprehensive accounting of China's aid and foreign economic cooperation activities available after the 1990s. For this dissertation, I have made numerous manual adjustments to Aiddata's China dataset to better serve my purposes. The following section details the manual changes made to the Aiddata.org database.

#### *4.2.2.1 Revisions to Aiddata.org China database*

The dataset used in this dissertation is significantly different from the one published by Aiddata.org. The changes were made carefully and transparently. The main principle behind all revisions is to make an educated determination of the intent of the financial flow and the perceptions of the recipient. If the recipient is likely to perceive the project as concessional aid

from China and the Chinese were likely to intend the project as aid, then the project should be categorized as ODA-like. The revisions are detailed below:

- **Recategorize Vague-Official Finance.** The most significant change to the dataset involves the manual categorization of all projects Aiddata.org considers vague-official finance. Aiddata.org was very conservative in its categorization of projects as ODA-like. Only projects where Aiddata.org could be confident that the project was concessional enough to meet the DAC ODA definition were categorized as ODA-like. Projects reported as concessional but where the terms are unknown, even when the type of project suggests it is similar to an ODA project were categorized as vague-official finance. This conservative approach is likely to underestimate Chinese foreign aid and should be considered a lower bound estimate. The magnitude of the financial flows categorized as vague-official finance are so large as to significantly affect how China's aid program is perceived. Aiddata.org's estimate of ODA-like flows is about \$97.5 billion over the 2000-2014 period while flows categorized as Vague-official finance are over \$98.8 billion over the same period (amounts given in constant 2014 USD). Even if a relatively small percentage of those vague-official finance projects were actually ODA-like, the amount of aid attributed to China could be substantially higher than the estimate by Aiddata.org.

In order to achieve a more realistic understanding of China's aid efforts, I manually inspected each project record that was categorized as vague-official to review its project description and, if still unclear, media reports of the projects to determine if the project is likely to have been perceived as aid by the recipient. This effort involved the manual inspection of 549 project records out of a total

of 5447 records, around 10 percent of the total. I devised the following set of rules to determine whether aid recipients are likely to perceive the flow as ODA-like:

- If the loan was described as “concessional”, “soft”, “below market” the project was deemed to be ODA-like. These terms are the language by which ODA is described in recipient states. Aiddata.org categorized all projects financed by loans, even when described by these terms, as vague-official finance if the specific loan terms were not clear.
- If the project was revenue generating without mention of concessional character, the project was deemed to have had a significant likelihood of private sector involvement and unlikely to be ODA. I categorized these projects as OOF-like.
- Loans for private business or to state owned enterprises were categorized as OOF-like. Many of these projects were in the telecommunications and energy sectors.
- Projects that were essentially governmental in character and provided directly to the recipient governments and announced at high-level visits of Chinese government officials were categorized as ODA-like. Many of these projects were for roads, bridges, water supply, and government buildings.
- Projects that represent equity investments in recipient country enterprises or joint ventures were categorized as OOF-like. These projects include those financed by the China-Africa Development Fund which finances equity investments in African countries and is not ODA.

- Projects targeting poverty alleviation or services to the poor were categorized as ODA-like. Based on China's historical approach to funding these types of investments, these projects are likely to be grants or highly concessional loans. Several projects of this nature referred to the construction of low-income housing or clean water access for the poor.

Of the \$98.8 billion categorized as Vague-official finance by Aiddata.org, about \$53.9 billion was recategorized as ODA-like and \$44.9 billion recategorized as OOF-like. I consider Aiddata.org's estimates a lower bound ODA estimate. The upper bound for Chinese ODA constructed by the author is labeled "perceived ODA" and used in the quantitative modeling of Chinese foreign aid commitments and case studies.

- **Include projects "not recommended for research"**. Projects coded in the Aiddata.org database as "not recommended for research" should be included in my analysis because these reflect the commitment of the donor to fund a project even when the subsequent project was never carried out or cancelled. All summary figures and the data used in the quantitative models and case studies include projects that Aiddata.org categorizes as "not recommended for research".
- **Exclude umbrella projects**. The dataset used in this study excludes all umbrella projects from the analysis since they will double count individual project records. Umbrella projects arise from announcements by China or recipients of large multi-project investment programs that are to be financed over an extended period of time. China often makes pronouncements during visits of senior



government officials of the establishment of large funds to finance a series of projects. The projects financed under the umbrella project are included.

- **Regional vs. bi-lateral aid.** There are a few projects that span borders and are considered “regional” projects. These projects tend to be large umbrella projects in the dataset, but not exclusively. One of the highest profile projects in China’s aid history was the TANZAM Railway constructed between 1970 and 1975, which spanned Tanzania and Zambia. China continues to support this railway with aid including a \$23 million grant in 2012 to the railway operator to rehabilitate the infrastructure. Unfortunately, without detailed information on the financing arrangements and the degree of individual government participation in these transactions, it is impossible to allocate the Chinese funding to a specific recipient. Projects without a primary recipient that Aiddata.org terms regional are included in summary statistics of China’s aid program presented in this dissertation but are not included in the data used in the regressions. By necessity, the modeling of bi-lateral aid allocations links specific data on the recipient country to the decision to commit aid to that country. Without a clear means of determining the amount provided to each country in the regional effort, there is no plausible means of including regional project records in the bi-lateral aid dataset.
- **Recategorize OOF-like grants as ODA-like.** Grants are very likely to be perceived as aid by the recipient state. Aiddata.org was extremely conservative in its categorization of grants for cultural projects, language education, and government buildings. I disagree with Aiddata’s interpretation of the projects financed by Chinese grants if the recipient is likely to perceive a substantial public benefit from the project grant. Many of the projects categorized by

Aiddata.org as OOF-like grants are related to providing funding for Chinese language education in the recipient country's schools and universities. Most of these grants are small (under \$10 million). The OECD DAC is quite clear that many of these types of projects can be categorized as ODA, "the promotion of museums, libraries, art and music schools, and sports training facilities and venues counts as ODA".<sup>325</sup> The larger projects categorized as OOF-like grants are usually government buildings and stadiums. For example, China donated about \$60 million to build a government ministerial complex in Liberia in 2012. Another example is the donation of 10 million CNY to Cambodia to restore a temple in Angkor Wat. I recategorized these grant projects as ODA-like. The Aiddata.org base data set estimated China's total ODA-like flows between 2000 and 2014 at about \$97.5 billion while OOF-like grants were just under \$1.2 billion or about 1.2 percent the estimated ODA. Some OOF-like grants were categorized as OOF-like because the recipient country is not an ODA recipient<sup>326</sup> as determined by the OECD. These projects are excluded from the dataset used for this research since the countries do not appear in it.

**Case Study Data.** For the case studies, China's aid project data are based on the project level dataset developed for this dissertation. Additional data was collected from other scholarly articles, published agreements signed between China and the recipient country during state

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<sup>325</sup> OECD, "Is it ODA?," 2.

<sup>326</sup> According to the OECD DAC: "The DAC List of ODA Recipients shows all countries and territories eligible to receive official development assistance (ODA). These consist of all low and middle income countries based on gross national income (GNI) per capita as published by the [World Bank](#), with the exception of G8 members, EU members, and countries with a firm date for entry into the EU. The list also includes all of the Least Developed Countries (LDCs) as defined by the [United Nations](#) (UN)." Accessed at <https://www.oecd.org/development/financing-sustainable-development/development-finance-standards/dac-list.htm> on 7 September 2019.

visits, and the records of recipient country governments if they publish aid received. The sources are documented in each case study and all data can be provided upon request.

### **4.3 Independent variables**

Independent variables attempt to explain variation in the dependent variable. Based on the theoretical framework proposed in Chapter 2, the variables are either commercial factors, security factors or normative factors and all may have explanatory power at different times and for different donor-recipient dyads. Dependent variables (foreign aid commitments) can also serve as independent variables when attempting to explain the aid giving behavior of donors, Japan or China in this case. That is, Japan's aid to a specific country may either encourage China to give aid to the same country or avoid giving aid to that country.

Some economic variables are difficult to categorize. GDP and population indicate the size of the country and its economy but do not relate specifically to economic relations between the donor and the recipient. Recipient country size variables are used as control variables but are not interpreted to represent any category. Variables that represent commercial importance are resources, trade and investment. Many of the economic and socio-economic statistics used in this research were provided by the World Bank's World Development Indicators (WDI) dataset.<sup>327</sup> This dataset is extensive and includes development indicators, economic and social statistics, budget and financial sector statistics and trade indicators.

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<sup>327</sup> The data set is available for download at: <http://data.worldbank.org/data-catalog/world-development-indicators>.

### 4.3.1 Commercial variables

The IVs that indicate commercial importance are based on resource exports, trade and investment. States that depend on imports of raw materials may provide aid to develop the resource export sector of states that may provide that resource. Levels of trade and investment can indicate the extent of commercial relations between the donor and recipient which may indicate opportunities for commercially beneficial aid. The specific commercial variables tested in the analysis are explained in the following sections.

#### 4.3.1.1 *Resource endowment*

Observers often argue that donors want access to developing country resources and provide aid as a way to gain access and control over those resources. For example, Japan increased aid to Middle-Eastern oil exporters after the 1973 oil shock<sup>328</sup> and China is often accused of channeling aid to secure resources.<sup>329</sup> States may provide more aid to countries that export key commodities, the most important of which is oil. The WDI dataset provides a variety of variables related to resource exports. Statistical testing showed that oil rent as a percentage of GDP for each country had the fewest missing observations and was more significant than the other resource indicators so it was chosen to capture the effect of resource endowment on aid commitment decisions. If aid is provided to secured access to resources, countries with higher oil exports should attract more aid.

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<sup>328</sup> Marie Soderberg, "Changes in Japanese Foreign Aid Policy," European Institute for Japanese Studies, Working Paper 157 (October 2002), 3.

<sup>329</sup> Stephen Browne, *Aid and Influence*, 126.

#### 4.3.1.2 *Foreign direct investment (FDI)*

States that prioritize commercial factors in the foreign aid, may display correlation between FDI and foreign aid. If states use foreign aid to support domestic businesses in developing countries it stands to reason that the benefitting businesses will follow up with their own investment in the recipient countries. Many previous studies<sup>330</sup> have used Japan's outward FDI as an explanatory variable in its foreign aid allocations and have found a positive correlation. However, there are some conceptual problems with theorizing that FDI should an explanatory variable for foreign aid. Foreign aid may precede FDI by some number of years rather than be explained by it. If that is the case, we may expect that foreign aid for commercial purposes may have what Kimura and Toda (2007) called the "vanguard effect".<sup>331</sup> The authors find that in fact, Japan's foreign aid does have a measurable vanguard effect on FDI suggesting that Japanese foreign aid goes first to help establish Japanese businesses in developing countries and the FDI comes later. The authors also find that the same effect is not found in foreign aid from the United States, UK, Germany or France. Kimura and Toda find that ODA allocations help explain future FDI, not the other way around. For this reason, other indicators of potential business opportunity such as resource exports and market size may be better predictors of ODA allocations for commercial purposes than FDI. Nevertheless, FDI is included in the model as a potential explanatory factor due to the fact that it has been shown to be a significant predictor of Japanese ODA in past studies and the coordinated nature of both Japan's and China's aid programs (combining aid, trade and investment) would argue for including this variable as an explanatory factor in the donor's aid decisions.

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<sup>330</sup> For example, see Yoichiro Sato and Masahiko Asano, "Humanitarian and Democratic Norms in Japan's ODA Distributions," 111-28.

<sup>331</sup> Hidemi Kimura and Yasuyuki Toda, "Is Foreign Aid a Vanguard of FDI? A Gravity-Equation Approach," The Research Institute of Economy, Trade and Industry, Discussion Paper Series, 07-E-007 (February 2007).

The FDI data for Japan is combined from two primary sources. First, the OECD international direct investment database which reports inward and outward FDI as reported by the OECD member states and is available from 1985 to 2013. Second, the Japan External Trade Organization (JETRO) publishes data on FDI based Japan's Ministry of Finance (MOF) statistics for Japan's inward and outward FDI. The overlapping data matches well with only minor differences most likely due to rounding issues and exchange rate variation. These two data sets are combined using JETRO's data as the base and OECD data filling in missing values and all years after 2004.

FDI data for China is more difficult to collect. The primary source is the United Nations Conference on Trade and Development which publishes data on Chinese outward FDI to specific countries from 2003 to 2012.<sup>332</sup> The dataset was expanded to 2014 using data from Johns Hopkins University SAIS China-Africa Research Initiative. The main problem with FDI data generally and especially for China, is that much of the foreign investment flowing around the world is routed through tax havens. In fact, 63% of all Chinese FDI in 2012 was channeled through just four tax haven countries: Luxembourg, British Virgin Islands, Cayman Islands and Hong Kong. The vast majority of these flows will go on to other countries. In this way, the FDI data for both China and Japan is significantly distorted. As an alternative in the China analysis, I use an interesting dataset from the University of Tokyo on establishments of Chinese firms abroad.<sup>333</sup> These data do not allow us to distinguish large firms from small firms, but overall should be quite correlated with actual foreign direct investment from China. This

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<sup>332</sup> UNCTAD FDI/TNC database, based on data from the China Ministry of Commerce (MOFCOM).

<sup>333</sup> Tomoo Marukawa, Asei Ito, and Yongqi Zhang, ed., "China's Outward Foreign Investment Data," ISS Contemporary Chinese Research Series No.15, Institute of Social Science, University of Tokyo (2014).

measure is tested as an instrumental variable for Chinese outward FDI. These data cover 1980 – 2013.

#### *4.3.1.3 Imports and exports*

If foreign aid is meant to promote the commercial interests of the donor, it is reasonable to expect that foreign aid will flow to countries that have growing imports from or exports to the donor state. Further, if foreign aid is being utilized as a form of highly subsidized trade finance, we would expect to see high levels of foreign aid result in additional exports from the donor to the recipient which would cause endogeneity problems in the models. It could also be the case that foreign aid flows to recipients with natural resources with the expectation that the recipient state will export more of the given resource to the donor state. If this is the case, foreign aid should result in more exports from the recipient to the donor rather than the other way around. To correct for endogeneity, trade variables are lagged one period in the panel regressions.

The data on international trade is provided by the International Monetary Fund's Direction of Trade Statistics (DOTS) dataset. This dataset includes all imports and exports from most countries, including Japan and China, and each trading partner beginning in 1950 until 2015.<sup>334</sup> Note that China data begins around 1978 when it began opening its economy and reporting statistics to international organizations. I use the import and export figures between the two trading partners as explanatory variables to predict foreign aid allocations. These variables indicate the magnitude of the economic relationship between the donor-

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<sup>334</sup> See IMF Data website for access: <http://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85>

recipient dyad which could indicate whether the donor believes that the recipient holds potential future economic opportunities.

#### **4.3.2 Security variables**

Variables that indicate the security importance of the recipient include geographic location variables. Foreign aid should be higher for states that can help secure key shipping lanes and promote regional peace and stability in areas critical for the donor. States may also attempt to establish a sphere of influence to protect their regional security interests such that aid flows from donors to states in a specific strategic geographic region. Security variables may also point to the political or ideological affinity between donor and recipient. Such aid could reward for states voting with the donor in international organizations and institutions or try to influence states with important roles in international institutions. Threatened states may also provide more aid to political or ideological compatriots if their own governance structure is subject to international criticism or subject to threats of “regime change” from other powers. Aid from adversaries may indicate that a recipient has more affinity for a competitor state. This variable would indicate aid competition between donors and would be expected to result in less aid from adversarial donors. Alternatively, if the recipient state is amenable to auctioning its allegiance, donor adversaries could actively bid for the recipient’s allegiance through escalating their aid. Donors concerned with direct threats are likely to allocate aid to provide leverage in territorial disputes, wars and other conflicts with a potential recipient should result in less foreign aid from the disputant and increases in foreign aid from the adversary. Allies or potential allies against common threats would be expected to receive more aid. In this dissertation, the United States plays a critical security role in Asia and, as Japan’s key ally and security guarantor, and the main source of Chinese threat perception, variables that indicate



United States security interests are particularly important. The security variables chosen for this analysis are detailed in the following sections.

#### *4.3.2.1 United States military personnel*

The reactive state hypothesis<sup>335</sup> of Japanese foreign policy claims that Japan uses its foreign aid to support United States security goals either explicitly based on requests or pressure from the United States or implicitly to emphasize Japan's value as an ally and prevent abandonment by its alliance partner. If Japan has a high level of threat perception, it will logically align its aid policy to support United States security interests. The stationing of United States troops in a country indicates that it has important security interests in that country. Therefore, if Japan is supporting United States security interests, it is likely to provide more aid to countries with a larger contingent of United States troops. China, on the other hand, may provide aid to states with fewer United States troops or punish states that accept the basing of such military personnel. This dissertation utilizes data on the number of United States military personnel posted to the recipient country as one indicator of the importance of the state to United States security. The data set is based on the DOD Deployment of Military Personnel by Country Dataset (309 reports). I utilize the data compiled by the Heritage Foundation<sup>336</sup> for 1950 to 2005 and manually completed the dataset using the 309A reports from the United States Department of Defense.<sup>337</sup>

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<sup>335</sup> Kent Calder, "Japanese Foreign Economic Policy Formation: Explaining the Reactive State," *World Politics*, Vol. 40, No. 4 (July 1988), 517-41.

<sup>336</sup> Tim Kane, Center for Data Analysis, The Heritage Foundation, 2006, accessed 5 July 2016, <http://www.heritage.org/research/reports/2006/05/global-us-troop-deployment-1950-2005>.

<sup>337</sup> Annual 309A reports are collected and published at the following website: <http://www.globalsecurity.org/military/library/report/index.html>

#### 4.3.2.2 *Relations with the United States*

If China is trying to balance against the United States and weaken the United States alliance network, I expect that states with worsening relations with the United States will be rewarded with more aid from China. However, no existing database exists that indicates this rather qualitative idea of good or bad relations between states. Therefore, I constructed a heuristic measure of the strength of a state's relationship with the United States to help create a targeted test of whether Japan and China consider a country's relationship with the United States in their aid decisions. If aid is used to support or counter United States interests, I expect countries with stronger United States ties will enjoy more aid from Japan and countries with weaker ties will enjoy more aid from China. The indicator is an ordinal measure from 0 to 4 based on a qualitative assessment of the overall bilateral relationship with the United States. The measure increases with the closeness of the bilateral relationship as follows:

- 0 no relations or antagonistic relations (e.g. at war, actively isolated by United States, no diplomatic relations)
- 1 ambivalent or strained relations
- 2 generally friendly relations or formal alliance partners with badly deteriorating relations with United States resulting in adverse policy actions against the ally
- 3 strategic partner or major non-NATO ally designation or formal alliance partner with strained relations with United States
- 4 formal alliance (including Taiwan/Israel based on legal obligation to protect) with good ongoing relations

As an example, the measure applied to the Afghanistan – United States bilateral relationship is a 1 from 1966 to 1978 when the country was not much considered in United

States policy beyond its status as a source of opium. The measure is 0 from 1979 to 1989 when the country was controlled by a government installed by the Soviet Union which the United States actively tried to overthrow. The measure becomes a 1 after the Soviets leave until returning to 0 in 1997 when the Taliban take over and Afghanistan becomes a haven for international terrorism. The measure is 2 after the United States overthrows the Taliban in 2002 and installs a new government. The measure increases to 3 in 2012 when Afghanistan becomes a major non-NATO United States ally.

Sometimes formal allies have strained relations which is reflected by a reduction in the measure from 4 to 3. Examples of these events include the Philippines in 2003-4 when the country pulled its support for the war in Iraq and the United States cancelled a large military aid package. Thailand is also a formal ally whose relations with the United States deteriorated in 2014 due to a military coup. The measure drops from 4 to 2 in this instance. The United States relationship with Turkey has also gone up and down over time despite its membership in NATO due to its differing security interests in Northern Iraq. Normally rated 4, the measure drops to 3 in 2003 due to its opposition to the United States invasion of Iraq. Turkey – United States relations were particularly poor during 2007 and 2008 due to Turkey's opposition to any role for the Kurdistan Workers Party (PKK) in Northern Iraq which the United States was perceived to be supporting. The United States Relations measure drops to 2 during these years. The Obama administration attempted to improve relations in 2009 resulting in the United States Relations measure returning to 3.

This measure is particularly interesting for analyzing how China might use aid to balance against the United States. It may be that China targets aid to countries with normally good United States ties but that have hit a rough patch, especially formal allies of the United

States. If China perceives the United States as its main threat, it is in China's interests to weaken United States relations with allies to reduce aggregate United States power, consistent with the a wedge strategy. Wedge strategies are meant to disrupt or prevent or disrupt alliances from forming.<sup>338</sup> If China is pursuing a wedge strategy against the United States and its alliance network, we may find that Chinese aid flows to countries like the Philippines, Thailand and Turkey when relations with the United States deteriorate, essentially to promote that deterioration. Japan, on the other hand, may support states within the United States alliance network or potential allies as part of its alliance maintenance and management strategy.

#### 4.3.2.3 *Coups*

Suspicion that China uses its aid to violate international norms and that Japan, as a status quo power, would use its aid to support international norms suggests that countries that have experience a coup may receive different treatment by Japan and China. States that experience a military coup may be targeted by status-quo powers like the United States, Europe and to a lesser extent Japan with aid sanctions. Examples of coups resulting in some aid sanctions include Myanmar (1988), Thailand (2014) and Fiji (2000 and 2006). If China wants to disrupt the status quo it may increase aid to countries after a successful coup, especially if the state is being punished by status quo powers. To test whether China and Japan consider coups in their aid decisions, I utilize the Global Instances of Coups dataset maintained by Jonathan Powell and Clayton Thyne.<sup>339</sup> Indicator (dummy<sup>340</sup>) variables are provided for each coup and given separately for successful and unsuccessful instances.

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<sup>338</sup> Timothy Crawford, "Preventing Enemy Coalitions: How Wedge Strategies Shape Power Politics," *International Security*, Vol. 35, No. 4 (Spring 2011), 155-89.

<sup>339</sup> Jonathan M. Powell and Clayton L. Thyne, "Global Instances of Coups from 1950 to 2010: A New Dataset," *Journal of Peace Research*, Vol. 48 No. 2 (2011), 249-259. The dataset is updated through 2015 and is available at [http://www.uky.edu/%7Eclthyne2/coup\\_data/home.htm](http://www.uky.edu/%7Eclthyne2/coup_data/home.htm).

<sup>340</sup> Dummy variables take the value of 0 or 1 and indicate the presence or absence of a specific condition.

#### 4.3.2.4 *Constructed security indicators*

Several security factors are handled with dummy variables constructed to indicate certain characteristics that could be important to donor security. The variables are constructed as follows:

- **Border China:** countries may seek a “sphere of influence” which would logically imply that countries in the immediate vicinity of the donor would receive high aid commitments. In this analysis countries that share a land border with China are indicated with a 1, other countries are 0.
- **US ally:** If Japan is supporting the United States alliance network, allies would be expected to receive more aid from Japan. If China is balancing against the United States, it may either use aid to support a worsening the relationship between allies or punish countries with a security treaty with the United States. This variable takes a 1 if the country is a United States ally (including those states with implicit security guarantees in United States law such as Taiwan and Israel) while all other states are 0.
- **China conflict:** When Japan perceives a China threat, countries with a maritime or land border dispute with China may receive more aid from Japan. China may punish countries in a border dispute to push them to resolve the dispute in China’s favor. If countries settle a border conflict with China, I expect China to reward them with more aid. China conflicts are coded as 1 while other states are coded as 0. Land border conflicts and maritime conflicts are coded

separately as land border conflicts have tended to be resolved between China and its adversary while maritime conflicts tend to linger.<sup>341</sup>

- **US military base:** another indicator of United States security interest is the establishment of a military base in a foreign country. When threatened, Japan may increase aid to states that host United States military bases as part of its contribution to the alliance. China may do the opposite to punish countries that enable the United States to station troops on their territory. Countries that host an official United States military base are coded 1 and states without are coded 0. Most United States bases are in developed countries, but several are in aid recipients. Examples include Kyrgyzstan (2002-2014), Djibouti (2001-present), Pakistan (2001-2011), Philippines (1966-1991), and Turkey (1966-present).
- **Taiwan recognition:** A great deal of research shows that recognition is important to China and it is implicitly listed as one of the 8 principles of China's foreign aid (as respect for sovereignty). This factor is likely to be an important security consideration in Chinese aid commitments. Countries that recognize Taiwan (coded 1) are likely to receive little or no aid from China while states that recognize China or switch recognition from Taiwan to China (coded 0) should be rewarded with more aid from China.

#### 4.3.2.5 *Political violence*

Regional stability is important to the security of states in that region and, sometimes, to states outside the region if failed states become a haven for terrorism, piracy or other activities

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<sup>341</sup> Taylor M. Fravel, "Regime Insecurity and International Cooperation: Explaining China's Compromises in Territorial Disputes," *International Security*, Vol. 30, No. 2 (2005), 46–83.

that threaten the security of other states. To test whether Japan and China utilize ODA to intervene in international conflicts or to aid unstable governments fighting insurgencies, I incorporate the Major Episodes of Political Violence (MEPV) dataset prepared by the Center for Systemic Peace.<sup>342</sup> The dataset covers 1946 to 2015 and includes ordinal measures to indicate the magnitude of the conflict that occurred with 1 being the lowest intensity and 10 being the highest. Different variables indicate the type of conflict involved. The type of conflicts that are measured separately include: 1) wars of independence, 2) international violence, 3) international war, 4) civil violence, 5) civil war, 6) ethnic violence, and 7) ethnic war. Composite scores for all interstate conflicts, civil conflicts and a summed measure of all violence are provided.<sup>343</sup> The summed measure of total political violence is used in the regression models.

#### 4.3.2.6 *Sanctions and the international system*

To test whether the aid donor supports or opposes international sanctions regimes through foreign aid policy, various sanctions regimes have been coded as indicator (dummy) variables. If the donor country uses its aid program to punish states that are subject to international sanctions, we expect aid to decline to states that are being sanctioned. Under certain circumstances, the use of aid sanctions to support other international sanctions, particularly UN sanctions with broad international support, indicates general support for the international system. If the donor country is using aid to support “rogue” states that violate international norms, we would then expect aid to increase to states under broad international sanctions.

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<sup>342</sup> The full dataset can be downloaded online from the Center for Systemic Peace website:

<http://www.systemicpeace.org/inscrdata.html>.

<sup>343</sup> Monty G. Marshall, *Major Episodes of Political Violence (MEPV) and Conflict Regions, 1946-2015*, Center for Systemic Peace (25 May 2016), 3-4, <http://www.systemicpeace.org/inscr/MEPVcodebook2015.pdf>.

The interpretation of aid behavior with respect to sanctions variables should be cautious due to the ambiguities of what is meant by the “international system” and by the occurrence of humanitarian crises in states that are the target of sanctions. We need to take care not to conflate policies contrary to United States or EU interests with policies contrary to the international system. China could very well promote policies contrary to United States or EU interests while still promoting the strength of the international system. If, for example, China is using its aid program to counter United States (or EU) interests but not upend the “international system”, we would expect that Chinese aid would increase to states under US-only (or US/EU only) sanctions but decline to states under UN sanctions. China, being a permanent member of the UN security council, would have at a minimum abstained from the UN vote to sanction a country. We expect China to reduce aid to states sanctioned by the UN. If China increased its aid to a state that China either actively or passively supported the application of sanctions upon, it would imply a lack of policy coherence and potentially evidence that China votes in the UN with the international order but acts contrary to it.

However, there are many cases where a state in conflict with its neighbors or in civil conflict may be the subject of a UN arms embargo yet still be the target of increasing foreign aid flows to mitigate humanitarian disasters. To distinguish various scenarios, the following sanctions regimes are individually coded: 1) US sanctions only, 2) EU sanctions only, and 3) UN sanctions (by definition include the United States and European Union). If China were seeking to counter United States security interests, it would likely provide aid to states under US-only sanctions while Japan may support United States interests by reducing aid to United States only sanction targets. Sanctions categories are coded as indicator variables for the years in which they are in effect. The reader should be cautious interpreting these results because



there is no perfect way to model the various possible motivations for aid to sanctioned states and the interpretation of any changes in aid behavior based on sanctions will be difficult. For example, there are many cases of countries under arms embargoes that still receive humanitarian aid. In some cases, humanitarian aid is provided to regimes like North Korea that are under some of the most restrictive sanctions applied anywhere.

The sanctions data were based on a comprehensive sanctions dataset from the German Institute of Global and Area Studies (GIGA) which includes every sanctions episode from 1990 to 2010 and distinguishes between US sanctions, EU sanctions and UN sanctions.<sup>344</sup> After establishing the GIGA dataset as the basis, the list of multilateral arms embargoes provided by the Stockholm International Peace Research Institute (SIPRI) is included. SIPRI provides data on most (all since 1998) multilateral arms embargoes since 1951 up until 2016. The Targeted Sanctions Consortium (TSC) database (1991-2014) was used to update and augment the GIGA sanctions episodes until 2014.<sup>345</sup> The dataset was then manually augmented by sanctions data from the United States treasury Sanctions Programs and Country Information - Office of Foreign Assets Control (OFAC)<sup>346</sup> and the United States State Department data on Defense Trade Controls.<sup>347</sup>

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<sup>344</sup> Clara Portela and Christian von Soest, *Sanctions Dataset Codebook* (German Institute of Global and Area Studies: Autocratic Regimes and Sanctions Project, 2012), accessed 1 February 2018, <https://datorium.gesis.org/xmlui/handle/10.7802/1346>.

<sup>345</sup> Targeted Sanctions Consortium Database, Graduate Institute Geneva: Global Governance Center, downloadable from [http://graduateinstitute.ch/home/research/centresandprogrammes/global-governance/research-projects/UN\\_Targeted\\_Sanctions/targeted-sanctions-consortium-da.html](http://graduateinstitute.ch/home/research/centresandprogrammes/global-governance/research-projects/UN_Targeted_Sanctions/targeted-sanctions-consortium-da.html) (accessed February 2018).

<sup>346</sup> Data was manually adjusted based on country sanctions fact sheets. The U.S. Department of Treasury publishes fact sheets for all active and recently concluded sanctions programs at <https://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx> (accessed February 2018).

<sup>347</sup> U.S. Department of State, Directorate of Defense Trade Controls, found at [https://www.pmdt.state.gov/embargoed\\_countries/index.html](https://www.pmdt.state.gov/embargoed_countries/index.html) (accessed November 2017).

#### 4.3.2.7 *Aid from other donors*

Aid allocations from other donors will also be tested as a possible explanatory variable for donor aid commitments. Does the donor increase aid when the United States reduces aid? What about cases where the United States attempts to punish an aid recipient for behavior counter to United States interests? Do other donors make up the difference, negating the punishment? Aid scholars and policymakers have often touted the ability to use aid to incentivize policy concessions. However, the incentive only functions if other donors are unwilling to make up the difference when a donor cuts its aid. The argument that China is a “rogue” donor often rests on the idea that China increases its aid as Western donors decrease their aid to punish aid recipients for failing to support the Western donor or adjust their internal policies in a way that suits the Western donor. The models in this dissertation will test United States foreign aid as a potential explanatory variable in the aid commitment decision. Based on the logic and hypothesis in Chapter 2, I expect Chinese aid to be negatively correlated with United States aid and Japanese aid to be positively correlated with United States aid.

#### 4.3.2.8 *International organizations*

International organizations have the power to affect the security interests of countries around the world. The UN controls a sanctions regime and helps settle international disputes which countries may want to influence in their favor. ASEAN is particularly important in Asia due to the membership of key states with territorial disputes with China and along the most important sea lanes of communication anywhere in the world. Aid commitments are likely to flow to states with decision-making power in international organizations that affect regional stability and security.<sup>348</sup> Positions in two key organizations are tested: 1) the UN security

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<sup>348</sup> Axel Dreher, Peter Nunnenkamp, and Rainer Thiele, “Does US aid buy UN general assembly votes: A disaggregated analysis,” *Public Choice*, Vol. 136 (2008), 139-164.

council, and 2) ASEAN chairmanship. Different donors may respond differently to membership in these organizations. China, being a permanent member of the UN security council with veto power, may not seek to influence the temporary members of the security council because it needs no help in stopping actions against its interests. Japan may be much more sensitive to trying to buy support on the UN security council especially given its long-term ambition to become a permanent member. There are 5 permanent members of the security council with veto power including China, United States, UK, Russia, and France and 10 temporary members which hold seats on a rotating basis by geographic region and are elected by the general assembly to two-year terms. The data on security council membership was provided by Dreher, Sturm and Vreeland (2009) and updated in 2016.<sup>349</sup>

Both Japan and China may actively compete for influence within ASEAN. The ASEAN chairmanship rotates among the 12-member states with the Chair having agenda setting responsibility. If China or Japan prefers that ASEAN either focus on or steer clear of areas of concern to the donor state, sovereignty in the South China Sea for instance, donor states may increase aid to the ASEAN Chair. A dummy variable takes the value of 1 if the state is the ASEAN Chair and 0 if not. Another dummy variable is constructed to take the value of 1 if the states is on the UN security council and a 0 if not.<sup>350</sup> These variables included in the model and tested to determine if, *ceteris paribus*, donor states increase aid commitments to UN security council members and the ASEAN Chair.

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<sup>349</sup> Axel Dreher, Jan-Egbert Sturm and James Vreeland, "Development Aid and International Politics: Does membership on the UN Security Council Influence World Bank decisions?," *Journal of Development Economics*, Vol. 88 (2009), 1-18.

<sup>350</sup> The historical list of past ASEAN Chairs can be found on the ASEAN website: <http://asean.org/asean/asean-chair/> (accessed February, 2018).

#### 4.3.2.9 UN voting

To test the impact of political affinity between two countries, data on UN voting patterns are used. We may expect that countries allocating aid for security purposes will compel recipient states to vote together on issues before the United Nations.<sup>351</sup> This hypothesis has been confirmed by several studies that have found a statistical relationship between foreign aid and UN voting patterns.<sup>352</sup> The dataset for UN General Assembly Voting is available from the Harvard University Dataverse website<sup>353</sup> and includes raw vote data,<sup>354</sup> dyadic affinity scores between countries, and ideal point estimates (explained under normative variables) derived from those votes.<sup>355</sup> Affinity scores can be used to estimate whether foreign aid donors reward or punish states based on their UN voting patterns, or whether recipient states votes are “bought” by foreign aid allocations.

#### 4.3.3 Normative variables

Normative variables are included in the model to account for the possibility that aid is allocated for altruistic purposes, to promote the values of the donor, or to respond to humanitarian crises that periodically occur. IVs that indicate normative intent for aid include poverty indicators, the occurrence of natural or anthropogenic disasters, and variables that indicate support for values like democracy and human rights.

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<sup>351</sup> Eric Voeten, “Clashes at the Assembly,” *International Organization*, Vol. 54, No. 2 (Spring 2000), 209-10.

<sup>352</sup> Alberto Alesina and David Dollar, “Who gives foreign aid to whom and why?,” 46.

<sup>353</sup> Go to: <https://dataverse.harvard.edu/dataset.xhtml?persistentId=hdl:1902.1/12379>

<sup>354</sup> Eric Voeten, “Data and Analyses of Voting in the UN General Assembly” in ed. Bob Reinalda, *Routledge Handbook of International Organization*, published May 27, 2013, available at SSRN: <http://ssrn.com/abstract=2111149>.

<sup>355</sup> Michael Bailey, Anton Strezhnev and Erik Voeten “Estimating Dynamic State Preferences from UN Voting Data” *Journal of Conflict Resolution*, Research Note (2015), DOI: 10.1177/0022002715595700.

#### 4.3.3.1 *Humanitarian crises*

Humanitarian disasters often draw wide ranging aid support from countries around the world. At a minimum, the model needs to account for variation in the DV when a humanitarian crisis occurs. Including a variable that indicates the occurrence of a major disaster captures the degree to which recipient need is important to the decision to commit aid. The data on humanitarian crises is based on OECD DAC data on ODA provided for that purpose by DAC member states. Beginning in 1990, the DAC began specifically categorizing aid as “humanitarian” in its dataset. Humanitarian aid includes aid that is given in response to an emergency; reconstruction, relief and rehabilitation; or disaster prevention and preparedness. The vast majority (84% in 2014) of aid categorized as humanitarian by the OECD is for emergency response and nearly all of it is given as grants (over 95% in 2014).<sup>356</sup> The total amount of humanitarian ODA received by the recipient state is used to indicate the magnitude of the humanitarian crisis. For example, the 2008 Sichuan Earthquake in China engendered \$339.5 million in humanitarian assistance to China in that year, while other years are in the \$10-\$30 million range. Years where a country receives over about \$500 million indicates the most severe humanitarian crises and tend to track civil and other wars such as Iraq (2003-5), Afghanistan (2001-2, 2008-11), Sudan (2004-11) among others.<sup>357</sup> I expect that foreign aid donors that utilize aid for humanitarian purposes will prioritize aid to countries that are having or have experienced a major crisis demanding international assistance.

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<sup>356</sup> OECD DAC CRS dataset, downloadable at <http://stats.oecd.org/Index.aspx?QueryId=58192m> (accessed November 2017).

<sup>357</sup> OECD DAC CRS dataset.

#### 4.3.3.2 *Recipient poverty*

States may allocate aid for the purpose of reducing or alleviating the effects of poverty in the recipient country. Two variables are used to test whether aid is given for this purpose. GDP per capita is an overall measure of a country's level of development but does not capture the distribution of income and may over or understate the level of extreme poverty in a country. A better measure of recipient need is infant mortality which is highly correlated with the prevalence of extreme poverty. Donors allocating aid for altruistic purposes should provide more aid to those with lower GDP per capita and higher levels of infant mortality. These variables are provided by the WDI.

#### 4.3.3.3 *Political freedom*

Many aid agencies around the world refer to support for democracy and human rights in justifying their aid programs. Japan explicitly states in its development cooperation charter (2015)<sup>358</sup> that ODA will support democratization, respect for human rights and other “universal” values. China may use its foreign aid to support regimes more like itself to promote its own values.<sup>359</sup> The Center for Systemic Peace's Polity IV dataset is used to measure political freedom and respect for human rights. The Polity IV dataset<sup>360</sup> is the latest iteration of the Polity data series to categorize the authority characteristics of countries around the world for the purpose of comparing them quantitatively. The data is on a -10 to +10 scale with the -10 being the most repressive and +10 being the most open and democratic. To help researchers, the Polity IV data set was augmented with a new variable “fixing” the standardized specialty codes (-66:

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<sup>358</sup> Government of Japan, *Ibid.* p. 6.

<sup>359</sup> Moises Naim, "Rogue Aid," 95-6.

<sup>360</sup> The full dataset can be downloaded from the Center for Systemic Peace website: <http://www.systemicpeace.org/inscrdata.html>.

foreign interruption, -77: anarchy, and -88: transition) to place them on the -10 to +10 scale.<sup>361</sup>

This allows the direct use in time-series analysis.

#### 4.3.3.4 UN “ideal point” estimates

All countries overall “respect” for human rights and liberal values are likely to be reflected in the manner in which they vote in the United Nations. Voting affinity with the donor is included as a security variable, but degree to which those votes conform to liberal and democratic ideals is included as a normative variable. The UN voting dataset includes what are termed “ideal point” estimates which focus on the values content of UN voting.<sup>362</sup> Ideal point estimates are designed to distinguish among votes according to support for political and economic freedom, democracy and respect for human rights. The ideal point estimates in this dataset are normalized around zero and designed to capture the degree to which each country’s voting conforms to the general parameters of a “liberal world order.”<sup>363</sup> Using these ideal points estimates, it is possible to determine whether foreign aid from Japan or China rewards or punishes states for their ideological voting profiles in the UN rather than simply whether their votes are correlated with the donors. The models are tested using both ideal point estimates and affinity scores reflecting the correlation of an aid recipient’s vote with the donor or the donor’s competitor.

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<sup>361</sup> Marshall, M. G., Gurr, T.R., and Jagers, K., *Polity IV Project: Political Regime Characteristics and Transitions, 1800-2015. Data Set User's Manual*. Center for Systemic Peace. May 19, 2016. P. 8.

<sup>362</sup> S-scores are a distance measure between voting dyads where the score is 1 if the two states agree on everything and 3 if they agree on nothing. Abstentions count as a 2, halfway between agree and disagree. S scores were developed in Signorino, Curtis S., and Jeffrey M. Ritter, “Tau-b or Not Tau-b: Measuring the Similarity of Foreign Policy Positions.” *International Studies Quarterly*, 1999, Vol. 43, No. 1, pp. 115-44.

<sup>363</sup> Michael A. Bailey, Anton Strezhnev, and Eric Voeten, “Estimating Dynamic State Preferences,” 16.

#### **4.4 The condition variable: threat perception**

According to the proposed theory, the level of threat perception in the donor state determines whether the donor acts as liberalism predicts or as realists predict. A high level of threat perception implies an aid strategy that reflects balancing behavior as predicted by realism. A lack of significant security threats would lead states to use their aid programs to support commercial goals in the manner that liberalism would predict. But threat perception, while intuitively simple, is often unclear. How can we determine whether a state is sufficiently threatened that we expect its behavior, especially regarding foreign aid, to change? When does a state change from low to high threat perception?

For the purposes of this dissertation, I define “threat” as a danger to a nation that originates from another nation involving a military aspect. “Threat perception” is the perception of that danger. I attempt to measure threat perception based primarily on the discourse of political leaders and security agencies in the perceiving countries and augment that analysis with an analysis of threat arguments in the media and overall public opinion. I cannot look into the minds of political leaders, but the proliferation of discourse that refers to specific military security threats by political leaders and security agency documents is an observable indication of the beliefs of political leaders will act on this observable declaration of threat perception. This study is not meant to look at the internal policy making process of threatened states, but the mechanism that transmits increasing levels of threat perception to foreign aid policy is through the political leaders who make both security and foreign aid policy. The specific policy making process is not observed, but the result of the policy making process in terms of aid commitments to specific countries and the factors that lead to those commitments are observed in data and analyzed statistically and in case studies.



Considering its importance in the international relations literature, surprisingly little work has been done on quantitatively measuring threat perception beyond its existence or lack thereof. Walt's balance of threat theory hypothesizes the sources of threat (power, proximity, offensive capabilities, and offensive intentions)<sup>364</sup>, yet provides no means of determining if a state perceives itself to be especially threatened. Some states may face the same threat conditions yet interpret intentions differently. For instance, South Korea and Japan would appear to be similar in their regard to the threat posed by China. Each is a formal United States ally, each has varying degrees of territorial dispute with China (and with each other) and are both in close proximity to China. Yet South Korea perceives relatively little threat from China to the consternation of Japan and the United States whose threat perceptions of China appear much greater.<sup>365</sup> Ueki shows that China threat arguments emerged in the United States in the 1990s and in Japan around 2000.<sup>366</sup>

Much of the literature on threat perception focuses on the psychology of threat and the problem of misperception. Jervis, focusing on deterrence, compellence, signaling and containment policies, was interested in how states can prevent misinterpretation of threatening intentions to avoid arms races and threat spirals.<sup>367</sup> Spiral theorists spend a substantial amount of time on the psychology of threat perception, but almost no time on methods for determining whether or not a state feels threatened. Writing during the Cold War, it seems that the perception of threat was taken as a given and each side was predisposed to perceive the opposing country in the most threatening light. Therefore, the focus of the threat perception

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<sup>364</sup> Stephen Walt, "Alliance formation and the balance of world power," 6.

<sup>365</sup> Jennifer Lind, "Between Giants: South Korea and the U.S.-China Rivalry," *The Atlantic* (19 July 2012), accessed 1 March 2018, <https://www.theatlantic.com/international/archive/2012/07/between-giants-south-korea-and-the-us-china-rivalry/260060/>.

<sup>366</sup> Chikako Kawakatsu Ueki, "The Rise of 'China Threat' Arguments," 13-14.

<sup>367</sup> Robert Jervis, *Perception and Misperception in International Politics* (Princeton University Press, 1976), 58-84.

literature emphasized ways to reduce misperception of threat by understanding the psychology of key actors. Because of the disconnect between Walt's sources of threat and the perceptions of the potentially threatened state, the analysis of threat perception quickly requires an analysis of the psychology of the leaders or populace in the perceiving state. Lake (2011) shows that a rationalist analysis of the United States perception of threat from Iraq cannot explain why threat perception should have been greater in 2003 than in the mid-1990s. Iraq was no more powerful, and its leader was the same. The difference was what Lake terms "cognitive and decision-making biases" of the Bush and Hussein regimes.<sup>368</sup> To Lake, the essentially important factors in threat perception are psychological processes combined with the rationalist sources of threat. Some recent scholars note that threat perceptions are socially constructed through a process of public and private conversations among experts, opinion leaders, politicians, and the general public.<sup>369</sup> The characterizations support my contention that threat perception is like a cloud that envelops the discourse and eventual actions of policy makers.

The question of how to characterize threat depends not so much on how faithfully it reflects reality, but on how useful the characterization is to understand the relations between the states and the forces driving their decision-making. A binary conception of threat perception has been usefully applied in international relations to describe and predict state behavior in a number of studies. Walt (1987) does not characterize threat with much clarity aside from the four sources but implicitly utilizes a binary conception of threat. To Walt, states balance against "significant" threats, implying that a state is either threatened "significantly" or

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<sup>368</sup> David A. Lake, "Two Cheers for Bargaining Theory: Assessing Rationalist Explanations for the Iraq War," *International Security*, Vol. 35, No. 3 (Winter 2010/2011), 45.

<sup>369</sup> Janice Gross Stein, "Threat Perception in International Relations", in ed. Leonie Huddy, David O. Sears, Jack S. Levy, *The Oxford Handbook of Political Psychology*, 2nd ed. (Oxford: Oxford University Press, 2013), 364-394.

not.<sup>370</sup> Tsunekawa (2009) utilizes a binary conception of threat and opportunity to characterize the ways that Japan and Southeast Asian states perceive the rise of China.<sup>371</sup> Many international relations scholars characterize states as “threatening”<sup>372</sup> or not but do not make any judgement on the intensity of the perception of threat. Chen and Yang (2013) utilize a binary threat condition variable combined with a binary economic opportunity variable to predict which countries in Southeast Asia will balance, bandwagon or hedge against China’s rising power.<sup>373</sup> Such a binary characterization provides the opportunity to characterize security policies and conditions utilizing the 2 x 2 matrix often used by international relations scholars (Schweller (1999)<sup>374</sup>, Cha (2010)<sup>375</sup>, Chen and Yang (2013)<sup>376</sup>). This dissertation seeks to characterize China and Japan as under the condition of perceiving 1) a high level of threat, or 2) a low level of threat in a similar manner as Chen and Yang. Time periods of high and low threat will then be quantitatively tested to determine how different security, economic and normative factors influence aid commitment behavior under the various threat conditions.

#### 4.4.1 Measuring threat perception

Where does that leave us in assessing whether or not Japan or China perceives itself under significant threat? We have no way of knowing exactly what the leaders of Japan and China think about the threats they face and precisely when they begin to alter national policy to address those perceived threats. However, the idea that a state is threatened by another state

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<sup>371</sup> Jun Tsunekawa, ed., *The Rise of China: Responses from Southeast Asia and Japan* (Tokyo: National Institute for Defense Studies, 2009), 9.

<sup>372</sup> Mike Mochizuki, “Japan’s shifting strategy toward the rise of China,” *Journal of Strategic Studies*, Vol. 30, No. 4-5 (2007), 739-776.

<sup>373</sup> Ian Tsung-Yen Chen and Alan Hao Yang, “A harmonized Southeast Asia?,” 11.

<sup>374</sup> Randall Schweller, “Managing the Rise of Great Powers: History and theory,” in ed. Alastair Iain Johnston and Robert S. Ross, *Engaging China: The Management of an Emerging Power* (London: Routledge, 1999), 1-31.

<sup>375</sup> Victor Cha, “Powerplay: Origins of the US Alliance System in Asia,” *International Security*, Vol. 34, No. 3 (Winter 2009/10), 158–196.

<sup>376</sup> Ian Tsung-Yen Chen and Alan Hao Yang, “A harmonized Southeast Asia? Explanatory typologies of ASEAN countries’ strategies to the rise of China,” *The Pacific Review*, Routledge, 2013.

is a perception that can proliferate in a society and spread through many levels of discourse in a society. Mearsheimer (2013) describes how security competition leads to nationalist discourse which can be used by leaders to inflate the level of threat perception of the society or can bubble up from ordinary citizens<sup>377</sup> – basically enveloping a country in a “cloud” of threat perception. Either way, heightened levels of threat perception course through societies and will be reflected in multiple levels of discourse. The extent of the discourse referring to perceived threats is an indication of the level of threat perception in the society where the discourse is occurring. Discourse on perceived threats among leaders and high-level decision-makers is reasonable grounds for determining that a country perceives itself under threat and is likely to act to address those threats.

The analysis of threats is the work of political leaders at the highest level and supported by a country’s national security apparatus. Policy and budget decisions regarding aid are centered in the Ministry of Commerce in China and Ministry of Foreign Affairs in Japan. However, the development of aid strategies and budgets are affected by the assessment and perception of threats at the highest levels of each government. For Japan, the trend in aid policy making has been to elevate decision-making authority from MOFA towards the Cabinet Office and has become a component of Japan’s National Security Strategy in 2013. Earlier, the 2005 decision to stop ODA lending to China is an example of political leaders pre-empting the bureaucracy in MOFA on a major aid policy and budget issue (see APPENDIX 6 for a case study on this major decision). In China, the State Council has long held the ultimate decision-making authority regarding aid policy and has ultimate control of significant budget and country allocation decisions. Further, both countries use a form of “omiyage gaikou” where the

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<sup>377</sup> John Mearsheimer, *The Tragedy of Great Power Politics*, Location 6472 of 11417 (Kindle Edition).

countries' top leaders de fact direct aid packages to preferred countries through the strategic planning of high level and state visits. Through these mechanisms, the overall perception of threats at the highest levels of government translates into changes in aid commitments to strategically important countries to promote national security goals.

Since it is impossible to see inside the heads of decision-makers, the clearest indication of the level of threat perception at the highest level of government is likely to be the content of the debates of political leaders. In the case of Japan, the content of diet debates is likely to be the most reliable indicator of overall threat perception with respect to China. In China, such debates are not publicly available so other sources are needed to assess the level of threat. There is a limited scholarly literature on Chinese threat perception which I will describe and assess to help determine when China's perceived threat of the US and the US-Japan alliance increased.

For both China and Japan, the national defense agencies publish white papers on their overall security situations and strategies. These white papers present an official view of each government on the perceived threats they face. These documents, through their coordinated internal reviews and approval, reflect and help inform the views of top political leaders and the high level decision-making bodies (Japan Cabinet Office and China State Council) in both countries which have ultimate authority over aid policies and allocations. In the case of Japan, the Diplomatic Bluebook published by MOFA also discusses the overall security situation confronting Japan. The benefit of using the Bluebook is that aid policies and budgets generally originate in MOFA and aid policy directions are addressed in the Bluebook along with some discussion of security threats. However the Defense of Japan white papers were selected for discourse analysis because: 1) the assessment of security threats and strategies is the main responsibility of the Ministry of Defense; 2) security threats are covered more comprehensively

in the Defense of Japan white paper than the Bluebook, 3) the Bluebook content is more event based as it catalogues the various diplomatic incidents related to national security with less emphasis on strategic vision in comparison to the Defense of Japan, and 4) the overall trends in threat perception are evident in both documents so that even if the Bluebook were selected, the overall judgement on the threats faced by Japan would be the same. As an illustration, the opening of Chapter 1 of the Defense of Japan reads: “The security environment surrounding Japan has become increasingly severe, with various challenges and destabilizing factors becoming more tangible and acute.”<sup>378</sup> The Bluebook of the same year includes the following in its opening paragraph: “With these major trends, the security environment surrounding Japan in the Asia-Pacific region is also becoming increasingly severe.”<sup>379</sup> The Bluebook uses precisely the same descriptor “ increasingly severe” but using less clear and concise language. Overall, I decided that the Defense of Japan white papers are preferable for the purpose of this dissertation due to their source, clarity, and content.

Media discourse is another avenue to analyze threat perception at a broader level. In China, media is controlled by the government and reflects the views of the state and, therefore, should be a reasonably reliable indicator of its threat perception. In Japan, the media represents a diverse set of views but ultimately reflects, through its reporting of security incidents, government reports and debates of political leaders, the trends in perceived threats of the country. Media discourse is analyzed by looking at the number of unique articles published referring to Japan and China’s perceived threats.

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<sup>378</sup> Japan Ministry of Defense, “Defense of Japan 2014,” 45.

<sup>379</sup> Japan Ministry of Foreign Affairs, “Diplomatic Bluebook 2014,” (Tokyo: Government of Japan), 2.

As the “cloud” of threat perception spreads through a society, it will also affect the views of the general public. Therefore, as a final indicator of threat perception, I have chosen to look at public opinion surveys. Both the Chinese and Japanese governments are cognizant of public opinion which they both respond to and try to mold. So while aid decisions are not made by the public, the extent to which the “cloud” of threat perception pervades a country should be reflected in the opinions of each countries’ citizens. Analyses of these sources will attempt to identify inflection points that represent changes in the threat discourse to identify when threat perception is higher or lower.

The analysis of threat perception in Japan and China will be presented in the order of predictive strength. For Japan, the order is: 1) Diet debates, 2) Defense of Japan white papers, 3) media discourse, and 4) public opinion. For China, the order is 1) National Defense white papers, 2) media discourse, 3) review of past literature on Chinese threat perception, and 4) public opinion.

Through these analyses, I choose the high and low threat periods on which to analysis aid commitment decisions. In reality, threat perception is a continuum of perceived vulnerability with near infinite variation but there are periods of time when most observers can agree that a state perceives a high enough level of threat for that perception to begin to drive an array of policy decisions. This state would exhibit a high-threat condition.

#### **4.4.2 Japan’s overall threat perception**

Beginning in the mid 1990s with China’s nuclear tests and increasing belligerence around territorial disputes with Japan and in the South China Sea, combined with China’s growing economic power and aid program, Japan’s perception of a security threat from China

has slowly increased.<sup>380</sup> Since China's opening to the West, Japan considered China an economic opportunity, but as its power continued to grow and relations between China and Japan deteriorated, "China threat" arguments increased markedly in Japan around 2000.<sup>381</sup> By 2005, anti-Japan riots in China and its economy on the verge of surpassing Japan's combined with exceptionally poor public perceptions of each other's intentions on both sides brought relations to a nadir. Sino-Japanese relations were already on a downward trajectory by around 2003 so many observers point to domestic politics as the reason for the 2005 decision to end ODA loans to China. However, many Japanese leaders had been arguing for ending ODA loans to China as early as 1995.<sup>382</sup> The reason commonly cited was to stop promoting China's prosperity at Japan's expense, a realist relative power argument.<sup>383</sup> Newspaper editorials frequently called for Japan to stop helping China who was claimed to be building up its military contrary to Japan's 1992 ODA charter and providing aid to third countries.<sup>384</sup> By 2003, editorials opposed ODA to China because it was becoming a military and economic "threat" to Japan.<sup>385</sup> These debates preceded the sharp deterioration in relations in 2004 and 2005 that appears to continue up until this writing in 2018.

Given the apparent proliferation of "China threat" arguments in Japan, how can we choose a point where Japanese decision-makers act to alter Japan's ODA and security policies to address those threats? It is impossible to see into the mind of decision-makers, but we can

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<sup>380</sup> Masuda, Masayuki, "Japan's Changing ODA Policy Towards China", *China Perspectives [Online]*, Vol. 47 (May-June 2003), <http://journals.openedition.org/chinaperspectives/358> (accessed March 2018).

<sup>381</sup> Chikako Kawakatsu Ueki, "The Rise of 'China Threat' Arguments," 14.

<sup>382</sup> Japan Forum on International Relations, "The Future of China in the Context of Asian Security," (Tokyo, January 1995), 9, referenced in Reinhardt Drifte, "The ending of Japan's ODA loan programme to China," 109.

<sup>383</sup> "Japan will not slash aid budget for East Asia; Ignoring calls at home to stop financing China's prosperity, Tokyo says it still regards the region as a 'priority area,'" *The Straights Times (Singapore)*, August 13, 2002.

<sup>384</sup> "ODA Getting the Review it Needs," *Japan Economic Newswire* (Translated from Daily Yomiuri), December 12, 2000.

<sup>385</sup> "Should Japan Curtail ODA Spending?," *The Daily Yomiuri*, 11 August 2003.



look at the content of the debates of political leaders, threat assessments of the defense agency (no Ministry), media discourse and public opinion.

**Diet debates in Japan.** The Japanese Government provides a useful tool for tracking Diet debates through its Diet Proceedings Search System available online on its National Diet Library website.<sup>386</sup> The results of searches for “China threat” and “threat from China” are given in Figure 4-2 on page 200 presented together with the media analysis. In the mid-1990s, China threat arguments swelled with the 1995 nuclear tests and tensions in the Taiwan Straits before dropping in 1999. The early 2000s saw a sustained increase in China threat arguments peaking in 2006 before dropping again in 2007-8 at the height of the worldwide financial crisis. China threat arguments in the Diet then increased steadily until 2015 reaching the highest level ever. The pattern of Diet debates suggests that “China threat” discourse emerged around 2001-2002.

**Defense White Papers.** Japan’s national defense white papers provide another potential source of information on threat perception from the perspective of the defense establishment. Interpreting the tone and content of these documents is difficult as many of the same phrases are carried over from white paper to white paper. However, looking at the tone of the white paper Section 1 which consistently presents the overall security environment surrounding Japan, a change in tone and evident perception of threats to Japan becomes clearer. For example, the 1993 white paper states in the first few paragraphs:

“Under such current international military situations with many factors in flux, there exists a sense of uneasiness and uncertainties for the future while various efforts toward stabilization continue. As a whole, however, it can be recognized that the world is moving in a favorable

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<sup>386</sup> [kokkai.ndl.go.jp](http://kokkai.ndl.go.jp) (accessed April 2017)

direction, as a result of the certain end of the Cold War due to the dissolution of the Soviet Union.”<sup>387</sup>

Contrasted to the 2014 Defense of Japan (official English translation), which begins:

“The security environment surrounding Japan has become increasingly severe, being encompassed by various challenges and destabilizing factors, which are becoming more tangible and acute.

Above all, as conflicts between countries, etc., remain, major changes in the security environment in the vicinity of Japan have yet to emerge even after the end of the Cold War, unlike in Europe. Opaque and uncertain factors such as issues of territorial claims and reunification remain. There is also an increase in the number of so-called “gray-zone” situations that is neither purely peacetime nor contingencies over territory, sovereignty and maritime economic interests, etc. In addition, there are clearer trends for neighboring states to modernize and reinforce their military capabilities and to intensify their military activities. As such, security challenges and destabilizing factors in the Asia-Pacific region including the area surrounding Japan are becoming more serious.” (Defense of Japan 2014)<sup>388</sup>

The 1993 white paper’s tone is more optimistic about the overall security situation around Japan and emphasizes the likelihood of the security situation improving. The 2014 white paper’s tone is negative and pessimistic about the direction of Japan’s security situation and emphasizes threats which implicitly refer to actions by China (“grey zone” situations refer to Chinese incursions into disputed territorial waters among other acts). The expressed perception of threat appears quite different in these two documents. The task is to discern more subtle changes over time to characterize the level of threat perceived by Japan’s military establishment.

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<sup>387</sup> Japan Cabinet Office, Defense Agency, “Defense of Japan 1993,” Tokyo: Government of Japan, 1993, accessed on 8 April 2018, [http://www.clearing.mod.go.jp/hakusho\\_data/1993/w1993\\_01.html](http://www.clearing.mod.go.jp/hakusho_data/1993/w1993_01.html) (Japanese version).

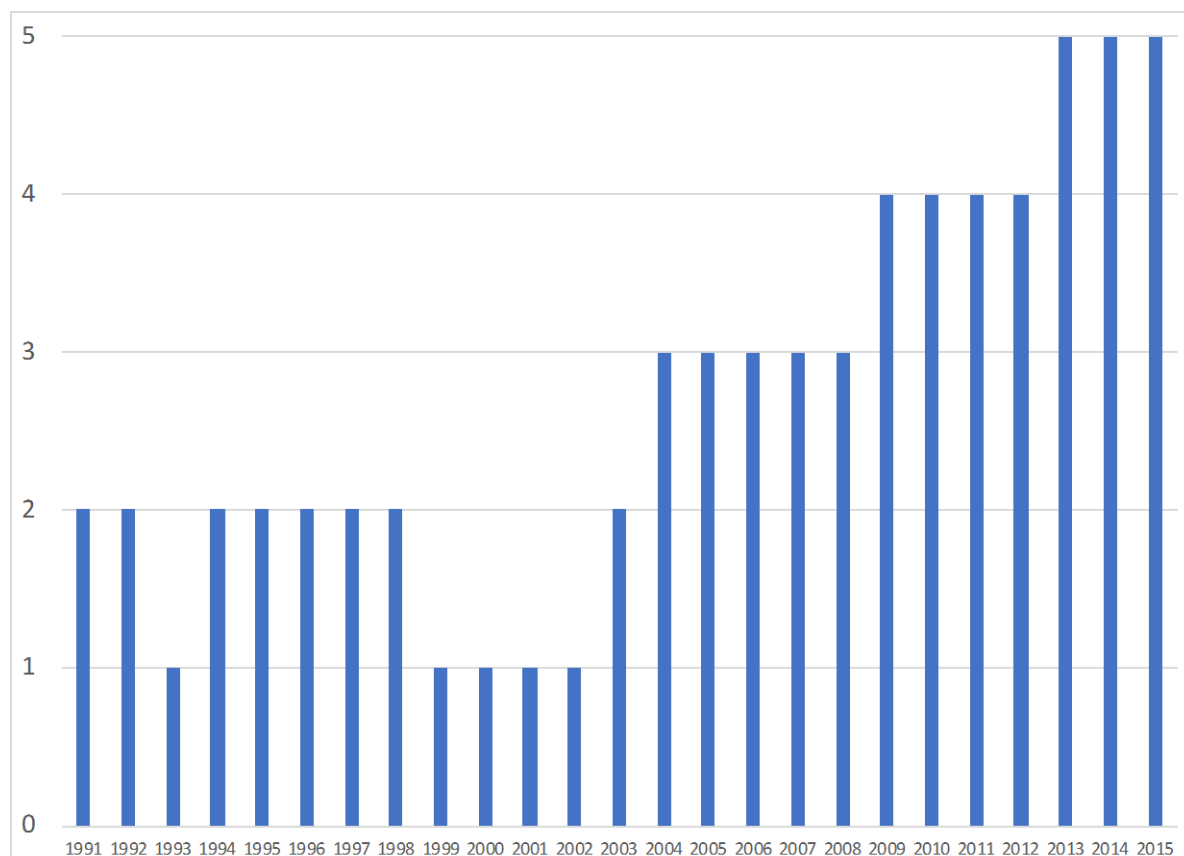
<sup>388</sup> Japan Ministry of Defense, “Defense of Japan 2014,” (Tokyo: Government of Japan, 2014), 45, accessed on 8 April 2018, [http://www.mod.go.jp/e/publ/w\\_paper/pdf/2014/DOJ2014\\_1-1-0\\_web\\_1031.pdf](http://www.mod.go.jp/e/publ/w_paper/pdf/2014/DOJ2014_1-1-0_web_1031.pdf).

I attempt to characterize the level of threat implied by the language used in the section of the defense white papers referring to Japan's overall security situation augmented by the specific references to any threats from China. The language and content of the Defense of Japan white papers is assessed qualitatively in order to rate threat on a 5-point scale from low (1) to high (5) (See APPENDIX 3 for specific language and citations). The factors assessed qualitatively to reach each rating are as follows:

- (1) Reflects a situation where Japan's overall security situation is expressed as positive and moving in a positive direction. No specific threats identified though uncertainties may be mentioned. Discussion of China (if included) emphasizes a positive direction of opening up. (Low threat)
- (2) Reflects an emphasis on uncertainty but does not identify any particular threats. Discussion of China (if included) emphasizes the rapid modernization of China's military but no specific threat to Japan. (Low-medium threat)
- (3) Identifies specific threats to Japan's security (such as terrorism, nuclear proliferation, or territorial issues) and direction is either unclear or negative. China discussion (if included) highlights China's rising power and military modernization. (Medium threat)
- (4) Highlights emerging specific threats to Japan including territorial conflicts and nuclear proliferation. Discussion of China (if included) emphasized China's rising power and military modernization and mentions specific actions threatening to Japan. (Medium-high threat)
- (5) Clearly states that Japan's security situation is "severe" and deteriorating. Identifies specific threats to Japan's territory and security. Discussion of China (if included) emphasizes specific incidents perceived as threatening to Japan including violation

of territorial integrity and actions meant to infringe on Japan's perceived rights and interests. (High threat)

The following chart (Figure 4-1 on page 199) shows the qualitative assessment of the language and content of the Defense of Japan white papers. The overall trend is up with the most recent years reaching a "high threat" condition. Looking at direction, the trend from immediately after the Cold War is of declining threats until around 2002 and increasing threats afterwards. Threat perception expressed by the Defense Agency/Ministry reached moderate levels by 2004 and has been medium-high to high since 2009. The Defense of Japan white papers are political documents that don't change much year to year and there could be different interpretations of the modest year to year changes, but assessed over a long period of time, the trend is quite clear. Japan's military and security institutions expressed increasing levels of threat perception from China since the early 2000s.

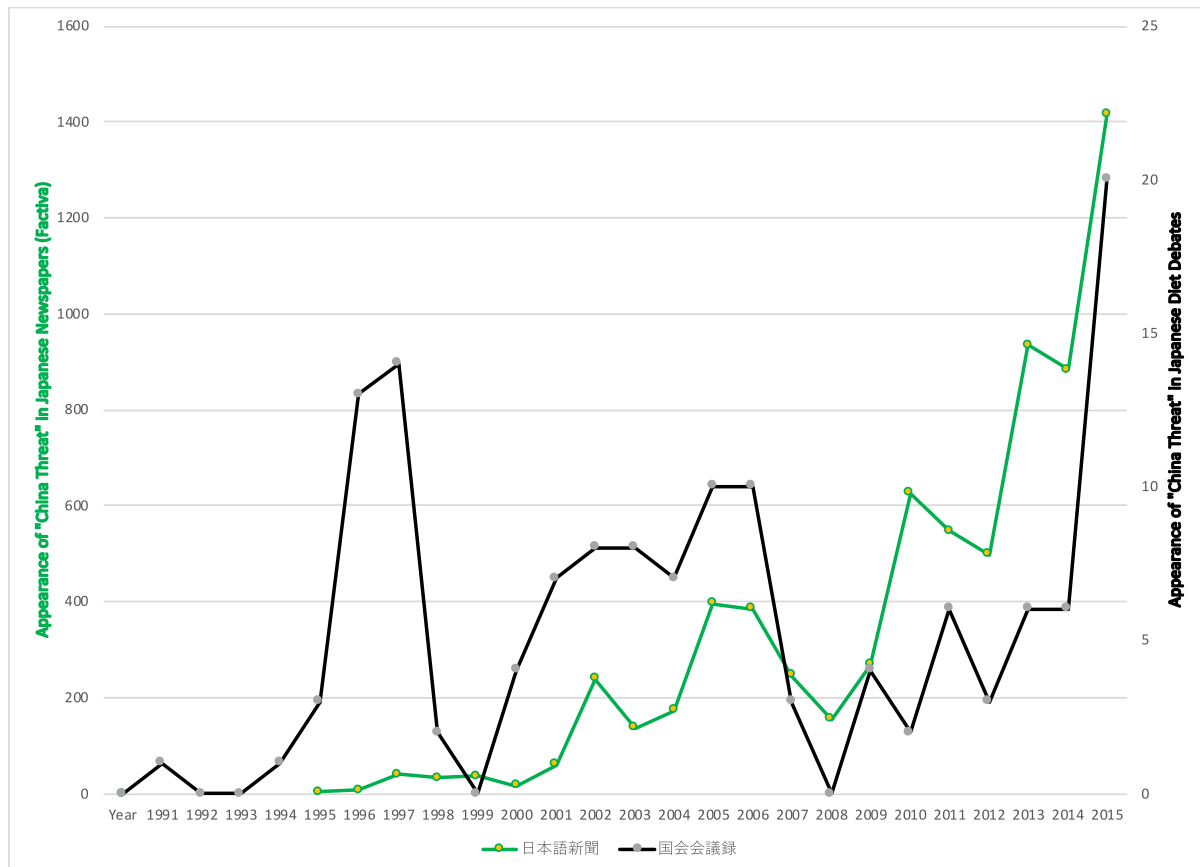
**Figure 4-1: Japan's Threat Perception - Qualitative review of Defense White Papers**

Source: Authors assessment of language/content of annual Defense White Paper of the Government of Japan.

**Media discourse in Japan.** I conducted targeted media searches via Factiva to assess the number of unique articles referring to China threats. Searches were conducted in Japanese to find references to “China threat” and “threats from China”.<sup>389</sup> Factiva began indexing Japanese language newspapers from 1995 so the first media references found were in 1995 (as shown in Figure 4-2 on page 200). The number of times “China threat” was mentioned was low in the 1990s remaining below 40 until 2001 when the number of references begin to climb. Articles mentioning “China threat” steadily rose to around 400 by 2005-6 before dropping back to below 200 in 2008. Since then, the prevalence of articles referencing “China threat” have increased enormously to over 1400 by 2015.

<sup>389</sup> The phrases searched were 中国脅威 and 中国の脅威. These translate to “China threat” and “threat from China” respectively.

**Figure 4-2: China threat discourse in the National Diet and Japanese newspapers**



Sources: Factiva for Japanese newspaper search results conducted on 25 April 2017, National Diet Proceedings Search System (国会会議録検索システム).

Some caution interpreting the media discourse findings may be warranted. During the period of analysis, the news media business entered and continues to experience significant disruption caused by the internet and social media. Changes in the newspaper market which has experienced declining circulation and profitability worldwide may have affected the results. Factiva does enable filtering out duplicate articles that may appear on numerous sites, so the results do reflect distinct articles. However, social media has increased the speed at which ideas and news articles are disseminated while at the same time reduced the ability of news organizations to profit through subscriptions. Economic pressures on individual newspapers have increased their reliance on social media to gather information which may amplify the most alarmist and extreme views. This would be a valuable topic for further research.

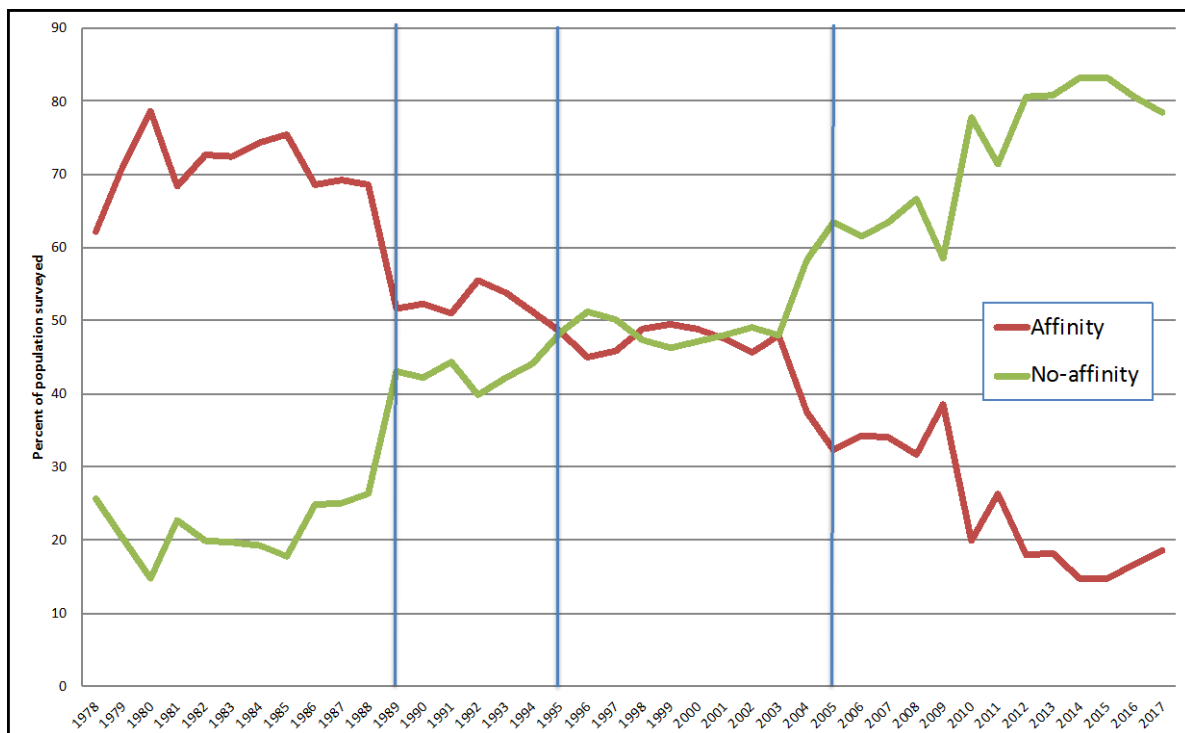
**Public opinion in Japan (and China).** Public opinion polling on Japan-China relations comes from two primary sources. The Cabinet Office has conducted public opinion surveys on Japanese views on international diplomacy including questions about the Japanese people's feelings of "affinity" or feelings of friendship<sup>390</sup> with China (see Figure 4-3 on page 202). The question posed is not specifically about perceived threat from China, but it is clear from the survey results that behavior by China that can be perceived as threatening has a powerful effect on the survey results. From China's opening and through much of the 1980s, Japanese people had markedly friendly feelings towards China. The Chinese crackdown on demonstrators in Tiananmen Square in 1989 was the first major disruption in the relationship and it resulted in a persistent 20 percent drop in the number of Japanese expressing friendly feelings towards China. When China conducted nuclear tests in 1995 before signing the test ban treaty, the percentage of Japanese with unfriendly feelings towards China exceeded the percentage with friendly feelings for the first time in this survey. In 2003, Japanese feelings of friendship toward China began a rapid deterioration, but not clearly linked to any particular incident. Rather, the deterioration appears to be a culmination of a series of controversies regarding 1) China's increasing incursions into Japan's territorial seas around the Senkaku Islands in the early 2000s, 2) frustration at a perceived lack of appreciation by China for Japan's ODA, and 3) the increasing perception that China's military was being strengthened and modernized in a way that threatened Japan.<sup>391</sup>

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<sup>390</sup> The survey question posed has been (with some variation over time): 「あなたは、中国に親しみを感じますか、感じませんか。この中ではどうでしょうか。」 1) 親しみを感じる 2) どちらかという親しみを感じる 3) どちらかという親しみを感じない 4) 親しみを感じない。In English, this can be translated as: "Do you have friendly feelings towards China or unfriendly feelings? 1) friendly feelings 2) somewhat friendly feelings, 3) somewhat unfriendly feelings or 4) unfriendly feelings.

<sup>391</sup> Reinhardt Drifte, "The ending of Japan's ODA loan programme to China," 94-117.

**Figure 4-3: Public opinion survey results - Japanese affinity with China**

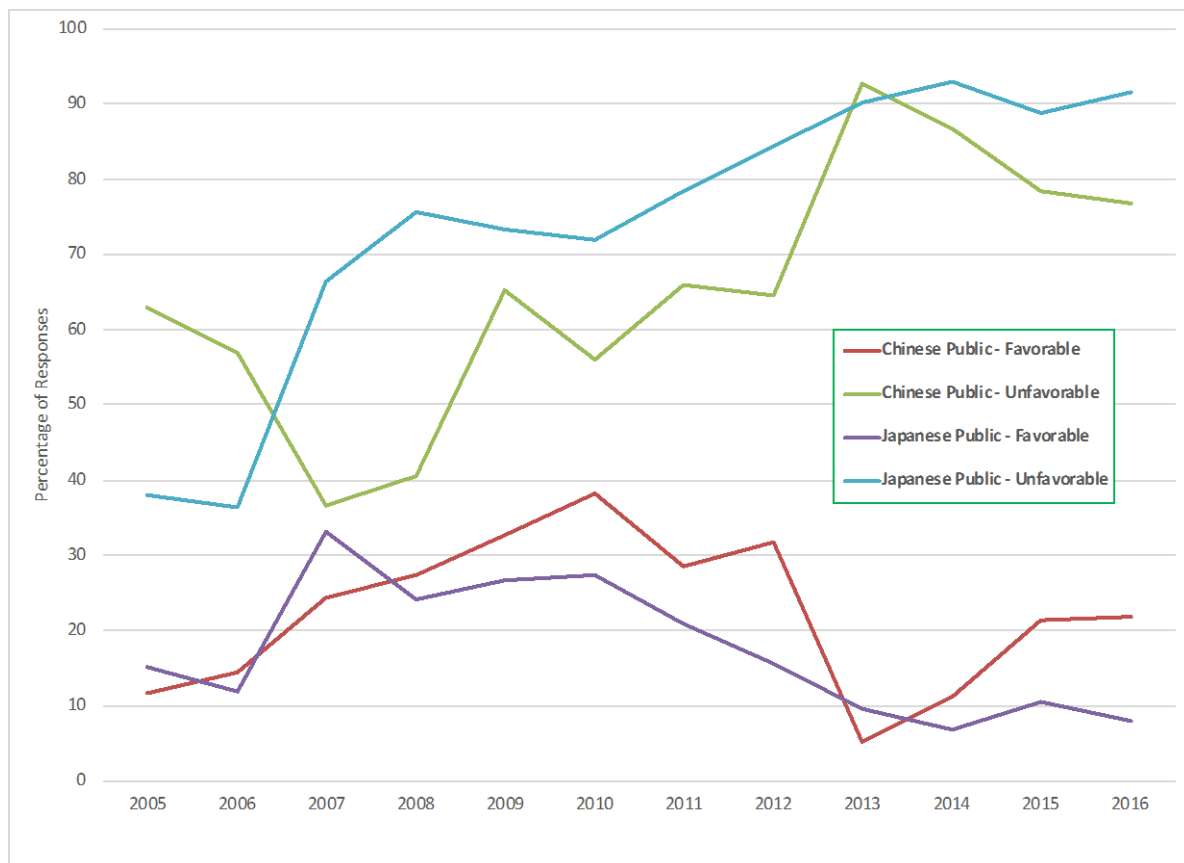


Source: Cabinet Office - 内閣府、外交に関する世論調査 - Annual (see <http://survey.gov-online.go.jp/index-gai.html>), blue lines represent the 1989 Tiananmen Massacre, 1995 nuclear tests and 2005 decision to stop ODA lending to China.

The other source of survey data on Japanese (and Chinese) public attitudes towards China (and Japan) is the annual survey by the Genron NPO.<sup>392</sup> This survey was initially conducted only in 2005 so the time frame is limited. However, the results confirm the findings of the Japan Cabinet Office survey and provide reciprocal data on the attitudes of the Chinese people. The Genron NPO survey results are presented in Figure 4-4 on page 203.

<sup>392</sup> The Genron NPO, "The 12th Japan-China Opinion Poll: Analysis Report on the Comparative Data, 2016," Tokyo.



**Figure 4-4: Attitudes of Japanese and Chinese people about the other country**

Source: Genron NPO (2016) [www.genron-npo.net/en/opinion\\_polls/ctegory/267.html](http://www.genron-npo.net/en/opinion_polls/ctegory/267.html) (accessed March 2018).

Overall, the Genron survey shows that both Japanese and Chinese people have poor overall impressions of the other country with an improvement in 2007-2008 (though still negative feelings overall) and a sharp worsening in 2013. The Cabinet Office surveys are more useful due to the long period over which comparisons can be made. From opinion surveys, the Japanese public appeared unthreatened by China in the 1980s, somewhat more threatened, but not strongly so during the 1990s, and increasingly concerned with threats from China in the 2000s.

Taking the previous analyses as a whole considering public opinion, news media and Diet debates as well as defense white papers, there appears to be a divide occurring in the early 2000s with Diet debates on a China threat a leading indicator starting to rise in 2000. News

coverage of China threats started increasing in 2001-2002 and public opinion deteriorating after 2003. Japan's threat perception can be divided into low and high-threat period with 2002 chosen as a reasonable break point. Based on the overall security related discourse in Japan with respect to China, the 1991-2001 period is a low threat period while 2002 onward is a high threat period.

#### **4.4.3 China's overall threat perception**

China provides less official analysis of its security strategy than Japan, has no publicly available transcripts of policy debates within the Chinese Communist Party, and a general lack of press freedom and internet censorship make it more difficult to determine how threatened it may perceive itself to be. Further, there may be times when the Chinese government wants heightened discussion of threats to proliferate and may suppress those discussions at other times according to diplomatic or other needs. However, the Ministry of National Defense of China publishes a national defense white paper on China's Military Strategy<sup>393</sup> every two years. This document provides valuable insight into the Chinese military's perception of its overall security environment. In addition, news and policy articles may be searched in both English and Chinese there are a few scholarly articles on Chinese threat perception. Lastly, the Genron NPO public opinion surveys on Japan-China relations have been done since 2005 (see Figure 4-4 on page 203) and include the Chinese public's attitudes.

Japan is a diminishing military threat to China due to its declining relative power and limited offensive military capability though Japan certainly has high defensive military

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<sup>393</sup> China State Council Information Office, *China's Military Strategy* (Beijing: Government of the People's Republic of China), biennial since 1998, accessed on 15 April 2018, <http://eng.mod.gov.cn/Database/WhitePapers/index.htm>.

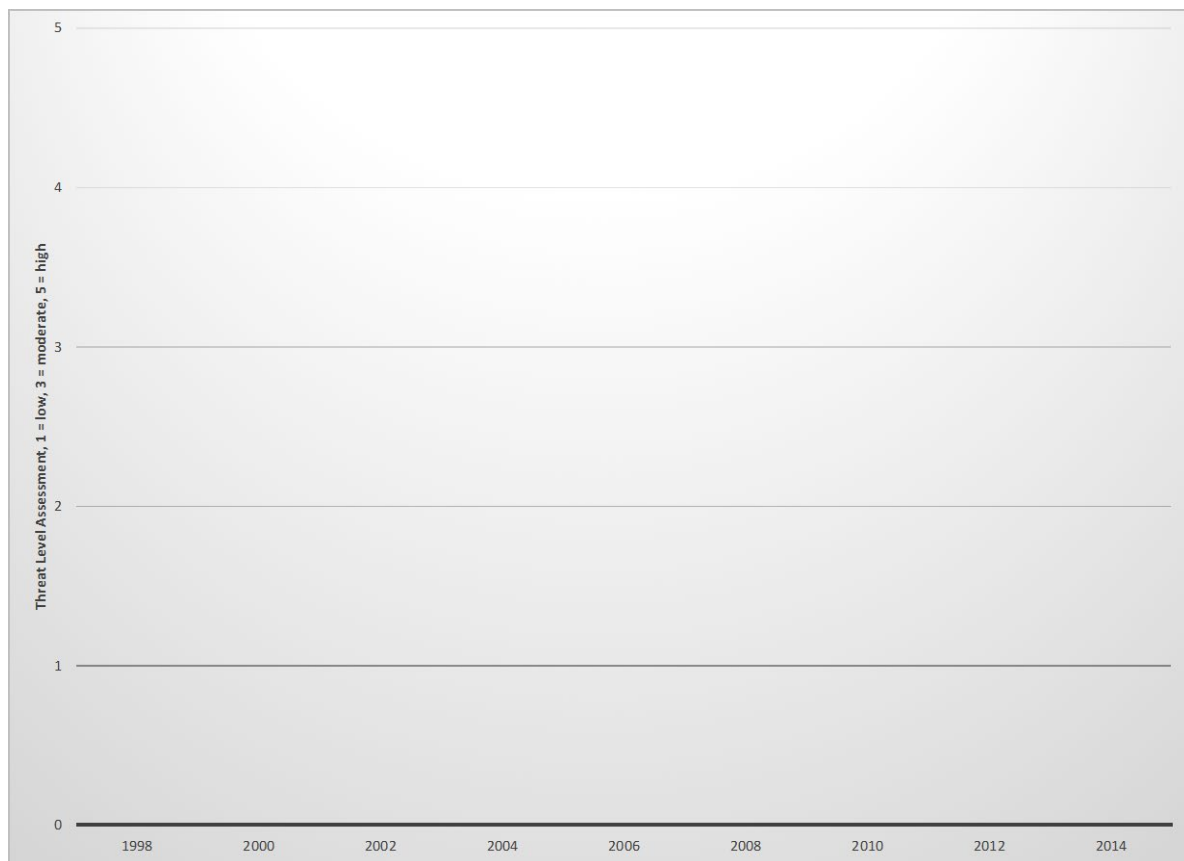
capabilities, some of which may also have offensive utility. The threat to China is the from the United States and any threat from Japan is derived from Japan's association with the United States and the overall power represented by the United States-Japan alliance. If China perceives the United States and the United States-Japan alliance as a significant threat, China's security interests are served by weakening United States alliances in East Asia and countering United States security interests.

**China's National Defense white papers.** China's national defense white papers, like Japan's, provide key source of information on threat perception from the perspective of the military establishment. China's white papers have been published in English since 1995 and biennially since 1998. The Chinese white papers are not as comprehensive as the Defense of Japan white papers but give a broad overview of the regional security situation, identify the outlook for China's security and list what they consider the key threats. Like the analysis for Japan, I utilize a 5-point scale from low (1) to high (5) (See APPENDIX 3 for specific language and citations). The factors behind each rating are as follows:

- (1) Reflects a situation where China's overall security situation is expressed as positive and moving in a positive direction. No specific threats identified though uncertainties may be mentioned. (Low threat)
- (2) Reflects an emphasis on uncertainty, but do not identify any particular threats. (Low-medium threat)
- (3) Identifies specific threats to China's security and direction is either unclear or negative. (Medium threat)

- (4) Highlights emerging specific threats to China including territorial conflicts, maritime rights, military challenges. Specific mention of Japan or United States or “external countries” infringing on China’s security (Medium-high threat)
- (5) Clearly states that China’s security situation is bad and deteriorating. Identifies specific threats to China’s territory and security. (High threat)

The following chart shows the qualitative assessment of the language and content of the China’s National Defense white papers. The overall trend is up though with a distinct drop in 2008. The highest assessed level of threat is the most recent year, 2014. China’s defense white papers tend to emphasize a positive overall outlook but do increasingly identify territorial issues with regard to the Senkaku Islands and the South China Sea as key concerns. Defense white papers are political documents that don’t change much year to year and there could be different interpretations of modest year to year changes. However, 2008 stands out as a particularly positive version of China’s defense white paper. The language is replete with expressions of confidence and positive views of the future. Considering this was in the midst of a worldwide financial crisis, I am tempted to conclude that China’s security apparatus believes its national security interests are best served by weakness in the developed world. China’s economy was relatively insulated from the crisis and China’s massive stimulus program restarted economic growth more quickly than nearly anywhere else. As the rest of the world recovered, China’s threat perception appeared to increase. The assessment of the threat perception based on China’s defense white papers is given in Figure 4-5 on page 207.

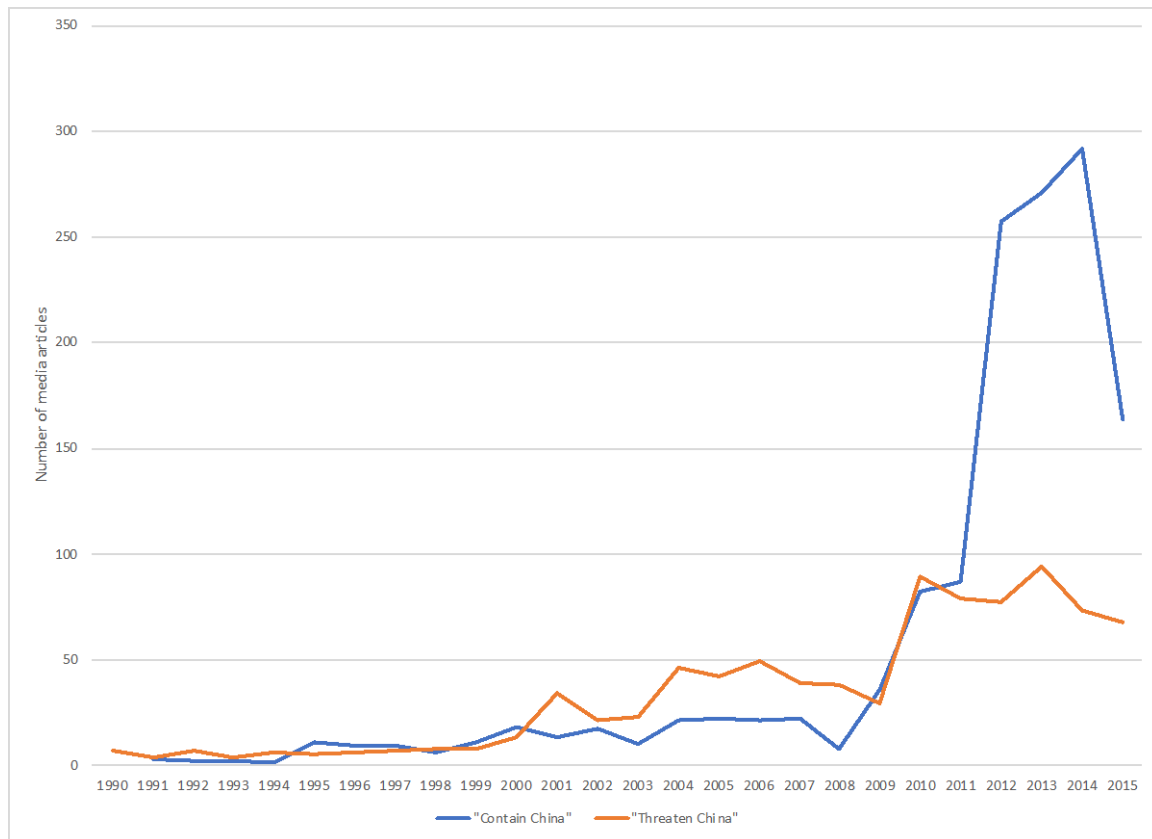
**Figure 4-5: China's threat perception - Qualitative review of defense White Papers**

Source: Authors assessment of language/content of the biennial China's National Defense White Papers, 1998-2014.

**Chinese Media Discourse.** Like the analysis of Japanese discourse of the threat from China, I also analyzed the content of news articles to determine the extent to which threat arguments appear in Chinese media. Using Factiva, both English language Chinese media and Chinese language media were analyzed to count the number of articles that contain phrases that indicate threat perception of the United States-Japan alliance. First, the phrases “threaten China”/“threat to China” and “contain China”/“containment policy” were searched in China based English language media (only articles that include these terms and refer to the United States, America, or Japan were counted). The results are in Figure 4-6 on page 208 and show a generally upward sloping pattern. The “contain China” narrative appears more reactive to current events. There is a noticeable but small increase in 1995 around the update of the United States-Japan defense guidelines, a noticeable drop in 2008 after the worldwide financial crisis

and a sharp increase during the Abe administration (from 2012 to this writing) when the number of articles referencing “contain China” roughly doubled and remained elevated.

**Figure 4-6: Articles Containing "threaten China" and “contain China”**



Source: Factiva search on (i) US or American or Japan(ese) and “contain China” or “containment policy” and (ii) US or American or Japan(ese) and “threat to China” or “threaten China”.

“Threaten China”/“threat to China” narratives increase more slowly and appear less responsive to current events though there is a decided increase between 2009 and 2010 perhaps related to the collision of a Chinese fishing trawler and the Japanese coast guard near the Senkakus.<sup>394</sup> The problem with the “threaten China” findings is that many of the included articles refer to non-security threats, especially economic and trade threats. Articles may

<sup>394</sup> Michael Green, Kathleen Hicks, Zack Cooper, John Schaus, and Jake Douglas, *Countering Coercion in Maritime Asia: The Theory and Practice of Grey Zone Deterrence* (Washington DC: Center for Strategic and International Studies, May 2017), 66.

mention “US threatens to impose tariffs on Chinese solar panels” and would be included in the Factiva figures. Some of the articles are referring to threats made by the United States in relation to the so-called war on terror and not specifically threatening China. The “contain China” narrative is much more targeted at security concerns and expresses the main perceived threat to China’s rise: namely that the United States, with Japan’s cooperation, seeks to prevent China from rising and claiming its rightful place of regional dominance; in essence the United States following a strategy of maintaining primacy as its grand strategy.<sup>395</sup> The vast majority of the articles referring to “contain China” or its variations such as “containment policy” against China or “encircle China” refer to the perception of specific threats against China to prevent China’s rise. For this reason, the best keyword searches in Factiva are “contain” or “encircle” China.

China based media is controlled by the state and, as such, the contents are likely to reflect the diplomatic strategy of the CCP. The news outlets available in English such as the China Daily and Global Times are published not just to inform an international audience about China, but to promote “global reputation” and “muffle foreign criticism”.<sup>396</sup> The Global Times was launched in 1993 but the English version has only been published since 2009.<sup>397</sup> Therefore, the English language searches are likely distorted by the introduction of a major new CCP affiliated news source in English and may explain the large jump in articles after 2009.

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<sup>395</sup> Barry Posen and Andrew Ross, “Competing Visions for US Grand Strategy,” *International Security*, Vol. 21, No. 3 (Winter 1996-97), 5-53.

<sup>396</sup> Gary Rawnsley, “China’s English Language Media: A Case of Overconfidence,” University of Southern California Center on Public Diplomacy: CPD Blog, 21 April 2009, accessed 2 April 2018, <https://uscpublicdiplomacy.org/blog/china-s-english-language-media-case-over-confidence>.

<sup>397</sup> Christopher Bodeen, “China launches new English language newspaper,” *Associated Press*, 20 April 2009, accessed on 14 April 2019, [https://www.foxnews.com/printer\\_friendly\\_wires/2009Apr20/0,4675,ASChinaNewNewspaper,00.html](https://www.foxnews.com/printer_friendly_wires/2009Apr20/0,4675,ASChinaNewNewspaper,00.html).

Therefore, I conducted Factiva searches in Chinese to better track the development of China's threat perception.

Though not proficient at Chinese, I consulted with Chinese international relations experts on the proper phrasing of “contain China” used when Chinese news media discuss the containment policy with respect to the United States and Japan.<sup>398</sup> The two phrases most commonly used are 围堵 (wei du) and 遏制 (e zhi) which can be translated as “encircle” and “contain” respectively. Factiva searches were conducted to determine the number of articles containing these phrases along with references to China and the United States or Japan. The searches were then limited by topical category to only show articles categorized as “international relations”. Then, to ensure that the proliferation of news sources did not skew the results, the searches were limited to Xinhua only – the state-owned news agency that is the largest in China (and the world)<sup>399</sup> which has operated since 1931.<sup>400</sup> The results are given in Figure 4-7 and Figure 4-8 on page 211.

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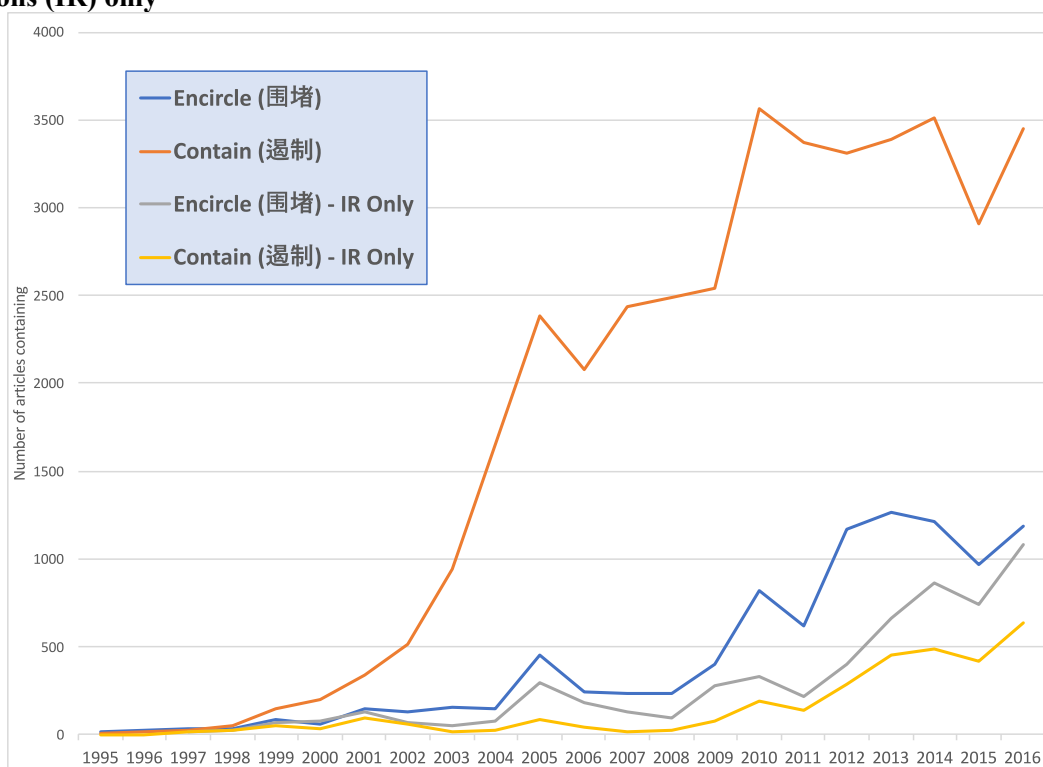
<sup>398</sup> The author would like to thank Zhang Hao and Calvin Fung, fellow PhD candidates at Waseda University (as of 2017), for kindly advising on Factiva search phrasing and content analysis.

<sup>399</sup> International Media and Newspapers, "Top News Agencies in the World," access at <https://www.4imn.com/news-agencies/> on 15 April 2018.

<sup>400</sup> "Company Overview of Xinhua News Agency," *Bloomberg*, accessed 15 April 2018, <https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=22500961>.

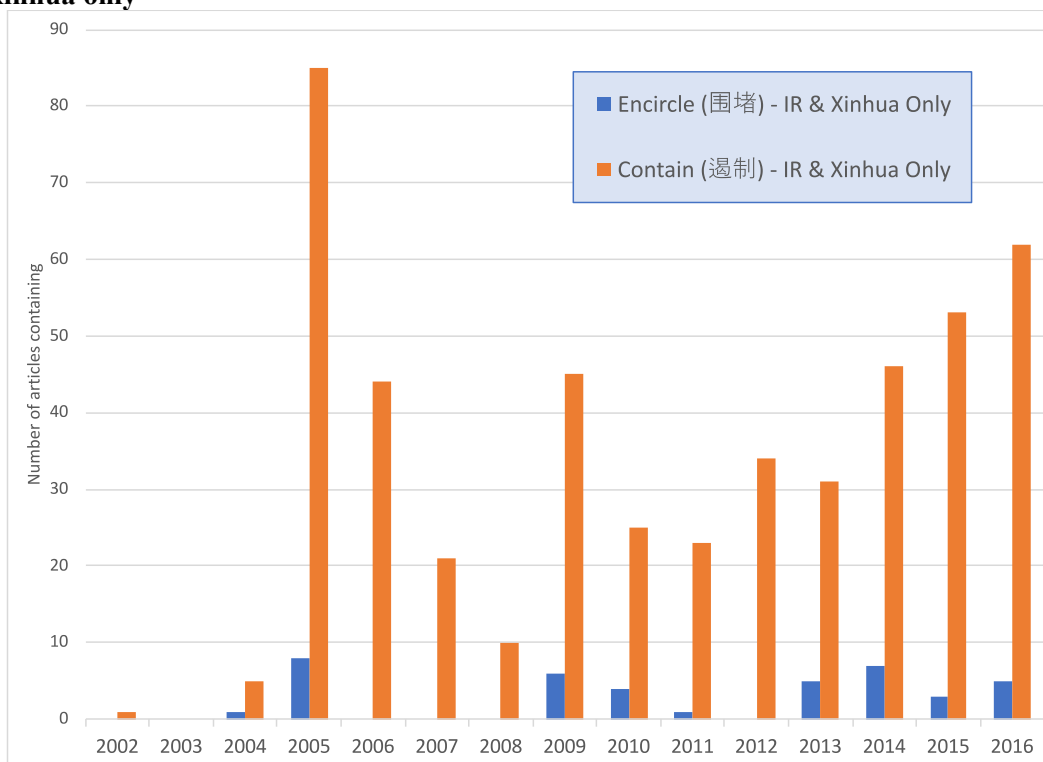


**Figure 4-7: Factiva search on “contain China” narrative – Chinese language/international relations (IR) only**



Source: Factiva search on US (美国) or Japan (日本) and China (中国) and 围堵 (encircle) or 遏制 (contain) for all articles and IR (international relations) only.

**Figure 4-8: Factiva search on “contain China” narrative, international relations (IR) category and Xinhua only**



Source: Factiva search on US (美国) or Japan (日本) and China (中国) and 围堵 (encircle) or 遏制 (contain) for all articles published by Xinhua News Service in Chinese under the IR category.

These results show that many Chinese language articles have not been indexed by Factiva until the early 2000s. Xinhua is the oldest and largest Chinese language news source and the first articles in these searches appear in 2002. Prior years are simply not searchable so making statements about the trends seen in Figure 4-7 on page 211 that indicate a major increase in “containment” discourse around 1999-2000 is probably not reliable and reflects the lack of inclusion of Chinese language media sources in the database. Factiva introduced Chinese language search functions only in early 2003 with expanded content in Chinese.<sup>401</sup> So, assuming that a full complement of Chinese language sources only became available in the early 2000s, we can say that a peak in the discourse appears in 2005 and a decline around the worldwide financial crisis followed by an increase thereafter. The Chinese language media content analysis suggests that threat discourse in China has been relatively consistent over time with an apparent general increase after 2008.

**Literature on Chinese Threat Perception.** The conventional wisdom in international relations before the mid-1990s was that China viewed the United States-Japan security alliance positively<sup>402</sup> as a way to keep Japan from re-militarizing and threatening China – the “cork in the bottle” analogy.<sup>403</sup> Many scholars<sup>404</sup> point to the changes begun by the Nye commission as the trigger that changed how China views the United States-Japan alliance. China began to

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<sup>401</sup> Dow Jones and Company. Factiva expands Asian content set with key Chinese language sources. PR Wire: Press Release, accessed at <https://prwire.com.au/pr/4764/factiva-expands-asian-content-set-with-key-chinese-language-sources> on 15 April 2018.

<sup>402</sup> Thomas Christensen, “China, the US-Japan Security Alliance and the Security Dilemma in East Asia,” *International Security*, Vol 23, No. 4 (Spring 1999), 49-80.

<sup>403</sup> Bonnie Glaser and Brittany Farrar, “Through Beijing’s Eyes: How China Sees the U.S.-Japan Alliance,” *The National Interest: Foreign Policy Experts Roundtable*, 12 May 2015, accessed on 14 April 2018, <http://nationalinterest.org/feature/through-beijings-eyes-how-china-sees-the-us-japan-alliance-12864?page=show>.

<sup>404</sup> Yu Bin, “Containment by Stealth: Chinese Views of and Policies toward America’s Alliances with Japan and Korea after the Cold War,” (Stanford University: Asia Pacific Research Center, 1999).

worry that Japan would take an increasingly active role in the alliance<sup>405</sup> and may have come to see the alliance as targeted at containing China rather than defending Japan.<sup>406</sup>

Sasaki (2010) finds that there was a significant increase in China's threat perception of Japan in the mid-1990s resulting from the perceived strengthening of the United States-Japan alliance.<sup>407</sup> He utilized discourse analysis of Chinese government journals of the People's Liberation Army, Ministry of Foreign Affairs and Economic Journals in the China Academic Journals database. Articles were coded as "neutral", "suspicious", or "critical" with regards to Japan's defense policy. Threat perception of Japan was found to have jumped between 1995 and 1996 due to the revised defense guidelines of the United States-Japan security alliance.<sup>408</sup> Sasaki found that China rarely distinguished Japan as a specific threat outside of its role in the United States-Japan alliance and that perception of the alliance continued to worsen with 1) cooperation on ballistic missile defense, and 2) the increasing emphasis of the guidelines on the defense of areas surrounding Japan which is taken by China to mean Taiwan.<sup>409</sup> By Sasaki's analysis, China perceived the United States-Japan alliance as a threat beginning around 1996 and increasing throughout the 2000s.

Chen (2001) studied the perception of the United States/Japan Threat to China in the late 1990s through surveys of urban Chinese.<sup>410</sup> Chen uses a two-part concept of perceived external threat that considers 1) the intention to inflict harm, and 2) the capability to inflict harm.

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<sup>405</sup> Thomas Christensen, "Security Dilemma in East Asia," 49-80.

<sup>406</sup> Michael J. Green, "Managing Chinese Power," 152-175.

<sup>407</sup> Tomonori Sasaki, "China Eyes the Japanese Military: China's Threat Perception of Japan since the 1980s," *The China Quarterly*, Vol. 203, 2010, 560-580.

<sup>408</sup> *Ibid.*, 574.

<sup>409</sup> *Ibid.*, 576-578.

<sup>410</sup> Jie Chen, "Urban Chinese Perceptions of Threats from the United States and Japan," *The Public Opinion Quarterly*, Vol. 65, No. 2 (Summer 2001), 254-266.

In combination, these two elements reflect a status of intimidation by an external threat, according to Chen. The survey was taken in Beijing in 1999 and included the following statements and findings<sup>411</sup>:

**Statement 1: “Each of the countries listed below, in your view, has hostile intentions against our country's vital interests and security.”**

*Japan – 66.8% agree or strongly agree*

*US – 74.3% agree of strongly agree*

**Statement 2: “Each of the countries listed below, in your view, has the military and/or economic power that poses a real and immediate danger to our country.”**

*Japan – 70% agree or strongly agree*

*US – 84.6% agree or strongly agree*

The literature on China’s threat perception (Chen 2001, Sasaki 2010, Green 1999, Bin 2001, Glaser and Farrar 2015, Christensen 1999) generally finds that Chinese perceptions of threat from the United States-Japan alliance began in the mid 1990s and has escalated since. But the literature does not indicate a specific level of threat perception. It is not entirely clear if threats perceived were low, moderate or high or when those threats became significant enough to influence China’s foreign aid policy. It appears likely that China’s threat perception of the United States-Japan alliance has been significant for the entire period for which we have detailed data on China’s foreign aid activities (2000-2014). If this is the case, we may not

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<sup>411</sup> Ibid., 256.

expect to see much change in aid commitment behavior from China but would expect aid allocations to primarily reflect China's security interests over its commercial interests.

Overall, China was threatened by the United States-Japan alliance since the mid to late 1990s with a drop around the worldwide financial crisis in 2007-8 evident in all sources (scholarly literature, public opinion, media discourse and defense white papers) followed by an escalation in perceived threats as the crisis abates in 2009 onward. This leaves us with a decision about whether the temporary reduction in threat around 2008 is sufficient to have altered aid allocations over that short period. The annual data on Chinese aid commitments enables me to test whether aid commitment behavior was significantly different in this period compared to before or after the financial crisis with the caveat that such a short period may be insufficient data to reliably estimate the panel regressions.

#### **4.5 Deflators and exchange rates**

All relevant data series' are converted to the donor countries currency to remove the impact of currency fluctuations. The data are then adjusted to 2013 constant JPY or CNY remove the impact of inflation over time. The JPY/USD exchange rate data is provided by the OECD. The CNY/USD exchange rate is provided by the Economic Research Department of the St. Louis Federal Reserve Bank of the United States.<sup>412</sup> The USD GDP deflator is published by the United States Bureau of Economic Analysis. The historical Japanese GDP deflator (1966-1998) is provided by Statistics Japan<sup>413</sup> while recent deflators (1999-2015) were accessed through the Cabinet Office's Economic and Social Research Institute's website.<sup>414</sup>

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<sup>412</sup> This series can be downloaded at this site: <https://fred.stlouisfed.org/series/DEXCHUS>

<sup>413</sup> Available online: <http://www.stat.go.jp/english/data/chouki/03.htm>

<sup>414</sup> Available online: [http://www.esri.cao.go.jp/en/sna/data/kakuhou/files/2014/28annual\\_report\\_e.html](http://www.esri.cao.go.jp/en/sna/data/kakuhou/files/2014/28annual_report_e.html)

Economic data were converted from current USD to constant 2013 USD equivalent. I use USD as the unit for recipient country data because most comparative international data are provided in USD equivalent units, most trade and trade finance is provided in USD, and recipient country poverty statistics used by all large international financial institutions are based on USD equivalent data. Japan uses poverty statistics and country income classifications expressed in USD based on World Bank income statistics and reported by the OECD DAC when deciding whether a recipient should “graduate” from receiving ODA.<sup>415</sup> The Japanese government does not scrupulously adhere to the DAC eligibility criterion and explicitly allows for ODA to flow to middle income countries if it is deemed to be in Japan’s foreign policy interest.<sup>416</sup>

#### **4.6 Nested analysis process**

The first step is the regression analysis on panel data to establish the key relationships in the theoretical framework. Regression analysis is used to test the relative importance and significance of the security, commercial and normative variables in predicting the share of bilateral foreign aid allocations (DV). Changes over time are established by running separate regressions for different time periods representing low and high levels of threat perception to test for structural change in the relationships between security, commercial and normative variables and the dependent variable. The next step is to select and conduct case studies to elaborate and confirm the results of the regression analysis. Cases are selected that illustrate the

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<sup>415</sup> Japan Ministry of Foreign Affairs, "White Paper on Development Cooperation 2015," (Tokyo: Government of Japan, 2015), 261.

<sup>416</sup> Japan Cabinet Office, "Cabinet Decision on the Development Cooperation Charter (Provisional Translation)," (Tokyo: Government of Japan, 10 February 2015), 2.

significant statistical relationships estimated in the regression analysis.<sup>417</sup> The cases are analyzed to specifically determine the main reasons for increasing or decreasing aid allocations by China and Japan over the key analysis periods to confirm (or not) the estimates derived from the panel regressions.

One benefit of the case study analysis is to analyze dynamics that the regressions cannot. For example, the regression models assume that the aid commitments of the donor are purely the decision of the donor. Since most aid recipients are poor and aid is given on very beneficial terms, this is a reasonable simplification. Most recipient countries accept the aid that is offered to them. However, the decision to provide an aid commitment also needs a decision by the recipient to take the aid offered. For example, India has an official policy of accepting bi-lateral aid only from Japan, the United States, Germany, Russia, and the United Kingdom.<sup>418</sup> Therefore, the lack of aid from China to India does not necessarily mean that China and India have poor relations, though that might also be the case. The regression analysis is not capable of illuminating every dynamic in the aid relationship. The case studies, by tracking the offer and acceptance of aid, can show how aid commitments are made in more detail and show how other factors not included in the regression models may have some impact on the DV.

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<sup>417</sup> Evan S. Lieberman, "Nested Analysis," 444.

<sup>418</sup> Chithra Purushothaman, "Foreign Aid and South-South Cooperation," 11.

## **5 QUANTITATIVE ANALYSIS AND RESULTS**

This section of the dissertation describes the design of the large-N regression analyses conducted for Japanese and Chinese ODA commitments and the results. In the first section, I describe the data and present descriptive statistics and a diagnostic analysis of IV correlations and explain the model specification adjustments used to improve the results. Then the model specifications and estimation results are presented for Japan and China. I interpret the findings in light of the predictions; and finally, I conduct supplementary regressions to determine if there is any evidence of direct aid competition between Japan and China.

### **5.1 Descriptive Statistics and Correlation Matrix**

The purpose of this section is to assess the reasonableness of the variable values and conduct diagnostic analysis of IV correlations to ensure the regression models are not affected by multicollinearity. Table 5-1 on page 219 shows descriptive statistics of all variables included in the Japan and China panel regressions. All values are reasonable given the nature of the variables and seemingly high values are explained in the notes to Table 5-1 on page 219.



**Table 5-1: Descriptive statistics**

Variable	Obs	Mean	Std.Dev.	Min	Max
ODACom_JPtot_M2013Y	6,764	7,913.86	30,161.88	0.00	568,454.40
ChODA_max_tot_M2013Y	2,505	271.09	1,287.37	0.00	37,038.71
GDP_2013	6,560	44,800,000,000	283,000,000,000	2,607,506	10,700,000,000,000
Population	8,131	25,500,000	113,000,000	5,563	1,360,000,000
Oil_rent_gdp	8,183	3.83	11.14	0.00	95.82
JP_FDI_M2013Y	8,183	9,511.88	59,358.30	(334,195.10)	2,424,301.00
Jp_exp_Mill2013Y	7,536	142,950.30	693,081.60	0.00	13,900,000.00
Jp_imp_Mill2013Y	7,536	144,445.50	756,168.20	0.00	19,500,000.00
CN_exp_Mill2013Y	5,882	9,210.39	71,034.45	0.00	2,384,604.00
CN_imp_Mill2013Y	5,883	8,129.90	52,287.35	0.00	1,178,693.00
CN_FDI_Out_2013Y	8,183	361.83	8,952.74	(5,032.01)	438,975.00
CN_Firm_Est	4,896	3.98	48.42	0.00	2,266.00 <sup>a</sup>
Inf_Mort_rate	7,037	60.95	44.25	2.20	244.70
GDP_cap_2013	6,557	3,012.03	7,139.58	6.76	97,655.20 <sup>b</sup>
UN_IdealPoints	6,264	(0.30)	0.70	(2.48)	2.77
Humanitarian_M	4,175	41.03	138.97	0.00	3,223.70
Polity2_use	5,770	(0.60)	6.83	(10.00)	10.00
UN_pctwUS	6,264	0.22	0.14	0.00	1.00
UN_pctwChina	5,780	0.81	0.14	0.06	1.00
UN_pctwJap	6,263	0.84	0.10	0.00	1.00
UNSC	7,056	0.05	0.23	0.00	1.00
ASEANChr	8,183	0.00	0.05	0.00	1.00
BorderChina	8,183	0.09	0.29	0.00	1.00
ChinaMaritimeConflict	8,183	0.04	0.20	0.00	1.00
ChinaBorderConflict	8,183	0.02	0.15	0.00	1.00
USTreatyAlly	8,183	0.04	0.19	0.00	1.00
USMilBase	8,183	0.03	0.17	0.00	1.00
Total_viol_war	5,777	0.93	2.01	0.00	14.00
USMil_Pers	8,178	1,056.00	13,060.47	0.00	537,377.00 <sup>c</sup>
Taiwan_Recog	8,183	0.17	0.37	0.00	1.00
US_Sanctions	8,183	0.07	0.26	0.00	1.00
UN_Sanctions	8,183	0.02	0.14	0.00	1.00
US_Relations_Ind	8,183	1.68	0.97	0.00	4.00
Coup_Success	8,183	0.02	0.13	0.00	1.00
Coup_Fail	8,183	0.02	0.13	0.00	1.00
USAODA_M2013	6,764	50.17	240.82	(0.12) <sup>d</sup>	8,397.76

Notes on some high values:

<sup>a</sup> High value for Chinese firm establishments is for Hong Kong.

<sup>b</sup> High values for GDP per capita reflect the high levels of average income achieved in former aid recipients like Qatar, Macau, China, Singapore, Kuwait and Bermuda among others.

<sup>c</sup> Large value for US troops reflects war in Viet Nam which saw troops peak in 1968.

<sup>d</sup> Negative values are possible when prior aid commitments are cancelled.

In addition to the descriptive statistics, I conducted a correlation analysis to check for multicollinearity between the variables (see Table 5-2 on page 221 for the correlation coefficients for the Japan regressions and Table 5-3 on page 223 for the correlation coefficients for the China regressions). The rows and columns of the correlation tables represent all regressors (IVs) in the Japan and China regressions and their associated correlation coefficients

with all of the other regressors.<sup>419</sup> On the diagonal, the value is 1 since the correlation of each variable to itself is 1.0. Multicollinearity can result in biased estimates and can lead to erratic changes in regression coefficients from minor variations in the model. A separate correlation analysis is conducted for the Japan and China regressions because some of the variables and the analysis periods are different. In both regressions, there was limited evidence of multicollinearity (erratic sign switching) between Population and GDP so the Population variable was dropped. For the Japan regressions, the potentially problematic variables are Japan imports, exports and FDI which are moderately correlated with each other and the UN affinity score for China shows a reasonably high negative correlation with the UN ideal points score. Multiple alternative specifications were conducted to test for evidence of erratic coefficient estimates due to multicollinearity between the trade and FDI variables. Overall, the coefficient estimates for these variables are stable between specifications, there is no evidence of erratic changes in the signs on coefficients, and the significance of key variables is robust across a wide range of specifications. Therefore, the trade variable and FDI remain included in the Japan regressions. Nevertheless, Japan's and China's imports and exports show moderately high correlation so they were summed into a single trade variable (trade = imports + exports). The China UN affinity score was removed from the Japan regression while the UN ideal points score was removed from the China regression due to collinearity. The variable to remove in each case was decided based on model specification testing using each variable. The correlation matrices are given below with potential collinearity highlighted in *red* and *italics*.

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<sup>419</sup> The widely used "rule-of-thumb" is that multicollinearity becomes problematic as correlation coefficients exceed about 0.7.

Table 5-2: Correlation matrix – Japan regression variables

	ODAJp_M2013Y	GDP_2013*	Pop*	Oil_rent_gdp	Jp_FDI~2013Y	Jp_exp~2013Y	Jp_imp~2013Y	JP_tra~2013y	Inf_Mort	GDP_cap_2013
ODAJp_M2013Y	1									
GDP_2013*	0.3406	1								
Pop*	0.4494	0.7304	1							
Oil_rent_gdp	-0.0205	0.1638	-0.0467	1						
Jp_FDI~2013Y	0.3329	0.3188	0.2983	-0.0398	1					
Jp_exp~2013Y	0.2896	0.3581	0.3235	-0.0065	0.7425	1				
Jp_imp~2013Y	0.3103	0.3564	0.3199	0.0736	0.6892	0.9334	1			
JP_tra~2013y	0.3062	0.3632	0.3269	0.0389	0.7247	0.979	0.987	1		
Inf_Mort	-0.0832	-0.5209	0.0204	-0.0371	-0.1407	-0.1691	-0.1477	-0.1598	1	
GDP_cap_2013	-0.0678	0.4692	-0.0811	0.2954	0.099	0.1388	0.1644	0.1557	-0.4956	1
UN_IdealPo~s	-0.1216	-0.1673	-0.1664	-0.1499	-0.046	-0.0468	-0.0832	-0.0682	-0.04	-0.0234
Polity2_use	0.0582	0.2402	0.0567	-0.273	0.0178	-0.0133	-0.0751	-0.0486	-0.4107	0.0992
UN_pctwUS	-0.0975	-0.1929	-0.1073	-0.1045	-0.0547	-0.0592	-0.0733	-0.0682	0.0729	-0.0222
UN_pctwChina	0.1248	0.0831	0.1177	0.1398	0.0897	0.1067	0.1374	0.1259	0.097	-0.0317
UN_pct~2vote	-0.05	-0.1201	-0.069	-0.0676	-0.0329	-0.0348	-0.0637	-0.0518	0.0054	-0.0719
UNSC	0.1525	0.1771	0.1965	0.0018	0.1888	0.2402	0.2386	0.2433	-0.0466	0.0531
ASEANChr	0.142	0.0691	0.0676	-0.0146	0.1016	0.0869	0.0627	0.0746	-0.0432	0.0102
BorderChina	0.1416	0.0598	0.1972	-0.0725	-0.0111	-0.0245	-0.0344	-0.0305	0.1198	-0.0895
ChinaMarit~t	0.374	0.1961	0.2311	-0.0169	0.2057	0.2159	0.2241	0.2242	-0.1161	0.0141
ChinaBorde~t	0.1871	0.0994	0.2113	-0.0316	0.0418	0.0087	-0.001	0.0033	0.058	-0.0662
USTreatyAlly	0.1988	0.2096	0.1995	-0.0806	0.128	0.1797	0.0753	0.1234	-0.1259	0.062
USMilBase	0.0487	0.09	0.0185	0.0163	0.0773	0.0314	-0.0011	0.0134	-0.0994	0.0955
Total_viol~r	0.2532	0.1865	0.3531	0.0009	0.0508	0.0394	0.0427	0.0419	0.1111	-0.1179
USMil_Pers	0.2129	0.0806	0.0707	0.1124	0.0178	0.0396	0.0172	0.0275	-0.0502	0.0206
US_Sanctions	0.0492	0.1402	0.115	0.0307	-0.0127	-0.0178	0.0059	-0.0046	-0.1155	0.0243
UN_Sanctions	-0.04	0.0193	0.0232	0.0202	-0.028	-0.0244	-0.0105	-0.0169	0.0241	-0.0048
US_Relatio~d	0.0937	0.0421	-0.0122	-0.1173	0.0486	0.0936	0.0214	0.0542	-0.1246	0.0703
Coup_Success	-0.0314	-0.0744	-0.0093	-0.0297	-0.0181	-0.0102	-0.0181	-0.0149	0.1072	-0.0586
Coup_Fail	-0.0031	-0.069	-0.0048	-0.0245	-0.0106	-0.0218	-0.0241	-0.0235	0.1036	-0.0632
USAODA_M2013	0.2195	0.1755	0.1726	0.0667	-0.0116	-0.0074	-0.0084	-0.0081	-0.062	0.0054
	UN_IdealPo~s	Polity2_use	UN_pctwUS	UN_pctwChina	UN_pctwJp	UNSC	ASEANChr	BorderChina	ChinaMarit~t	ChinaBorde~t
UN_IdealPo~s	1									
Polity2_use	0.1735	1								
UN_pctwUS	0.6333	0.0442	1							

UN_pctwChina	-0.7215	-0.1755	-0.6457	1						
UN_pctwJp	0.4092	0.1004	0.4628	-0.3327	1					
UNSC	-0.0259	-0.0083	-0.0134	0.0698	-0.0073	1				
ASEANChr	-0.0361	0.0228	-0.0201	0.0196	0.0079	-0.0044	1			
BorderChina	-0.0672	0.022	-0.0561	0.0317	-0.0441	0.0047	0.0118	1		
ChinaMarit~t	-0.0445	0.052	-0.0015	0.0517	0.0266	0.0286	0.1903	-0.0491	1	
ChinaBorde~t	-0.0153	0.0499	-0.0166	-0.0465	-0.0311	0.0256	-0.0091	0.5285	-0.0259	1
USTreatyAlly	0.2277	0.1385	0.184	-0.1896	0.0528	-0.0093	0.0999	-0.0531	0.3246	-0.0281
USMilBase	0.0645	-0.0182	0.0407	-0.0158	0.0569	0.0044	0.0226	0.0576	0.1058	-0.0038
Total_viol~r	-0.0841	-0.0369	-0.0388	0.0397	-0.1194	0.0143	0.0278	0.1217	0.1824	0.1931
USMil_Pers	-0.007	0.0007	-0.0056	0.0036	0.0254	-0.007	0.0016	0.0465	0.0957	-0.0141
US_Sanctions	-0.2913	-0.1353	-0.1309	0.0992	-0.1468	-0.0298	0.0208	-0.0576	0.0132	-0.0414
UN_Sanctions	-0.1153	-0.0324	-0.01	0.0038	-0.0486	-0.0327	-0.0103	-0.0298	-0.0291	-0.0222
US_Relations	0.3476	0.1949	0.168	-0.1658	0.1911	-0.0068	0.0489	-0.0371	0.1565	-0.0639
Coup_Success	0.0276	-0.0896	0.04	-0.0046	0.0207	-0.0179	-0.0098	-0.0082	-0.0278	-0.0212
Coup_Fail	-0.0019	-0.042	0.0105	0.0317	0.0188	0.0036	0.0137	-0.0414	0.0058	-0.0219
USAODA_M2013	-0.0345	0.0592	-0.0445	0.0037	-0.073	0.0002	-0.0003	0.0956	0.0011	-0.0018
	USTreatyAlly	USMilBase	Total_viol~r	USMil_Pers	US_Sanctions	UN_Sanctions	US_Relations	Coup_Success	Coup_Fail	USAODA_M2013
USTreatyAlly	1									
USMilBase	0.3608	1								
Total_viol~r	0.1898	0.081	1							
USMil_Pers	0.1406	0.1164	0.1278	1						
US_Sanctions	-0.0498	-0.0571	0.1033	-0.0175	1					
UN_Sanctions	-0.0315	-0.0329	0.0904	-0.0064	0.2277	1				
US_Relations	0.4898	0.2782	-0.0059	0.1075	-0.3509	-0.1315	1			
Coup_Success	0.0195	-0.0155	0.0334	-0.0126	0.0433	-0.0032	-0.0121	1		
Coup_Fail	0.0251	0.0139	0.0392	0.0025	0.0223	-0.0045	-0.0056	-0.0234	1	
USAODA_M2013	0.0464	0.0127	0.1484	0.6191	-0.0112	0.0309	0.0966	-0.0223	-0.0205	1

Note: \* GDP and Population were logarithm transformed to reduce heteroscedasticity and reduce the variance of the variables which results in more efficient regression models.



Polity2_use	0.3756	1									
UN_pctwUS	0.6156	0.2433	1								
UN_pctwChina	-0.8531	-0.2738	-0.6902	1							
UN_pctwJp	0.5665	0.302	0.3938	-0.4796	1						
UNSC	0.0323	0.0822	0.034	-0.0059	0.0287	1					
ASEANChr	-0.0368	0.0089	-0.0398	0.0343	-0.0064	-0.0211	1				
BorderChina	-0.002	-0.0932	-0.0629	0.0803	-0.0701	-0.0201	0.0067	1			
ChinaMarit~t	-0.1102	0.1172	-0.0389	0.0895	-0.027	0.0387	0.1955	-0.0543	1		
ChinaBorde~t	0.0556	0.0349	-0.0018	-0.0425	-0.0725	0.0117	-0.0104	0.4165	-0.0226	1	
USTreatyAlly	0.1183	0.1323	0.0861	-0.0781	0.1121	0.0218	0.1431	-0.0543	0.3128	-0.0226	1
USMilBase	0.0344	-0.0415	0.029	-0.005	0.0286	0.0017	-0.0169	0.2211	-0.037	0.056	0.2523
Total_viol~r	-0.121	0.0083	-0.0743	0.079	-0.0814	0.0612	0.0044	0.2526	0.0846	0.3296	0.1428
USMil_Pers	-0.0554	-0.0431	-0.0349	0.0534	0.0004	-0.0264	-0.0081	0.085	-0.0169	-0.0127	-0.0078
US_Sanctions	-0.2829	-0.2916	-0.1198	0.1559	-0.1754	-0.0702	0.0021	-0.0719	0.0229	-0.0437	-0.0595
UN_Sanctions	-0.1445	-0.1278	-0.0339	0.0595	-0.0912	-0.0588	-0.018	-0.0456	-0.0393	-0.0288	-0.0393
US_Relations	0.3189	0.1922	0.189	-0.2145	0.2185	0.0455	0.0476	0.074	0.1162	0.0385	0.4192
Coup_Success	-0.0255	-0.0689	-0.0102	-0.0019	0.0028	-0.0234	-0.0071	-0.0275	-0.0156	-0.0115	0.0318
Coup_Fail	-0.01	-0.0171	0.0101	-0.0012	0.0462	-0.0273	-0.0083	-0.0322	-0.0182	-0.0134	-0.0182
USAODA_M2013	-0.0919	-0.0268	-0.0579	0.0763	-0.0219	0.0078	-0.0095	0.1402	0.0006	-0.0112	-0.0185
ODAJp_M2013Y	-0.0825	0.0702	-0.0624	0.0875	-0.047	0.073	0.1493	0.1967	0.3	0.3187	0.1233
	USMilBase	Total_viol~r	USMil_Pers	US_Sanctions	UN_Sanctions	US_Relations	Coup_Success	Coup_Fail	USAODA_M2013	ODAJp_M2013Y	
USMilBase	1										
Total_viol~r	0.1051	1									
USMil_Pers	0.0008	0.2815	1								
US_Sanctions	-0.06	0.1	-0.0314	1							
UN_Sanctions	-0.0472	0.1638	-0.0204	0.2754	1						
US_Relations	0.2732	0.0389	0.0273	-0.4583	-0.1499	1					
Coup_Success	-0.0187	-0.0129	-0.0089	0.0495	-0.0199	-0.0137	1				
Coup_Fail	-0.0219	0.0471	-0.0106	0.1241	0.0093	-0.0288	-0.0092	1			
USAODA_M2013	0.0266	0.373	0.7834	-0.0283	0.0158	0.0603	-0.0093	-0.0199	1		
ODAJp_M2013Y	0.0538	0.3504	0.3372	0.0146	-0.0509	0.0703	-0.0225	-0.0155	0.3622	1	

Note: \* GDP and Population were logarithm transformed to reduce heteroscedasticity and reduce the variance of the variables which results in more efficient regression models.

## 5.2 Japan's foreign aid commitments<sup>420</sup>

Japan's foreign aid commitments are modeled using panel regressions to predict who receives aid from Japan, how much and why. Foreign aid commitments are expressed as the share of total aid commitments given by Japan that year.

### 5.2.1 A model of Japanese aid: approach and methodology

The main hypothesis of this dissertation is: *Japan and China's foreign aid increasingly reflects security interests due to increased threat perception precipitated by the rise of China.* If this is true, security variables will have the most explanatory power when threat perception is highest. Conversely, when threat perception is low, commercial variables are expected to be the most important determinants of aid commitments.

An alternative hypothesis is that Japan's aid is allocated to promote normative values of altruism, human rights and democracy. If this hypothesis is true, Japan will allocate more aid to countries with higher levels of poverty, that have experienced humanitarian crises, and those states with more democratic governance and respect for human rights, all else being equal. If Japan has adopted these norms over time, as the changes in the ODA/Development Cooperation Charters would suggest, the strength of normative factors should increase over time.

Compared to past research using panel regressions analysis, I utilize a more robust data set, more appropriate specification of the dependent and independent variables, and a study design that illuminates the changes in Japan's aid policy over time. The regressions are run for

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<sup>420</sup> Substantial portions of Section 5.2 were published previously in Steven Lewis-Workman, "International Norms and Japanese Foreign Aid," *Asian Perspective*, Vol. 42, No. 1 (January 2018), 85-120.

three periods that can reasonably be expected to represent three different sets of motivations for Japanese foreign aid: 1) the Cold War era (1966-1991), 2) the post-Cold War/1992 ODA charter (1992-2001) period, and 3) the increasing threats/2003 ODA charter (2002-2014) period. Periods 1 and 3 are high threat and period 2 is low threat.

### 5.2.2 The models

Panel regression models simultaneously estimate the impact of commercial, security and normative factors in Japan's ODA allocations in the three different time periods. The structure of the model is as follows:

$$\text{Share of ODA Committed} = \beta_0 + \beta_1(\text{commercial var}) + \beta_2(\text{normative var}) + \beta_3(\text{security var}) + \varepsilon$$

where the betas ( $\beta$ ) are parameters to be estimated and  $\varepsilon$  is the error term.

The same model is applied in the three separate time periods except for the humanitarian aid variable. This variable is omitted from the 1966-1991 period because the OECD did not specifically report ODA for humanitarian purposes in the ODA commitment dataset until 1990. Regressions were also run limiting the countries to the Asia-Pacific region to determine if Japan utilizes aid for different purposes in different regions. It is reasonable to expect that Asian countries would be more salient for Japan's security than countries further away.

### 5.2.3 Results

The worldwide estimation results are given in the following Table 5-4 on page 227. Table 5-5 on page 228 present the results of the Asia-only regressions utilizing share of Japan's ODA commitments and total ODA commitments by country respectively. After the regression estimation results, I discuss the variables that are shown to be statistically significant.



**Table 5-4: Panel GLS regression results, robust standard errors, worldwide. Dependent variable: share of ODA commitments**

Independent Variable Type	Dependent Variable Share_allJPODAcom	1966-1991			1992-2001			2002-2014		
		Coef.	P> z	Sig	Coef.	P> z	Sig	Coef.	P> z	Sig
Size	LnGDP.L1	0.0009739	0.007	***	0.0012945	0.011	**	0.0014168	0.004	***
Com	Oil_rent_gdp.L1	-0.0000371	0.14		-0.0000383	0.315		-3.10E-07	0.991	
Com	Jp_FDI_M2013Y.L1	1.51E-08	0.297		9.58E-08	0.001	***	5.63E-09	0.641	
Com	Jp_trade_Mill2013Y.L1	2.50E-09	0.391		9.71E-09	0	***	4.19E-10	0.219	
Value	Inf_Mort_rate.L1	0.0000126	0.393		-2.82E-05	0.119		0.0000115	0.625	
Value	GDP_cap_2013.L1	-6.69E-07	0.134		-2.13E-06	0	***	-7.50E-07	0.006	***
Value	UN_IdealPoints.L1	-0.0017043	0.044	**	-2.16E-03	0.083	*	-1.36E-03	0.17	
Value	Humanitarian_M				1.87E-05	0.247		-6.07E-06	0.112	
Value	Polity2_use.L1	-0.0000519	0.504		0.0000217	0.843		8.94E-05	0.308	
Sec	UN_pctwUS.L1	0.0036022	0.295		-5.83E-03	0.2		5.03E-03	0.171	
Sec	UN_pctwJap.L1	0.0039287	0.417		-0.0002261	0.978		-4.77E-03	0.333	
Sec	UNSC	0.0026375	0.21		0.006261	0.034	**	3.07E-03	0.183	
Sec	ASEANChr	-0.0080855	0.569		-0.0030635	0.809		0.0284134	0.03	**
Sec	BorderChina	0.0023052	0.414		0.007003	0.001	***	-6.55E-05	0.974	
Sec	ChinaMaritimeConflict	0.0302743	0.031	**	0.0240262	0.184		0.0139298	0.185	
Sec	ChinaBorderConflict	0.0096652	0.046	**	0.0019339	0.758		0.064874	0.002	***
Sec	USTreatyAlly	0.0051516	0.504		0.0135222	0.026	**	0.0001673	0.969	
Sec	USMilBase	-0.0073791	0.12		-0.0025125	0.551		0.0050584	0.409	
Sec	Total_viol_war.L1	0.0002374	0.36		0.0006881	0.24		0.000099	0.9	
Sec	USMil_Pers.L1	9.77E-08	0.468		-2.18E-06	0	***	1.47E-07	0.019	***
Sec	US_Sanctions	-2.46E-03	0.202		0.0025074	0.392		0.001429	0.458	
Sec	UN_Sanctions	-3.88E-03	0.233		-5.01E-03	0.064	*	-0.0026122	0.079	*
Sec	US_Relations_ind.L1	0.0017297	0.013	**	0.0018293	0.177		-5.09E-04	0.554	
Sec	Coup_Success.L1	0.0013209	0.361		-2.29E-03	0.498		-0.0002997	0.852	
Sec	Coup_Fail.L1	0.0012389	0.414		-0.0015159	0.268		-0.0009519	0.509	
Sec	USAODA_M2013.L1	2.81E-06	0.001	***	0.0000106	0.121		1.23E-05	0.017	**
Sec	ChODA_m2013Y.L1							-2.16E-07	0.415	
NA	Share_allJPODAcom.L1	6.28E-01	0	***	0.1055852	0.367		0.3577731	0.005	***
NA	_cons	-2.74E-02	0.002	***	-2.61E-02	0.019	**	-2.69E-02	0.028	**
		R-sq:			R-sq:			R-sq:		
		within =	0.0348		within =	0.0009		within =	0.0910	
		between =	0.9655		between =	0.8889		between =	0.9325	
		overall =	0.7204		overall =	0.6363		overall =	0.5601	

Notes: Variable descriptions in text

\*: significant at the 90% level

\*\*: significant at the 95% level

\*\*\*: significant at the 99% level

**Table 5-5: Panel GLS regression results, robust standard errors, Asia only. Dependent variable: share of ODA commitments**

Independent Variable Type	Dependent Variable Share_allJPODAcom	1966-1991			1992-2001			2002-2014		
		Coef.	P> z	Sig	Coef.	P> z	Sig	Coef.	P> z	Sig
Size	LnGDP.L1	0.0040391	0.076	*	0.0037001	0.03	**	0.0077594	0.001	***
Com	Oil_rent_gdp.L1	-0.0006645	0.479		-0.0005746	0.069	*	-0.0001249	0.358	
Com	Jp_FDI_M2013Y.L1	1.57E-10	0.996		9.35E-08	0.008	***	-7.65E-10	0.947	
Com	Jp_Trade_Mill2013Y.L1	1.39E-10	0.988		9.51E-09	0.008	***	-1.60E-09	0.013	**
Value	Inf_Mort_rate.L1	0.0002134	0.024	**	-2.44E-05	0.793		-0.000077	0.554	
Value	GDP_cap_2013.L1	-1.67E-06	0.646		-7.56E-06	0	***	-4.08E-06	0.014	**
Value	UN_IdealPoints.L1	-0.0085143	0.133		-0.0091377	0.041	**	-5.27E-03	0.33	
Value	Humanitarian_M				1.94E-05	0.888		-6.56E-06	0.572	
Value	Polity2_use.L1	-0.0005208	0.433		0.0002313	0.564		2.59E-04	0.463	
Sec	UN_pctwUS.L1	0.0443849	0.063	*	0.0151312	0.539		0.0055567	0.75	
Sec	UN_pctwJap.L1	-0.0219285	0.282		-0.0461432	0.100	*	1.18E-02	0.764	
Sec	UNSC	0.0118519	0.238		0.0252595	0.067	*	0.0204505	0.036	**
Sec	ASEANChr	-0.0076688	0.666		-0.0066013	0.679		0.0243012	0.089	*
Sec	BorderChina	-0.0278312	0.044	**	-0.0062446	0.269		-0.0018149	0.619	
Sec	ChinaMaritimeConflict	0.0362429	0.192		0.016779	0.206		0.0002575	0.965	
Sec	ChinaBorderConflict	0.0187132	0.031	**	0.0100242	0.171		0.0457404	0.065	*
Sec	USTreatyAlly	0.0029026	0.766		0.0332059	0	***	0.0011536	0.9	
Sec	USMilBase	-0.0405866	0.194		0.0215343	0.114		0.0075252	0.591	
Sec	Total_viol_war.L1	0.0017753	0.195		0.0018078	0.006	***	-0.001112	0.591	
Sec	USMil_Pers.L1	-5.84E-07	0.15		-1.94E-06	0	***	2.99E-08	0.899	
Sec	US_Sanctions	-5.45E-04	0.979		0.0297517	0.053	*	0.0051617	0.549	
Sec	UN_Sanctions							0.0123664	0.552	
Sec	US_Relations_ind.L1	0.0124493	0.027	**	0.0006075	0.894		-4.99E-03	0.241	
Sec	Coup_Success.L1	-0.0040536	0.693		-0.0206211	0.392		-0.0014128	0.771	
Sec	Coup_Fail.L1	0.0080527	0.045	**	-0.0175933	0.121		-0.0013357	0.729	
Sec	USAODA_M2013.L1	0.0000275	0.507		-0.0000102	0.864		7.88E-06	0.475	
Sec	ChODA_max_tot_m2013Y.L1							-1.76E-06	0.183	
NA	Share_allJPODAcom.L1	0.4732282	0	***	-0.2111606	0.067	*	0.351333	0.012	**
NA	_cons	-0.100234	0.057	*	-0.0307499	0.514		-0.1638955	0.018	**
		R-sq:			R-sq:			R-sq:		
		within =	0.0475		within =	0.1166		within =	0.1908	
		between =	0.9661		between =	0.9501		between =	0.9742	
		overall =	0.6954		overall =	0.7126		overall =	0.6549	

Notes: Variable descriptions in text

\*: significant at the 90% level

\*\*: significant at the 95% level

\*\*\*: significant at the 99% level

### *5.2.3.1 Japan's aid commitments under high threat – Cold War (1966-1991) period*

Security variables are the main drivers of Japan's aid commitments in this period. Commercial factors are weak determinants of Japan's aid commitments during this period. No commercial variables were significant during this period. GDP is significant, so Japan preferred larger economies, all else being equal but this factor could also indicate security considerations since GDP can indicate overall national power as much as market size. Previous studies have found that Japanese ODA was provided for its commercial benefit and the statements of Japanese officials at that time tended to reinforce this widely held belief. The data do not support that view. In the worldwide regression, Japanese ODA is strongly predicted by United States ODA, maritime and border disputes with China, countries with stronger relations with the United States. The only normative variable that is significant during this period was UN Ideal Points (liberal voting pattern in UN) but states with more liberal voting patterns in the UN received less aid from Japan during this period rather than more. In the Asia-only regression, Japan still rewards countries with good US relations and those in border conflicts with China but also rewards Asian states that tend to vote with the US in the UN and those Asian countries that endured a failed coup suggesting an interest in promoting regional stability. Japan also favored Asian countries with higher infant mortality suggesting some consideration was given to normative factors.

### *5.2.3.2 Japan's aid commitments under low threat – the post-Cold War period*

Under low threat, commercial variables become significant determinants of Japanese ODA commitments. In both the worldwide and Asia only regressions, Japan rewarded countries with more ODA if they also had high levels of FDI and/or trade with Japan. All regressions also indicate that GDP/cap become much more significant determinant consistent with other quantitative studies lending some support for the idea that normative values

(altruism) were an influence aid decisions during this lower threat period. However, the significance of the GDP/cap variable is questionable during this period. During the 1990s, several fast-growing states including South Korea, Singapore, Brunei, Kuwait and the quasi-states of Hong Kong and Macau graduated from receiving ODA from Japan. These higher income recipients no longer receiving ODA may explain the negative relationship between per capita income and Japanese ODA commitments. Whether this is a sign of altruistic intent is not clear. Variables reflecting democratic values and liberal values are either not significant (Polity2) or significant but in the opposite direction expected (UN\_idealpoints) implying Japan provides more aid to less democratic regimes all else being equal.

Security variables are mixed during this period. In all regressions, Japan rewarded members of the UN security council and United States treaty allies. Countries with larger contingents of United States military personnel are given less aid. In contrast to the Cold War Period, United States ODA allocations are not significant predictors of Japanese aid commitments in any regression suggesting that coordination of ODA between the United States and Japan was much less during the 1992-2001 period than the Cold War Period. Japan provided more aid to Asian countries that experienced high levels of political violence and war suggesting that Japan was ramping up its ODA to support peace-making missions in Asia during the 1990s. Japan also provide more aid to Asian countries under United States sanctions indicating it was pursuing its own security interests rather than the interests of the United States during this period. Overall, Japan's ODA was determined by a mix of commercial and security interests during the 1992-2001 period. Overall, the results support the theory that commercial factors will be stronger predictors as threat perception declines. However, security factors remain important for predicting Japan's aid commitments during this period.

### 5.2.3.3 *Japan's aid commitments under high threat - emerging China threat period*

Japan emphasized security over all other considerations in its aid commitment decisions during this period. Commercial factors became weaker predictors of ODA commitments. The only variable that was significant was trade in the Asia only regression but the sign is negative implying that Japan actually preferred to give ODA to Asian countries with less trade with Japan. In all regressions, Japan preferred larger economies and GDP was positively (and statistically significant) associated with ODA.

Humanitarian and democratic values had little to no impact during this period and only GDP/capita was significant (both regressions). Security variables were strongest factors explaining ODA commitments during this period and the worldwide regression indicates a high degree of coordination with United States security interests. United States related security variables were not significant in the Asia only specification suggesting that Japan focused more on its own security interests in Asia. In the worldwide regression, Japan's ODA commitments are positively correlated with United States ODA allocations, after being insignificant in the prior low threat period. States with more United States military personnel received higher aid commitments. While we would expect that United States treaty allies would receive more ODA from Japan in the high threat period, I note that South Korea graduated from ODA eligibility in 1999 and Taiwan received a significant aid allocation in 1996 coincident with the Taiwan Strait Crisis (1995-1996), but none afterwards. The ceasing of aid to these two states in the late 1990s may explain the lack of significance of the alliance variable after 2002. In all regressions, states in border disputes with China received more ODA. In the worldwide regression, the UN security council variable became insignificant, but the ASEAN Chair was rewarded with higher aid commitments from Japan. In the Asia only regression, both UN security council members and the ASEAN chair receive higher ODA commitments. Overall, Japan's behavior vis-à-vis

ODA commitments reflects an increasing level of coordination of Japanese aid with United States security interests. The results support the hypothesis that higher threat perception led Japan to consider security factors more strongly than during the low threat period. Commercial and normative factors are less significant in high threat periods.

#### **5.2.4 Japan's aid purpose – summarizing the findings**

This analysis sought to determine the motivations behind Japan's overall aid commitments in time periods that reflect high and low levels of threat perception. The overall results for Japan are summarized in Table 5-6 on page 233 which identifies every variable that is statistically significant in each regression under each threat condition. Independent variable types are categorized as "significant", "moderate", or "insignificant". The decision rules for the categorization are as follows:

Significant: 3 or more variables are significant (theoretically correct sign)

Moderate: 2 variables are significant (theoretically correct sign)

Insignificant: 1 or no variables are significant (theoretically correct sign)

**Table 5-6: Japan regression output summary**

<b>Independent variable type</b>	<b>1966-1991 Cold war period – high threat</b>	<b>1992-2001 Post-Cold War – low threat</b>	<b>2002-2014 Emerging China – high threat</b>
<b>Security</b>	<u>Significant (WW)</u> CN maritime conflict (+) CN border conflict (+) US ODA (++) US relations (+)  <u>Significant (ASIA)</u> Border with China (-) UN vote with US (+) US relations (+) Coup fail (+)	<u>Significant (WW)</u> UN security council (+) Border with China (++) US treaty ally (+) <i>US military personnel (-)</i> UN sanctions (-)  <u>Significant (ASIA)</u> <i>UN vote with Japan (-)</i> UN security council (++) US treaty ally (++) <i>US military personnel (-)</i> Total violence/war (++) <i>US sanctions (+)</i>	<u>Significant (WW)</u> ASEAN chair (+) CN border conflict (++) US military personnel (++) US ODA (+) UN sanctions (-)  <u>Significant (ASIA)</u> ASEAN chair (+) UN security council (+) CN border conflict (+)
<b>Normative</b>	<u>Insignificant (WW)</u> <i>Ideal points (-)</i>  <u>Insignificant (ASIA)</u>	<u>Insignificant (WW)</u> GDP per capita (--) <i>Ideal points (-)</i>  <u>Insignificant (ASIA)</u> GDP per capita (--) <i>Ideal points (-)</i>	<u>Insignificant (WW)</u> GDP per capita (--)  <u>Insignificant (ASIA)</u> GDP per capita (-)
<b>Commercial</b>	<u>Insignificant (WW)</u>  <u>Insignificant (ASIA)</u>	<u>Moderate (WW)</u> JP FDI (++) JP trade (++)  <u>Moderate (ASIA)</u> JP FDI (++) JP trade (++)	<u>Insignificant (WW)</u>  <u>Insignificant (ASIA)</u> <i>JP trade (-)</i>

Notes: (+) = positive relationship at 90 or 95% significance, (++) = positive relationship at 99% significance, (-) = negative relationship at 90 or 95% significance, (--) = negative relationship at 99% significance, WW = regression done on worldwide dataset, ASIA = regression done for countries of the Asia-Pacific region only.

Variables highlighted in **red and italics** have a sign (+,-) that is opposite to what we expect for the variable. For example, the negative sign on US military base is counter intuitive in that we may reasonably expect Japan to give more aid to countries hosting US military which also serves Japan's security interests. Another variable, Ideal points, indicates the degree of "liberal democratic" voting profile in the UN and negative coefficient indicates that Japan provides more aid to countries with illiberal voting profiles, contrary to expectations given Japan's overall commitment to liberal democratic values.

While commercial variables are significant during the low threat period as expected, Japan's aid program has been significantly determined by security variables over the entire period for which we have data. Japan's aid was more commercially oriented during the low threat period after the Cold War and before the rise of China when commercial factors become more salient. After 2001, Japan deemphasized commercial factors in its aid commitment decisions. Japan's ODA commitment decisions supported United States security policies in all high threat periods. In the low threat period, Japan provide less aid to countries with higher levels of United States military personnel and Asian states under US sanctions suggesting less alignment with United States interests in the low threat period. Japan began rewarding the

ASEAN chair with more aid in the later high threat period. There is no substantial evidence that normative factors were a significant determinant of Japan's aid during any period.

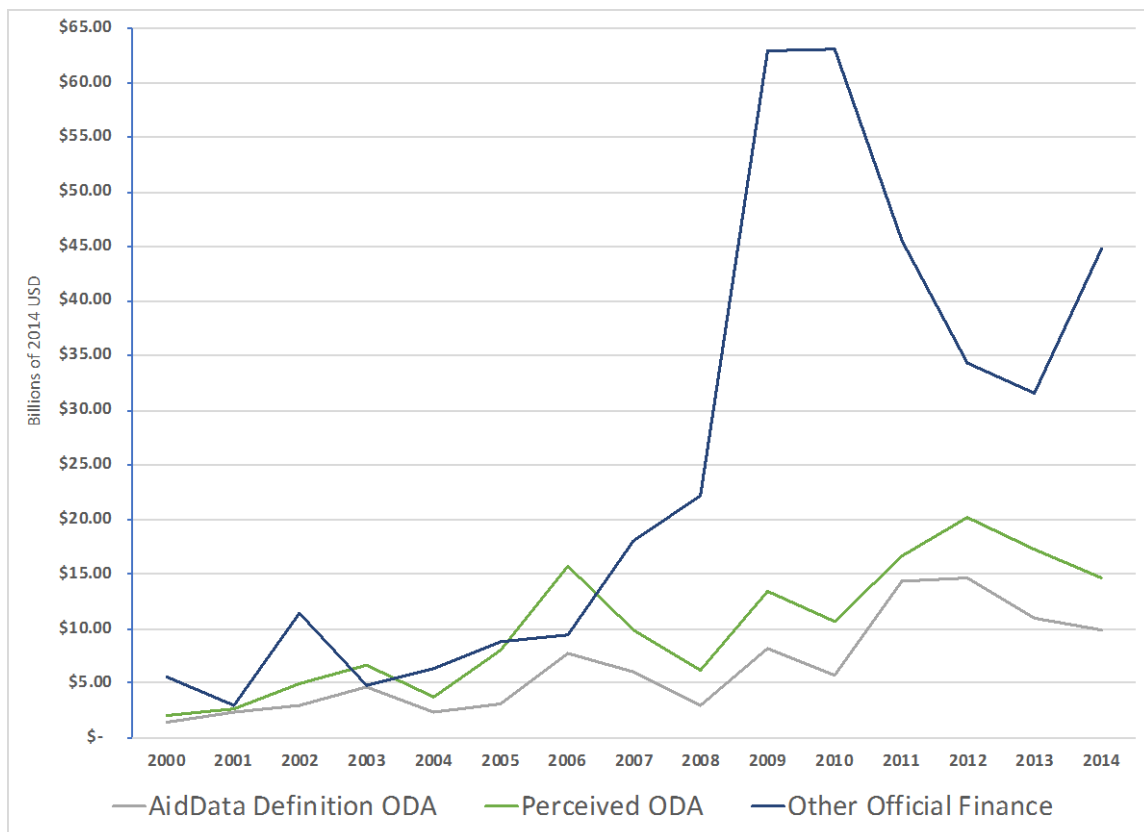
### **5.3 China's foreign aid commitments**

This sections describes the quantitative analysis and results which indicate the motivations driving China's aid commitments between 2000-2014.<sup>421</sup> China's foreign aid commitments (DV) are expressed as the share of total aid commitments from China in that year. The DV used in the regression analysis is based on what I refer to as "perceived ODA" and represents the upper bound of China's ODA-like foreign aid while the Aiddata.org definition represents the lower bound estimate of China's ODA (these are shown in Figure 5-1 on page 235 along with OOF). On average, the perceived ODA measure is about \$3.7 billion per year higher on average than the Aiddata.org estimate. The two measures of ODA-like flows have the same pattern of increases and decreases while OOF-like flows follow a different pattern with a major peak in 2010-2011 and a large jump between 2013 and 2014.

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<sup>421</sup> The regressions were initially run on both the original Aiddata.org data set and my modified dataset described in Section 4.2.2.1 beginning on page 159. The regressions on the modified dataset perform better than the regression on the Aiddata.org data set due to the higher number of observations and fewer zero values for the DV.



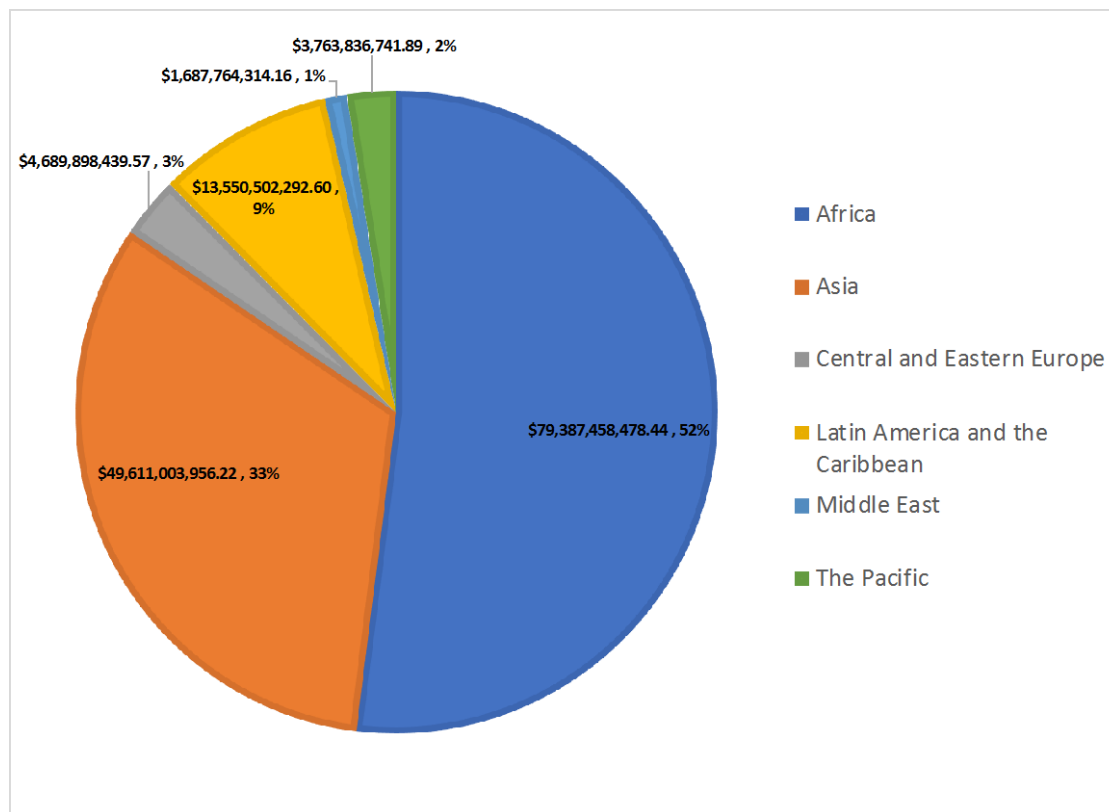
**Figure 5-1: China Foreign Aid - Aiddata vs. authors recoding**

Source: Aiddata.org and authors estimates based on recategorization of “vague” aid projects into ODA-like and OOF-like.

Over the 15-year analysis period (2000-2014), African countries received about 52% of all China’s foreign aid commitments while Asian countries received about 33%. No other region exceeded 10% of China’s foreign aid allocations (see Figure 5-2 on page 236). These percentages are quite close to the published figures from China’s White Paper on Foreign Aid which states that 32.8% of Chinese aid from 1951-2009 went to Asia while 45.7% went to Africa. From 2010 to 2012, 30.5% of Chinese aid went to Asia while 51.8% went to Africa.<sup>422</sup>

<sup>422</sup> China State Council Information Office, "White Paper on China's Foreign Aid," Beijing: Government of the People's Republic of China, 2011 and 2014.

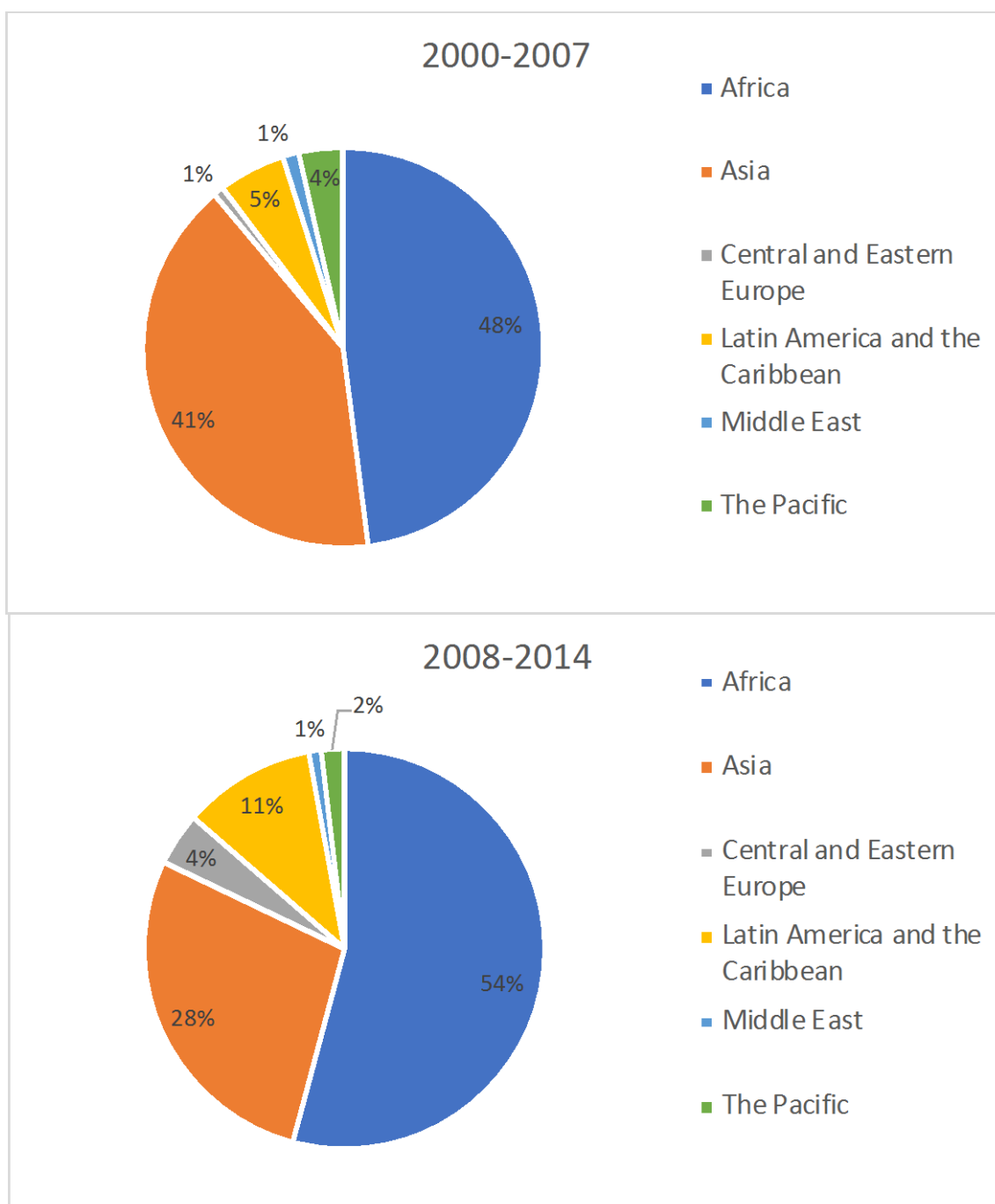
**Figure 5-2: Regional allocation of China's foreign aid - perceived ODA definition**



Source: Aiddata.org as adjusted by the author.

Comparing the regional allocation over time, we see a similar emphasis on Africa and Asia (see Figure 5-3 on page 237).

**Figure 5-3: China's regional allocation of perceived aid in different periods**



Source: Aiddata.org as adjusted by the author.

However, we need to be cautious about interpreting these apparent trends over short periods of time. China's aid program data totals are highly affected by outlier aid events. For example, in 2011 China forgave \$6 billion of Cuba's external debt which was over 1/3 of China's entire aid commitment for 2011 and more than doubled the share of aid that appears to

flow to the Americas. There are also enormous variations in aid to African countries with 2006, 2012 and 2013 notably higher than other years. For example, aid to Africa in 2005 was about \$1.8 billion while 2006 was nearly \$9 billion.

### 5.3.1 A model of Chinese aid: approach and methodology

The main hypothesis of this dissertation is: *Japan and China's foreign aid increasingly reflects security interests due to increased threat perception precipitated by the rise of China.*

If this is true, security variables will have the most explanatory power when threat perception is highest. Conversely, when threat perception is lowest, commercial variables are expected to be relatively more important. Unfortunately, there is no low threat period to test for China. Therefore, we can expect that the hypothesis for China can only be partially confirmed. However, there remains great value in understanding the various motivations behind China's aid program under elevated threat perception.

### 5.3.2 The models

Panel regression models and a cross section regression are used to simultaneously estimate the impact of commercial, security and normative factors in China's foreign aid allocations. The structure of the models is the same as the models estimated for Japan and given as follows:

$$\text{Share of ODA Committed} = \beta_0 + \beta_1(\text{commercial var}) + \beta_2(\text{normative var}) + \beta_3(\text{security var}) + \varepsilon$$

where the betas ( $\beta$ ) are parameters to be estimated and  $\varepsilon$  is the error term.

ODA commitments to country  $i$  in year  $j$  are regressed on factors representing the various overall motivations for Chinese foreign aid allocations based on the theoretical

framework presented in Chapter 2. The overall structure of the modeling exercise is similar to Dreher and Fuchs (2011) and Dreher et. al. (2015) in that variables representing commercial, normative and security factors are tested for their explanatory power. The approach also follows Lin (1993) in that variations over time are tested to determine if we can distinguish differences in China's aid commitment behavior when threat perception is higher or lower.

The analysis of China's threat perception of the United States and the United States-Japan alliance indicates some moderate level of threat beginning in the mid 1990s so that China's threat perception appears elevated over the entire analysis period. However, the threat perception analysis did indicate that China's threat perception was on a general upward trend over the analysis period with the exception of a temporary drop during the worldwide financial crisis. To estimate the degree to which the determinants of Chinese aid commitments changed, I have run regressions for the entire period (2000-2014), the early moderate threat period (2000-2008) and the higher threat period (2009-2014) with a regression for 2007-2008 to see if a low threat period could be established. I expected that if commercial factors were to be found significant for China, it would be during the period of the worldwide financial crises when China was trying to support its own economy and its threat perception was lower.

### 5.3.3 Results

The results of the model estimation are provided below in the following order: 1) Panel regression GLS with heteroskedasticity<sup>423</sup> robust standard errors, 2) regression on cross-section

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<sup>423</sup> Generalized least squares (GLS) is used to estimate a linear regression on pooled cross-sectional time series (panel) data. The correlation of the error terms across countries (heteroscedasticity) is corrected by using panel corrected (robust) standard errors in the estimation procedure. Correlation of the error terms across time (serial correlation) was corrected using the dependent variable (ODA commitments in this case) lagged one year as a regressor.

(CS) averages estimated using fractional probit and robust standard errors, and 3) Pseudo Poisson Maximum Likelihood (PPML). The CS and PPML regressions are meant to account for the large numbers of zeros in the China aid commitment data set. Please refer to APPENDIX 8 for a detailed discussion of the pros and cons of each approach. All models were estimated for the worldwide dataset and again for Asia-Pacific only. The cross-section models could not be estimated for Asia-Pacific since there are more explanatory variables than countries. Constraining the dataset geographically and temporally significantly reduces the observations in the models with commensurate declines in reliability – a particular concern for the 2007-2008 regression. Reducing the number of observations often leads to a significant decline in the variability of certain regressors and/or collinearity. Stata automatically excludes problematic variables from the regressions. For example, for regression on the Asia-only data set, the Taiwan recognition variable is automatically excluded since there is not enough variation to estimate the parameter – i.e. the Asian countries included in the data have recognized China rather than Taiwan over the analysis period. The PPML estimation is more sensitive to lack of data variability and collinearity and excludes more variables from the models estimated by PPML. The regression results for GLS are in Table 5-7 on page 241, cross-section regression in Table 5-8 on page 242, PPML in Table 5-9 on page 243 and GLS and PPML for Asia-only in Table 5-10 on page 244 and Table 5-11 on page 245 respectively. Significant independent variables are indicated by \* = 90% confidence level, \*\* = 95% confidence level, and \*\*\* = 99% confidence level.

Table 5-7: China Worldwide Regression – Panel GLS Random Effects, Robust Standard Errors

Independent Variable Type	Dependent Var	Panel Regression GLS Random Effects											
		2000-2014			2000-2008			2009-2014			2007-2008		
	Share_AllChnODA_max	Coef.	P> z	Sig	Coef.	P> z	Sig	Coef.	P> z	Sig	Coef.	P> z	Sig
Size	LnGDP_2013.L	0.0013833	0.038	**	0.0006813	0.321		0.0025918	0.018	**	-0.0000896	0.938	
Com	Oil_rent_gdp.L	-0.0000346	0.605		0.000014	0.871		-0.000102	0.346		-0.0000984	0.384	
Com	CN_Firm_Est.L	0.0001524	0.141		-0.0000148	0.957		0.0001814	0.056	*	-0.0004932	0.169	
Com	CN_FDIout_2013Y.L	-2.21E-07	0.499		8.38E-06	0.018	**	-4.85E-07	0.188		6.20E-06	0.005	***
Com	CN_trade_Mill2013Y.L	-4.88E-08	0.025	**	-9.84E-08	0.351		-4.30E-08	0.006	***	2.17E-08	0.578	
Value	Inf_Mort_rate.L	0.0001281	0.001	***	0.0001037	0.027	**	0.0001442	0.027	**	0.0001211	0.125	
Value	GDP_cap_2013.L	-5.23E-07	0.067	*	-6.96E-07	0.182		-5.74E-07	0.032	**	-3.37E-07	0.434	
Value	Humanitarian_M	0.0000114	0.048	**	0.000014	0.277		0.0000101	0.389		0.0000193	0.169	
Value	Polity2_use.L	-0.0000987	0.565		-0.0001623	0.407		-0.0000247	0.931		-0.0003553	0.206	
Sec	UN_pctwUS.L	0.0132102	0.196		0.0259452	0.202		-0.0014576	0.916		0.0160901	0.572	
Sec	UN_pctwChina.L	0.0078383	0.375		0.0210313	0.083	*	-0.0056057	0.72		0.0038914	0.828	
Sec	UNSC	-0.0019988	0.319		0.0033651	0.524		-0.0091158	0.012	**	0.0096009	0.254	
Sec	ASEANChr	0.0225228	0.066	*	0.03036	0.133		0.0045697	0.453		0.1161222	0	***
Sec	BorderChina	0.0080233	0.22		0.0120789	0.21		0.0025035	0.588		0.0003793	0.96	
Sec	ChinaMaritimeConflict.L	0.0110137	0.125		0.0193073	0.173		-0.0005296	0.916		-0.0006043	0.947	
Sec	ChinaBorderConflict.L	-0.0235413	0.018	**	-0.0213943	0.07	**	-0.0348789	0.022	**	-0.0279581	0.117	
Sec	USTreatyAlly	0.0074184	0.365		0.0193119	0.182		-0.0073763	0.149		-0.0095144	0.313	
Sec	USMilBase	0.001744	0.755		-0.0000279	0.998		0.0012986	0.802		0.0156745	0.101	
Sec	Total_viol_war.L	0.0018594	0.012	**	0.0016391	0.093	*	0.0021569	0.106		0.0033173	0.135	
Sec	USMil_Pers.L	-1.84E-07	0.042	**	-8.23E-08	0.168		-2.26E-07	0.048	**	5.99E-08	0.703	
Sec	Taiwan_Recog	-0.005386	0	***	-0.0041997	0.016	**	-0.0075932	0.003	***	-0.0052987	0.211	
Sec	US_Sanctions.L	0.0052228	0.282		0.0079638	0.349		0.0023425	0.596		-0.0071998	0.234	
Sec	UN_Sanctions	-0.0062046	0.136		-0.0038738	0.543		-0.0078052	0.232		-0.0030038	0.575	
Sec	US_Relations_ind.L	-0.0025604	0.074	*	-0.0003425	0.873		-0.0037502	0.127		-0.0068597	0.059	**
Sec	Coup_Success.L	-0.0042205	0.399		-0.0017865	0.778		-0.0079487	0.2		0.0218377	0	***
Sec	Coup_Fail.L	-0.0111769	0.001	***	-0.008867	0.027	**	-0.0201912	0.004	***	0.0076381	0.279	
Sec	USAODA_M2013.L	-5.29E-08	0.984		-2.38E-06	0.437		-7.70E-07	0.895		-0.0000119	0.223	
Sec	ODACom_JPTot_M2013Y.L	-3.16E-09	0.915		-2.87E-09	0.947		2.32E-08	0.617		3.28E-08	0.418	
NA	Share_AllChnODA_max.L	0.0478553	0.277		0.028693	0.675		0.0366639	0.614		0.2858314	0.002	***
NA	_cons	-0.0326672	0.064		-0.0338563	0.111		-0.0430998	0.08	*	0.0131214	0.724	
		R-sq:			R-sq:			R-sq:			R-sq:		
		within =	0.0037		within =	0.0067		within =	0.0001		within =	0.1412	
		between =	0.5591		between =	0.4962		between =	0.4165		between =	0.5356	
		overall =	0.0937		overall =	0.1131		overall =	0.1151		overall =	0.4101	

Notes: \* = 90% confidence level, \*\* = 95% confidence level, and \*\*\* = 99% confidence level, '.L' indicates variable was lagged one year.

Com = Commercial variable, Value = Values or normative variables, Sec = Security variables, Size = indicates recipient country size, NA = not applicable (e.g. technical variables such as constant terms and lagged dependent variables to correct for serial correlation)

**Table 5-8: China Worldwide Regression – Fractional Probit on Cross Section Averages, Robust Standard Errors**

		Cross Section Regression on Period Averages, Fractional Probit, Robust Standard Errors											
Variable Type	Dependent Var	2000-2014			2000-2008			2009-2014			2007-2008		
		Share_AllChnODA_max	Coef.	P> t	Sig	Coef.	P> t	Sig	Coef.	P> t	Sig	Coef.	P> t
Size	GDP_2013	0.0863219	0.082	*	0.0571839	0.327		0.277742	0	***	-0.015482	0.797	
Com	Oil_rent_gdp	0.0125518	0	***	0.0109578	0	***	0.0102404	0.133		0.0043535	0.297	
Com	CN_Firm_Est	0.0066773	0.506		-0.0210882	0.271		0.0208316	0	***	-0.0045292	0.548	
Com	CN_FDIout_2013Y	-0.000199	0.279		0.0001987	0.02	**	-0.0003791	0.001	***	-0.0000288	0.543	
Com	CN_trade_Mill2013Y	-6.29E-06	0.001	***	-0.000013	0.002	***	-8.41E-06	0	***	-6.63E-08	0.973	
Value	Inf_Mort_rate	0.0042351	0.04	**	0.0027878	0.166		0.0098594	0	***	0.0054038	0.054	*
Value	GDP_cap_2013	-0.0000957	0.014	**	-0.0001955	0.001	***	-0.0000231	0.298		-0.0000424	0.128	
Value	Humanitarian_M	0.0008123	0.028	**	0.0012826	0.001	***	-0.0000227	0.968		0.0000427	0.897	
Value	Polity2_use	0.0254566	0.02	**	0.0134272	0.189		0.0226528	0.086	*	-0.0004315	0.976	
Sec	UN_pctwUS	-3.288682	0.076	*	-0.8930766	0.721		-1.447334	0.426		-2.958936	0.127	
Sec	UN_pctwChina	-0.794121	0.398		0.8910481	0.448		-0.9316181	0.438		-0.3756576	0.738	
Sec	UNSC	0.2016065	0.75		0.4061286	0.412		-1.214726	0.006	***	0.5035937	0.293	
Sec	ASEANChr	2.201957	0.267		0.2713701	0.915		2.882155	0.05	**	1.089076	0.392	
Sec	BorderChina	0.3616769	0.026	**	0.4907781	0.022	**	0.0852871	0.533		0.2062493	0.367	
Sec	ChinaMaritimeConflict	0.3026267	0.161		0.2450345	0.217		2.023799	0.001	***	-0.6422131	0.298	
Sec	ChinaBorderConflict	-0.3225059	0.579		-0.5907875	0.26		-0.8137285	0.374		-4.250091	0	***
Sec	USTreatyAlly	-0.9325498	0	***	-0.7143756	0	***	-3.189519	0	***	-0.4967463	0.059	*
Sec	USMilBase	1.108344	0	***	1.91486	0	***	-1.662611	0.001	***	0.7948433	0.058	*
Sec	Total_viol_war	-0.014813	0.95		-0.2460924	0.464		0.7284575	0.005	***	0.3015347	0.196	
Sec	USMil_Pers	-0.0793367	0.067	*	-0.0337858	0.316		-0.0369347	0.417		0.058484	0.283	
Sec	Taiwan_Recog	-0.0000374	0.034	**	-0.0000457	0.382		-0.0000255	0.065	*	-0.0000387	0.188	
Sec	US_Sanctions	0.3506276	0.105	*	0.2156213	0.462		0.4658667	0.013	**	0.0721566	0.829	
Sec	UN_Sanctions	-0.187068	0.395		-0.6376931	0.058	*	-0.1189606	0.315		-0.1507398	0.416	
Sec	US_Relations_ind	-0.1626837	0.033	**	-0.1789561	0.115		-0.0961401	0.315		-0.1137107	0.344	
Sec	Coup_Success	0.3620771	0.743		1.844849	0.005	***	-0.5595082	0.238		1.837763	0	***
Sec	Coup_Fail	-1.442686	0.44		-1.34714	0.257		-2.033275	0.028	**	0		
Sec	USAODA_M2013	0.0003438	0.425		-0.0000801	0.914		0.0005746	0.239		0.000329	0.349	
Sec	ODACom_JPTot_M2013Y	2.70E-06	0.326		3.54E-06	0.183		-4.00E-06	0.245		3.82E-06	0.261	
NA	_cons	-3.152393	0.015	*	-4.092493	0.021	**	-8.153293	0	***	-1.617079	0.43	
		Obs	106		Obs	105		Obs	103		Obs	103	
		Wald chi2(30)=	649.6		Wald chi2(29) =	466.75		Wald chi2(29) =	1893		Wald chi2(28) =	860.3	
		Prob > chi2 =	0		Prob > chi2 =	0		Prob > chi2 =	0		Prob > chi2 =	0	
		Pseudo R2 =	0.1069		Pseudo R2 =	0.1263		Pseudo R2 =	0.1190		Pseudo R2 =	0.1092	

Notes: \* = 90% confidence level, \*\* = 95% confidence level, and \*\*\* = 99% confidence level.

Com = Commercial variable, Value = Values or normative variables, Sec = Security variables, Size = indicates recipient country size, NA = not applicable (e.g. technical variables such as constant terms and lagged dependent variables to correct for serial correlation)



Table 5-9: China Worldwide Regression - Pseudo Poisson Maximum Likelihood Estimation

China Worldwide ODA		Pseudo Poisson Maximum Likelihood Estimation											
Variable Type	Dependent Var Share_AllChnODA_max	2000-2014			2000-2008			2009-2014			2007-2008		
		Coef.	P> z	Sig	Coef.	P> z	Sig	Coef.	P> z	Sig	Coef.	P> z	Sig
Size	GDP_2013.L	0.2085714	0.001	***	0.0993351	0.186		0.4264324	0.007	***	-0.0954086	0.48	
Com	Oil_rent_gdp.L	-0.0053713	0.434		0.0028205	0.723		-0.0124267	0.456		-0.010948	0.225	
Com	CN_Firm_Est.L	0.0110273	0.035	**	0.0115727	0.56		0.0117137	0.015	**	-0.0298835	0.455	
Com	CN_FDIout_2013Y.L	0.0000112	0.853		0.0002102	0.073	*	-0.0000529	0.559		0.0000554	0.551	
Com	CN_trade_Mill2013Y.L	-7.31E-06	0.082	*	-5.59E-06	0.569		-9.79E-06	0.063	*	-4.33E-06	0.509	
Value	Inf_Mort_rate.L	0.0130346	0	***	0.010196	0.025	**	0.0152412	0.016	**	0.0171246	0.021	**
Value	GDP_cap_2013.L	-0.0001691	0.046	**	-0.0003752	0.007	***	-0.0001553	0.1		-0.0000834	0.453	
Value	Humanitarian_M	0.0002498	0.483		0.0006839	0.154		-0.0000838	0.881		0.0006697	0.336	
Value	Polity2_use.L	-0.0219245	0.253		-0.0262021	0.289		-0.0048526	0.869		-0.0477666	0.204	
Sec	UN_pctwUS.L	1.394686	0.195		2.568846	0.308		-0.1963336	0.89		-2.6306	0.491	
Sec	UN_pctwChina.L	1.586808	0.118		3.610032	0.02	**	-0.5774865	0.636		0.7309255	0.691	
Sec	UNSC	-0.4665072	0.313		0.1375902	0.772		-2.066897	0.001	***	1.60969	0.006	***
Sec	ASEANChr	0.7144228	0.175		0.7100394	0.223		0.7131526	0.306		5.712417	0	***
Sec	BorderChina	0.5901798	0.081	*	0.8622017	0.087		0.2883675	0.411		0.0770125	0.912	
Sec	ChinaMaritimeConflict.L	0.7124142	0.216		0.6241934	0.416		0.9370158	0.434		0.1129085	0.92	
Sec	ChinaBorderConflict.L	-3.237645	0	***	-2.863177	0.001	***						
Sec	USTreatyAlly	1.500409	0.019	**	2.114102	0.006	***	-3.906477	0	***	1.662103	0.09	*
Sec	USMilBase	-0.2009858	0.696		-0.23443	0.73		0.2408248	0.781		1.144441	0.082	*
Sec	Total_viol_war.L	0.0869969	0.088	*	0.0594842	0.285		0.1070185	0.267		0.1742168	0.134	
Sec	USMil_Pers.L	-0.0001005	0.017	**	-0.0002359	0.04	**	-0.0000394	0.071	*	-0.0000701	0.432	
Sec	Taiwan_Recog	-2.802687	0	***	-2.348955	0	***				-1.620105	0.075	*
Sec	US_Sanctions.L	0.2845036	0.35		0.3674951	0.507		0.2274021	0.398		-0.8524938	0.225	
Sec	UN_Sanctions	-0.5704905	0.173		-0.5954411	0.282		-0.7082274	0.26		-0.464275	0.309	
Sec	US_Relations_ind.L	-0.3379225	0.024	**	-0.1972369	0.34		-0.5258355	0.018	**	-0.9735181	0.002	***
Sec	Coup_Success.L	-0.4183045	0.476		-0.2851242	0.792		-0.7283628	0.335		1.981097	0.001	***
Sec	Coup_Fail.L	-1.619076	0.005	***	-1.317415	0.052	**	-3.249025	0.002	***	0.1589444	0.774	
Sec	USAODA_M2013.L	0.0003539	0.36		0.0002161	0.754		0.000151	0.769		1.39E-06	0.999	
Sec	ODACom_JPTot_M2013Y.L	-1.21E-06	0.513		-7.72E-07	0.737		-1.14E-07	0.988		3.32E-06	0.39	
NA	Share_AllChnODA_max.L	1.444527	0.423		-0.010695	0.997		0.5921491	0.834		18.63184	0	***
NA	_cons	-10.85059	0	***	-10.42634	0	***	-13.36527	0	***	-2.138819	0.588	
		Parameters: 30 Observations: 1406 Pseudo log-likelihood: -59.162075 R-squared: .1055734			Parameters: 30 Observations: 802 Pseudo log-likelihood: -32.160419 R-squared: .14191311			Parameters: 28 Observations: 557 Pseudo log-likelihood: -25.630962 R-squared: .16953592			Parameters: 29 Observations: 204 Pseudo log-likelihood: -8.1254228 R-squared: .57435135		

Notes: \* = 90% confidence level, \*\* = 95% confidence level, and \*\*\* = 99% confidence level, '.L' indicates variable was lagged one year.

Com = Commercial variable, Value = Values or normative variables, Sec = Security variables, Size = indicates recipient country size, NA = not applicable (e.g. technical variables such as constant terms and lagged dependent variables to correct for serial correlation)

**Table 5-10: China Asia-Only Regression - Panel GLS Random Effects, Robust Standard Errors**

Asia Only		Panel Regression GLS Random Effects											
Independent Variable Type	Dependent Var	2000-2014			2000-2008			2009-2014			2007-2008		
		Coef.	P> z	Sig	Coef.	P> z	Sig	Coef.	P> z	Sig	Coef.	P> z	Sig
	Share_AllChnODA_max												
Size	GDP_2013.L	0.0018498	0.45		-0.0002095	0.959		0.0015336	0.637		0.007198	0.16	
Com	Oil_rent_gdp.L	-0.0003004	0.146		-0.000426	0.257		0.0000457	0.86		-0.0002586	0.307	
Com	CN_Firm_Est.L	-0.0000242	0.863		-0.000017	0.98		0.0000493	0.672		-0.0004737	0.272	
Com	CN_FDIout_2013Y.L	1.30E-06	0.236		0.0000112	0.008	***	7.99E-07	0.48		3.48E-06	0.19	
Com	CN_trade_Mill2013Y.L	-4.12E-08	0.436		-2.19E-07	0.419		2.61E-08	0.38		-1.23E-07	0.13	
Value	Inf_Mort_rate.L	0.0000892	0.663		0.0002205	0.521		-0.000214	0.233		0.0007622	0.039	**
Value	GDP_cap_2013.L	-2.04E-06	0.322		-3.82E-07	0.949		-3.43E-06	0.038	**	3.22E-06	0.487	
Value	Humanitarian_M	0.0000114	0.451		0.0000276	0.521		0.0000148	0.081	**	-0.0000579	0.082	*
Value	Polity2_use.L	-0.0003274	0.697		-0.0009728	0.423		0.0006087	0.231		0.0009212	0.337	
Sec	UN_pctwUS.L	0.0469661	0.113		-0.0152984	0.697		0.0484317	0.311		0.0075672	0.945	
Sec	UN_pctwChina.L	0.0410641	0.043	**	0.0061321	0.789		0.1030815	0.018	**	0.0055363	0.947	
Sec	UNSC	0.0036408	0.63		0.0085832	0.848		-0.0333401	0.373		-0.0440826	0.074	*
Sec	ASEANChr	0.020313	0.141		0.0260414	0.23		0.0134722	0.388		0.1250816	0	***
Sec	BorderChina	0.0075167	0.311		0.0116855	0.346		-0.0071399	0.284		0.0088789	0.329	
Sec	ChinaMaritimeConflict.L	0.0100592	0.252		0.0341577	0.12		-0.0272904	0		0.0207907	0.195	
Sec	ChinaBorderConflict.L	-0.0293444	0.03	**	-0.0207283	0.176		-0.0874862	0.001	***	-0.0354284	0.08	*
Sec	USTreatyAlly	0.0182231	0.129		0.0377697	0.045	**	-0.0231116	0.247		0.0915947	0.001	***
Sec	USMilBase	0.0175818	0.141		0.0072542	0.742		0.0070625	0.572		0.0724976	0	**
Sec	Total_viol_war.L	0.0029048	0.119		0.0024654	0.215		0.0105863	0	***	-0.002734	0.158	
Sec	USMil_Pers.L	-3.22E-07	0.284		-2.88E-06	0.333		-1.56E-07	0.401		-3.86E-06	0.04	
Sec	Taiwan_Recog	0			0			0			0		
Sec	US_Sanctions.L	0.0032008	0.753		-0.0077717	0.542		-0.0022856	0.852		-0.0263743	0.31	
Sec	UN_Sanctions	-0.0649939	0	***	-0.0631989	0.201		0			0		
Sec	US_Relations_ind.L	-0.0042777	0.238		0.0018595	0.824		-0.0088512	0.408		-0.0478642	0.002	**
Sec	Coup_Success.L	0.0003878	0.961		0.0040309	0.717		0			0.0298398	0.056	*
Sec	Coup_Fail.L	0.0019702	0.765		0			0.0111977	0.188		0		
Sec	USAODA_M2013.L	-6.66E-06	0.415		1.91E-06	0.96		-0.0000125	0.07	*	0.0000632	0.046	**
Sec	ODACom_JPTot_M2013Y.L	-1.79E-08	0.767		1.54E-08	0.876		-3.26E-08	0.799		1.03E-07	0.421	
NA	Share_AllChnODA_max.L	-0.0875049	0.108		-0.1592697	0.022	**	-0.2884281	0.23		0.1085555	0.512	
NA	_cons	-0.0646056	0.279		-0.0003892	0.997		-0.0792486	0.334		-0.1083759	0.238	
		R-sq:			R-sq:			R-sq:			R-sq:		
		within =	0.0242		within =	0.0774		within =	0.1980		within =	0.3976	
		between =	0.7212		between =	0.5795		between =	0.8451		between =	0.9599	
		overall =	0.1313		overall =	0.1832		overall =	0.3997		overall =	0.7804	

Notes: \* = 90% confidence level, \*\* = 95% confidence level, and \*\*\* = 99% confidence level, '.L' indicates variable was lagged one year.

Com = Commercial variable, Value = Values or normative variables, Sec = Security variables, Size = indicates recipient country size, NA = not applicable (e.g. technical variables such as constant terms and lagged dependent variables to correct for serial correlation)

Table 5-11: China Asia-Only Regression - Pseudo Poisson Maximum Likelihood Estimation

Asia Only		Pseudo Poisson Maximum Likelihood (PPML)											
Independent Variable Type	Dependent Var	2000-2014			2000-2008			2009-2014			2007-2008		
		Coef.	P> t	Sig	Coef.	P> t	Sig	Coef.	P> t	Sig	Coef.	P> t	Sig
	Share_AllChnODA_max												
Size	LnGDP_2013.L	0.1274373	0.3		0.1958271	0.529		-0.1254501	0.653		2.709218	0.003	***
Com	Oil_rent_gdp.L	-0.0594254	0.071	*	-0.029551	0.349		-0.263694	0.005	***	-0.8884331	0.297	
Com	CN_Firm_Est.L	-0.0015298	0.857		0.0072189	0.789		0.0045498	0.629		-0.0140795	0.784	
Com	CN_FDIout_2013Y.L	0.0001875	0.108		0.000361	0.013	**	0.0000986	0.378		0.00073	0.503	
Com	CN_trade_Mill2013Y.L	-5.56E-06	0.343		-0.0000122	0.403		7.71E-06	0.067	*	-0.000028	0.714	
Value	Inf_Mort_rate.L	-0.0067334	0.621		-0.0114628	0.718		0.0209673	0.142		-0.1631155	0.377	
Value	GDP_cap_2013.L	-0.0003683	0.119		-0.0007944	0.363		-0.0003887	0.141		-0.0016013	0.558	
Value	Humanitarian_M	0.0001736	0.794		0.0012532	0.272		0.0002409	0.713		-0.0199536	0.14	
Value	Polity2_use.L	-0.0211456	0.693		-0.0555904	0.498		0.0967798	0.047	**	-0.2937644	0.399	
Sec	UN_pctwUS.L	2.988118	0.161		-1.071121	0.822		2.209223	0.268		59.55154	0.4	
Sec	UN_pctwChina.L	5.618022	0.009	***	1.625892	0.631		6.377787	0.075	*	25.18487	0.326	
Sec	UNSC	-0.1062424	0.896		-0.085693	0.92		-4.139752	0	***	-9.909032	0.183	
Sec	ASEANChr	0.7360088	0.178		0.7606715	0.304		0.3707075	0.588		10.38114	0	***
Sec	BorderChina	0.4892322	0.301		1.044004	0.257		-0.2392737	0.733		12.51542	0.217	
Sec	ChinaMaritimeConflict.L	0.3592463	0.592		1.378176	0.258		-2.616589	0.03	*	9.157136	0.013	**
Sec	ChinaBorderConflict.L	-3.052562	0	***	-2.728943	0.002	***						
Sec	USTreatyAlly	1.134309	0.065	*	2.108042	0.017	**	-4.94565	0.041	**	21.67669	0.134	
Sec	USMilBase	0.4826887	0.429		0.4651444	0.566		0.6678915	0.55		10.69974	0.059	**
Sec	Total_viol_war.L	0.082815	0.283		-0.0796761	0.565		0.1276128	0.035	**	-1.61494	0.105	
Sec	USMil_Pers.L	-0.0001162	0.072	*	-0.000235	0.037	*	-0.0000437	0.102		-0.0004278	0.236	
Sec	Taiwan_Recog												
Sec	US_Sanctions.L	0.2718138	0.594		-0.9022972	0.463		1.5615	0.223		2.808903	0.664	
Sec	UN_Sanctions	-3.206088	0.011	**	-2.21485	0.282							
Sec	US_Relations_ind.L	-0.1157815	0.659		-0.2107933	0.686		-0.3215936	0.754		-10.16901	0.15	
Sec	Coup_Success.L	0.2924664	0.796		1.190405	0.614					0.7684078	0.638	
Sec	Coup_Fail.L	0.4574	0.546					-0.0818764	0.898				
Sec	USAODA_M2013.L	0.0004288	0.639		0.0010579	0.496		-0.0002276	0.71		0.0159947	0.198	
Sec	ODACom_JPTot_M2013Y.L	-2.66E-07	0.908		1.44E-06	0.561		3.39E-06	0.395		0.0000333	0.602	
NA	Share_AllChnODA_max.L	-7.474581	0.013	**	-10.84498	0.012	***	-12.60329	0.01	***	-23.24586	0.228	
NA	_cons	-11.63638	0	***	-8.947952	0.145		-7.01591	0.341		-73.07287	0.009	***
		Parameters: 29 Observations: 318 Pseudo log-likelihood: -18.851698 R-squared: .18827872			Parameters: 28 Observations: 180 Pseudo log-likelihood: -11.057147 R-squared: .28480236			Parameters: 26 Observations: 132 Pseudo log-likelihood: -6.6761239 R-squared: .69965775			Parameters: 26 Observations: 44 Pseudo log-likelihood: -2.1205938 R-squared: .92328654		

Notes: \* = 90% confidence level, \*\* = 95% confidence level, and \*\*\* = 99% confidence level, '.L' indicates variable was lagged one year.

Com = Commercial variable, Value = Values or normative variables, Sec = Security variables, Size = indicates recipient country size, NA = not applicable (e.g. technical variables such as constant terms and lagged dependent variables to correct for serial correlation)

Overall, the panel regressions on the China worldwide data set perform reasonably well and most variables have the theoretically expected sign. The regressions on cross-section averages indicate endogeneity between the DV and the commercial IVs. The time series regressions use lagged IVs to prevent endogeneity which is not possible in the cross section regressions. Therefore, the cross-section regressions' coefficients on the commercial variables are not reliable.

#### *5.3.3.1 Security factors in China's aid commitments*

Security factors are the most statistically significant variables explaining China's aid commitments over the entire analysis period, but different variables are significant in the early and later periods. Prior literature on Chinese ODA has emphasized one continuous factor in China's aid decisions since the beginning of China's aid giving program in the 1950s, namely, the recognition of Taiwan. All regressions show the expected sign on the Taiwan recognition variable (-) and it is highly significant in explaining China's aid commitments in 8 of 12 models. Recognizing Taiwan results in little to no aid from China and switching recognition from Taiwan to China generally results in major aid commitments from China. UN voting with China results in more aid commitments in the 2000-2008 period in 1 of 3 models while UN voting with the US results in less aid for 2000-2014 in 1 of 3 models. The only period where UN security council member is significant in 2009-2014 (GLS and PPML), but the parameter is the wrong sign – UNSC members tend to receive less aid from China not more. ASEAN chairmanship is significant for the 2000-2014 period (1 of 3 models) and 2009 – 2014 in 1 of 3 models and indicates that China rewards the ASEAN chair with more aid in the year of the Chairmanship.

The results show interesting differences between the early (2000-2008) and later period (2009-2014) which confirm the so called “charm offensive” strategy.<sup>424</sup> In the 2000-2008 period, the Asia-only regressions (Table 5-10 on page 244) shows that in the 2009-2014 period, China punished states with maritime conflicts (2 of 2 models). Border conflicts are consistently negative in both periods (5 of 6 of the Asia only models). Aid to United States treaty allies also shows differences over time. The worldwide PPML regressions (Table 5-9 on page 243) show United States treaty allies receive more aid from China in the early period and less in the later period. In the Asia only regressions, aid to United States treaty allies was positive in the early period (2 of 2 models) but changed to negative in the later period (1 of 2 models), consistent with the view that China’s policy in Southeast Asia was of reassurance (i.e. the Charm Offensive) in the early period. After 2008 China’s aid policy became more punitive toward countries aligned with the United States. The carrot turned to a stick consistent with the prediction from the threat perception analysis showing China’s threat perception was increasing from moderate to high over the analysis period.

One consistent result is that China uses its ODA commitments to reward countries that have worsening relations with the United States. All worldwide regressions estimate a negative coefficient on the United States Relations indicator variable and it is statistically significant in 6 of 12 specifications. Table 5-9 on page 243 (PPML) indicates that the variable is significant in 3 out of 4 periods and that the magnitude of the relationship increased in the later period. This means that in 2009-2014 period, having a deteriorating relationship with the United States results in a larger share of China’s aid flows than in the 2000-2008 period. Other regressions show a weaker effect but are consistent in the direction. Countries with deteriorating relations

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<sup>424</sup> Joshua Kurlantzick, "China's Charm Offensive in Southeast Asia," Washington DC: Carnegie Endowment for International Peace, *Current History*, September 2006.

with the United States tend to receive more aid from China all else being equal and this effect appears to have intensified over time. This same pattern can be seen in the United States sanctions variable. China increases aid to states under United States sanctions but the variable is only statistically significant in the cross-section regressions (2 of 12 models) for the 2000-2014 and 2009-2014 time periods (Table 5-8 on page 242).

One consistently negative relationships in the China models is the failed coup indicator variable (7 of 11 models). China aid commitments tend to decline when a country experiences a failed coup and this relationship is generally strong and highly significant. Interestingly, a successful coup is positive and significant for the 2007-2008 models and the cross-section model for 2000-2008, perhaps indicating that China uses aid to curry favor from new governments. The indicator for violence and war is also generally positive and significant in several of the models (4 of 12 worldwide and 2 of 12 Asia only). This variable is a composite score for international and civil violence with higher numbers indicating greater levels and intensity of violence. The models suggest that China generally provides more aid to states with more international and civil conflict and this effect is stronger in the later period (2009-2014).

Lastly, China's aid commitments do not appear to respond to United States or Japanese ODA commitments. ODA from the United States and Japan is not significant in any worldwide regression (0 of 12 models), Japan ODA is not significant in any Asia only regression, and United States ODA is only significant in 2 of 8 Asia only models and the sign is inconsistent. Overall, there is no evidence of direct aid competition between China and Japan or the United States in the worldwide and Asia only models.

### *5.3.3.2 Normative factors in China's aid commitments*

Normative factors reflecting recipient need are generally significant in explaining China's aid commitments. China's ODA commitments are generally responsive to recipient country poverty. China aid is not generally affected by any of the ideological measures (Ideal Points and Polity). The coefficient on infant mortality (indicator of poverty) is positive and statistically significant in 10 of 12 worldwide models (Table 5-7, Table 5-8, Table 5-9 on pages 241, 242, and 243 respectively). The effect is much weaker in the Asia-only regressions (significant in 1 of 8 models) implying that China's aid to Africa is more altruistic than its aid to Asian states, in line with the prediction that countries closer to China are more salient to its security. The coefficient on GDP per capita (another indicator of poverty) is generally negative (higher average income leads to less aid from China) and is statistically significant in 6 of 12 worldwide models but is only significant in the 2000-2008 but not significant in the later period. The coefficient on Humanitarian crises is positive and significant for the whole period in the GLS and CS regressions and the 2000-2008 period in the CS regression. The coefficients on UN Ideal Points (measure of voting aligned with liberal democratic norms) and the Polity indicator (democratic governance) are not generally significant in any time period except in the cross-section regression where China's aid commitments are higher to more democratic countries.

### *5.3.3.3 Commercial factors in China's aid commitments*

Commercial factors are a minor consideration in China's aid commitment decisions – even less than normative factors. There is no evidence that China gave significant weight to commercial factors during any period tested – including the 2007-2008 period which may have represented a lower perceived threat condition. The results from the cross-section regressions for commercial variables show endogeneity problems – that the aid from China affects the trade

and investment variables rather than the other way around so should be heavily discounted. Commercial factors are mostly insignificant in the panel regressions using lagged commercial variables but are often highly significant in the cross-section regressions on period averages suggesting that ODA-like flows from China tend to inflate the trade, investment and establishment of Chinese firms in recipient countries – which is a result of endogeneity. It is also advisable to discount the foreign direct investment (FDI) variable due to the well-known problem of channeling FDI through international tax havens.<sup>425</sup>

The panel regressions (Table 5-7, Table 5-9, Table 5-10, Table 5-11 on pages 241, 243, 244, and 245 respectively) show generally small impacts of commercial variables on China's ODA commitments with a notable disparity in the significance of commercial variables in the worldwide vs. Asia-only regressions. The signs on the coefficients are generally sensible with positive relationship between Chinese aid and establishment of Chinese firms (CN\_Firm\_Est) and China exports and negative relationship between aid and Chinese imports from the recipient. The establishment of Chinese firms is significant in 3 of 8 worldwide models, trade is significant in 4 of 8 worldwide models but the sign is negative meaning China is channeling aid to countries with less trade with China rather than more. The significance of the commercial variables disappears in almost all (except trade (positive) in 2009-2014 PPML and oil exports (negative) in 2 of 8 models) of the Asia-only regression suggesting that commercial factors, if important at all, are primarily salient in China's aid commitments outside Asia.

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<sup>425</sup> Caution is warranted interpreting FDI flows by country data. The level of FDI distorted due to the concentration of FDI flows through multinational enterprises in low tax jurisdictions which include Hong Kong, China and Singapore which record an inordinate amount of the FDI flows in the Asian region. The majority of China's FDI is funneled through Hong Kong and does not show up in China's FDI data. See OECD. 2015. "How Multinational Enterprises Channel Investments Through Multiple Countries." Paris: Organization for Economic Cooperation and Development. <https://www.oecd.org/daf/inv/How-MNEs-channel-investments.pdf> for a discussion of this measurement issue.



### 5.3.4 China's aid purpose – summarizing the findings

The analysis sought to determine the motivations behind China's overall aid commitments between 2000 and 2014 and distinguish any differences between the early and later high threat periods. The overall results for China are presented in Table 5-12 on page 252. Independent variable types are categorized as “significant”, “moderate”, or “insignificant. The decision rules<sup>426</sup> for each categorization are as follows:

**Significant:** 2 or more variables are significant, with the same sign, in two or more models.

**Moderate:** 1 variable is significant, with the same sign, in two or more models, or 3 variables are significant in one model with the theoretically correct sign.<sup>427</sup>

**Insignificant:** No variable is significant in two or more models.

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<sup>426</sup> These rules differ from the rules for the Japan regressions because of more models were estimated for China to deal with the large numbers of zero observations in the data set. The intent is to remain as consistent as possible in the assessments of China and Japan's ODA commitment decisions.

<sup>427</sup> Some estimated coefficients have the theoretically incorrect sign. A prominent example is the Oil Rent as a % of GDP variable. The estimated coefficients in the panel regressions (GLS and PPML) are negative implying that China provides less aid while oil production increases in a recipient country while the coefficients in the cross-section models are positive, implying that countries with higher average oil production over the analysis period receive more aid. The pattern can be explained by the possibility that China's aid pattern, with large allocations in some years followed by years with no aid, may result in the negative coefficient in the time series regressions. If aid from China (mostly infrastructure) results in higher oil production just as China's aid drops after a large aid package is committed, the negative coefficient is quite possible even as China delivers more aid to states with higher oil production overall.

Table 5-12: China regression results summary

Independent var. type	2000-2014 (high threat)	2000-2008 (early high threat)	2009-2014 (late high threat)	2007-2008 (financial crisis)
Security	<u>Significant (WW)</u> Taiwan recognition (--, All) ASEAN chair (+, GLS) Border conflict (--, CS, PPML) US relations (-, All) US military personnel (- All) US military base (++, CS) <b>US treaty ally (+, PPML), (--, CS)</b> US sanctions (+, CS) Violence (+, GLS, PPML) Failed coup (--, GLS, PPML) UN vote with US (-, CS)  <u>Moderate (ASIA)</u> Border conflict (--, PPML, GLS) US treaty ally (+, PPML) US military personnel (-, PPML) UN vote with China (+, GLS, ++, PPML) UN sanctions (--, GLS, PPML)	<u>Significant (WW)</u> Taiwan recognition (--, All) Border conflict (--, GLS, PPML) US military personnel (-, PPML) US military base (++, CS) <b>US treaty ally (++, PPML), (--, CS)</b> Failed coup (-, GLS, PPML) Successful coup (++, CS) UN vote with China (+, GLS, PPLL)  <u>Moderate (ASIA)</u> Border conflict (--, PPML) US treaty ally (+, GLS, PPML) US military personnel (-, PPML)	<u>Significant (WW)</u> Taiwan recognition (--, All) ASEAN chair (+, CS) Border conflict (-, GLS) Maritime conflict (+, CS) UN security council (--, All) US relations (--, PPML) US treaty ally (--, PPML, CS) US military personnel (-, GLS, PPML) US sanctions (++, CS) Failed coup (--, All)  <u>Significant (ASIA)</u> Maritime conflict (--, GLS, -, PPML) US treaty ally (-, PPML) Violence (++, GLS, PPML) UN security council (--, PPML) UN vote with China (+, GLS, PPML)	<u>Significant (WW)</u> ASEAN chair (++, GLS, PPML) Border conflict (--, CS) US relations (--, GLS, PPML) US military base (+, GLS, PPML) US treaty ally (-, CS), (+, PPML) Successful coup (++, All) UN security council, (++, PPML)  <u>Significant (ASIA)</u> ASEAN chair (++, GLS, PPML) US treaty ally (++, GLS) US military base (+, GLS, PPML) US relations (--, GLS) US ODA (+, GLS)
Normative	<u>Moderate (WW)</u> Human crises (+, GLS) Infant mortality (++, GLS, PPML) GDP per capita (-, All) Polity (+, CS)  <u>Insignificant (ASIA)</u> None	<u>Significant (WW)</u> Infant mortality (+, GLS, PPML) GDP per capita (--, PPML, CS) Human crisis (++, CS)  <u>Insignificant (ASIA)</u> None	<u>Significant (WW)</u> Infant mortality (++, All) GDP per capita (--, GLS) Polity (+, CS)  <u>Moderate (ASIA)</u> GDP per capita (-, GLS) Human crisis (+, GLS, PPML) Polity (+, PPML)	<u>Moderate (WW)</u> Infant mortality (+, All)  <u>Moderate (ASIA)</u> <b>Human crisis (-, GLS)</b> Infant mortality (+, GLS)
Commercial	<u>Moderate (WW)</u> CN firms (+, PPML) <b>CN trade (-, All)</b> Oil rent (++, CS)  <u>Insignificant (ASIA)</u> <b>Oil rent (-, PPML)</b>	<u>Moderate (WW)</u> CN FDI (+, GLS, PPML) <b>CN trade (--, CS)</b> Oil rent (++, CS)  <u>Insignificant (ASIA)</u> CD FDI (++, GLS, PPML)	<u>Moderate (WW)</u> CN firms (+, GLS, PPML) <b>CN trade (-, All)</b> Oil rent (++, CS)  <u>Insignificant (ASIA)</u> <b>Oil rent (-, PPML)</b> CN trade (+, PPML)	<u>Insignificant (WW)</u> CN FDI (++, GLS)  <u>insignificant (ASIA)</u> None

Notes: (+) = positive relationship, (++) = positive relationship at 99% significance, (-) = negative relationship, (--) = negative relationship at 99% significance, PPML = Pseudo-Poisson maximum likelihood, GLS = Generalized least squares random effects panel regression, CS = Cross-section regression on period averages, WW = regression done on worldwide dataset, ASIA = regression done for countries of the Asia-Pacific region only.

Variables highlighted in *red and italics* have a sign (+,-) to that expected for the variable. For example, the negative sign on Human crisis in 2007-2008 suggest China gave less aid to states that experienced a humanitarian disaster. Oil rent in the time series regressions also suggest the increasing oil production is correlated with less aid from China. Both counter-indicate the significance of the explanatory variable. See footnote 427 for an explanation of this possibility in the time series regressions.

Trade and investment variables excluded from cross-section regression results due to endogeneity, coefficients on FDI are excluded due to data issues that result from the majority of China FDI being transmitted through tax havens.

The Asia only regressions generally excluded the Taiwan recognition variable since there were no countries that switched recognition to/from Taiwan during the period. STATA automatically dropped this variable from the regressions.

The results in the above table (Table 5-12 on page 252) lead to the following conclusions regarding China's foreign aid policy over the analysis period. First, China's aid has been primarily security oriented over the entire period. Security variables are the most salient explanatory variables in China's aid commitments and the effect appears to be greater in the later periods than the earlier periods. Second, China's aid program appears targeted at undermining United States interests around the world. Relations between the recipient and the United States is a powerful explanatory variable which indicates that deteriorating United States relations causes increased aid from China and the magnitude of the effect increased over time. United States sanctions is significant and positive in the later period in the cross section model implying states under United States sanctions receive more aid from China (2009-2014). Further, United States allies tended to receive more aid from China in the early period (2000-2008) but less in the later period (2009-2014). As Japan utilized ODA to increasingly support United States interests over time, China did the opposite. Third, normative factors are sometimes significant, but the normative factors that China considers in its aid commitments are generally the poverty indicators rather than the political values indicators. The effect of the normative variables appears to be declining over time, but are surprisingly significant in the regressions. Fourth, commercial factors are moderate or insignificant in all periods with no apparent trend.

The China regression results are much more valuable for assessing the significance of the main IVs in determining China's aid commitments than in testing the hypothesis because there is little variation in the CV (threat perception) for China. However, the fact that China's aid commitments are primarily driven by security factors is consistent with the hypothesis that high threat perception leads to more security oriented foreign aid, but the lack of a low threat period does not allow me to test whether China aid would be more commercially oriented

without a perceived threat. In the case of China, the change observed over time suggests that increasing threat perception from the United States-Japan alliance led to a reorientation of its aid policies from the charm offensive to a more explicit countering of United States security interests.

#### **5.4 Explaining the variation in ODA over time for Japan and China**

In addition to assessing the significance of the various categories of variables in the regression outputs, I have utilized a statistical approach to assess the relative importance of commercial, normative and security factors on the allocation of ODA commitments over time. Individual panel regressions are run using commercial variables, then normative variables, then security variables in individual regressions to estimate the impact on ODA commitments under different threat environments for Japan and China. Variables that simply indicate country size (GDP and population) and variables used for technical reasons (lagged dependent variable) are excluded. The adjusted  $R^2$  is then compared between each regression. I utilize adjusted  $R^2$  to account for the fact that the number of variables in each category are different and adding variables will increase  $R^2$  regardless of the significance of the variable. The adjusted  $R^2$  indicates the percent of variation in the DV (share of ODA commitments) explained by the IVs included in each regression adjusted for the degrees of freedom in each regression to account to different numbers of variables. Therefore, the regression including only commercial variables will estimate the amount of variation in the DV attributable to commercial factors. Likewise, for regressions including only normative and security variables. For each time period, the variable category with the highest adjusted  $R^2$  has the highest explanatory power. For Japan, the results are in Table 5-13 on page 256:

**Table 5-13: Overall adjusted R<sup>2</sup> of panel regression by category of independent variables, DV share of ODA committed (Japan)**

<b>Japan panel regression, GLS random effects, robust standard errors</b>	<b>1967-1991 High threat</b>	<b>1992-2001 Low threat</b>	<b>2002-2014 High threat</b>
<b>Commercial variables</b>	0.1022 (10.2%)	<b>0.3771 (37.7%)</b>	0.0203 (2.0%)
<b>Normative variables</b>	-0.001* (0.0%)	.0746 (7.5%)	0.0201 (2.0%)
<b>Security variables</b>	<b>0.408 (40.1%)</b>	0.312 (31.2%)	<b>0.2790 (27.9%)</b>

Note: \* negative adjusted R<sup>2</sup> is possible when the residual sum of squares is close to the total sum of squares. The interpretation is that the model explains a negligible amount of the variation in the DV.

The results for Japan align with the predictions based on the theoretical framework proposed in this dissertation. In both high threat periods, security factors are the dominant predictors of changes in the DV. Only during the low threat period are commercial factors dominant. Interestingly, during the low threat period, normative factors, while still a minor factor, are more significant than at any other time. One major finding of this analysis is the persistence of security factors even during the low threat period. Although commercial factors are most important in the low threat period, security factors remain strong. In the most recent period, commercial factors have minimal explanatory power, approximately on par with normative factors.

In the case of China, I adjusted the years between the lower threat and higher threat periods by one year to more evenly split the data. Since the number of included observations can have strong impacts on the adjusted R<sup>2</sup> result, it is better to ensure that any differences are the result of actual structural differences in impact of the IVs on the DV rather than a reflection of the amount of data points included between the time periods. In the results below, the number of observations between time periods is balanced. The adjusted R<sup>2</sup> is calculated for both GLS and PPML models. The results for China are in Table 5-14 on page 257.

**Table 5-14: Overall adjusted R<sup>2</sup> of panel regression by category of independent variables, DV share of ODA committed (China)**

China panel regression, GLS random effects, robust standard errors	2000-2007 Lower threat		2008-2014 Higher threat	
	GLS	PPML	GLS	PPML
<b>Commercial variables</b>	-0.0022 (-.22%)	-0.0012 (-0.24%)	0.0016 (0.16%)	0.0062 (0.62%)
<b>Normative variables</b>	.0283 (2.83%)	0.0358 (3.58%)	0.0346 (3.46%)	0.0385 (3.85%)
<b>Security variables</b>	<b>0.051</b> <b>(5.1%)</b>	<b>0.0610</b> <b>(6.1%)</b>	<b>0.0460</b> <b>(4.6%)</b>	<b>0.0490</b> <b>(4.9%)</b>

Note: \* negative adjusted R<sup>2</sup> is possible when the residual sum of squares is close to the total sum of squares. The interpretation is that the model explains a negligible amount of the variation in the DV.

Interestingly, commercial factors have little influence on the DV in both periods. Normative factors have much higher explanatory power in both periods than commercial factors. The results suggest that Chinese foreign aid does consider recipient need more than commercial benefits. Security variables are the most significant in both periods but not much different between periods. The strength of the variable categories for China's ODA commitments are not clearly different between the early and late period. As described in the panel regression results, the main difference is not in the importance of security factors but in the different security factors that are salient and the direction of causality between the two periods.

The adjusted R<sup>2</sup> (and unadjusted) values were expected to be much lower for the China regressions than the Japan regressions because the Japan ODA data is much more robust, available for longer periods of time, and the program is more consistent which substantially minimizes the problem with 0 values. For example, with the China program where large commitments are often interspersed with years with no commitment (0 value), this variation between large commitments and 0 cannot be explained by the IVs which significantly reduces R<sup>2</sup>. However, the overall finding that security factors dominate normative and commercial factors in China's aid commitment decisions is confirmed.

### **5.5 Testing for aid competition**

There are two ways in which foreign aid competition can arise. First, states can give aid within balancing coalitions against other threatening states. In this case, we expect states that are threatened by other donors to use aid to support states that are willing to balance against the common threat. In other words, both donor and recipient must be threatened by another donor for aid to flow in a manner predicted by balancing behavior. If this dynamic is operative, we expect competing donors to provide more aid to different states as was observed during the Cold War. The United States and Soviet Union provided aid to different groups of countries within their own coalitions. The second type of aid competition can arise when states do not feel threatened or when the recipient state is not threatened by either donor. If the donor is not threatened or the recipient state does not share the threat perception of the donor, aid would not be used to support a balancing coalition. In this case, we expect to see donor states giving aid to the same recipients. The purpose of that aid is unlikely to be power balancing but is likely to be either commercial in nature or bidding for policy concessions.

Aid from China and Japan may fall into both categories depending on the target location of the recipients. African states are not threatened by either Japan or China, due to their location and place in the international system and should not be expected to join a balancing coalition against either donor. In this case, we may expect aid competition to reflect commercial interests (e.g. access to resources, granting of contracts, etc.) or bidding for policy concessions such as UN votes, official recognition of China (e.g. PRC vs Taiwan), or support in other international institutions. In Southeast Asia, aid competition, if it exists, is likely to reflect more classic balancing behavior.



The regression analysis does not provide much evidence for aid competition between China and Japan since aid commitments of the other are not significant IVs in any regression. Aid from Japan does not explain aid commitments from China and aid from China does not explain aid commitments from Japan in the worldwide data and when restricted to Asian countries. From the basis of the regression analysis thus far, there is no substantial evidence that Japan and China consider aid from each other in their aid commitment decisions.

To more carefully assess whether or not the aid commitments of Japan and China affect the commitments of the other state, I ran some supplemental regressions limiting the analysis to specific groups of countries where it may be more likely that aid competition would occur. Further, the time period was set at 2000-2014 so that the entire period where there is data on China's aid commitments can be tested for interaction between Japan and China's aid commitment decisions. Even though the time period spans periods of varying levels of threat perception, I decided to maximize the amount of data included in the regressions to offer the best chance to estimate interaction between the aid commitment variables. Separate panel regressions were run for both China and Japan's ODA commitments over the 2000-2014 time period with the ODA commitment from Japan lagged one year included in the China regressions and the ODA commitment from China lagged one year included in the Japan regressions. Countries were then grouped regionally to test if Japan and China aid commitments considered, either positively or negatively, the prior year aid commitments of the other country in their aid commitments. The panel regressions were run using Share of ODA committed as the DV, all of the same IVs from the prior regressions and again estimated using GLS, random effects and robust standard errors. Separate regressions are run for Asia-Pacific countries only, African countries only, Southeast Asian countries only, and only Pacific Island states. The reader is cautioned that the highly restrictive groupings such as Southeast Asia and

Pacific Islands have relatively few observations so the regressions on such small groups of countries perform quite poorly. The results for the regionally limited regressions for Japan and China are given in Table 5-15 on page 260 and Table 5-16 on page 260.

**Table 5-15: Japan ODA commitments, testing for aid competition with China, various regional groupings, 2000-2014**

<b>DV: Total ODA commitments</b>	<b>Coefficient</b>	<b>Significance</b>
<b>IV: China ODA commitment prior year</b>		
<b>Worldwide regression</b>	-2.89e-07	69.9%
<b>Asia-Pacific only regression</b>	-2.17e-06	89.3%
<b>Africa only regression</b>	-4.21e-07	81.5%
<b>Southeast Asia only regression</b>	-2.15e-06	45.9%
<b>Pacific Islands only regression</b>	3.64e-07	27.3%

**Table 5-16: China ODA commitments, testing for aid competition with Japan, various regional groupings, 2000-2014**

<b>DV: Total ODA commitments</b>	<b>Coefficient</b>	<b>Significance</b>
<b>IV: Japan ODA commitment prior year</b>		
<b>Worldwide regression</b>	-3.16e-09	8.5%
<b>Asia-Pacific only regression</b>	-1.79e-08	23.3%
<b>Africa only regression</b>	-4.21e-08	74.2%
<b>Southeast Asia only regression</b>	1.99e-07	7.6%
<b>Pacific Islands only regression</b>	2.015e-07	9.3%

If China and Japan were actively competing for influence in the same countries, I expect that aid commitments from Japan or China in the previous year would make aid commitments from the other state more likely. This would imply a positive and significant value on the estimated coefficient for the lagged ODA commitment variable from the other state. If China and Japan were actively building a balancing coalition against the other state, I would expect aid from Japan or China to displace aid from the other state. This would imply a negative and significant value on the estimated coefficient for the lagged ODA commitment variable from the other state.

In the Japan case, all regressions save one (Pacific Islands) indicate a negative relationship between Japanese aid commitment and Chinese aid commitments in the prior year. None of these negative relationships are statistically significant however. The only regression with a positive coefficient is for the Pacific Islands but is not significant. The Asia-Pacific and Africa regressions are the closest to achieving significance and display a negative relationship between Japan aid commitments and China aid, but do not achieve a 90% significance level. Overall, the findings are weak for Japan using its aid to compete with China.

In the case of China, the pattern of coefficient signs are the same as Japan except for Southeast Asia but none of the relationships are statistically significant. The regression analysis suggests that there is not a broad, systematic competition using foreign aid between Japan and China. However, the results do not mean that Japan and China never compete using aid. A case study analysis may be able to uncover specific instances of aid competition, but panel regressions are simply not the best tool for determining if such behavior occurs. Based solely on the regression analysis, the evidence for aid competition between China and Japan is weak. The case studies for the Philippines and Cambodia may illuminate competitive aspects that could not be found in the regressions.

## **5.6 Quantitative analysis summary**

The panel regressions on Japan's and China's foreign aid commitments confirm the hypothesis for Japan and partially confirm the hypothesis for China. The panel regressions show that security variables were the most significant factors explaining Japan's aid commitments during the two high threat periods and commercial factors were the most significant factors explaining Japan's aid commitments during the low threat period, confirming predictions 1 and 2 for Japan. The quantitative analysis also confirmed prediction 3 that Japan's

aid commitments were targeted to support United States security interests, especially during high threat periods. In the first high threat period (1966-1991) Japan's aid was coordinated with ODA from the United States and rewarded countries with better relations with the United States. In the later high threat period (2002-2014) Japan's aid commitments was also coordinated with ODA from the United States and provided more aid to countries with larger contingents of United States military personnel. In the low threat period, Japan actually provide less aid to countries with larger contingents of United States military personnel but did reward United States allies with more aid.

In the case of China, the threat perception analysis indicated that China did not have low threat perception during the analysis period and, as such, prediction 2 could not be confirmed. However, the quantitative analysis confirmed that security factors were the most significant determinants of China's aid commitments over 2000-2014 confirming prediction 1. Prediction 4 was confirmed by the quantitative analysis which indicated that China's foreign aid program was indeed targeted at countering United States security interests and this focus has increased over time. China has consistently used its aid commitments to reward countries with deteriorating relations with the United States. In the early period (2000-2008), China first rewarded United States allies but punished them in the later period (2009-2014). In Asia, China rewarded countries with a maritime conflict with China but punished them in the later period. In the later period, China also began rewarding countries under United States sanctions. Overall, the findings support the prediction that China's aid commitments are increasingly meant to undermine the security interests of its main perceived threat, the United States and its alliance partners.

## 6 CASE STUDIES

The preceding quantitative analysis using large-N regression models identified broad trends in aid policy as it responds to commercial, normative and security factors and threat perception. Regression models, however, tend to gloss over the mechanisms by which decisions are made and can be subject to spurious correlations and affected by major events that are not explicitly controlled for in the models. For example, the models suggest that Japan provides more aid to states in maritime territorial disputes with China. However, these states tend to cluster around the South China Sea which is also a major sea lane of communication for Japanese imports and exports. If the regression analysis indicates that Japan favors states in the in maritime conflict with China with aid, it could be that Japan is using aid to balance against China's rising power. But it could also simply indicate that Japan is concerned about access to its critical sea lanes of communication through the South China Sea where China's territorial conflicts are concentrated. In this way, regression models can be difficult to interpret when two different effects can be entangled in single variables. In these cases, confirmation of the estimated relationship through a detailed case study can help determine which interpretation is the correct one.

Supplementary case studies were conducted to deconstruct the sequence of events leading to aid increases, decreases and the types of projects being funded by both China and Japan. The cases are selected based on the results of the regressions conducted in Chapter 5. Key factors that drive aid commitments from Japan and China are identified in the regressions. Then countries that best illustrate the effects of key independent variables are selected and the aid behavior of China and Japan carefully traced to illustrate how the independent variables caused China and Japan to change their aid commitments. Both the Japan and China

regressions show that security factors are the most salient variables explaining variations in aid commitments and that United States security interests are central to both Chinese and Japanese aid giving. Countries for case studies should have one or more of the following features which are significant predictors of aid from both Japan and China based on the regressions in Chapter 5:

- Maritime dispute with China (i.e. plausibly threatened by China)
- United States treaty ally
- Successful coup
- Large variation in relations with the United States (including period of deterioration)
- Serves as ASEAN Chair

In the nested analysis approach, one or more cases are chosen to illustrate the important relationships between IVs and the DVs estimated in the regression analysis. In this study, two cases are sufficient to achieve enough variation across the variables identified above to confirm the regression findings. The countries chosen that best illustrate the effects of the above variables are the Philippines and Cambodia; both countries that have experienced significant swings in relations between them and China, Japan, and the United States. Both countries are economic laggards in Southeast Asia and are highly motivated to accept aid and, due to their relative poverty, likely to be susceptible to quid pro quo demands of donors. The Philippines has an ongoing and periodically bitter maritime dispute with China in the Spratly Islands and Scarborough Shoal and large variations in aid allocations from China and Japan. The case of Cambodia will contrast the Philippines case as a state with no border with China and no maritime dispute in the South China Sea. Cambodia is also a case where Japan was the largest aid donor in the 1990s and successfully led the mediation of the Cambodian peace process in the 1990s. Cambodia, after a coup in 1997, finally declared an end to its civil war in 1999 and

joined the Association of Southeast Asian States (ASEAN) in April of that year.<sup>428</sup> China rapidly expanded its aid to Cambodia after 1997 culminating in particularly generous aid packages around the time of Cambodia's assumptions of the ASEAN Chair first in 2002 and later in 2012.<sup>429</sup> The case studies will examine the conditions and pressures that led to changes in aid allocations over time for both China and Japan. Since many of the IVs do not vary much within cases (e.g. the Philippines has been in the United States alliance network since 1952 and has had a maritime territorial dispute with China for decades), using Cambodia and the Philippines provides variation across cases in the IVs for regime type, location along trade routes, territorial disputes, and donor alliance network.

Essentially, the case studies will demonstrate the way that the IVs and CVs in the proposed theory explain the changes in ODA commitments from Japan and China to the case study countries. These cases seek to bolster the findings of the regression models to demonstrate that the IVs and CVs interact in the manner specified in the theory in specific cases.

## 6.1 Case study objectives

The research objective of the case studies is the same as for the overall study. Using case studies of Japan's and China's aid to the Philippines and Cambodia, I seek to test the following hypothesis: *Japan and China's foreign aid increasingly reflects security interests due to increased threat perception precipitated by the rise of China.*

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<sup>428</sup> ASEAN Overview. *Establishment*. Accessed 1/30/2017 <http://asean.org/asean/about-asean/overview/>.

<sup>429</sup> Rodolfo Severino, "The Year of Cambodia's ASEAN Chairmanship", *ASEAN Focus: News and Views*, ASEAN Studies Center (Jan/Feb 2012).

The theory proposed in Chapter 2 suggests threat perception as the key factor in predicting whether a state allocates ODA to promote commercial interests or security interests. The analysis in Chapter 5 demonstrates that Japan's ODA has become increasingly focused on national security as China became perceived as a security threat. The results for China are similar though at no point in the period for which data is available (2000-2014) has China's aid been primarily commercial in nature. Early in the analysis period, China's aid was used to reassure states about China intentions while later in the analysis period, China's aid was used to punish states in conflict with China. Over the entire analysis period, China's aid counters United States interests.

The case studies are of the "theory testing" type and demonstrate the conditions that led to variations in the DV (ODA commitments). The cases are "most-likely" test cases of impact of threat perception on ODA allocation decisions. The case study approach also allows me to enrich the analysis with a more detailed analysis of the interaction between recipient and donor in the eventual aid commitment decision.

## **6.2 Case study design and structure**

The design of the case study analysis uses the congruence procedure using within case comparison.<sup>430</sup> This approach is well suited to the study of ODA commitments from Japan and China to the Philippines and Cambodia because the values on the IVs and DV vary greatly over the analysis period within the case. The case studies involve tracking the timing and interaction among variables based on specific events that occur that affect aid decisions and statements and actions of key actors in the aid relationship. Aid commitments are a decision made by

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<sup>430</sup> Stephen Van Evera, *Guide to Methods for Students of Political Science* (Ithaca: Cornell University Press, Kindle Edition, 1997), Kindle Location 974 of 2230 (Chapter 2).



policymakers. The proposed theory is the basis for predictions about the motivations of those policymakers. Therefore, following the steps in the decision-making process and the events that accompanied those decisions can help to illuminate the factors that bore on that decision.

The DV is ODA commitments. The IVs are grouped into categories representing security and commercial factors with one wildcard for humanitarian crises. The IVs considered in the case studies are presented in the Table 6-1 on page 267.

**Table 6-1: Independent variables considered in the case study analysis**

<b>Security IVs</b>	<b>Commercial IVs</b>
Alliances (aid from mutual ally)	GDP
Relations with the US	Foreign direct investment from donor
ASEAN Chair	Imports from donor
Successful coup	Exports to donor
Territorial disputes (with donor or adversary)	

Note: Some variables in the regression are not included because they may be irrelevant to the specific cases in this study (e.g. border states/resources) while other (e.g. regime type/population) are meant to help explain variation in the DV between countries rather than variation over time for the same country. There is not generally much or any variation in such IVs so they are not considered in these within country case studies.

The two cases in this dissertation are both before-after cases which are used to uncover how variation in the DV is explained by the causal factors in different time periods that represent lower threat and higher threat perception periods. The case studies also allow a more nuanced analysis of territorial disputes. The regression analysis assumes that there is or is not a territorial dispute (a dummy variable taking 1 if a dispute exists or 0 if not), but a case study helps to analyze times when territorial disputes are more intense or less intense. For example, during the early 2000s, many observers referred to China's "charm offensive" in Southeast Asia which coincided with a lessening of the intensity of territorial disputes over a period of several years. The pattern of aid commitments from China shown in the quantitative analysis in Chapter 5.3.3 is largely consistent with the "charm offensive" policy in the early part of the 2000s. This lessening of dispute intensity may have interesting implications in aid commitment decisions

made in the lower threat period vs the higher threat period, particularly in the case of the Philippines which has historically been threatened by China's territorial claims and remains in the United States alliance network.

The case studies proceed by describing in some detail the overall patterns of Japan's and China's aid commitments to the Philippines and Cambodia. I then consider the case study hypothesis and predictions to determine if the empirical evidence supports the results of the regression analyses or not. I then draw conclusions about the overall determinants of Japanese and Chinese aid commitments under different threat perception conditions.

### **6.3 Case 1: Japan and China's Aid to the Philippines**

#### **6.3.1 The pattern of Japanese ODA to the Philippines**

Japan's aid program in the Philippines began with war reparations. Reparations to the Philippines were settled on 9 May 1956 when Japan agreed to provide the Philippines with capital goods valued at \$550 million USD over 20 years.<sup>431</sup> This reparations package was the largest negotiated with any country reflecting both the proximity of the Philippines to Japan, the importance of the Philippines as a former United States colony, and the heavy damage inflicted on it during the war.

The Philippines was once considered one of the Southeast Asian countries with the greatest development potential. In the 1960s, it was one of the more advanced countries in the region and its close security and economic relationship with the United States, reasonably well developed political and legal system, and relatively free press led many commentators to

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<sup>431</sup> Japan Ministry of Foreign Affairs, "Japan-Philippines Reparations Agreement," accessed on 27 February 2017 at [http://www.mofa.go.jp/mofaj/gaiko/treaty/pdfs/A-S38\(2\)-180\\_1.pdf](http://www.mofa.go.jp/mofaj/gaiko/treaty/pdfs/A-S38(2)-180_1.pdf) (in Japanese).

assume the Philippines would continue its economic transformation and become a leading Asian economy.<sup>432</sup> For these reasons, the Philippines was chosen as the headquarters site of the Asian Development Bank in 1965.<sup>433</sup> However, poor economic performance since that time has flummoxed many observers. In 2016, within ASEAN the Philippines ranked ahead of only Cambodia, Myanmar, Laos, and Vietnam in per capita income<sup>434</sup>; all countries that had experienced significant national disruptions and political chaos. But in the late 1960s and early 1970s, the overall optimism regarding the Philippines economic potential led to large aid flows from developed countries attempting to spur economic transformation and take advantage of the expected economic boom. In 1969, Japan began offering aid to the Philippines in addition to reparations with \$30 million in ODA loans for road construction. Grant aid followed in 1972 to fund a flood forecasting system.<sup>435</sup> Japan quickly became the Philippines largest DAC donor in 1967 (DAC ODA data included disbursements of reparations) and has maintained that status aside from 1974, 1976-1977 and 1985, and 2006 when aid from the United States exceeded Japan's (see Figure 6-1 on page 270) and 2005 when aid from the United States, Germany and Australia exceeded Japan's.

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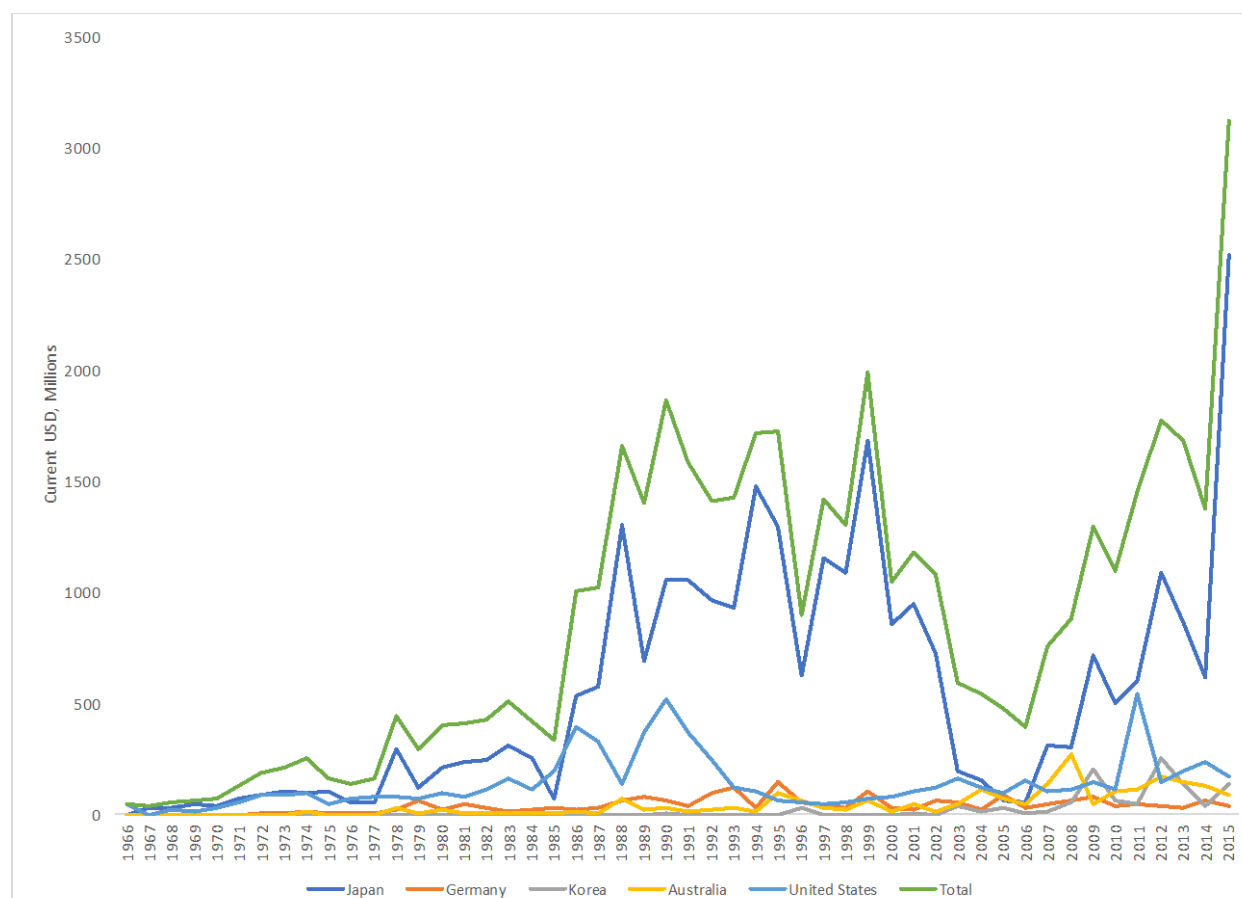
<sup>432</sup> Robert H. Nelson, "The Philippine economic mystery," *The Philippine Review of Economics*, Vol. XLIV, No. 1 (June 2007), 2.

<sup>433</sup> Ramon J. Farolan, "ADB headquarters: Manila, not Tokyo," *Philippine Daily Inquirer*, 30 April 2012, access on 14 March 2017, <http://opinion.inquirer.net/27815/adb-headquarters-manila-not-tokyo>.

<sup>434</sup> International Monetary Fund, *World Economic Outlook*, October 2016.

<sup>435</sup> Akira Takahashi, "From Reparations to Katagawari: Japan's ODA to the Philippines," in ed. Robert M. Orr and Bruce Koppel, *Japan's Foreign Aid: Power and Policy in a New Era*, 63-90.

**Figure 6-1: ODA Commitments to the Philippines from Key DAC donors, 1966-2015 (Current USD, Millions)**



Source: OECD

ODA commitments from Japan to the Philippines have gone up and down over the years. The most obvious trends are 1) the large and sustained increase at the beginning of the Aquino regime in 1986. Elevated levels of ODA were provided consistently until around 2000 when ODA commitments from Japan declined until 2006. In 2007, ODA commitments began rising and reached the highest levels ever in 2015. During this 2000s, Japan's total ODA commitments were slowly increasing (see Figure 3-1 on page 78) so Japan's declining ODA allocations to the Philippines after 2000 cannot be explained by a general ODA budget decline.

The 2003-2006 period represents a major reordering of Japan's ODA commitments with respect to the Philippines. The Philippines had been one of the largest recipients of Japan's

ODA ranking in the top 10 recipients of ODA commitments in nearly every year for decades. Table 6-2 on page 267 presents the top 10 recipients of Japan's ODA commitments by year. The Philippines is in the top 10 each year aside from 2004-2006. The Philippines was ranked 18<sup>th</sup>, 29<sup>th</sup>, and 31<sup>st</sup> in each of those years respectively. Japan provided no loan commitments to the Philippines at all in 2005 and 2006.

**Table 6-2: Ranking Japan's ODA Recipients by Annual Commitments, 2001-2014**

Rank	2001	2002	2003	2004	2005	2006	2007
1	Indonesia	China	Pakistan	China	Iraq	Nigeria	India
2	China	Philippines	Indonesia	Indonesia	Indonesia	India	Indonesia
3	Philippines	Viet Nam	China	India	India	Indonesia	China
4	Viet Nam	Indonesia	India	Ghana	China	China	Viet Nam
5	Sri Lanka	India	Viet Nam	Viet Nam	Turkey	Viet Nam	Iraq
6	Bangladesh	Thailand	Sri Lanka	Iraq	Viet Nam	Iraq	Tanzania
7	Tanzania	Pakistan	Egypt	Bolivia	Malaysia	Bangladesh	Bangladesh
8	Tunisia	Sri Lanka	Bangladesh	Thailand	Zambia	Egypt	Sri Lanka
9	India	Uzbekistan	Kazakhstan	Bangladesh	Honduras	Pakistan	Kenya
10	Nepal	Bangladesh	Philippines	Sri Lanka	Thailand	Sri Lanka	Philippines
Rank	2008	2009	2010	2011	2012	2013	2014
1	Iraq	Viet Nam	India	Viet Nam	India	Myanmar	India
2	India	Indonesia	Indonesia	India	Viet Nam	India	Viet Nam
3	Indonesia	India	Iraq	Bangladesh	Philippines	Viet Nam	Bangladesh
4	Viet Nam	Thailand	Afghanistan	Afghanistan	Afghanistan	Bangladesh	Myanmar
5	Bangladesh	Philippines	Kenya	Pakistan	Iraq	Philippines	Uzbekistan
6	Thailand	Bangladesh	Viet Nam	Indonesia	Brazil	Afghanistan	Indonesia
7	Pakistan	Iraq	Bangladesh	Philippines	Sri Lanka	Indonesia	Philippines
8	Sri Lanka	Azerbaijan	Philippines	Sri Lanka	Egypt	Sri Lanka	Sri Lanka
9	Mongolia	Afghanistan	Sri Lanka	China	Kenya	Uzbekistan	Tunisia
10	Philippines	China	Egypt	Serbia	Peru	Tanzania	Turkey

Source: OECD

### 6.3.2 The pattern of China's ODA to the Philippines

China and the Philippines have not historically had positive relations and the Philippines would seem a difficult target to pull away from the United States and Japan's orbit. China's

aid to the Philippines actually began long before the 2000s, but it was not to the government of the Philippines but to communist separatists, which the Philippines has not forgotten.<sup>436</sup> In addition, the Philippines harbored distrust of China from the 1995 Mischief Reef occupation by China which included the detention of Filipino fisherman by the Chinese military. The Philippines reacted by detaining Chinese fisherman and destroying Chinese survey equipment on reefs in the Spratlys.<sup>437</sup> Chinese aid allocations to Southeast Asian countries did not initially prioritize the Philippines.

The initial warming of ties between China and the Philippines stems from the agreed Framework of Bilateral Cooperation in the Twenty-First Century signed on 16 May 2000 in Beijing.<sup>438</sup> This agreement outlines, in a general way, the intention to expand trade, commerce and investment and agreeing to maintain peace and stability in the South China Sea and to resolve disputes through bilateral negotiations. The agreement also mentions cultural, law enforcement and defense cooperation. The agreement does not specifically mention aid to the Philippines and does not contain any specific measures to advance the principles elaborated in the framework.

China's modern aid program in the Philippines started small with loans on \$25 and \$35 million in 2001 and 2002 but ramped up quickly with a pledge of \$400 million for the Northrail project (segment of the Philippines National Railway from Manila to the North) in February

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<sup>436</sup> Dennis Trinidad, "Institutional mismatch and Chinese aid to the Philippines: challenges and implications," *Asian Perspective*, Vol. 40 (2016), 304.

<sup>437</sup> Daniel J. Dzurek, "China Occupies Mischief Reef in Latest Spratly Gambit," (Durham University (UK): International Boundaries Research Unit (IRU) Boundary and Security Bulletin, April 1995), 65.

<sup>438</sup> China Embassy in the Republic of the Philippines, "Joint Statement between China and the Philippines on the Framework for Bilateral Cooperation in the Twenty-First Century," 16 May 2000, accessed on 10 April 2017, <http://ph.china-embassy.org/eng/zfgx/zzqx/t183269.htm>.

2004.<sup>439</sup> Later the same year, \$980 million more was offered for the Southrail project (segment of the Philippines National Railway from Manila to the South) followed by a series of some of the largest concessional loans ever proposed for the Philippines. The pipeline of China funded aid projects quickly grew through 2007, but collapsed in a breathtaking series of corruption scandals eventually leading to the arrest of then former President Macapagal-Arroyo in 2012.<sup>440</sup>

The OECD DAC data shows a big drop in ODA to the Philippines from Japan and other DAC donors during 2004-2006 (shown in Figure 6-1 on page 270) when China's aid was very high. In fact, if Chinese aid is included, total ODA to the Philippines was as high as ever. The change was the donor. China committed to finance at least \$2.824 billion in projects through concessional loans between 2004 and 2007 though few of these projects made it to completion. Since the collapse of the large loan projects in late 2007 until 2014, China has only given a few small grants to the Philippines (see Table 6-3 on page 273 for a list of major Chinese aid commitments to the Philippines).

**Table 6-3: List of Proposed Chinese Aid Funded Projects in the Philippines, 2001-2014**

Year	Name	Type	Amount (millions)
2001	Banaoang Pump Irrigation Project	Loan	\$35
2002	General Santos Fishing Port Complex Improvement project	Loan	\$25
2003	Philippine-Sino Center for Agricultural Technology	Grant	\$7
2004	Northrail phase 1 Caloocan-Malolos Section	Loan	\$400
2004	South Luzon Railway Project (Southrail)	Loan	\$980
2006	Cyber-Education Project	Loan	\$465.5
2006	Non-Intrusive Container Inspection System Phase 1	Loan	\$50
2007	Non-Intrusive Container Inspection System Phase 2	Loan	\$100

<sup>439</sup> Roel Landingin, "Chinese foreign aid for offtrack in the Philippines," Philippine Center for Investigative Journalism, in *The Reality of Aid, South-South Cooperation: A Challenge to the System?* (Quezon City (Philippines): IBON Center, 2010), 87-94.

<sup>440</sup> "Philippines arrests Gloria Arroyo on plunder charges," *BBC News*, 4 October 2012, accessed 12 April 2017, <http://www.bbc.com/news/world-asia-19825408>.

2007	Northrail phase 1 Malolos-Clark section	Loan	\$500
2007	National Broadband Network	Loan	\$329
2010	Mobile Clinics	Grant	PhP85
2013	Typhoon Haiyan Recovery	Grant	\$0.1
2013	Typhoon Haiyan Recovery - Supplemental	Grant	\$1.5

Sources: Assembled by the author from the following sources including: Trinidad, Dennis, "Institutional mismatch and Chinese aid to the Philippines: challenges and implications", *Asian Perspective* 40 (2016), pp. 299-328. Official Development Assistance Watch, *Time to Dismantle the Roots of Evil: A Citizens Report on Official Development Assistance (ODA) to the Philippines*, Quezon City: The Alternative People's Development Forum, 25 March 2008.

Sen. Madrigal, M.A., *Senate P.S. Res. No. 317*, Manila: Fourteenth Congress of the Republic of the Philippines, 5 March 2008.

Note: The Northrail, Southrail, National Broadband Network, and Cyber Education Projects were cancelled due to corruption scandals.

### 6.3.3 Case study hypotheses and predictions

Why did Japan provide such high levels of ODA throughout the 1990s? Why did Japan reduce its ODA commitments to the Philippines in the early 2000s to such an extent that loan aid was zero in 2005-2006 only to increase aid to the Philippines from 2007 onward? Why did China provide extremely large aid packages the Philippines in the mid 2000s but cease most aid afterward? This case study attempts to explain the patterns of Japan and China's ODA to the Philippines and link these changes to the commercial and security interests of Japan, China and the Philippines.

The case studies in this dissertation are designed to establish the causal relations between security factors and commercial factors in the ODA allocation decisions of China and Japan that were estimated in the panel regressions. The Philippines offers an intriguing case because it reflects several important variables in the regression analysis for both China and Japan including: United States ally, ASEAN chair, maritime dispute with China, large variation in its relations with the United States. This case study allows us to explore how Japan and China's ODA commitments to the Philippines react to these variables over time. ODA allocations from China and Japan to the Philippines have risen and fallen by large amounts



since in the early 2000s. When Japan's aid fell, China's rose and when China's aid fell, Japan's rose. What are the causal factors that led to this variation? The case of the Philippines is evaluated to determine if the observable conditions conform to findings of the regression analysis.

The core predictions of this dissertation are as follows:

1. Commercial orientation of foreign aid should decline with the degree of threat perception. Japan's aid should reflect commercial interests in the Philippines in the low threat period.
2. Security orientation of foreign aid should increase with the degree of threat perceptions. Japan and China's aid should reflect security interests in the higher threat period.
3. In the case of Japan, I expect its aid policy to increase support for United States security goals as perceived threat increase because of the dependence on the United States-Japan alliance for Japan's security.
4. In the case of China, I expect its aid policy to increasingly counter United States security interests as its threat perception of the United States-Japan alliance increases. China's aid to the Philippines should reflect the charm offensive early in the analysis period and a punitive policy later.

**Prediction 1) During the low threat period (1992-2001), Japan allocated its aid to the Philippines to promote its commercial interests.** In the 1990s, the Cold War had just ended and Japan's security situation was better than it had been in decades. As shown in Section 4.4, Japan's level of threat perception was low. According to the theory developed for this dissertation, Japan is expected to allocate its ODA according to its commercial interests. This

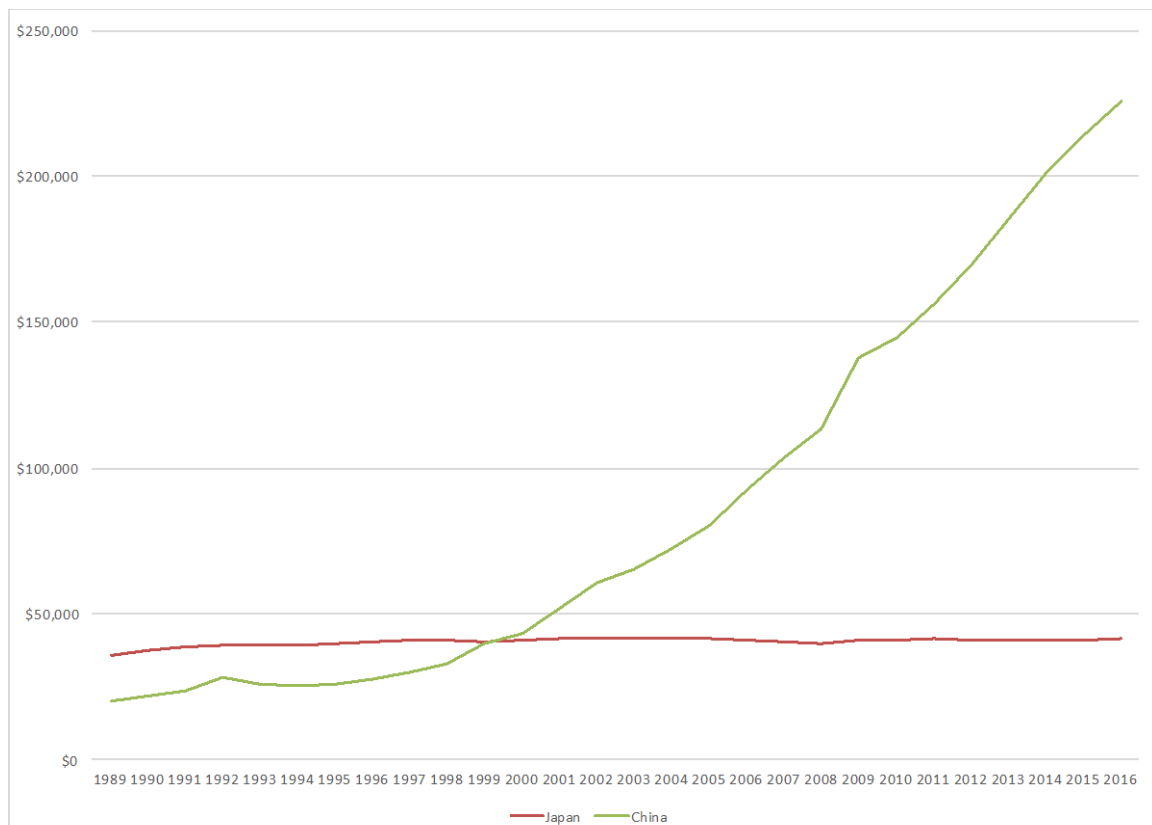
means that increasing aid to the Philippines should be explained more by increasing commercial opportunities for Japanese firms than by Japan's security interests. This is consistent with the conventional wisdom that Japan's ODA program was intended to promote Japan's commercial interests.<sup>441</sup>

Two events make it unlikely that the high levels of Japanese ODA to the Philippines in the 1990s were security related. First, the end of the Cold War in 1991 improved Japan's overall security situation markedly. Japan no longer had to deal with the Soviet threat and China had not yet grown into a major economic power. China's military capabilities were relatively poor, though rapidly improving. Even with China's growing military spending, Japan spent more on its military than China throughout the 1990s (see Figure 6-2 on page 277). Second, the departure of United States forces from their Philippines<sup>442</sup> bases reduced the importance of the Philippines to the regional security architecture.

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<sup>441</sup> David M. Potter, *Japan's Foreign Aid to Thailand and the Philippines* (London: Macmillan Press, 1996), 117.

<sup>442</sup> David E. Sanger, "Philippines Orders U.S. to Leave Strategic Navy Base at Subic Bay," *The New York Times*, 28 December 1991.

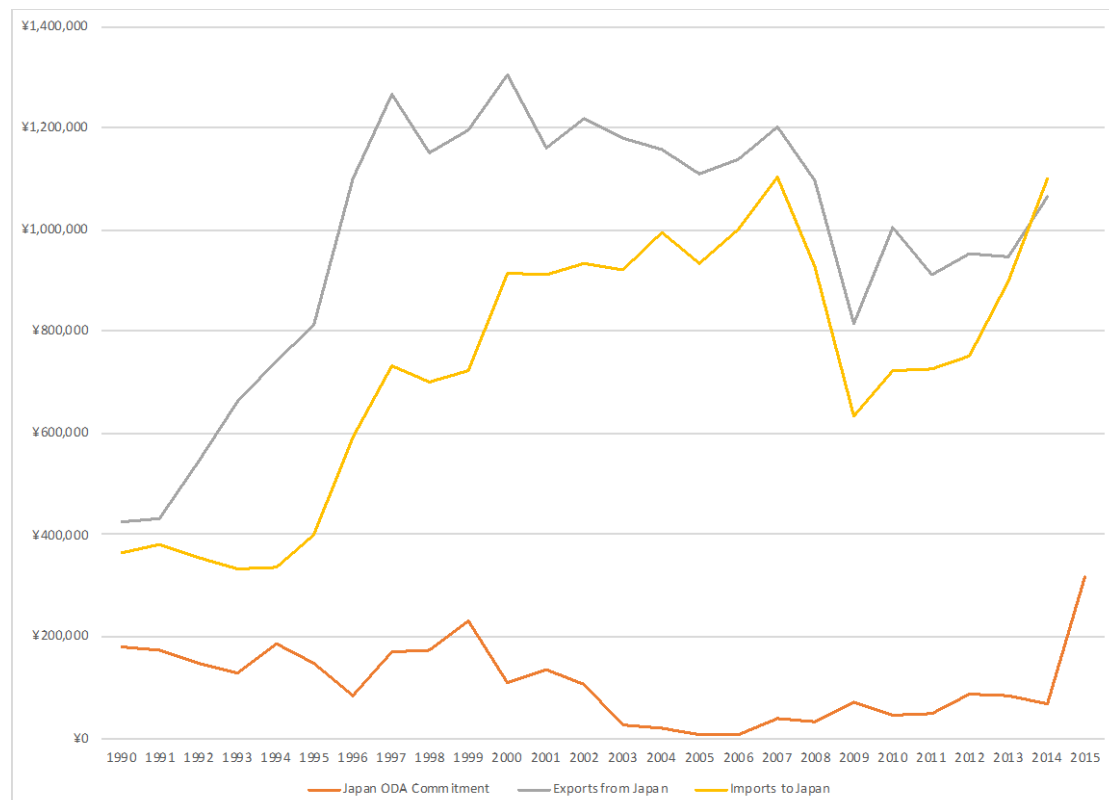
**Figure 6-2: Military Spending by China and Japan, Millions of 2015 USD**

Source: Stockholm Institute for Peace Research (SIPRI) Military Expenditure Database, 2017.

To the extent that Japan provided aid as a corollary to United States military commitments to support the United States alliance network, the removal of United States military personnel and equipment from the Philippines by the end of 1992 means that Japanese aid to the Philippines would be expected to decline after 1992 if aid was being allocated to support Japan's security. Japan's aid to the Philippines declined slightly in 1994 but was consistently high throughout the 1990s reaching its highest point in 1999 before beginning its long and pronounced decline from 2000 to 2006. During the 1990s, trade between Japan and the Philippines was growing enormously. Japanese exports tripled between 1991 and 1997 (see Figure 6-3 on page 278 for comparison of ODA commitments and trade between Japan and the Philippines). The commercial importance of the Philippines to Japan was increasing rapidly even as the strategic importance of the Philippines declined. United States foreign aid to the

Philippines rapidly declined after 1990 while Japan's aid remained high. Commercial factors offer the most compelling explanation for the sustained high levels of foreign aid from Japan to the Philippines throughout the 1990s. The prediction is confirmed in this case.

**Figure 6-3: Japanese ODA vs Trade, Millions of 2013 JPY**



Source: Trade statistics from the IMF, ODA commitments from OECD.

**Prediction 2) During the high threat period (2002-2014), Japan's and China's aid programs reflect security rather than commercial factors.** The distinguishing characteristics of aid to the Philippines after 2000 were first, a decline in aid from Japan eventually leading to no ODA loans in 2005-2006 followed by a quick resumption of aid from Japan in 2007 which generally increased thereafter. Aid from China began in 2001 and took off between 2004 and 2007. After 2007, China made no more ODA loans to the Philippines and only some small grants. What explains these striking patterns of aid giving?

One argument is that Japan continued to allocate aid to support its commercial interests. If so, Japan's large reductions in aid to the Philippines in 2004-2006 may have been the result of poor economic conditions in the Philippines. According to the theoretical framework proposed in the dissertation, when a donor is not under security threat, ODA allocations depend on the commercial importance of the recipient to the donor. If Japan prioritized commercial benefits to itself when allocating ODA, a deterioration in economic prospects in the Philippines could have precipitated the reduced aid. To test this hypothesis, I compare economic conditions in the Philippines to Japan's ODA levels over time to discern any relationship between them.

Japan-Philippines Economic Partnership Agreement (JPEPA) was negotiated and agreed in principle in 2004 and signed in 2006.<sup>443</sup> The agreement is a bi-lateral free trade agreement that cancelled or gradually reduced tariffs on trade in goods in a variety of categories, achieved some limited improvement in access for Filipino citizens to work in Japan, and relaxing of barriers to investment among other changes. The JPEPA does not explicitly address any policy issues related to ODA, but does help to illuminate the state of the overall economic relationship. The JPEPA sends the signal the trade and investment opportunities in the Philippines were improving for Japan during the period when ODA declined. In 2004, the JPEPA was widely expected to coincide with increased ODA from Japan, higher levels of investment and trade, and improved growth prospects in the Philippines.<sup>444</sup> The fact that Japan and the Philippines had recently negotiated a free trade agreement put the Philippines in a relatively advantageous position vis-à-vis other countries in the region. The JPEPA was the

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<sup>443</sup> Philippines Senate, "Policy Brief: Japan-Philippines Economic Partnership Agreement (JPEPA): An Assessment," Senate Economic Planning Office, September 2007 (PB-07-01).

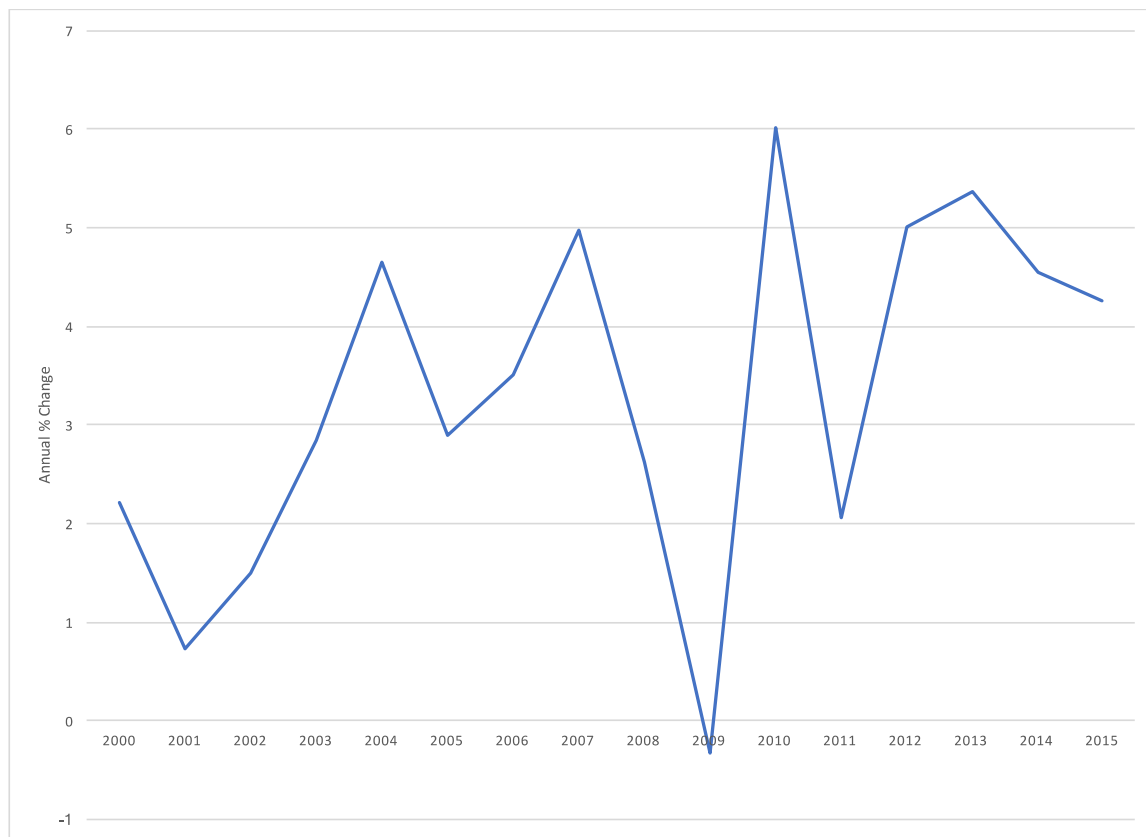
<sup>444</sup> Jose V. Camacho Jr. and Agham C. Cuevas, "The Dynamics of Philippines-Japan Economic Cooperation: The Case of Japan's ODA in the Philippines," Philippine Institute for Development Studies: Discussion Paper Series No. 2004-35 (August 2004), 10.

third bilateral FTA Japan signed in the Asia-Pacific region after Singapore and Malaysia. The policy environment was highly conducive to increased economic cooperation between Japan and the Philippines which should have resulted in increased ODA allocations if Japan prioritized commercial factors in its aid to the Philippines; all else being equal.

**Economic prospects.** If the policy environment was supportive of more ODA, perhaps actual economic conditions in the Philippines deteriorated causing the country to decline in relative economic importance to Japan. If Japan prioritized commercial benefits when allocating its ODA, large reduction in ODA lending may be an indication of deteriorating economic conditions in the Philippines during this period. Under this scenario, we would expect to see a change for the worse in the Philippines economic performance. However, economic conditions in the Philippines were strong in the early 2000s and only deteriorated after 2007 when Japan's ODA lending had already resumed.

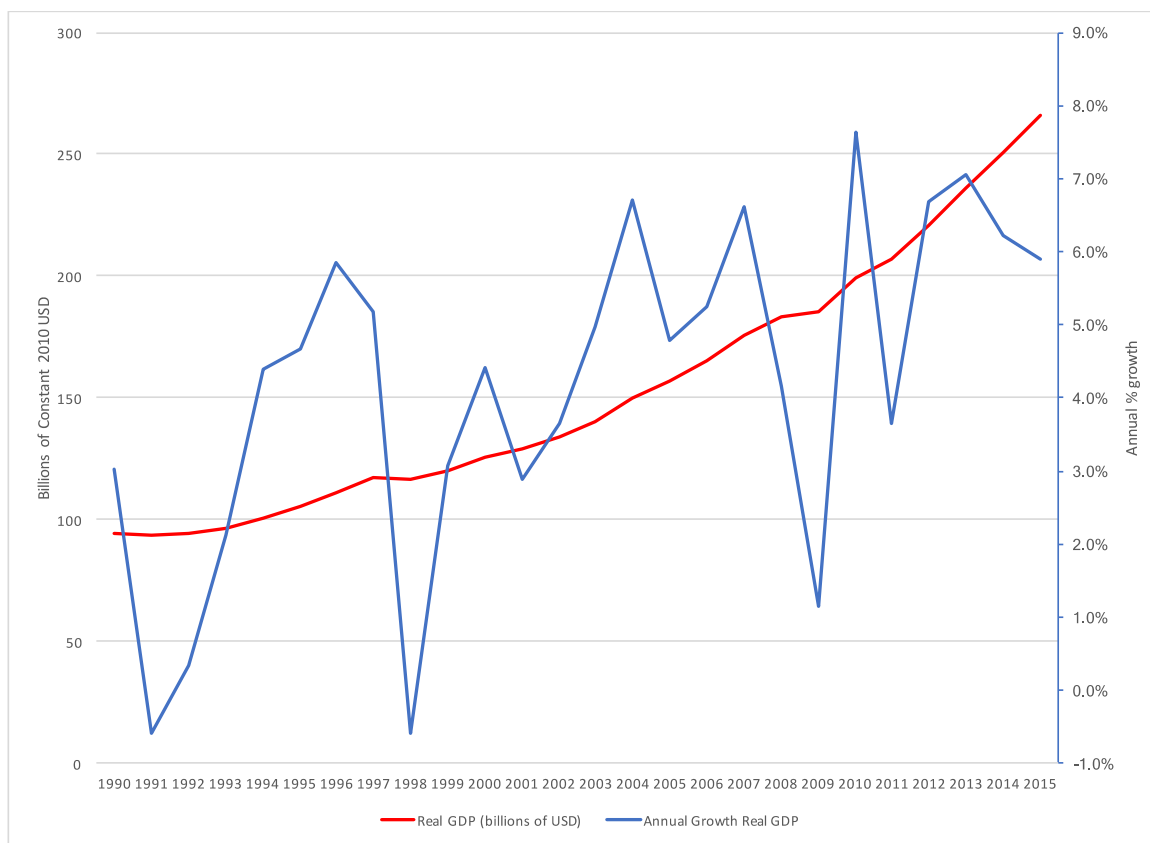
Poverty in the Philippines was also declining during this period as per capita income increased (see Figure 6-4 on page 281). The Philippines also made gains in infant mortality and life expectancy during this period implying that the attractiveness of the Philippines as a consumer market for Japanese goods and services should have been strong.

**Figure 6-4: Growth in the Philippines GDP per Capita, 2000-2015 (Constant PHP)**



Source: World Bank, World Development Indicators

The economic performance of the Philippines was strong after recovering from the Asian financial crisis on 1997-1998. Economic growth was on an upward trend during the period when Japan's ODA lending declined reaching nearly 7% in 2004 and the Philippines economy did not deteriorate significantly until just after the worldwide financial crisis of 2007-2008 (Figure 6-5 on page 282 presents the figures for economic growth in the Philippines). Economic opportunities for Japanese business in the Philippines would have been strong. Japanese ODA lending did not decline due to poor economic prospects in the Philippines.

**Figure 6-5: Economic Growth in the Philippines, 1990-2015 (Constant 2010\$)**

Source: World Bank, World Development Indicators

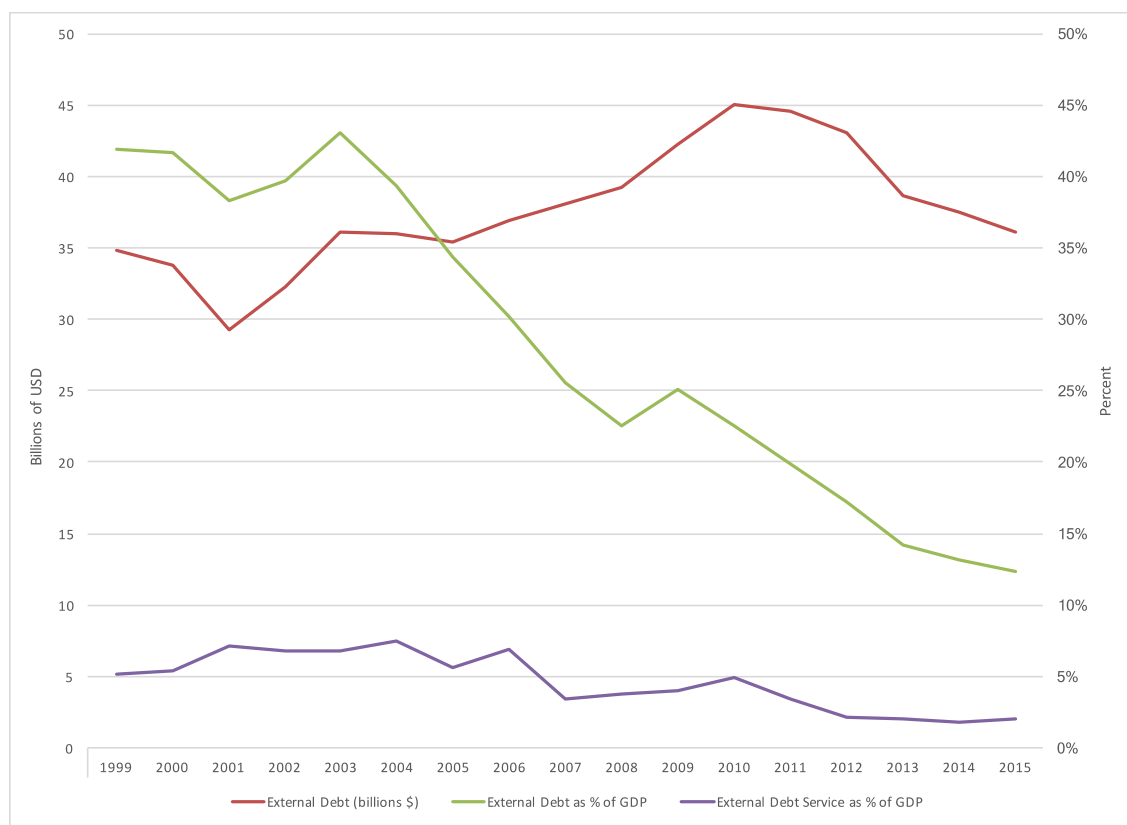
**External debt in the Philippines.** Even if economic conditions in the Philippines were positive, the credit worthiness of the Philippines may have declined during this period. The primary source of the large reduction in aid commitment to the Philippines was in the ODA loan category. Loan commitments to the Philippines declined precipitously in 2004 compared to the year earlier and were zero in 2005-2006; the only years with no loan aid since 1968 before Japan's first ODA loan to the Philippines. If the Philippines was financing its economic performance with rapidly increasing external debt, the Japanese government may have reduced its ODA lending due to deteriorating ability to repay its loans from Japan. Japanese ODA loans are provided partially out of savings of Japanese citizens through the postal savings system. Any failure of recipient countries to repay Japanese ODA loans would be problematic for the Japanese government budget but also to Japanese citizens directly through the postal savings



system. Therefore, Japan is likely to be quite sensitive to the credit-worthiness of ODA loan recipients.

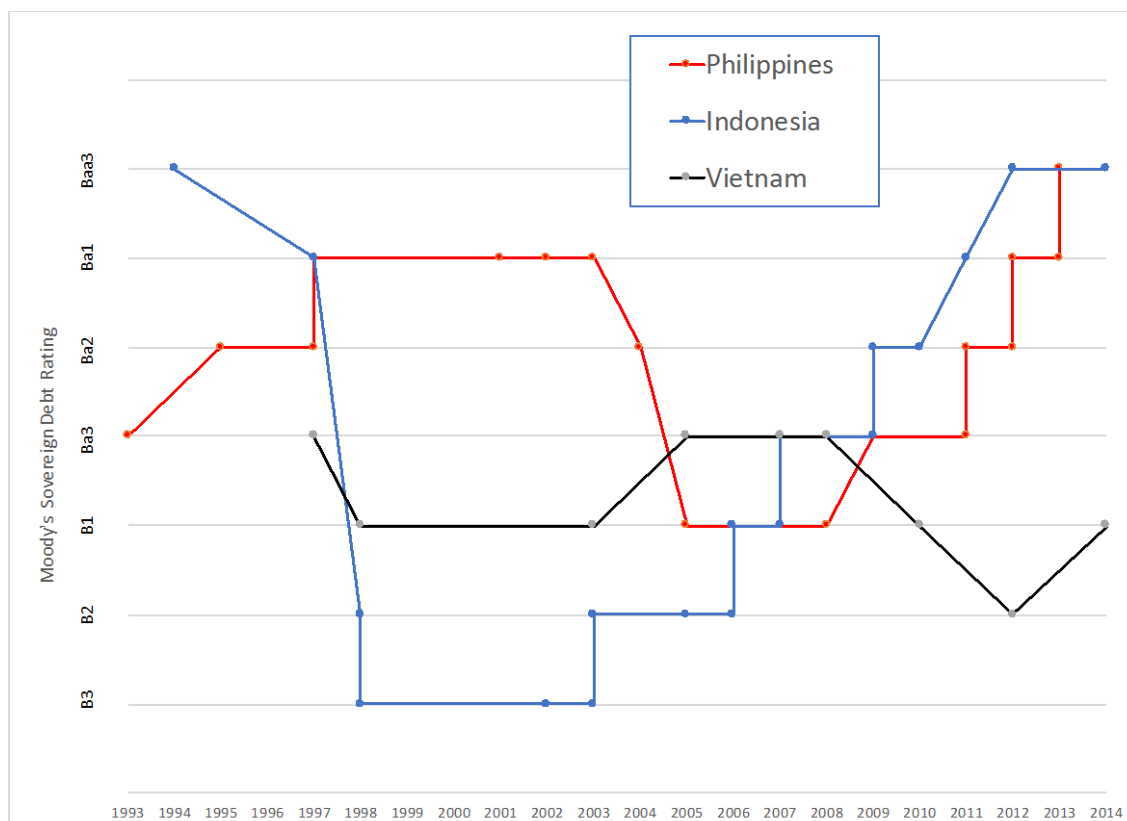
But was the Philippines external debt situation deteriorating at the time that Japan's ODA lending was declining? First, the total public and publicly guaranteed (PPG) external debt of the Philippines was slowly increasing from 2001 to 2010 when it peaked and began to decline. External PPG debt as a percent of GDP reached about 43% in 2003 and declined quickly thereafter. Debt service as a percent of GDP peaked in 2004 at 7.5% and began a steady decline towards around 2% by 2015. At no time was the level of the Philippines external debt particularly high, but the debt situation was generally worse pre-2004 than post-2004 (as shown in Figure 6-6 on page 283).

**Figure 6-6: External Debt (Public or Publicly Guaranteed) Statistics for the Philippines, 1999-2015**



Source: World Bank, International Debt Statistics

Countries assess the credit worthiness of borrowers in a variety of ways. Private and public sector lenders utilize credit ratings as general indicators of credit worthiness. Figure 6-7 on page 285 displays the sovereign debt ratings for the Philippines, Indonesia and Vietnam. Indonesia had a lower sovereign debt rating than the Philippines in 2004 and 2005 and the same rating in 2006, yet Japan maintained high ODA lending to Indonesia at \$1.5 billion in 2005 and \$825 million in 2006. Vietnam's credit rating deteriorated significantly after 2008 yet received escalating amounts of lending from Japan reaching \$2.4 billion in 2011 while maintaining a credit rating worse than the Philippines since 1993. Japan appears willing to lend ODA funds to states with relatively poor creditworthiness. Indonesia's creditworthiness declined precipitously after the Asian Financial Crisis, yet Japan provided very high levels of ODA lending to Indonesia during this period. The Philippines creditworthiness did not decline nearly as much as Indonesia, yet lending the Philippines declined precipitously. The ability of the Philippines to repay Japan's loans was not a likely reason for the reduction in lending from 2004-2006.

**Figure 6-7: Sovereign Debt Ratings for Select Countries, 1993-2014**

Notes: Baa3 is considered investment grade, Ba3 – Ba1 are considered below investment grade with substantial credit risk, B3-B1 are below investment grade with high credit risk.

Source: Moody's Investors Service, Inc.

While debt burdens in the Philippines never reached critical levels, the country has experienced fiscal crises with fiscal deficits periodically reaching unsustainable levels. During the relevant period to this analysis, the Philippines experienced an alarming decline in tax revenues after the Asian Financial Crisis (1997). The fiscal deficit peaked in 2004 at over 5% of GDP necessitating a fiscal austerity program and tax reform.<sup>445</sup> The Philippines responded by reforming the value-added tax (VAT) to extend it to more products and increased the rate from 10 to 12% in February 2006. Tax revenues grew rapidly, and the fiscal deficit returned to less than 1% of GDP in 2006. However, ODA lending does not have a major impact on the near-term financial conditions of recipient governments due to the extremely soft terms of

<sup>445</sup> Asian Development Bank, "Macroeconomic Assessment and Debt Sustainability Assessment," Report and Recommendation to the President: Financial Market Regulation and Intermediation Program: Subgroup 2 (RRP PHL38276-02), Manila, November 2010.

Japan's ODA loans. ODA loans from Japan to the Philippines have between 30 and 40-year repayment periods and generally 10 to 12-year grace periods when no repayment is due. Interest rates were between 0.75% and 2.2% in the early 2000s.<sup>446</sup> If anything, Japanese ODA lending would positively affect the near-term fiscal condition of the Philippines by replacing much more expensive market rate debt and pushing the budgetary costs of current spending and investment far into the future due to the long grace periods of Japanese ODA.

Japan and the Philippines have had a long running dispute regarding the payment of the VAT under ODA financed projects. There are two main issues that Japan has complained about in the implementation of ODA projects in the Philippines. It is normal practice, though not universal, that ODA recipient governments either exempt from taxation or pay the tax due that is associated with ODA financed projects (income tax on individuals and contractors as well as value added taxes). In 1999, the Philippines Bureau of Internal Revenue issued a circular that complicated the income and VAT tax treatment of JICA-funding projects.<sup>447</sup> For the VAT, suppliers and subcontractors were to pass on the VAT in their billings to the prime contractor, which then passes on the VAT to the government agency executing the ODA financed project; in essence, the government taking over the payment of the VAT to itself. At the same time the government passed Republic Act No. 9337 which introduced a 5% final withholding VAT on government payments, though government project executing agencies, reportedly, did not withhold VAT payments to ODA contractors.<sup>448</sup> Further, the increase in the VAT from 10%

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<sup>446</sup> Japan International Cooperation Agency, "ODA Loan Project Data," Tokyo: Government of Japan, accessed on 6 April 2017, [https://www2.jica.go.jp/en/yen\\_loan/index.php](https://www2.jica.go.jp/en/yen_loan/index.php).

<sup>447</sup> Government of the Philippines, "Revenue Memorandum Circular No. 42-99," Bureau of Internal Revenue, June 1999.

<sup>448</sup> Rubina P. Bundoc-Aquino, "Taxing JICA-funded projects," *Business World*, 13 March 2017, accessed 6 April 2017, (<http://www.pressreader.com/philippines/business-world/20170313/281582355433685>).

to 12% caught several Japanese contractors off-guard. The JICA loan for the Second Magsaysay Bridge and Butuuan City Bypass Road Construction Project was affected by the VAT increase. The contracts were awarded (and priced) assuming a 10% VAT but the government expected 12% VAT to be paid by the contractors. JICA withheld concurrence on tendering processes until the issue was resolved.<sup>449</sup> VAT issues continued to plague the JICA ODA program in the Philippines. A Revenue Memorandum Circular issued in 2015 (RMC No. 45-2015) complicated the issue by stating that ODA contractors could not include the full 12% VAT in their billings. This circular confused contractors and government implementing agencies and caused contractors to be unsure about how much VAT could be included in their billings and whether they could be assured that they would be reimbursed by the project executing agencies for the VAT paid. The Philippine Government finally issued a new Revenue Memorandum Circular in 2017 (RMC No. 08-2017) that clarifies that the Government of the Philippines will assume all taxes due from Japanese contractors and employees working on ODA financed projects.

As troubling as the tax issues have been to the ODA relationship between the Philippines and Japan, it cannot explain Japan's ODA reductions from 2004-2006. The VAT issues continued from that period all the way through 2017. However, Japan's ODA loan commitments have rapidly rebounded and have reached the highest levels ever provided by Japan to the Philippines in 2015; all happening while VAT disputes continued. Further, VAT issues apply to both grants and loans, yet only loans were not committed in 2005 and 2006. Grants continued in both years at lower, but still substantial levels. Commercial factors do not explain the patterns of Japan's aid to the Philippines in the high threat period.

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<sup>449</sup> Masumi Shimamura (Mitsubishi UFJ Research and Consulting Co. Ltd.), "Ex-Post Evaluation of Japanese ODA Loan – Urgent Bridges Construction Project for Rural Development," Tokyo: Japan International Cooperation Agency, 2013.

**Security factors.** The factors that drive security-oriented ODA revolve around the security benefits that the recipient can provide to the donor and the alignment of the recipient countries interests with that of the donor. The Philippines is a relatively weak country militarily and cannot be reasonably expected to provide significant security benefits to Japan or China. However, the Japanese government has emphasized the importance of the Philippines to its security and the stability of Southeast Asia. The Japanese Government's Country Assistance Policy (2000) and Country Assistance Plan (2008) for the Philippines lists the points highlighted in Table 6-4 on page 288 to justify providing ODA to the Philippines. The language in Table 6-4 on page 288 is notable for the emphasis on economic factors in 2000 and the heightened sense of the importance of security in 2008.

**Table 6-4: Japan's ODA policy towards the Philippines, 2000 vs. 2008**

<b>2000 Country Assistance Policy<sup>450</sup></b>	<b>2008 Country Assistance Plan<sup>451</sup></b>
The Philippines shares values of freedom, democracy and market economics,	The Philippines location along vital sea lanes of communication make it important for geopolitical and regional security,
Japan is vital economic partner, second largest export market and leader source of Philippines imports, economies are bound by mutual interdependence, and	The Philippines shares Japan's democratic values, respect for human rights and free market economics, and
Japan has extremely close a favorable relations, frequent exchanges and Filipinos are large group of foreign residents in Japan.	The Philippines and Japan have long term economically beneficial relations.

**The Philippines drift towards China.** The Philippines, a United States ally and embroiled in territorial disputes with China would at first glance seem to be a poor candidate to bandwagon with China rather than balance against it. It is a former United States colony,

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<sup>450</sup> Japan Ministry of Foreign Affairs, "Country Assistance Program (Philippines)," Tokyo: Government of Japan, August 2000, 9-11.

<sup>451</sup> Japan Ministry of Foreign Affairs, "Country Assistance Plan for the Philippines," Tokyo: Government of Japan, June 2008 (in Japanese), 1.

host of massive United States military assets until the early 1990s, and the destination of large amounts of aid from the United States and its ally, Japan. However, deterioration in the United States – Philippines relationship in the early 2000s led to a move toward China and away from the United States and, by association, Japan.

When China announced its “Going Out” policy (1999) and adopted what has been called China’s Charm Offensive in Southeast Asia around the same time,<sup>452</sup> relations between the Philippines and the United States remained reasonably strong and Japan’s ODA was at a historic high in 2000 having supported the recovery of Southeast Asian nations after the 1997 Asian Financial Crisis. For this reason, the Philippines initially received only small aid allocations from China amounting to about \$67 million between 2001 and 2003 (see Table 6-3 on page 273). According to Kurlantzick, China’s strategy has been to take advantage of situations when another country’s relations with the United States deteriorate.<sup>453</sup> Further, the quantitative analysis in Chapter 5.3.4 shows that when relations with the United States deteriorate, aid commitments from China increase; an effect that is both statistically significant and persistent. If the United States backs away from a country due to failure to support United States interests or are being punished for human rights abuses and the like, China may offer an alternative source of support, in exchange for consideration for its own interests. China saw its chance with the Philippines in 2004. This case study allows us to interrogate this variable to see how China might approach a country with a historically strong but deteriorating relationship with the United States.

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<sup>452</sup> Joshua Kurlantzick, “China’s Charm: Implication of Chinese Soft Power,” Washington DC: Carnegie Endowment for International Peace, Policy Brief 47, June 2006.

<sup>453</sup> *Ibid.*, 2.

After the September 11 terrorist attacks on the United States and subsequent United States invasions of Iraq and Afghanistan, the Philippines was one of the first supporters of the United States response. The Philippines dispatched a team of 500 peacekeeping and humanitarian workers to Iraq in 2003<sup>454</sup> and officially become a member of the “coalition of the willing”.<sup>455</sup> The United States responded by more than doubling its annual aid to the Philippines from less than \$100 million in 2000 to over \$200 million in 2003. President George W. Bush even stopped in the Philippines to address the Philippines Congress during a visit to Asia<sup>456</sup> and designated the Philippines as a Major Non-NATO Ally (joining Australia, Japan, South Korea, Taiwan, Thailand among several others) which exempts the Philippines from the United States Arms Export Control Act provisions and confers other military cooperation and joint training benefits and access to United States financing for weapons purchases.<sup>457</sup>

After the invasion of Iraq in 2003, President Gloria Macapagal-Arroyo stated that the Philippines partnership with the United States to fight terrorism was mutually beneficial pointing to the higher levels of support for improving the capabilities of the Philippines military and the increased training and equipment to helping to counter Abu-Sayyaf (a militant group in Mindanao) in the southern Philippines.<sup>458</sup> President Arroyo conducted a State Visit to Washington on 19 May 2003<sup>459</sup> and received pledges of over \$95 million in additional military aid and a renewed deployment of United States special forces to train the Philippines military

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<sup>454</sup> "Philippines peacekeepers, doctors to enter Iraq," *ABC News (Australia)*, 17 April 2003, Accessed 10 April 2017, <http://www.abc.net.au/news/2003-04-17/philippines-peacekeepers-doctors-to-enter-iraq/1838186>.

<sup>455</sup> Steve Schifferes, "US names 'coalition of the willing'," *BBC News*, 18 March 2003, accessed 8 April 2017, <http://news.bbc.co.uk/2/hi/americas/2862343.stm>.

<sup>456</sup> David E. Sanger, "Bush Cites Philippine as Model in Rebuilding Iraq," *The New York Times*, 19 October 2003, accessed 10 April 2017, <http://www.nytimes.com/2003/10/19/world/bush-cites-philippines-as-model-in-rebuilding-iraq.html>.

<sup>457</sup> The White House, "Presidential Determination No. 2004–02 of October 6, 2003".

<sup>458</sup> "Iraq war 'beneficial' for the Philippines," *ABC News (Australia)*, *Agence France Presse*, 25 October 2014, accessed 6 April 2017, <http://www.abc.net.au/news/2004-10-25/iraq-war-beneficial-for-the-philippines/573326>.

<sup>459</sup> U.S. Department of State, "State Visit of President Gloria Macapagal-Arroyo of the Philippines," Washington DC, 19 May 2003 (information archive).



on anti-terrorism operations.<sup>460</sup> The Philippines status as a member of the coalition supporting the United States war in Iraq resulting in many tangible benefits including economic and military aid.

However, the kidnapping of a Filipino hostage in Iraq and subsequent capitulation of the Philippines to withdraw their contingent from Iraq in exchange of the release of the hostage caused a serious deterioration in United States-Philippines relations in July 2004. The United States and other coalition governments condemned the Philippines actions as encouragement for kidnapping and terrorism that would endanger other coalition partners.<sup>461</sup> Relations between the countries went into a tailspin with the Philippines exiting the coalition supporting the United States in Iraq combined with intelligence reports on widespread corruption in President Macapagal-Arroyo's presidential campaign.<sup>462</sup> The United States subsequently reduced and delayed its aid allocations to the Philippines, reportedly because of the withdrawal from the coalition supporting operations in Iraq.<sup>463</sup> As shown in Figure 6-8 on page 292, aid from the United States only rebounded significantly after 2009.

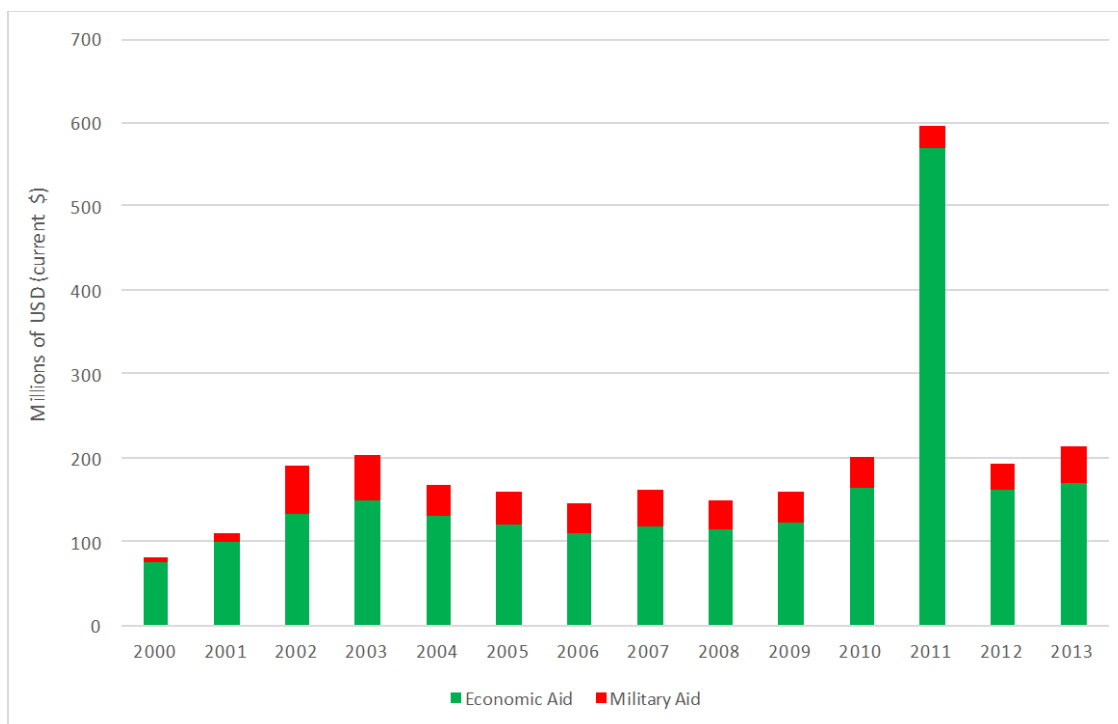
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<sup>460</sup> Amy Goldstein and Vernon Loeb, "US Offers Increase in Philippine Terror Aid," *The Washington Post*, 20 May 2003, accessed on 21 April 2017, [https://www.washingtonpost.com/archive/politics/2003/05/20/us-offers-increase-in-philippine-terror-aid/a387aa7d-f8c3-4508-9121-daff88475ed3/?utm\\_term=.7f170bbe0f0f](https://www.washingtonpost.com/archive/politics/2003/05/20/us-offers-increase-in-philippine-terror-aid/a387aa7d-f8c3-4508-9121-daff88475ed3/?utm_term=.7f170bbe0f0f).

<sup>461</sup> James Glanz, "Hostage is Freed After Philippine Troops are Withdrawn from Iraq," *The New York Times*, 21 July 2004, accessed on 11 April 2017, <http://www.nytimes.com/2004/07/21/world/hostage-is-freed-after-philippine-troops-are-withdrawn-from-iraq.html>.

<sup>462</sup> Ernest Z. Bower, "The JMSU: A Tale of Bilateralism and Secrecy in the South China Sea," Washington DC: Center for Strategic and International Studies, Southeast Asia Program, Vol. 1, No. 23 (27 July 2010), 3.

<sup>463</sup> Paolo Romero, "GMA cancels Venable deal," *The Philippine Star*, 19 September 2005, accessed 10 April 2017, <http://www.philstar.com/headlines/297438/gma-cancels-venable-deal>.

**Figure 6-8: United States Aid to the Philippines, 2000-2013 (Millions of current \$)**

Source: USAID, The GreenBook, 2015.

Note: Large increase in 2011 due to Philippines becoming a Millennium Challenge Compact country which provided a commitment of over \$415 million for that year.

Worsening United States-Philippines relations was a factor in growing cooperation between the Philippines and China. The Philippine and Chinese militaries signed a memorandum of understanding on defense cooperation in November 2004 and expanded their military relationship with agreements on defense exchanges and military assistance from China.<sup>464</sup> China made what became a highly controversial overture to the Philippines on joint exploration for resources in the South China Sea. President Macapagal-Arroyo flew to Beijing and signed the Joint Marine Seismic Undertaking (JMSU) agreement on September 1, 2004.<sup>465</sup> Vietnam harshly criticized the agreement for infringing on its own sovereignty and breaking ranks with ASEAN by dealing with China bilaterally when it was the Philippines advocating

<sup>464</sup> International Business Publications, *Philippines Foreign Policy and Government Guide: Volume 1 Strategic Information and Developments* (Washington DC, 2013), 109.

<sup>465</sup> Miriam Grace A. Go, "Arroyo gov't pleasing China since Day 1, A Policy of Betrayal (Part 1 of 3)," *ABS-CBN News*, 14 March 2008, accessed on 5 April 2017, <http://news.abs-cbn.com/special-report/03/14/08/policy-betrayal-first-three-parts>.

for ASEAN unity during the conflict over Mischief Reef in 1995.<sup>466</sup> Having few alternatives, Vietnam eventually joined the agreement on 14 March 2005.

The agreement on joint exploration might appear to be a tabling of contentious territorial issues to derive mutual economic benefits, but this agreement was highly controversial in the Philippines. Two factors led to suspicions of corruption. First, the JMSU included substantial areas within the Philippines EEZ that were established Philippine territory and not claimed by China which was taken as a sell-out of the Philippines sovereignty to China. It was also a violation of the Philippines constitution which dictates that any exploratory activities in Philippine territory must have 60% or more ownership by Filipinos.<sup>467</sup> And second, the massive increase in ODA from China beginning in 2004 led to the suspicion that the territorial concessions to China were a quid pro quo for aid that financially benefitted top government officials including members of the Macapagal-Arroyo family. The JMSU agreement was entered into over the objection of the Philippines Foreign Ministry but supported by politicians with business ties to China.<sup>468</sup>

The sequence of ODA offers from China strongly suggests that the JMSU deal was bought by the promise of huge ODA allocations from China to the Philippines. The Manila Standard reported that “After the oil agreement, China committed \$2 billion a year in official development aid until the year 2010. Sources tell me that the Spratly deal was a pre-condition of the ODA...”<sup>469</sup> Critics of the Macapagal-Arroyo administration continued to accuse the

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<sup>466</sup> Ernest Z. Bower, “The JMSU,” 2.

<sup>467</sup> Ian Storey, *Southeast Asia and the Rise of China* (London: Routledge, 2011), 264-65.

<sup>468</sup> Barry Wain, “Manila’s Bungle in the South China Sea,” *Far Eastern Economic Review*, Vol. 171, No. 1 (Jan/Feb 2008), 45-48.

<sup>469</sup> Antonio C. Abaya, “Spratlys Treason?,” *Manila Standard*, 11 March 2008.

President of selling out the sovereignty of the Philippines for ODA loans from China that would directly benefit government officials through corruption.<sup>470</sup>

ODA corruption was documented in detail in the Philippines Senate committee report on the corrupt practices uncovered in the China ODA financed National Broadband Network project which was canceled in 2008.<sup>471</sup> This report details how the President of the Philippines, her husband and numerous top government officials including the Secretary of the National Economic and Development Authority (NEDA), Romulo Neri, received bribes and kickbacks related to the contracts with the Chinese telecom company, ZTE. NEDA, which is responsible for requesting and managing ODA projects in the Philippines, including those from Japan and China, was found to have wrongfully approved non-competitive bidding for the ZTE contract which was found to be overpriced by at least \$130 million. The excess was used to pay kickbacks to top officials. The President's office was found to have directed NEDA to approve the non-competitive contract with ZTE.

Overall, the findings of the senate report and the pattern of China's ODA to the Philippines suggest that the Philippines relationship with China was the main reason that Japan's ODA to the Philippines dropped from 2004 to 2007. Japan's drop in ODA to the Philippines was primarily due to the Philippines preference for ODA from China and not a result of Japan withholding aid from the Philippines. There is no evidence that Japan denied ODA requests from the Philippines or failed to offer ODA during this period. In fact, the Japan Ministry of Foreign Affairs (MOFA) stated that the Philippine government did not request any

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<sup>470</sup> Ian Storey, *Southeast Asia and the Rise of China*, 265.

<sup>471</sup> Republic of the Philippines, "Committee Report No. 743 (NBN-ZTE Scandal)," Senate Committee on Accountability of Public Officers and Investigations (Blue Ribbon), 11 November 2009.

ODA loans from Japan during this period and claimed the reason was the Philippines fiscal austerity measures and issues with VAT reimbursement.<sup>472</sup> This explanation is unsatisfactory for two reasons. If the Philippines did not request ODA from Japan because of fiscal austerity, it would not have pursued ODA from China. Including ODA commitments<sup>473</sup> from Japan and China, the level of ODA received by the Philippines did not decline overall (see Figure 6-9 on page 296) and was higher in 2004 and 2007 than every year in the period aside from 1999 and 2015. Chinese ODA commitments replaced much of Japan's ODA leaving the Philippines with approximately as much incoming ODA as before. In addition, the Philippine's own Medium-Term Philippine Development Plan (2004) indicated that it would continue to seek ODA loans rather than market rate financing to lessen its debt burden by taking advantage of the low interest rates and long repayment terms of ODA lending.<sup>474</sup> There is no indication in the development plan that ODA loans would cease. I conclude that the Philippines preferred loans from China over loans from Japan.

The rapid inflow of ODA from China was extremely controversial in the Philippines and accompanied by accusations of corruption and violation of the Philippines procurement laws. Many investigations were launched by the Philippines Senate to investigate bidding irregularities. Most accusations claimed that the prices paid for the projects were inflated to fund kickback schemes for high level government officials. Inflated prices were made possible by the exemption of the ODA financed projects from competitive bidding for tied aid projects which government officials used to extract kickbacks.<sup>475</sup>

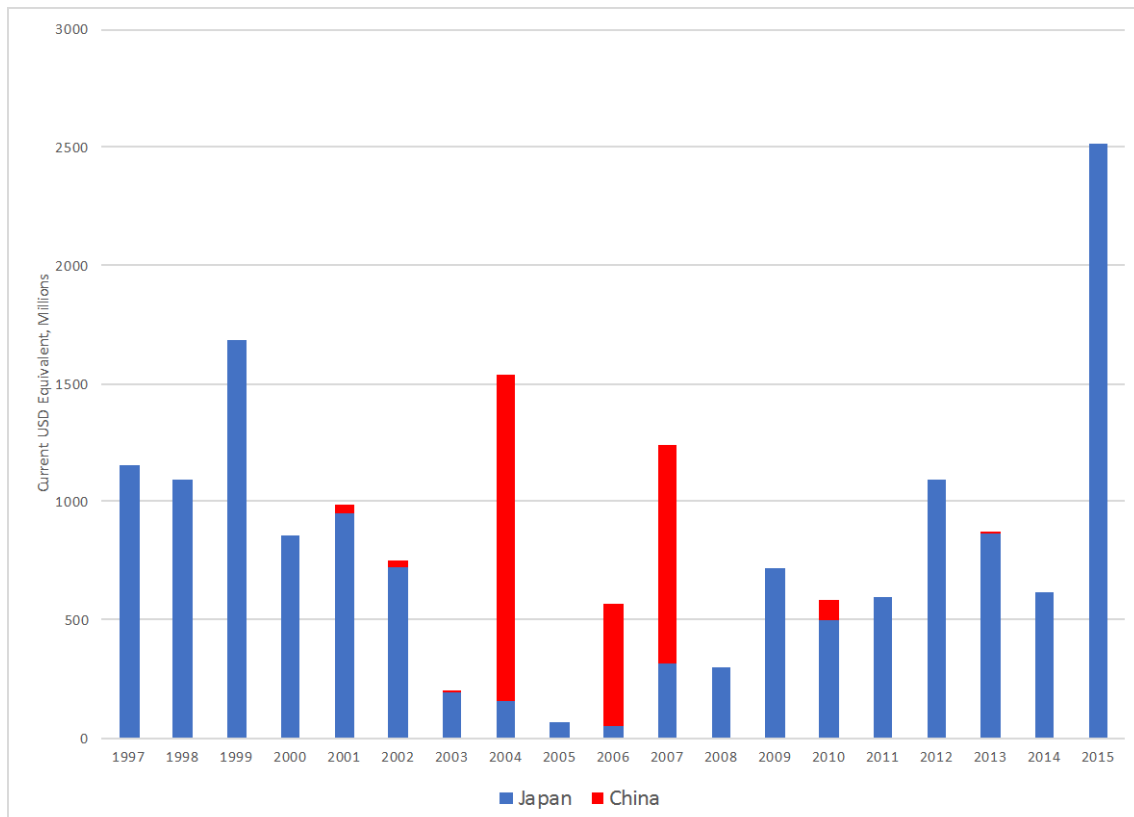
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<sup>472</sup> Japan Ministry of Foreign Affairs, "Country Assistance Plan for the Philippines," 2.

<sup>473</sup> Note: Most of China's ODA financed projects in the Philippines collapsed in corruption scandals leading to a series of cancelled projects.

<sup>474</sup> Government of the Philippines, *Medium-Term Philippine Development Plan 2004-2010* (Manila: National Economic and Development Authority, 2004), 103.

<sup>475</sup> Sen. Madrigal, M.A., "Senate P.S. Res. No. 317," Manila: Fourteenth Congress of the Republic of the Philippines, 5 March 2008.

**Figure 6-9: ODA Commitments from Japan and China, 1997-2015 (millions of USD)**

Sources: OECD for Japan and Table 6-3 on page 273 sources for China.

If the VAT issue was the impediment for Japan, it would not have provided increasing amounts of ODA after 2006 since the VAT issue continued to be an irritant for Japanese policymakers until the VAT policy was resolved in 2017. The VAT issue had not changed, but Japan's ODA increased enormously once the aid from China was canceled. The actual reason that the Japan did not offer aid to the Philippines was most likely that the Philippines did not want aid from Japan.

The evidence and sequence of events show that the Philippines preferred ODA from China compared to ODA from Japan between 2004 and 2007. The Philippines decided that ODA from China was in its interests and that it could replace Japan's ODA with as much or larger amounts from China. But how do we know that the Philippines preferred aid from China

because of its preference for enhancing its bilateral relationship with China over Japan rather than simply taking a better deal? In other words, was China's ODA more concessional than Japan's? The answer is no. China's ODA was and remains less concessional than Japan's. Comparison of aid terms shows that Japanese ODA is extremely beneficial to the recipient country compared to China. The ODA loan terms provided by Japan and China from 2000 to 2015 are given in Table 6-5 on page 297:

**Table 6-5: Average loan terms of Japanese and Chinese ODA loans to the Philippines**

<b>Donor</b>	<b>Interest rate</b>	<b>Term (years)</b>	<b>Grace period (years)</b>	<b>% of loans tied to donor</b>
<b>Japan</b>				
<b>Average 2000-2004</b>	1.58%	34.4	10.0	37.0%
<b>Average 2007-2015</b>	0.75%	34.4	9.7	32.1%
<b>China</b>	3.0%	20.0	5	100.0%

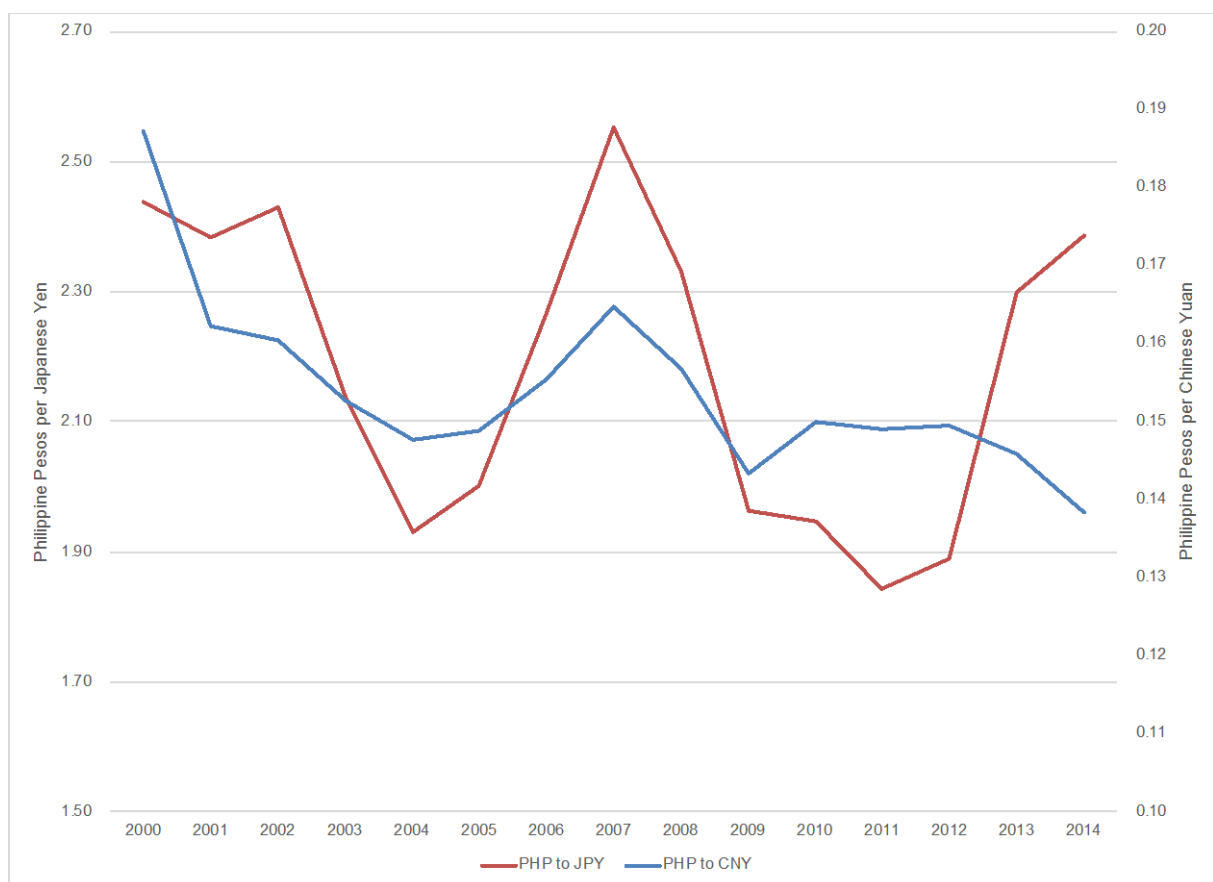
Sources: JICA for Japanese ODA, Official Development Watch (2008) for Chinese ODA.

Japanese ODA is much less expensive than China's concessional lending. The interest rates are lower, the terms and grace periods are longer and the percentage of loans tied to the donor's contractors is lower for Japanese ODA. All else being equal, the Philippines should have preferred to request ODA from Japan rather than China suggesting that the decision to prefer aid from China was political or to enable corruption.

Another possibility is that exchange rate variation makes Japanese ODA unattractive. If the value of the yen rises relative to the value of the Philippine peso, repaying ODA yen loans to Japan may be more difficult. Figure 6-10 on page 298 shows the pattern of exchange rate movements for CNY and JPY vs the Philippine Peso (PHP). The PHP/JPY exchange rate is more volatile than the PHP/CNY exchange rate. This is unsurprising given that the CNY is a managed currency while the JPY more freely floats. But it is also clear that the exchange rate

movements do not explain why the Philippines preferred Chinese ODA from 2004-2007 but Japanese ODA from 2000-2003 and 2008 onward. In fact, the preference for Japanese or Chinese ODA does not seem related to exchange rates at all. When the Philippines first began preferring Chinese ODA in 2004, the PHP/JPY exchange rate was at its most favorable for borrowing yen, but when the Philippine started requesting Japanese ODA again in 2007, the exchange rate was *unfavorable* for yen loans.

**Figure 6-10: Peso-Yen Exchange Rate (PHP/JPY), 2000-2014**



Source: International Monetary Fund International Financial Statistics

Relations between China and the Philippines improved enormously during President Macapagal-Arroyo's time in office. Not just in terms of ODA, but a series of bi-lateral agreements between the Philippines and China were signed on a wide range of topics. Prior presidents of the Philippines from Marcos to Estrada each visited China a single time during



their terms, but President Macapagal-Arroyo visited 12 times.<sup>476</sup> She also signed 65 bi-lateral agreements with China, more than eight times the number signed by the president with the second highest number of agreements (President Marcos with eight).<sup>477</sup>

China did not only partner with the Philippines for ODA financed infrastructure, but also offered military assistance immediately after the United States withdrew support to punish the Philippines for abandoning its commitment to Iraq. Military cooperation between Philippines and China expanded along with the ODA. In September 2007, China's Minister of Defense (Cao Gangchuan) visited the Philippines and came with the promise of more than \$6 million in grants to purchase (from China) military equipment for the Philippine army and fund Chinese language training, participation in joint exercises and training for Philippine officials in China. China also reportedly hoped to become a major supplier of military equipment to the Philippines Army<sup>478</sup> offering helicopters.<sup>479</sup>

**The Philippine's drift away from China.** The Philippines preference for Chinese ODA from 2004 to 2007 is clear. ODA from Japan was depressed in 2003 and 2004. The Philippines made no request for Japanese ODA in 2005 and 2006 at a time when ODA loans from China were burgeoning. I have shown that the reasons were not related to favorable loan terms from China, Philippines fiscal austerity, or disputes with Japan over the VAT treatment of ODA. The reason the Philippines preferred Chinese ODA is because the Philippines

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<sup>476</sup> Charles Joseph Garcia De Guzman, "Philippines-China Relations, 2001-2008: Dovetailing National Interests," *Asian Studies: Journal of Critical Perspectives on Asia*, Vol. 50, No. 1 (2014), 84.

<sup>477</sup> *Ibid.*, 85.

<sup>478</sup> It is perhaps not a coincidence that China's offers for weapons and training primarily for the Army. Strengthening the Philippines Navy would potentially be against China's interests in its own sovereignty claims in the South China Sea.

<sup>479</sup> Noel Tarrazona, "US, China vie for Philippine military influence," *Asia Times Online*, 20 September 2007, accessed 14 April 2017, [http://www.atimes.com/atimes/Southeast\\_Asia/II20Ae01.html](http://www.atimes.com/atimes/Southeast_Asia/II20Ae01.html).

prioritized Philippines-China relations over Philippines-Japan relations at a time when United States-Philippines relations also took a serious turn for the worse.<sup>480</sup> China was seen as a deep pocketed potential partner for the Philippines and an alternative source of military aid and economic aid. It is also clear that the Philippines emphasis on China ended in 2008 and relations deteriorated badly after the election of President Ninoy Aquino in 2010. From 2004-2008, the Philippines offered China security benefits by cooperating on the South China Sea and not aggressively challenging China's claims. The deteriorating relations with the United States enabled China to use its aid to reduce the Philippines resistance to its territorial claims. The large size of the aid packages from China also enable the Philippines to shift from Japanese aid to Chinese aid to finance infrastructure. Towards the end of 2007, the relationship between China and the Philippines began to unravel. The seeds of this deterioration lie with the two countries' first major deal, the Joint Marine Seismic Undertaking (JMSU) in the South China Sea.

From its initial signing, the JMSU was controversial in the Philippines. The sensitive territorial nature of the agreement combined with the massive upswing in ODA lending from China immediately before and after the signing of the JMSU led many Filipinos to question whether President Macapagal-Arroyo had signed away Philippine sovereignty for ODA loans that her family and top administration officials would benefit from personally. While in negotiation for an extended period, the Northrail<sup>481</sup> ODA loan agreement was signed only a few days after the JMSU. Newspaper reports in the Philippines stated that the Chinese Ambassador

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<sup>480</sup> Ernest Z. Bower, "Testimony to the U.S.-China Economic and Security Review Commission, One Hundred Eleventh Congress," Washington DC: United States Government Printing Office, 4 February 2010, 76.

<sup>481</sup> The Northrail Project is a long planned rehabilitation of the 110 kilometer railway line (owned and operated by the Philippine National Railway) from Tutuban Station in central Manila to Clark International Airport. This project is currently under construction financed by JICA and ADB.

explicitly offered ODA to support the Northrail project in exchange for signing the JMSU.<sup>482</sup> There does not appear to be concrete proof that these agreements were related, but the appearance and timing of the signings gave ammunition for opposition politicians to make damaging accusations against the Macapagal-Arroyo administration.<sup>483</sup> These agreements between the Philippines and China brought two major domestic political issues to the forefront of Philippine-China relations: corruption and territorial sovereignty.

**Corruption and the decline of Philippines China relations.** The furor surrounding the JMSU and the insinuations of quid pro quo for Chinese ODA aroused deep suspicion in the Philippines press and in the political opposition. An investigation in the Philippines Senate was launched in August 2007 after many allegations of irregularities in the Chinese ODA financed National Broadband Network (NBN) project. The Supreme Court of the Philippines issued a restraining order against the project halting its implementation in September 2007. In response, the President suspended the NBN and Cyber Education projects.<sup>484</sup> The Senate investigation found that numerous officials including the President's husband and the head of NEDA violated the Philippines anti-graft and corrupt practices act by taking millions of dollars in bribes and kickbacks from the Chinese contractor ZTE.<sup>485</sup> Even non-ODA funded projects suffered including a Chinese company's proposed \$3.8 billion commercial investment in the agricultural sector in the Philippines which was suspended by the Philippines in late 2007.<sup>486</sup> The Northrail project was cancelled by President Aquino in 2011 because of continuing corruption allegations.

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<sup>482</sup> Miriam Grace A. Go, "A Policy of Betrayal (Part 2 of 3)," *ABS-CBN News*, 17 March 2008, accessed on 14 April 2017, <http://news.abs-cbn.com/special-report/03/17/08/policy-betrayal-second-three-parts>.

<sup>483</sup> Ernest Z. Bower, "The JMSU", 2-3.

<sup>484</sup> "ZTE controversy timeline," *GMA News Online*, 18 September 2007, accessed 14 April 2017, <http://www.gmanetwork.com/news/story/61035/news/zte-controversy-timeline>.

<sup>485</sup> Republic of the Philippines, Committee Report No. 743 (NBN-ZTE Scandal).

<sup>486</sup> Ian Storey, "Trouble and Strife in the South China Sea Part II: The Philippines and China", *China Brief* (Jamestown Foundation), Vol. 8, No. 9 (28 April 2008), accessed 5 May 2019, <https://jamestown.org/program/trouble-and-strife-in-the-south-china-sea-part-ii-the-philippines-and-china/>.

Even projects that were completed such as the Non-Intrusive Container Inspection System project were alleged to have been rife with corruption.<sup>487</sup>

The scandals related to China's ODA project in the Philippines dovetailed into a narrative about Chinese corruption and harmed the image of China among Filipinos. Even though the Philippines (ranked 101 out of 176 countries) is regarded by Transparency International to have more serious corruption problems than China (ranked 79 out of 176 countries)<sup>488</sup>, Philippines Senator Miriam Santiago, head of the Senate Foreign Relations Committee, stated on national television that "China invented civilization in the East, but as well it invented corruption for all of human civilization."<sup>489</sup> The steady stream of corruption scandals with respect to Chinese financed ODA to the Philippines led to the prevailing sentiment that ODA from China was particularly corrupt and prone to abuse.<sup>490</sup> Of course corruption had to be reciprocated by the Philippines. But to protect themselves, China became an easy target to deflect allegations against the Macapagal-Arroyo administration. The negative publicity regarding corruption and China reinforced negative stereotypes against China and has discredited the Chinese system for providing ODA and foreign investments with little oversight and no accountability.<sup>491</sup>

Many Chinese ODA financed projects failed before being implemented (NBN) or were canceled mid-implementation (Northrail). As a result, the amount of ODA committed by China

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<sup>487</sup> Sen. Madrigal, M.A., "Senate P.S. Res. No. 317."

<sup>488</sup> Transparency International, "Corruption Perceptions Index 2016", 25 January 2017.

<sup>489</sup> "Santiago accuses China of 'inventing corruptions', walks out of broadband hearing," *Philstar Global (Associated Press)*, 26 September 2007.

<sup>490</sup> Dennis Trinidad, "Institutional mismatch," 300.

<sup>491</sup> Noel M. Morada, "The Rise of China and Regional Responses: A Philippine Perspective," in ed. Jun Tsunekawa, *The Rise of China: Responses from Southeast Asia and Japan* (Tokyo: The National Institute for Defense Studies (NIDS Joint Research Series #4), 2009), 124-25.

is far more than the amount disbursed. The purported attractiveness of ODA from China is that it comes with no strings, is quickly implemented, and focuses on economic infrastructure<sup>492</sup> that developing countries like the Philippines value. These benefits did not materialize for the Philippines.

Part of the problem with China's ODA in the Philippines is that the loan projects from China tend to be initiated by Chinese state-owned enterprises (SOEs) that will become the final beneficiaries of the ODA loan. Japan and many other donors respond to requests from the recipient government for ODA to support locally identified priorities – the so-called request principle in Japanese ODA. The Japanese aid bureaucracy then keeps reasonably effective control of the project design and implementation. In the case of China, loans have tended to be driven by the offer principle rather than request principle. Since the loans were supply driven, the government did not conduct much oversight and project evaluation, instead relying on the Chinese SOE or Philippine implementing agency to conduct due diligence on the proposed projects.<sup>493</sup> The result was a series of Chinese ODA financed projects that could not withstand the scrutiny of the Philippines free-wheeling press and highly competitive political culture.

**The return of territorial disputes.** The collapse of China's ODA financed projects in the Philippines cannot be understood without understanding the nexus of Philippines nationalism and corruption. The offer of large ODA loans from China coincided with a policy of suppressing territorial disputes with China that had been intense in the mid-1990s after the Mischief Reef incident in 1995. It was not a surprise that when the JMSU was signed at the

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<sup>492</sup> Dambisa Moyo, *Dead Aid*, 104.

<sup>493</sup> Roel Landingin, "The Perils and Pitfalls of Aid: ODA surge sparks scandals for Arroyo, debt woes for RP," Philippine Center for Investigative Journalism, 11 February 2008.

same time as several ODA loan agreements, that nationalist politicians and members of the Philippines press would question the arrangements.

The JMSU agreement was signed in secret and the contents sealed for a period of 8 years though the contents were leaked to researchers.<sup>494</sup> It was widely asserted at the time of the JMSU that the agreement violated the Philippines constitution. A large percentage of the area covered by the JMSU was found to be within the Philippines presumed EEZ which puts it in violation of constitutional provision that all natural resources belong to the government and any joint development needed to have at least 60 percent Filipino control.<sup>495</sup> When the actual agreements were exposed, not only territorial waters in the Spratlys, but also seven islands that are an undisputed part of Palawan and as such were not even claimed by China nor Vietnam were shown to be included in the JMSU.<sup>496</sup> This escalated the scandal in the Philippines press, but also exposed the fact that the Philippines had not explicitly established its territorial baselines under UNCLOS. Without the territorial baselines established under Philippines law, the constitutionality of the JMSU was not clear. The scandals surrounding the JMSU and confusion about its constitutionality led President Macapagal-Arroyo to allow the JMSU agreement to lapse in June 2008.<sup>497</sup>

In 2007, debate began in the Philippines House of Representatives on establishing its archipelagic baselines. The baseline bill was needed to support the Philippines submission to the UN Commission on the Limits of the Continental Shelf to define the boundaries under

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<sup>494</sup> Barry Wain, "Manila's Bungle," 48.

<sup>495</sup> Republic of the Philippines, "Philippines Constitution and Republic Act 387 (Petroleum Act of 1949)," Section 2, Article 12 covering state ownership and Article 31 covering joint development.

<sup>496</sup> Charles Joseph Garcia De Guzman, "Philippines-China Relations," 86-7.

<sup>497</sup> International Crisis Group, "Stirring up the South China Sea (II): Regional Responses," Asia Report No. 229 (24 July 2012), 7.

UNCLOS by the 13 May 2009 United Nations imposed deadline.<sup>498</sup> China reacted forcefully to the direction of the debate in the Philippines which included Scarborough Shoal and the Spratly Islands within the Philippine's territory. Representative Antonio Cuenco claimed that China had officially objected to the bill in communications with the Philippines Embassy in Beijing in December 2007.<sup>499</sup> China stated that such inclusion would harm bilateral relations, inhibit cooperation under the JMSU, and claimed it violated the terms of the Declaration on the Conduct of Parties in the South China Sea.<sup>500</sup> China's objection should be considered in light of the fact that the China State Council approved a measure to establish a county level city in Hainan province (Sansha) that included the Spratlys and the Paracels, also in December 2007.<sup>501</sup> In March 2009, the Philippines House of Representatives passed the law to clarify the archipelagic baselines which include the Spratlys and Scarborough Shoal.<sup>502</sup> The law refers to the Spratlys (called Kalayaan Island Group in the Philippines) and Scarborough Shoal as a "Regime of Islands"<sup>503</sup> over which the Philippines has sovereignty and jurisdiction (Section 2 of Republic Act No. 9522), but not within the archipelagic baseline defining the continental shelf. The Philippines made this distinction for the Spratlys to appease China and other claimants. China still reacted furiously claiming the "Huangyan Island (Scarborough Shoal) and Nansha Islands (Spratly Islands) have always been parts of Chinese territory" and that the

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<sup>498</sup> Ian Storey, "Trouble and Strife in the South China Sea."

<sup>499</sup> Maila Ager, "China objection stalls OK of bill on RP territory," *Philippine Daily Inquirer*, 12 March 2008.

<sup>500</sup> "Declaration on the Conduct of Parties in the South China Sea," ASEAN, 4 November 2002, accessed 19 April 2017, [http://asean.org/?static\\_post=declaration-on-the-conduct-of-parties-in-the-south-china-sea-3&category\\_id=32](http://asean.org/?static_post=declaration-on-the-conduct-of-parties-in-the-south-china-sea-3&category_id=32).

<sup>501</sup> Ian Storey, "Trouble and Strife in the South China Sea."

<sup>502</sup> Government of the Philippines, "Republic Act No. 9522," Manila: Official Gazette, 10 March 2009 accessed on 19 April 2017, <http://www.gov.ph/2009/03/10/republic-act-no-9522/>.

<sup>503</sup> A "Regime of Islands" is used in a case where claimed island territories are not close enough to the mainland to be considered as a single unit. The Regime of Islands is separate from the mainland and has its own territorial sea which may or may not coincide with the territorial sea of the mainland. The notion of a Regime of Islands under UNCLOS is elaborated here: Hiro Naomichi Terasaki, "The Regime of Islands in International Conventions (Part 1)," Sasakawa Peace Foundation: Review of Island Studies, 13 March 2014.

Philippines claim is “illegal and invalid”.<sup>504</sup> China subsequently dispatched patrol ships to the Spratly and Paracel Islands to assert its sovereignty claims. Norberto Gonzales, the Philippines National Security Advisor, was quoted saying, “The deployment...should remind us that even in this era of dialogue and understanding, there will always be nations that will show might and threaten perceived weak nations like us” and said the Philippines may seek support from ASEAN and the United States.<sup>505</sup>

The December 2007 debates on archipelagic baselines, exacerbated by the collapse of Chinese ODA funded projects in September 2007, marked a key turning point in Philippines China relations which became increasingly strained during the last 2 years of the Macapagal-Arroyo administration and even worse under President Aquino. China did not provide any substantial ODA commitments to the Philippines until 2017 after relations between the United States and the Philippines deteriorated under President Duterte.<sup>506</sup>

The territorial disputes with China were intimately entwined with the corruption allegations. Allegations of corruption are common in the Philippines but became incendiary when linked to territorial disputes with the appearance of selling out the Philippines sovereignty for personal gain. The combination of these two issues led to impeachment hearings against President Macapagal-Arroyo throughout her tenure and eventually, her arrest in 2012.<sup>507</sup> The

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<sup>504</sup> "Chinese embassy protests Philippine law to extend territorial claim in South China (Sea)," *Xinhua*, 11 March 2009, accessed on 19 April 2017, <http://www.philstar.com/breaking-news/447385/chinese-embassy-protests-philippine-law-extend-territorial-claim-south-china>.

<sup>505</sup> Bruce Gale, "China's move impacts on Manila politics," *The Straits Times*, 25 March 2009.

<sup>506</sup> Sofia Tomacruz, "A Friend in Need: China's Promises to PH," *The Rappler*, 20 November 2018, accessed 20 December 2018, <https://www.rappler.com/newsbreak/iq/217001-list-china-deals-pledges-philippines-duterte-administration>.

<sup>507</sup> "Philippines arrests Gloria Arroyo on plunder charges", *BBC News*, 4 October 2012, accessed 20 April 2017, <http://www.bbc.com/news/world-asia-19825408>.



persistence of the scandals involving Chinese ODA made further Chinese financed projects politically untenable.

By 2012, not only was there no new ODA from China but China was actively demanding its previous ODA loans be returned. After the Philippines cancelled the Northrail project in 2012, the Chinese government demanded the ODA loan that had already been disbursed be repaid immediately.<sup>508</sup> At the same time, China and the Philippines were in a heated dispute over Scarborough Shoal. Chinese fishing vessels were discovered by the Philippines Navy in Scarborough Shoal on 8 April 2012 leading to a tense standoff and continued presence of Chinese Coast Guard ships.<sup>509</sup> In addition to calling the ODA loan, China began a crackdown on Philippines banana exports to China in a move widely perceived as economic sanctions for the Philippines stance in the territorial dispute in Scarborough Shoal.<sup>510</sup> The Philippines also became unhappy with the role of the State Grid Corporation of China's (SGCC) role in managing the Philippines National Grid Corporation. The SGCC associated consortium won a privatization auction for the Philippines national power grid in 2007. However, as tensions flared with China, the government of the Philippines began to distrust Chinese influence in its power supply system. Interior Secretary Manuel Roxas met with Chinese Foreign Affairs Ministry to ask the transfer key responsibility for management of the Philippines national grid back to Filipinos.<sup>511</sup> In February 2015, the Philippines forced the issue by denying visa renewals for 18 Chinese nationals employed by the Philippines national grid corporation to ensure key position were filled by Filipinos. The role of Chinese citizens

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<sup>508</sup> "China to PH: Settle \$500-m loan", *Cebu Daily News*, 26 September 2012.

<sup>509</sup> Hudson Lockett, "Timeline: South China Sea dispute", *Financial Times*, 12 July 2016.

<sup>510</sup> Aurea Calica, "Phl, China drop North Rail," *The Philippine Star*, 26 September 2012, accessed 20 April 2017, <http://www.philstar.com/headlines/2012/09/26/852997/phl-china-drop-north-rail>.

<sup>511</sup> *Ibid.*

in the National Grid Corporation of the Philippines was a national security concern because Filipino politicians suspected that the Chinese Government could exert control over the Philippines energy supply. Philippines Senator Miriam Defensor Santiago referred to the Chinese role as a “national security virus”.<sup>512</sup> In such a charged environment, the Philippines received no significant aid from China.

The April 2012 standoff was the tipping point for the Philippines in its appeal to the International Tribunal for the Law of the Sea (ITLOS). The Philippines and China seemingly agreed to both depart the Shoal, but Chinese Coast Guard ships remained leaving the Philippines powerless to do much in response. In May 2012, the Philippines Department of Foreign Affairs began preparing to submit the conflict to the ITLOS.<sup>513</sup> The Philippines initiated its arbitration claims to the Permanent Court of Arbitration under UNCLOS on 22 January 2013.<sup>514</sup> China, however, refused to participate in the proceedings even though it has been a signatory to the convention since 7 June 1996. The UNCLOS does not address sovereignty issues. It does address delimiting maritime boundaries, but China does not accept compulsory arbitration related to this issue, which is within China’s rights under UNCLOS.<sup>515</sup> The arbitration then dealt only with maritime rights and entitlements with regard the South China Sea. Effectively, even if China has sovereignty over various features in the South China Sea, the Philippines asserts that these features do not constitute islands that would entitle China to an EEZ or continental shelf and the Philippines should retain those rights based on

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<sup>512</sup> Lenie Lectura, “Government deletes ‘national security virus’ at NGCP,” *Business Mirror*, 24 February 2015, accessed on 21 April 2017, <http://www.businessmirror.com.ph/government-deletes-national-security-virus-at-ngcp/>.

<sup>513</sup> International Crisis Group, “Stirring up the South China Sea,” 10.

<sup>514</sup> Permanent Court of Arbitration, “PCA Case No. 2013-19 in the Matter of the South China Sea Arbitration before An Arbitral Tribunal Constituted under Annex VII to the 1982 United National Convention on the Law of the Sea between The Republic of the Philippine sand the People’s Republic of China, Award”, Permanent Court of Arbitration, 12 July 2016.

<sup>515</sup> *Ibid.*, 2.

international law under the UNCLOS. The arbitration award issued in July 2016 found largely in the Philippines favor and included the sweeping finding that the 9-dashed line has no standing under international law.<sup>516</sup> China, however, continues to reject the award findings and rejects the jurisdiction of the tribunal in adjudicating the issue.<sup>517</sup>

Typhoon Haiyan (Yolanda in the Philippines) hit the Philippines on 8 November 2013, one of the most severe tropical storms on record killing around 6,300 people and displacing over 1.4 million people.<sup>518</sup> The international reaction to the disaster provides a useful case for analyzing foreign aid donor recipient relationships, particularly with respect to China's foreign aid. Japan was by far the largest single donor to the Philippines for disaster recovery with pledges of \$627.2 million out of a total of \$1.643 billion in total foreign aid commitments.<sup>519</sup> China provided an initial pledge of just \$100,000 plus another \$100,000 from the Chinese Red Cross. After a firestorm of criticism, China increased this to a still paltry \$1.8 million.<sup>520</sup> Still, the aid given by China to the Philippines for Typhoon Haiyan is extremely small compared to previous disasters (see Table 6-6 on page 309).

**Table 6-6: China aid for recent Asian disasters**

Year	Disaster	Affected Countries	China Aid
2004	Indian Ocean Tsunami	Indonesia, Thailand, Sri Lanka	\$83 million <sup>a</sup>
2006	Yogyakarta Earthquake	Indonesia	\$3.25 million <sup>b</sup>
2008	Cyclone Nargis	Myanmar	\$10 million <sup>c</sup>
2010	Floods	Pakistan	\$247 million <sup>d</sup>
2011	Tohoku Earthquake - Tsunami	Japan	\$4.57 million <sup>e</sup>

<sup>516</sup> Ibid., 471-477.

<sup>517</sup> Todd Phillips, Oliver Holmes and Owen Bowcott, "Beijing rejects tribunals ruling in South China Sea case, *The Guardian*, 12 July 2016, accessed 21 April 2017, <https://www.theguardian.com/world/2016/jul/12/philippines-wins-south-china-sea-case-against-china>.

<sup>518</sup> Official Gazette of the Republic of the Philippines, "Updates: Typhoon Yolanda", accessed 21 April 2017, <http://www.gov.ph/laginghanda/updates-typhoon-yolanda/>.

<sup>519</sup> Government of the Philippines, *Foreign Aid Transparency Hub: Full Report*, accessed on 21 April 2017, <http://www.officialgazette.gov.ph/faith/#>.

<sup>520</sup> "Typhoon Haiyan: China gives less aid to Philippines than Ikea," *Associated Press*, 14 November 2013, accessed 21 April 2017, <https://www.theguardian.com/world/2013/nov/14/typhoon-haiyan-china-aid-philippines-ikea>.

2013	Typhoon Haiyan	Philippines	\$1.8 million
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Sources:

- a - <http://news.bbc.co.uk/2/hi/asia-pacific/4145259.stm>
- b - [http://www.gov.cn/misc/2006-06/04/content\\_299710.htm](http://www.gov.cn/misc/2006-06/04/content_299710.htm)
- c - <http://china.aiddata.org/projects/34291?iframe=y>
- d - <https://www.dawn.com/news/911260>
- e - [http://news.xinhuanet.com/english2010/china/2011-03/14/c\\_13778236.htm](http://news.xinhuanet.com/english2010/china/2011-03/14/c_13778236.htm)

China's animus towards the Philippines and President Aquino for their defiance of China's claims in the South China Sea were widely reported to be the cause of withholding aid for Typhoon Haiyan.<sup>521</sup> Xu Liping of the Chinese Academy of Social Science was quoted saying, "the Sino-Philippines relationship is not in a normal state, so the government cannot handle the situation through normal means."<sup>522</sup> Reaction to China's small scale response to the Haiyan disaster was overwhelmingly negative internationally and even some inside China argued for more aid to prevent China from appearing petty. The nationalist English language newspaper, the Global Times, editorialized against the small aid offering claiming that it tarnishes China's international image and was counter to China's national interests.<sup>523</sup> China claims that its aid comes with no strings attached, but as demonstrated in the China-Philippines case international politics cannot be divorced from aid giving and receiving decisions. China's aid may not be conditioned in the same sense as DAC donors, but the evidence in the case of the Philippines shows that the decision to offer aid and how much depends not only on recognition of China's views on Taiwan, but also on other policy choices deemed important to China's leaders. Foreign aid is a tool used by China to promote its own commercial and security interests just like other donors and if recipient countries like the Philippines do not act in a manner consistent with China's national interests, aid is used to punish them.<sup>524</sup>

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<sup>521</sup> Trefor Moss, "After a detour, Chinese help finds its way to the Philippines; Trefor Moss laments the time wasted because politics got in the way," *South China Morning Post*, 22 November 2013.

<sup>522</sup> Kor Kian Beng, "Aftermath of Super Typhoon; China makes belated aid offer to the Philippines," *The Straits Times*, 12 November 2013.

<sup>523</sup> Kathleen McLaughlin, "Slammed for being stingy, China boosts aid to Philippines", *The Christian Science Monitor*, 14 November 2013.

<sup>524</sup> Richard Hall, "Scant Relief," *The Independent*, 14 November 2013.

### **The Philippines drift back to the United States and Japan – and back to China.**

The Philippines relationship with China deteriorated because the basis of the relationship rested more on an unresolved territorial dispute than the burgeoning commercial relationship. This fact made the improvements in Sino-Philippines relations unstable and susceptible to nationalist pressures in both countries. The Philippine's response to deteriorating Sino-Philippine relations was to improve security cooperation with the United States and economic cooperation through its ODA relationship with Japan.

The election of President Duterte in 2016 and his support and promotion of extra-judicial killings of those suspected of drug crimes led to widespread denunciations around the world including the UN High Commissioner for Human Rights. President Duterte responded by calling the High Commissioner an “idiot” and threatened to leave the UN<sup>525</sup> and distanced the government's foreign policy from the United States and European countries and sought to align with China.<sup>526</sup> After a decade with no substantial aid from China, new aid commitments began in 2017. Given that territorial disputes remain, and the Philippines public remains the most pro-American people in the world with 83% of the population reporting a positive perception in 2018<sup>527</sup>, there is good reason to suspect that improving China-Philippines relations may be more a result of the peculiarities of President Duterte than of any structural alignment of interests.

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<sup>525</sup> Euan McKirdy, “Philippines President Rodrigo Duterte insults UN, threatens to leave over criticism, *CNN*, 21 August 2016, accessed on 20 December 2018, <https://edition.cnn.com/2016/08/21/asia/philippines-duterte-threatens-to-leave-un/>.

<sup>526</sup> Ben Blanchard, “Duterte aligns Philippines with China, says US has lost,” *Reuters*, 20 October 2016 accessed 20 December 2018, <https://www.reuters.com/article/us-china-philippines-idUSKCN12K0AS>.

<sup>527</sup> Richard Wike, Bruce Stokes, Jacob Poushter, Laura Silver, Janell Fetterolf and Kat Devlin, “Trump's International Ratings Remain Low, Especially Among Key Allies: Most still want U.S. as top global power, but see China on the rise,” Pew Research Center, 1 October 2018.

**Japan's ODA policy shift with regards to the Philippines.** Japan's 2008 Country Assistance Program<sup>528</sup> for the Philippines cites three priority development issues: 1) sustained economic growth aimed at creating employment opportunities, 2) empowerment and improved living conditions for the poor, and 3) peace and stability in Mindanao.<sup>529</sup> Under item 1, Japan states that its priority ODA financed investments will support fiscal reform, implementation capacity, governance, promote foreign direct investment, infrastructure, and infrastructure management and maintenance. In April 2012, the Ministry of Foreign Affairs produced a brief statement of its Country Assistance Policy for the Philippines which adjusted the 2008 program. The three priority areas were reformulated as follows: 1) achieving sustainable economic growth through further promotion of investment, 2) overcoming vulnerability and stabilizing human life and productive activities, and 3) peace and development in Mindanao.<sup>530</sup> Further, under item 1 Japan's new priority areas now include transport in Metro Manila, energy and water infrastructure, governance, **securing maritime safety**, and human resource development. The main changes from 2008 and to 2012 are a diminished emphasis on poverty alleviation and elevation of maritime security as a key assistance sector.

**Aid scandals and Japanese aid commitment to the Philippines.** One possible alternative hypothesis for Japan's aid behavior in the Philippines is the reaction of Japan to corruption scandals in the Philippines aid program. In cases of major corruption in the past,

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<sup>528</sup> The Japanese Government prepares periodic policy documents that describe the relevance, rational and priorities for the ODA provided to each country in which JICA operates. The last such policy document prepared for the Philippines was published in 2012.

<sup>529</sup> Japan Ministry of Foreign Affairs, "Country Assistance Program for the Republic of the Philippines," Tokyo: Government of Japan, June 2008, 16-17.

<sup>530</sup> Japan Ministry of Foreign Affairs, "Country Assistance Policy for the Republic of the Philippines," Tokyo: Government of Japan, April 2012, 2.

Japan has briefly suspended ODA activities. In this section, I determine if corruption could have affected Japan's ODA commitments to the Philippines over the analysis period.

In 1986, two major scandals hit Japan's foreign aid program. The Marcos scandal occurred with the United States Senate released a report indicating that the Japanese government paid kickbacks to the Marcos regime to secure the contracts with Japanese companies for ODA financed projects.<sup>531</sup> The kickbacks were estimated at up to 15 percent of the loan amounts and were provided to the Marcos family and other top leaders through firms based in the Philippines that were contracted to implement Japanese ODA financed projects.<sup>532</sup> The second scandal resulted in the arrest of JICA staff for taking bribes to steer consulting assignments to specific Japanese consulting firms for conducting ODA development surveys.<sup>533</sup> These concurrent scandals led to a rethinking of Japan's aid practices generally and to the Philippines in particular. However, it did not result in a major reduction in aid to the Philippines. Japan formed country study groups composed of a mix of scholars and ODA related agencies including JICA, the Overseas Economic Cooperation Fund (OECF) and the Japan Ex-Im Bank, to analyze the state of recipient country economies and policies and recommended appropriate aid strategies in that context. The first country study group report was done for the Philippines, published in 1987.<sup>534</sup>

While other major ODA corruption scandals have hit JICA and the Japanese government over the years including several past incidents of corrupt practices in Japan's ODA

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<sup>531</sup> Hideaki Ashitate, "Foreign aid (ODA) as a public policy," *Interdisciplinary Information Sciences*, Vol. 13, No. 1 (2007), 132.

<sup>532</sup> Keiko Hirata, *Civil Society in Japan*, 89.

<sup>533</sup> Hideaki Ashitate, "Foreign aid (ODA) as a public policy," 132.

<sup>534</sup> Arika Takahashi, "From Reparations to Katagawari: Japan's ODA to the Philippines," in ed. Robert M. Orr and Bruce Koppel, *Japan's Foreign Aid: Power and Policy in a New Era*, 76.

to Vietnam<sup>535</sup> in 2009 and 2014 and Thailand in 2008<sup>536</sup>, the only scandals regarding the Philippines after 2000 were relatively minor. One involved providing golf equipment to Philippines officials by a Japanese engineering firm (Kyudenko Co.) in 2007 followed by a minor embezzlement scandal involving a Japanese employee working in JICA's local Philippines office in 2013.<sup>537</sup> Both incidents pale in comparison to the repeated kickback schemes uncovered in Vietnam and represented small sums of money.<sup>538</sup>

The major scandals in Vietnam led to the temporary suspension of new loans to Vietnam in 2008 lasting for 4 months.<sup>539</sup> Japan only suspended new ODA to Vietnam Railways in the 2014 case but continued offering aid for other projects in Vietnam. Due to the short duration of the aid suspensions, overall aid to Vietnam was not discernably affected by the scandals (see Figure 6-11 on page 315). Total ODA spiked to its highest ever in 2009 even though aid was suspended until March 2009. Aid dropped in 2010 but no scandal was apparent. Aid dropped in 2014 from the year earlier but remained high. Scandals have not had a demonstrable effect on Japan's ODA to Vietnam even when the scale of corruption was very high.

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<sup>535</sup> "ODA Bribery Scandal is Warning against Business Customs," Editorial, *Yomiuri Shimbun*, 5 August 2008. (in Japanese 「社説」 ODA 贈賄 不正招く「商習慣」への警鐘だ).

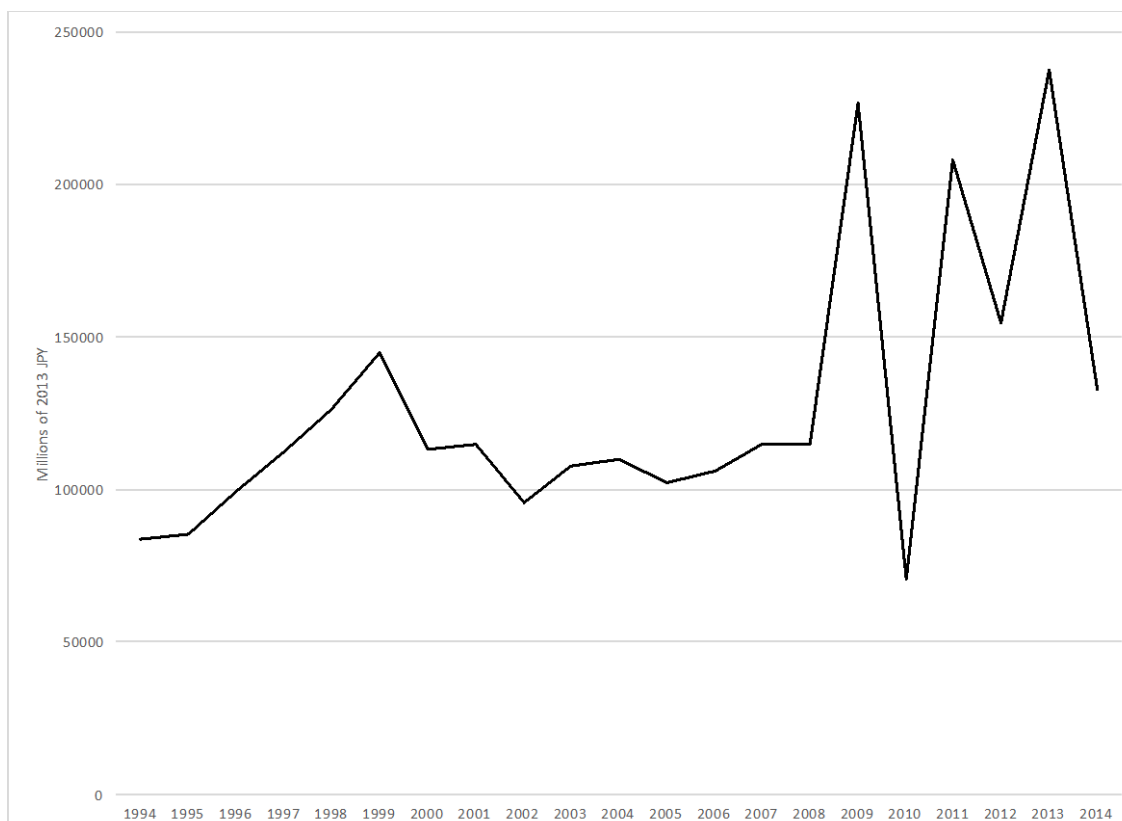
<sup>536</sup> "Corruption with Japanese Companies in Thailand becoming problem for Central Government," *Nikkan Berita*, [in Japanese] accessed on 27 February 2017, <http://www.nikkanberita.com/read.cgi?id=200808051447382>.

<sup>537</sup> Johanna Morden, "JICA steps up oversight efforts after embezzlement scandal," Devex: The Development Newswire, 7 May 2013.

<sup>538</sup> "Japan, Vietnam seek prompt end to ODA scandal," *Nikkei Asian Review*, 19 June 2014.

<sup>539</sup> "Vietnam arrests railway officials in ODA graft scandal tied to Japan," *The Japan Times*, 7 May 2014.



**Figure 6-11: Japan Total ODA to Vietnam, 1994-2014 (Millions of 2013 JPY)**

Source: OECD

Likewise, scandals have not had a major impact on ODA commitments from Japan to the Philippines. The Marcos scandal in the mid-1980s remains one of the largest ODA scandals in the history of Japan's ODA program, yet had only limited impact on overall ODA to the Philippines. After 2000, scandals related to Japanese ODA to the Philippines were minor and not the focus of much media scrutiny. The first occurred in 2007 occurring well after the major dip in ODA from Japan that spanned 2004-2006. By 2007, ODA had already begun increasing again. The increase in ODA to the Philippines has continued until 2015 when aid commitments reached their highest levels ever. The reduction in Japan's ODA to the Philippines in 2004-2006 was not caused by any reaction to corruption in Japan's ODA to the Philippines.

### 6.3.4 Conclusion

In the case of China's aid to the Philippines, China tentatively began its aid program in 2001 with some small loans. The Philippines was growing rapidly and had a burgeoning trade relationship with China. When its security interests are threatened in the South China Sea, China's aid became increasingly targeted at security factors. As relations between the United States and the Philippines deteriorated in 2004, China saw an opportunity to step in and pull the Philippines away from the United States while also giving incentives to ignore China's efforts to develop its claims in the South China Sea. The Philippines is economically and militarily weak, but is in the United States alliance network. With a strong United States-Philippines relationship, the Philippines would be expected to balance against China. A weakened United States-Philippines relationship suggest that the Philippines might have been more open to bandwagoning with China.

Corruption and territorial disputes eventually overwhelmed the budding relationship between China and the Philippines causing China to stop providing aid, going so far as to demand its past aid returned. There is no evidence that Chinese aid was affected by the corruption scandals in its aid program to the Philippines. The Philippines, however, was highly sensitive to the corruption scandals because of the links made in the media and in the Philippine Congress to territorial sovereignty with the implication being that the Macapagal-Arroyo administration sold out Philippine sovereignty for personal gain. Even after Typhoon Haiyan, one of the worst recent natural disasters in Asia, China gave only a token amount of aid, far less than China has given to other similar disasters in other countries. The evidence in this case study indicates that commercial opportunities explain the initial ODA from China in 2001-3. These initial aid offers were small scale. However, the "charm offensive" strategy coupled with the deterioration in United States-Philippines relations resulted in a shift to security factors

as the main drivers of China's aid policy towards the Philippines between the 2004s and 2015. China acted opportunistically to rapidly scale up ODA to the Philippines as soon as relations between Manila and Washington deteriorated. The thaw in Sino-Philippine relations was short lived.

This case study highlights the volatility of territorial disputes in aid relationships. China's increased aid to the Philippines coincided with a relaxation of the South China Sea dispute and a decrease in aid from Japan. The burgeoning aid relationship with China was a quid pro quo for agreeing to joint seismic exploration for resources in disputed (and undisputed) areas of the South China Sea. However, the combination of corruption in the aid projects financed by China and nationalist sentiments in both the Philippines and China quickly overwhelmed the relationship. The media and opposition politicians, by linking the bribery and kickbacks in Chinese aid projects to the signing of the JMSU, accused the Macapagal-Arroyo administration of betraying the country's sovereignty. This led the Philippines, first under President Macapagal-Arroyo and continued under President Aquino (2010), to become increasingly assertive of its territorial claims to satisfy domestic audiences. The reassertion of the Philippines claims in the South China Sea led to the deterioration in Sino-Philippines relations and to China cutting off almost all aid to the Philippines. Deterioration in the relationship led the Philippine's to prefer aid from Japan rather than China. This case study also highlights the fact that aid recipients have agency in the donor-recipient relationship. One benefit of the case study is that it more fully captures the role and importance of aid recipients in the aid commitment decision by the donor. In the real world, donors and recipients will agree on the specific aid allocation.

Overall, the Philippines case study confirms the core predictions based on the study hypothesis. Each prediction is assessed below:

1. Commercial orientation of foreign aid should decline with the degree of threat perception. This case study demonstrated that commercial factors were only salient for Japan's ODA commitments during the low threat period. Commercial factors were not important for China and Japan during the high threat period. Since China had no low threat period, prediction 1 could not be confirmed for China.
2. Security orientation of foreign aid should increase with the degree of threat perception. During the higher threat period, China's aid was given to support the Philippines as its relations with the United States deteriorated. Consistent with the charm offensive policy of reassurance, China offered aid to the Philippines to manage its maritime territorial dispute and switched to a punitive aid policy when the charm offensive no longer had the desired effect. When China cut aid to the Philippines, Japan resumed its ODA at high levels as territorial disputes between China and the Philippines flared.
3. In the case of Japan, I expect its aid policy to increasingly support United States security goals as its level of threat perception increases. In this case, Japan's ODA increases followed increases in United States aid and growing military cooperation. The United States continually increased its troop presence in the Philippines after 2004 with a large jump in 2012 to over 1000 coinciding with major increases in aid commitments from Japan.
4. In the case of China, I expect its aid policy to increasingly counter United States security interests as its threat perception of the United States-Japan alliance increases. The study shows how China uses aid to counter United States interests and support states that defy the United States. When the United States cut aid to the

Philippines, China approved several large aid packages within a few months and offered expanded military cooperation to a formal United States ally. This same dynamic is clear since the 2016 election of Rodrigo Duterte in the Philippines who has made a habit of antagonizing the United States. China responded with large aid packages to the Philippines.

#### **6.4 Case 2: Japan and China's Aid to Cambodia**

Cambodia is an interesting case with complex interactions between Japan and Cambodia and China and Cambodia. Japan was uniquely involved in the Cambodia peace process in the 1990s and had a major role coordinating aid to support reconstruction after the civil war. China also has been deeply involved in Cambodian relations since supporting the Khmer Rouge in the Cambodian civil war and has developed a close relationship with the Cambodia leadership since the 1997 Coup. Cambodia has routinely sided with China in international institutions which will be analyzed for the relationship between aid and support for Chinese interests. I will test the impact of security factors (coups, relations with the United States, ASEAN Chair) and economic factors (trade, investment and growth) on Japan's and China's aid commitment to Cambodia. These factors will be assessed during Japan's low threat period (1991-2001) and high threat period (2002-2014). China's behavior will be assessed over the period for which aid data is available (1997-2014). China had elevated level of threat perception over this entire period.

China and Cambodia have had a diplomatic relationship since the 13<sup>th</sup> century and there is an ethnic Chinese minority in Cambodia (less than 1% of the population) that plays a disproportionate role in commerce and politics. The relationship between the two countries became more entangled after World War II and Cambodia regained its independence. Japan

occupied the country during World War II having taken it from the French. After the war, France granted Cambodia its independence, but stability was difficult to establish from the start. China supported Cambodia against the Japanese during the war and developed a close relationship with Cambodia after formal independence from the French in 1953. In 1958, Cambodia recognized the PRC over Taiwan as the government of China resulting in the United States recalling its ambassador in protest.<sup>540</sup> Cambodia maintained neutrality between Western and communist countries accepting aid from both. United States policy focused on containing communism and Chinese influence and countering the North Vietnamese during the war in Vietnam. As the United States war in Vietnam escalated, relations between Cambodia and the United States deteriorated badly due to border incursions by the South Vietnamese and Cambodia accepting military aid from the Soviet Union.<sup>541</sup> Relations between the United States and Cambodia officially ended in 1965 with King Sihanouk insisting the United States recognize Cambodia's territorial integrity, compensate it for spillover damage from the war, and end United States bombing on Cambodian territory. During this time, Cambodia increasingly allied itself with China and sought aid from communist countries to make up for lost aid from the United States. Cambodia and the United States reestablished diplomatic relations in 1969 but the ongoing war activities spilling across the border into Cambodia meant overall relations were poor.

The relationship with China became much more complex as the country descended into instability and civil war. The Revolutionary Army of Kampuchea (RAK) was established in 1968 as a communist guerrilla movement aided by the North Vietnamese and China although

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<sup>540</sup> U.S. Department of State, *60th Anniversary of Diplomatic Relations: United States-Cambodia 1950-2010*, available at [https://kh.usembassy.gov/wp-content/uploads/sites/80/2016/06/book\\_us\\_cambodia\\_relations.pdf](https://kh.usembassy.gov/wp-content/uploads/sites/80/2016/06/book_us_cambodia_relations.pdf).

<sup>541</sup> *Ibid.*, 24.

China and Russia also provided arms to the Government of King Sihanouk.<sup>542</sup> Sihanouk was deposed in 1970 while on vacation in France in a coup that Sihanouk, North Vietnam, China and the Soviet Union blamed on the CIA. Lon Nol took power and tried to remove Vietnamese communists from Cambodia. The United States provided agricultural commodities to the Lon Nol government in the early 1970s which were never paid for. The United States government still claims that it is owed about \$450 million which the Cambodians reject.<sup>543</sup> This issue is an ongoing impediment to improving relations with the United States.

From exile, Sihanouk actively promoted the Khmer Rouge and opposed the government of Lon Nol. Cambodia descended into a brutal civil war and extended period of instability between 1970 and 1991. King Sihanouk fled to China in 1970 after the coup. Meanwhile, the forces of the government of Cambodia battled the North Vietnamese/Viet Cong and communist Khmer Rouge guerrillas for control of the country. In 1975, the Khmer Rouge took full control of Cambodia before perpetrating one of the most horrific campaigns of mass murder in history that is estimated to have killed at least 1.7 million people between 1975 and 1979, nearly a quarter of Cambodia's population at the time.<sup>544</sup>

In 1977, the Khmer Rouge raided border towns in Vietnam killing large numbers of ordinary Vietnamese reigniting the historical territorial conflict between the two countries. Eventually, Vietnam invaded Cambodia in 1979 to remove the Khmer Rouge government from power and occupied Phnom Penh. The Khmer Rouge was supported by China, a fact that led

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<sup>542</sup> "Cambodia Civil War, 1970s," *GlobalSecurity.org*, accessed 23 May 2017,

<http://www.globalsecurity.org/military/world/war/cambodia2.htm>.

<sup>543</sup> Thomas Lum, "US-Cambodia Relations: Issues for the 113th Congress," Washington DC: Congressional Research Service (24 July 2013), 3.

<sup>544</sup> "Cambodia profile – Timeline: A chronology of key events," *BBC News*, 22 February 2017, accessed 23 May 2017, <http://www.bbc.com/news/world-asia-pacific-13006828>.

in part to a border war between China and Vietnam later in 1979, which Deng Xiaoping famously claimed was to “teach Vietnam a lesson” but likely intended to weaken Vietnam and distract it from its invasion and occupation of Cambodia which China believed was against its interests.<sup>545</sup> Vietnam, however, remained in Cambodia and administered it like a vassal state until the late 1980s.<sup>546</sup> The civil conflict continued to fester throughout the 1980s with the Khmer Rouge continuing to hold some parts of the country. By the time Vietnam withdrew from Cambodia in September 1989, around 30,000 Vietnamese soldiers are thought to have died.<sup>547</sup>

During the 1980s, relations between Cambodia under Vietnamese rule and the United States, China and surrounding countries was unsettled and contentious. Upwards of 300,000 Cambodian refugees were temporarily housed in UN camps near the border with Thailand. International aid flowed primarily to support UNICEF and the International Committee for the Red Cross to relieve suffering in the refugee camps. The Soviet Union and Vietnam supported the People’s Republic of Kampuchea (PRK) government in Phnom Penh with up to \$100 million per year in aid. Meanwhile, the PRK was under economic sanctions by Western countries and Japan. China opposed the Vietnamese occupation of Cambodia so did not provide aid to the government but continued to provide aid to the Khmer Rouge who were holed up along the border with Thailand.<sup>548</sup> During the rule of the PRK, Chinese schools were closed,

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<sup>545</sup> Xiaoming Zhang, “Deng Xiaoping and China’s Decision to go to War with Vietnam,” *Journal of Cold War Studies*, Vol. 12, No. 3 (Summer 2010), 11.

<sup>546</sup> James Brooke, “Why Did Vietnam Overthrow the Khmer Rouge in 1978?,” *Khmer Times*, 7 August 2014.

<sup>547</sup> Kevin Doyle, “Vietnam’s forgotten Cambodian War,” *BBC News*, 14 September 2014, accessed 24 May 2017, <http://www.bbc.com/news/world-asia-29106034>.

<sup>548</sup> Joshua Lipes, “China-Cambodia Relations: A History Part One,” *Radio Free Asia*, accessed on 26 May 2017, <http://www.rfa.org/english/news/special/chinacambodia/relation.html>.



and Chinese language publications outlawed. Hun Sen, the eventual ruler of Cambodia, wrote in 1988 that China was the root of all of Cambodia's problems.<sup>549</sup>

As shown in Figure 6-12 on page 331, aid flows from DAC donors began in earnest in the early 1990s. During the 1980s, the United States had supported non-communist resistance groups within Cambodia. United States aid flowed to these groups rather than the government of Cambodia, but this began to change in the 1990s. After Vietnam withdrew its forces from Cambodia in late 1989, the UN Security Council took up the issue of stabilizing Cambodia, the United Nations Transitional Authority in Cambodia (UNTAC) was established in March 1990, and a peace agreement signed in Paris in October 1991.<sup>550</sup> The United States role in the mediation process was controversial and as of early 1990, the United States continued to funnel aid to non-communist resistance groups who were forming a coalition with the Khmer Rouge. United States Representative Chester Atkins and Senator George Mitchell excoriated the Bush administration for allowing a coalition that included the Khmer Rouge to participate in the national reconciliation efforts.<sup>551</sup> The extreme brutality of the Khmer Rouge made any support for a coalition that included the Khmer Rouge politically untenable for the United States. By July 1990, the United States announced it would change policy to support and provide aid to the government, begin negotiating with Hun Sen and Vietnam, and cut support for anti-government resistance groups.<sup>552</sup> Even though all parties agreed to the peace framework supported by UNTAC, a true cease fire did not materialize and China announced in February 1991 that it would continue to provide military aid to the Khmer Rouge. In 1992, USAID

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<sup>549</sup> Ibid.

<sup>550</sup> United Nations, General Assembly and Security Council, *Final Act of the Paris Conference on Cambodia*, A/46/608 (30 October 1991).

<sup>551</sup> U.S. Department of State, *60th Anniversary of Diplomatic Relations*, 48.

<sup>552</sup> Ibid., 49.

reopened its office in Phnom Penh and provided about \$264 million throughout the 1990s primarily for roads and humanitarian assistance.<sup>553</sup>

The Khmer Rouge refused to give up their weapons as agreed and fought the government with declining intensity until the movement completely collapsed in 1999 after the death of Pol Pot in 1998.<sup>554</sup> Although Vietnam freed Cambodia from the murderous Khmer Rouge, their treatment of Cambodia during more than a decade of occupation is still resented by Cambodians. The interplay of power and politics between Vietnam, China and Cambodia continues to affect international politics in the region with Cambodia generally on the side of China against Vietnam.

A new constitution was adopted in September 1993 which restored Sihanouk as king and Cambodia became a constitutional monarchy.<sup>555</sup> While the country stabilized after the elections in 1993, a power struggle continued between the two main political parties (the Cambodian People's Party (CPP) led by Hun Sen and the royalist FUNCINPEC (Front Uni National pour un Cambodge Independant) led by Prince Norodom Ranariddh, son of King Sihanouk) and facilitated by the lack of disarmament of the Khmer Rouge. The conflicts between the two main parties eventually came to a head with a coup orchestrated by Hun Sen in July 1997 with casualties estimated in the hundreds. As a result, ASEAN postponed admitting Cambodia as a member.<sup>556</sup> Most donor countries withheld support for the

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<sup>553</sup> Ibid., 50.

<sup>554</sup> Cambodia Tribunal Monitor, "Chronology of the Khmer Rouge Movement: Timeline of the Khmer Rouge's Rise and Fall from Power," Northwestern University School of Law Center for International Human Rights and Documentation Center of Cambodia, accessed 24 May 2017, <http://www.cambodiatribunal.org/history/cambodian-history/chronology-of-the-khmer-rouge-movement/>.

<sup>555</sup> Mikio Oishi and Fumitaka Furuoka, "Can Japanese Aid be an Effective Tool of Influence? Case Studies of Cambodia and Burma," *Asian Survey*, Vol. 43, No. 6 (November/December 2003), 890-907.

<sup>556</sup> Ibid., 893.

government of Hun Sen after the coup leading Hun Sen to seek support from China. The United States evacuated its embassy and suspended aid to the country. China believed Prince Ranariddh was not sufficiently against Taiwan independence and generally supported Hun Sen's leadership of the country. China became the first government to officially recognize the new government.<sup>557</sup> Deterioration in relations between Cambodia and Western countries and Japan led to an opening for China to improve its position and exert influence in Cambodia. In April 1998, Pol Pot, the leader of the Khmer Rouge died and the group disintegrated. The United States and Cambodia restored bilateral relations and economic aid as well as negotiated a bilateral trade agreement in late 1999. United States aid grew to between \$50 and \$100 million per year after 2000 but has only exceeded Japanese aid in 2003. Aside from 2003 and 2014, Japan has been the largest DAC donor to Cambodia since 1990 though China's aid now exceeds Japan's by a factor of more than two.<sup>558</sup>

Since stabilizing after the coup in 1997, Cambodia has, step by step, integrated itself into Southeast Asia and the world. Cambodia joined ASEAN in 1999 followed by WTO accession in 2007.<sup>559</sup> Cambodia served as the ASEAN Chair in 2002 and 2012. The Cambodian economy has grown extremely rapidly since 1994, though it remains the poorest country in ASEAN with a GDP per capita of just over \$1,000 in 2016. Even with its rapid economic growth for over two decades, the extreme destruction from years of civil war put Cambodia far behind the rest of Southeast Asia. Only Myanmar and Lao Peoples Democratic Republic have comparable levels of poverty in the region.

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<sup>557</sup> Joshua Lipos, "China-Cambodia Relations: A History Part One."

<sup>558</sup> Council for the Development of Cambodia, *Development Cooperation and Partnerships Report* (Royal Government of Cambodia, January 2018), ii.

<sup>559</sup> Chap Sotharith, "Trade, FDI, and ODA between Cambodia and China/Japan/Korea," in ed. Mitsuhiro Kagami, *Economic Relations of China, Japan and Korea with the Mekong River Basin Countries*, BRC Research Report No.3, Bangkok Research Center, IDE-JETRO, Bangkok, Thailand, 2010.

#### 6.4.1 The pattern of Japanese ODA to Cambodia

During the Vietnam war, Japan only provided a small amount of aid to Cambodia with the United States providing the largest share by far (see Figure 6-12 on page 331). Japan became the largest aid donor to Cambodia in 1992. Japan hosted the Tokyo Conference in June 1990 to try to enable a settlement among the competing parties struggling to control Cambodia. The Tokyo Conference succeeded in getting the National Government of Cambodia, controlled by Prince Sihanouk and Hun Sen, the head of the State of Cambodia to agree to hold bilateral talks excluding the Khmer Rouge.<sup>560</sup>)

After the 1991 Paris agreement, Japan actively supported the peace process and mediation through the UNTAC through both participation in peacekeeping operations, active mediation of the disputes, and with foreign aid. The UNTAC Special Representative of the Secretary-General, Mr. Akashi Yasushi, was a Japanese national and former Japanese Ambassador to the UN.<sup>561</sup> The Cambodia peacekeeping operation (PKO) was the first time that Japanese troops were dispatched to a foreign country since World War II highlighting the importance Japan placed on the security situation in Southeast Asia generally and Cambodia in particular. Altogether, Japan sent 600 Self Defense Force (SDF) members and 75 police officers to Cambodia after a contentious political debate about the role of the SDF.<sup>562</sup> The main tasks of the SDF in Cambodia were to assist in reconstructing roads and bridges destroyed during the

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<sup>560</sup> Yasuhiro Takeda, "Japan's Role in the Cambodian Peace Process: Diplomacy, Manpower, and Finance," *Asian Survey*, Vol. 38, No. 6 (June 1998), 553-568.

<sup>561</sup> Japan Cabinet Office, "No. 1 Mr. Yasushi Akashi: 20th Anniversary Relay Messages from Japanese Peacekeepers," Secretariat of the International Peace Cooperation Headquarters, 2012, accessed 25 May 2017, [http://www.pko.go.jp/pko\\_e/info/messages/relay\\_1.html](http://www.pko.go.jp/pko_e/info/messages/relay_1.html).

<sup>562</sup> Philip Shenon, "Actions of Japan Peacekeepers in Cambodia Raise Questions and Criticism," *The New York Times*, 24 October 1993, accessed 24 May 2017, <http://www.nytimes.com/1993/10/24/world/actions-of-japan-peacekeepers-in-cambodia-raise-questions-and-criticism.html?pagewanted=all>.

civil war.<sup>563</sup> Japanese law (the International Peace Cooperation Law passed in June 1992) forbade the SDF from any use of weapons beyond the minimum needed to protect the SDF personnel themselves<sup>564</sup> which limited the areas where SDF troops could be sent in Cambodia. Japan materially contributed to the peace process by providing personnel including key leaders in the negotiations such as Akashi Yasushi at UNTAC and Ogata Sadako as the UN High Commissioner for Refugees (UNHCR), the SDF and civilian police as well as financially through supporting UNTAC, support for the election process and through economic assistance.<sup>565</sup> Japan's aid during the 1990s was wide ranging and not limited to ODA.

Japan again supported dialogue among the contesting parties in Cambodia at a June 1992 conference in Tokyo, mediated jointly by Japan and Thailand. In 1992, Japan also co-chaired the Ministerial Conference on Rehabilitation and Reconstruction of Cambodia where Japan indicated its intent to provide \$150-\$200 million in humanitarian contributions to support rehabilitation and reconstruction in Cambodia.<sup>566</sup> Afterward, the conferees established the International Committee for the Reconstruction of Cambodia (ICORC) to coordinate the aid pledges of Cambodia's development cooperation partners. The ICORC met three times between 1993 and 1995 with Japan as the chair of the first meeting.<sup>567</sup> Japan was one of the driving forces bringing combatants together and promoting the eventual reconciliation in Cambodia,

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<sup>563</sup> Japan Ministry of Foreign Affairs, "Japan's Participation on UN Peace-keeping Operations and International Humanitarian Relief Operations – 'Paths to Peace'," December 1996, accessed 24 May 2017, [http://www.mofa.go.jp/policy/un/pko/pamph96/02\\_2.html](http://www.mofa.go.jp/policy/un/pko/pamph96/02_2.html).

<sup>564</sup> Japan Ministry of Foreign Affairs, "Japan's Contribution to UN Peacekeeping Operations (PKO)," 14 May 2015, accessed 24 May 2017, [http://www.mofa.go.jp/fp/ipc/page22e\\_000683.html](http://www.mofa.go.jp/fp/ipc/page22e_000683.html).

<sup>565</sup> Yasuhiro Takeda, "Japan's Role in the Cambodian Peace Process," 553-68.

<sup>566</sup> Japan Ministry of Foreign Affairs, "Statement by Parliamentary Vice-Minister for Foreign Affairs Koji Kakizawa at the Ministerial Conference on Rehabilitation and Reconstruction of Cambodia," Diplomatic Bluebook 1992, Japan's Diplomatic Activities, 410-413.

<sup>567</sup> Kingdom of Cambodia, *Development Cooperation Report, 2004 and 2005*, Cambodian Rehabilitation and Development Board, Council for the Development of Cambodia (February 2006), 7.

reinforced by substantial aid allocations for post-war reconstruction.<sup>568</sup> Japan considered ODA to be a key part of a strategic approach to peace building in Cambodia.<sup>569</sup> The initiation of Japan's aid to Cambodia fits the pattern of humanitarian assistance to support post-conflict reconstruction.

With regards to Cambodia, Japan's aid first followed the United States moves to provide aid. In 1990-1991, United States aid to Cambodia exceeded that of Japan. In 1992-1993, Japanese aid to Cambodia exceeded United States aid by a small margin. Japan continued expanding its ODA to Cambodia to around \$100 million per year, still small by the standards of Japanese aid to surrounding countries but positioning Japan as Cambodia's largest donor during the 1990s. Japan's initial ODA program in Cambodia was meant to help support the peace process and improve the security and economy of the region.<sup>570</sup> At the time, Cambodia was not a member of ASEAN, was small and impoverished, and could neither threaten Japan nor help Japanese national security directly. But there are two key factors driving Japanese aid to Cambodia: 1) supporting the peace process to stabilize all of southeast Asia and recover from the major conflicts of the 1970s and 80s which would help improve economic performance and commercial opportunities in Southeast Asia (commercial benefit), and 2) promoting Japan's interest in attaining a permanent seat on the UN Security Council (security benefit).

According to the theory presented in Chapter 2, humanitarian crises result in higher aid flows from most donors, but aid commitments may depend on the economic and security

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<sup>568</sup> Phroak Kung, "Cambodia-Japan Relations: Beyond the East China Sea," *The Diplomat*, 24 February 2015, accessed on 25 May 2017, <http://thediplomat.com/2015/02/cambodia-japan-relations-beyond-the-east-china-sea/>.

<sup>569</sup> Takeshi Watanabe, "The PKO in Cambodia-Lessons Learned: The Japanese Perspective," *International Symposium on Security Affairs 2003*, Tokyo: National Institute for Defense Studies, 101.

<sup>570</sup> Japan Ministry of Foreign Affairs, "Country Assistance Policy for Cambodia," Tokyo: Government of Japan (April 2012), 1.

importance of the recipient to the donor. Cambodia's importance to Japan was a result of Cambodia's importance in stabilizing the rest of Southeast Asia which would support economic recovery and commercial opportunities in Southeast Asia. Cambodia's instability caused refugee crises in Thailand and Vietnam and military tensions along the Cambodia-Vietnam border. Vietnam and Thailand are much larger and vital to Japan's economic interests which led to peace in Cambodia being a key goal for Japanese business interests.

Japan's ODA commitments, together with the other major OECD DAC donors to Cambodia, are shown in Figure 6-12 on page 331. The pattern of aid commitment to Cambodia follows the security situation in Cambodia and the international situation in Southeast Asia. In the early 1970s, only the United States provided a significant amount of aid mainly to prop up the regime of Lon Nol struggling to hold off the Khmer Rouge. When the Khmer Rouge came to power, aid from DAC members largely ceased and only resumed at low levels after Vietnam invaded the country and removed the Khmer Rouge from power. During the 1980s, bilateral DAC aid was generally below \$20 million per year, but jumped to the \$200-\$300 million level after the Paris peace agreement was signed in 1991. After 2003, DAC aid commitments to Cambodia started increasing significantly reaching over \$800 million by 2014.

Japan became the largest DAC donor to Cambodia in 1992 and has kept that title every year since except for 2003 and 2014. Overall, Japan's aid commitment patterns to Cambodia change twice. First, the jump after 1991 to support the Cambodian peace process and post conflict reconstruction. Second, Japan's ODA commitments roughly doubled in 2009. Aid commitments from Japan hovered around \$100 million from 1993-2008 and between \$200 and \$300 million per year after 2008. But what explains the pattern of Japan's commitment of ODA to Cambodia? Odaira (2015) has shown that Japan successfully utilized the leverage provided

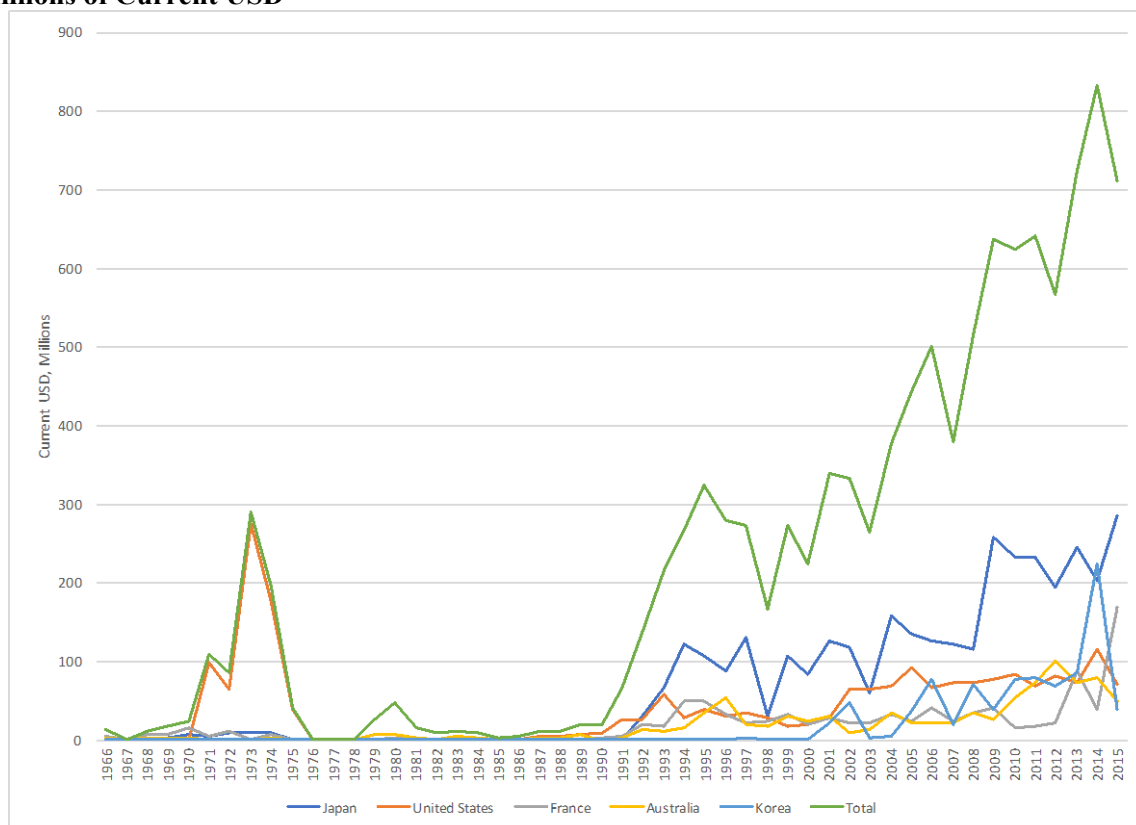
by its substantial ODA commitments in the 1990s to help mediate the civil conflict in Cambodia during 1997-1998.<sup>571</sup> However, Japan could not have known that its aid committed before 1998 would provide leverage for a mediation it did not know would occur. So why did Japan increase its aid to Cambodia in the 1990s and why did its aid jump in 2009 and continue at elevated levels? The regression analysis in Chapter 5.2 suggests Japan was motivated by a mix of commercial and security interests in the low threat period (1992-2001) and primarily security interests in the high threat period (2002-2014). However, there is minimal commercial opportunity provided by Cambodia in the low threat period. The most reasonable explanation for Japan's aid approach to Cambodia is humanitarian assistance for post conflict reconstruction. Even though the regression analysis did not find that humanitarian assistance was a significant purpose for Japanese aid commitments in any period, Japan's aid was the largest among DAC donors and responded to the needs for post-conflict reconstruction in a country where Japan was playing a major role in mediation and through the UN.

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<sup>571</sup> Takeshi Odaira, "Reasons for Success and Failure of Japan's Mediation for Intra-State Conflicts in Aid Recipient Countries as their Top ODA Donor: Case Studies of Cambodia (1997-1998) and Sri Lanka (2002-2009)," Doctoral Dissertation, Waseda University, February 2015.



**Figure 6-12: Bi-lateral ODA Commitments to Cambodia from Key DAC Donors, 1966-2015, Millions of Current USD**



Source: OECD

Japan and other major bi-lateral DAC donors and multilaterals such as the World Bank, Asian Development Bank, UN, EU, IMF...etc., formed the Consultative Group Meeting on Cambodia in 1996 to coordinate aid and agree with the government of Cambodia on policy and governance reforms and held periodic meetings to review the progress of reform and pledge new aid to Cambodia. The government renamed the meeting the Cambodia Development Cooperation Forum (CDCF) in 2007 and China joined as a donor member. The Consultative Group and Forum meetings were held at about 18-month intervals until the last meeting in early 2010. Japan has traditionally provided about 25% of the total donor commitments to Cambodia at these meetings.<sup>572</sup> As noted in the Cambodia Daily, the meetings with traditional donors

<sup>572</sup> Masatoshi Teramoto and Hideo Ezaki, "Section 6. Trends in Development Assistance to Cambodia," in *Country Study for Japan's Official Development Assistance to the Kingdom of Cambodia: From Reconstruction to Sustainable Development*, Tokyo: Japan International Cooperation Agency (2003), 109-120.

ended as China became the largest donor to Cambodia. Hun Sen criticized the traditional donors for onerous aid conditions noting China provided aid without seeking domestic reform.<sup>573</sup> The suspension of the donor meetings and the increase in aid from China did not result in less aid from traditional donors. In fact, aid commitments from the DAC continued increasing (see Figure 6-12 on page 331) and comfortably exceeded (cumulatively) aid from China except for 2003 and 2010.

Japan in particular readily increased aid without much regard for Hun Sen's behavior. In 2017 when Hun Sen forced the opposition Cambodia National Rescue Party to dissolve, many DAC donors withdrew election aid, but Japan increased grant assistance to support elections in the country and Prime Minister Abe met with Hun Sen at the Mekong-Japan Summit Meeting in 2018.<sup>574</sup> The *Nikkei Asian Weekly* quotes Japanese government sources saying "China acts as an advocate for Myanmar and Cambodia in the UN.", and "If Japan withdrew from the region, Myanmar and Cambodia would only increase their dependence on China....Even if the West frowns on us, that's still better than letting China become the sole winner."<sup>575</sup> Japan's aid to Cambodia was first offered to support Japan's bid for an expanded role in the UN and to balance the influence of China in Southeast Asia.

Cambodia has been able to ramp up aid from all corners, including China and Japan simultaneously and cancel its donor meetings which were meant to compel policy reform. The

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<sup>573</sup> Peter Zsombor, "Aid Pledges Continue Despite CNRP Calls for Delay," *The Cambodia Daily*, 6 December 2013, accessed on 17 February 2019, <https://www.cambodiadaily.com/news/aid-pledges-continue-despite-cnrp-calls-for-delay-48718/>.

<sup>574</sup> Japan Ministry of Foreign Affairs, "The 10th Mekong-Japan Summit Meeting," 9 October 2018, accessed 17 February 2019, [https://www.mofa.go.jp/sa/sea1/page4e\\_000937.html](https://www.mofa.go.jp/sa/sea1/page4e_000937.html).

<sup>575</sup> Saki Hayashi, "Tokyo goes it alone in support of Myanmar and Cambodia," *Nikkei Asian Review*, 11 October 2018, accessed on 17 February 2019, <https://asia.nikkei.com/Politics/International-Relations/Tokyo-goes-it-alone-in-support-of-Myanmar-and-Cambodia>.

government of Cambodia under Hun Sen has cleverly played donors against each other to both reduce outside pressure for reform and simultaneously increase its overall receipt of ODA commitments. The entry of China into the upper ranks of donors has reduced leverage of donor countries over aid recipients and, in the case of Cambodia, forced traditional donors to increase aid commitments to maintain ongoing engagement.

#### **6.4.2 The pattern of China's ODA to Cambodia**

China and Cambodia have a complex relationship with periods of friendly relations interspersed with periods of Chinese intervention on different sides in Cambodia's civil conflicts. The Cambodian government of Prince Norodom Sihanouk recognized the PRC as the government of China in 1958 and campaigned for China's entry into the UN and the expulsion of Taiwan.<sup>576</sup> Bartke estimates that China was providing aid to Cambodia as early as 1956 giving a total equivalent of \$39.4 million between 1956 and 1960. While no aid was given to the Cambodian government during the 1960s, official aid resumed in 1973.<sup>577</sup> However, China did provide ambiguous amounts of aid to various anti-government communist factions within Cambodia vying for power. Relations soured in 1967 when Sihanouk learned that China was backing the Khmer Rouge. However, when Sihanouk was overthrown by Lon Nol in a coup while traveling, the Prince established a government in exile (the *Gouvernement Royal d'Union National du Kampuchea* or GRUNK) hosted by and based within China to oppose Lon Nol's new government, the United States-supported Khmer Republic.<sup>578</sup> However, it was not Sihanouk's faction but the Khmer Rouge which deposed Lon Nol in 1975 also with extensive support from China. Sihanouk's faction nominally supported the Khmer Rouge

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<sup>576</sup> Chap Sotharith, "Trade, FDI, and ODA," 17.

<sup>577</sup> Wolfgang Bartke, *China's Economic Aid*.

<sup>578</sup> Radio Free Asia, "China's Long Arm: Wielding Influence in Cambodia, Timeline," accessed 9 June 2017, <http://www.rfa.org/english/news/special/chinacambodia/timeline.html>.

against the Khmer Republic in the civil war and returned to Cambodia as a figurehead after the Khmer Rouge took power.

Before the Khmer Rouge took power, China's aid was to support non-government factions fighting for power in Cambodia. When the Khmer Rouge seized power, China was quick to establish bi-lateral aid channels to support and influence the new government. The overwhelming brutality of the Khmer Rouge regime led China to be secretive about its support so detailed information about the aid provided is not publicly available. Most of what is known about China's bilateral aid to Cambodia during the Khmer Rouge period is provided by Andrew Mertha in his 2014 book which is based on Cambodia National Archives information and shipping records augmented by interviews with Chinese and Cambodian individuals who worked on Chinese funded aid projects during the period.<sup>579</sup> China's aid to the Khmer Rouge was vital to keeping it in power as long as it was. Aid from China to Cambodia began almost immediately after the Khmer Rouge took Phnom Penh in April 1975. China provided shiploads of food and other material and dispatched technical advisors to assist the government. Non-military aid was agreed to in early 1976 where China provided loans of 140 million CNY (about \$72 million at the prevailing exchange rate) and \$20 million.<sup>580</sup> Cambodia could choose what to use this money for and it is likely to have financed imports from China. In December 1975, Cambodia and China agreed to rehabilitate the Kampong Som petroleum refinery at Cambodia's only deep-water port. The agreement was for China to implement the project and provide all equipment and associated facilities. The cost in 1976 was to be 38.8 million CNY (\$20 million at the prevailing exchange rate).<sup>581</sup>

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<sup>579</sup> Andrew Mertha, *Brothers in Arms: Chinese Aid to the Khmer Rouge, 1975-1979* (Ithaca and London: Cornell University Press, 2014), 13-14.

<sup>580</sup> *Ibid.*, 61.

<sup>581</sup> *Ibid.*, 101.

After the fall of the Khmer Rouge in 1979, China's influence and aid diminished though China continued to send money and equipment to Khmer Rouge rebels fighting the Vietnam backed government until 1990.<sup>582</sup> The excesses of the Khmer Rouge and China's explicit support caused many to blame China for Cambodia's problems. Hun Sen, though a former member of the Khmer Rouge and current Prime Minister (as of 2019), called China "the root of everything that was evil in Cambodia" in a 1988 essay.<sup>583</sup> There is little evidence that China provided much aid to Cambodia during the Vietnam installed government's time in power in the 80s and Western donors dominated that bilateral aid landscape during and immediately following the UN sponsored UNTAC era in 1992-1993.

The UNTAC era was followed by over three years of instability and infighting culminating in a 1997 coup orchestrated by Hun Sen. China quickly gave \$6 million in assistance one month after the coup and Chinese investment began to flow freely nearly tripling between 1997 and 1998.<sup>584</sup> After China began supporting Hun Sen's government, Hun Sen announced the closure of the Taiwanese Representatives Office (the de facto Taiwanese Embassy) in the country. The Chinese then increased support for Hun Sen's government with 116 military cargo trucks and 70 jeeps worth \$2.8 million in December 1997.<sup>585</sup> Aid from DAC donors, aside from Japan, plummeted in 1998 to protest rampant human rights violations surrounding the coup, so Cambodia turned to China for support while also pressing the Japanese

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<sup>582</sup> Sebastian Strangio, "China's Aid Emboldens Cambodia: Hun Sen aims at balancing US, Vietnamese and Chinese interests for Cambodia's benefit," Yale Global Online: Yale Center for the Study of Globalization, 16 May 2012, accessed 9 May 2017, <http://yaleglobal.yale.edu/content/chinas-aid-emboldens-cambodia>.

<sup>583</sup> Bertil Lintner, "Cambodia: The Day of Reckoning in Cambodia?," *Asian Pacific Media Services Limited*, March 2009.

<sup>584</sup> Joshua Lipos, "China-Cambodia Relations: A History Part One."

<sup>585</sup> Julio A. Jeldres, "China-Cambodia: More than just friends," *Asia Times Online*, 16 September 2003, accessed on 6 April 2019, [https://www.academia.edu/5507726/China-Cambodia\\_relations](https://www.academia.edu/5507726/China-Cambodia_relations).

to continue providing aid.<sup>586</sup> Hun Sen visited China in February 1999 and returned with a commitment of \$200 million in interest free loans and \$18.3 million in grant aid. While it is unclear if Hun Sen requested or China offered a large aid package, the likelihood is that Hun Sen requested support due to the withdrawal of support from DAC donors (except Japan). Jeldres (2003) reports that the Chinese Embassy stated that the \$218.3 million provided to Cambodia was one of the largest aid commitments ever provided by China to any country at the time. As noted in the previous section, Hun Sen also visited Japan in late 1997 and again in 2001 to request continued aid from Japan. Jiang Zemin visited Cambodia in November 2000 and, while speaking of China's support for Cambodia's national sovereignty, promised to cancel Cambodia's older debts to China (about \$2 million) and an offered an additional \$12.5 million in no-interest loans.<sup>587</sup>

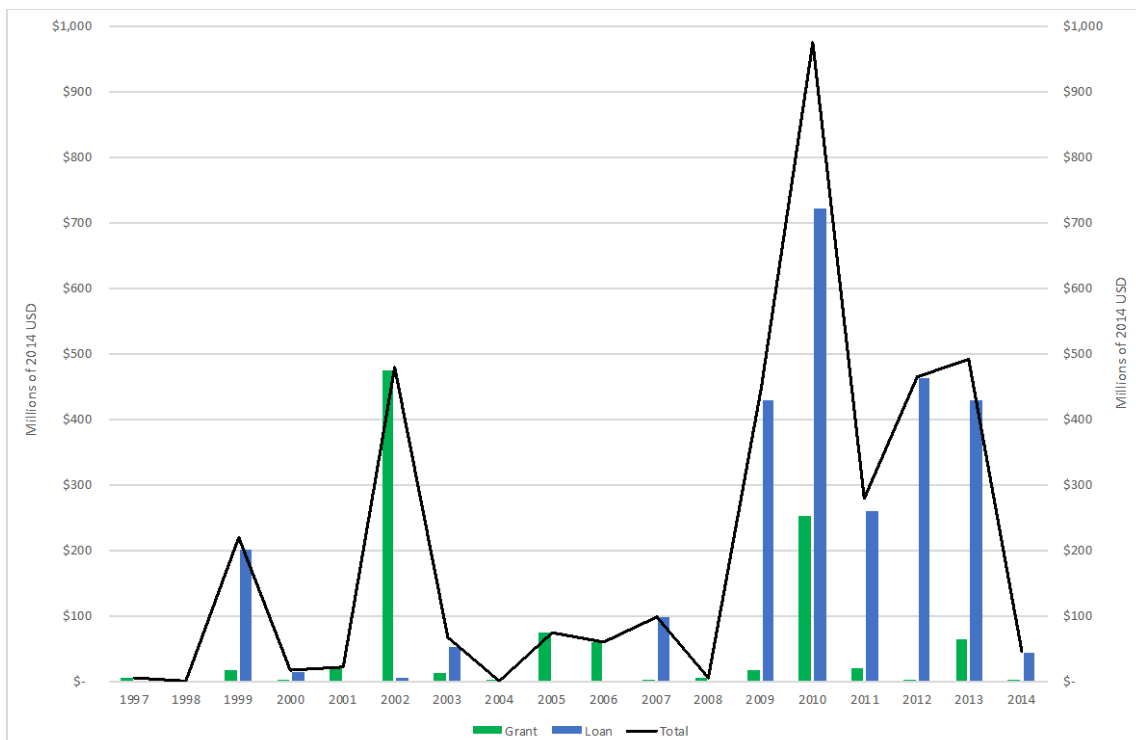
China's aid commitment pattern to Cambodia is presented in the following chart (see Figure 6-13 on page 337). Pre-2000 aid commitments are not available in the Aiddata dataset. The data on aid from 1997-1999 is from Jeldres (2003). China's aid commitment pattern since 1997 shows three distinct episodes that need elaboration. First, the initiation of aid after Hun Sen's coup in 1997. Second, a large spike in grant aid in 2002, and lastly, elevated levels of loan aid from 2009 to 2013. As shown in Figure 6-12 on page 331, Japan's aid also increased significantly in 2009 though less dramatically than China's aid. Another striking fact is that China's aid allocations to Cambodia were much higher than any other donor between 2009 and 2013 even exceeding all DAC donors combined in 2010. The grant amount in 2002 and the ODA loans from 2009-2013 were exceptionally large for a country the size of Cambodia (around 15 million people).

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<sup>586</sup> Mikio Oishi and Fumitaka Furuoka, "Can Japanese Aid be an Effective Tool."

<sup>587</sup> Julio A. Jeldres, "China-Cambodia."

**Figure 6-13: China's ODA to Cambodia, 2000-2014 (Millions of 2014\$)**



Source: Aiddata.org (2000-2014) and Jeldres, Julio A., "China-Cambodia: More than just friends," Asia Times Online, 16 September 2003 (1997-1999).

### 6.4.3 Case study hypotheses and predictions

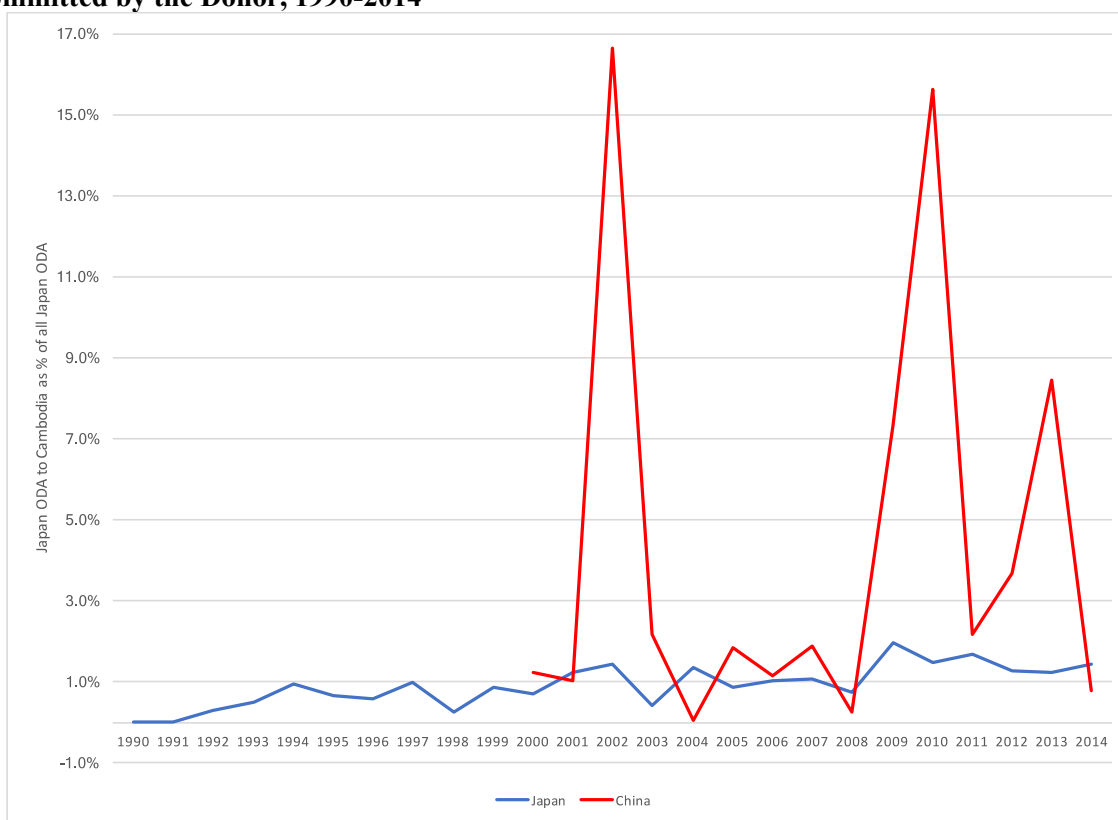
The case study analysis sought to uncover the motivations behind and impact of the aid commitments to Cambodia from Japan and China since the 1990s. Why did Japan increase its levels of ODA in the early 1990s? Why did Japan reduce its ODA commitments in 1998? What explains the sustained increases in ODA commitments by Japan after 2008? Why did China provide a big commitment in 2002 only to drop to low levels until 2009? What conditions led to China's high levels of aid to Cambodia from 2009-2013? This case study attempts to explain the patterns of Japan and China's ODA to the Cambodia and link these changes to the commercial and security interests of Japan, China and the Cambodia.

The case studies in this dissertation are designed to establish the causal relations between security, normative, and commercial factors in the ODA allocation decisions of China and Japan that were estimated in the panel regressions. Cambodia offers an intriguing case because it reflects several important variables in the regression analysis especially for the China case, but also for Japan including: ASEAN chair, variation in its relations with the United States, varying relations with Taiwan (before Aiddata.org dataset begins), extreme spikes in Chinese aid commitments. This case study allows us to explore how Japan and China's ODA commitments to Cambodia react to these independent variables over time.

**Comparing China and Japan.** China and Japan have significant differences when it comes to aid behavior towards Cambodia. Japan is a relatively consistent donor to Cambodia with an overall trend of growing aid commitments over time. China is much more erratic with big spikes in aid commitments in different years. Overall, aid to Cambodia is a small percentage total aid allocated by Japan and China (see Figure 6-14 on page 339). Until 2000, Japan's aid to Cambodia amounted to less than 1 percent of its total ODA commitments. Since 2000, it hovered around 1 percent of the total and has averaged just over 1.5 percent of Japan's total commitments from 2009-2014. In most years, China's ODA to Cambodia has also hovered around 1 percent of China's total. However, China has allocated very large aid packages to Cambodia periodically. In 2002 and 2010, China gave over 15% of its total ODA commitments to Cambodia and almost 9 percent in 2013 before dropping back below 1 percent in 2014.



**Figure 6-14: Japan and China's ODA Commitments to Cambodia as a Percent of Total ODA Committed by the Donor, 1990-2014**

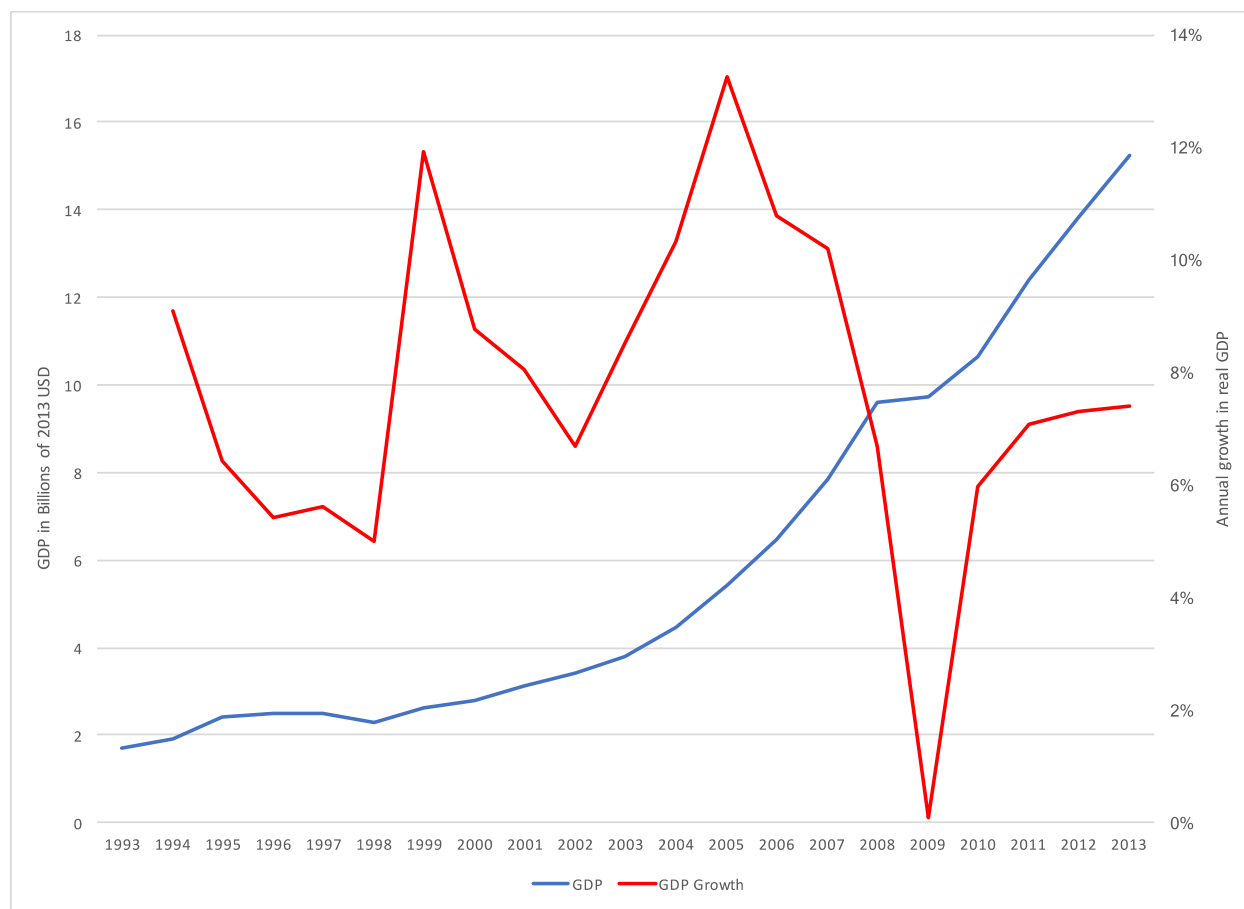


Sources: OECD DAC and Aiddata.org

**The impact of commercial factors.** Cambodia has never been a commercially important country by any standard measure. With a population under 15.4 million (2015) and a GDP per capital just over \$1,100 per person (2015)<sup>588</sup>, Cambodia is relatively insignificant even within ASEAN. Among the developing countries in ASEAN, only Lao PDR has a smaller population (Brunei and Singapore have smaller populations but are larger economies with high average incomes and receive no aid). Cambodia also has the lowest income per capita of any country in ASEAN, well below Lao PDR and just lower than Myanmar.<sup>589</sup> Economic growth and the level of GDP for Cambodia is presented in Figure 6-15 on page 340.

<sup>588</sup> Data from the World Bank's World Development Indicators dataset.

<sup>589</sup> ASEAN Secretariat, ASEAN Statistical Leaflet: Selected Key Indicators, 2016.

**Figure 6-15: Cambodia's Economic Performance, 1993-2013**

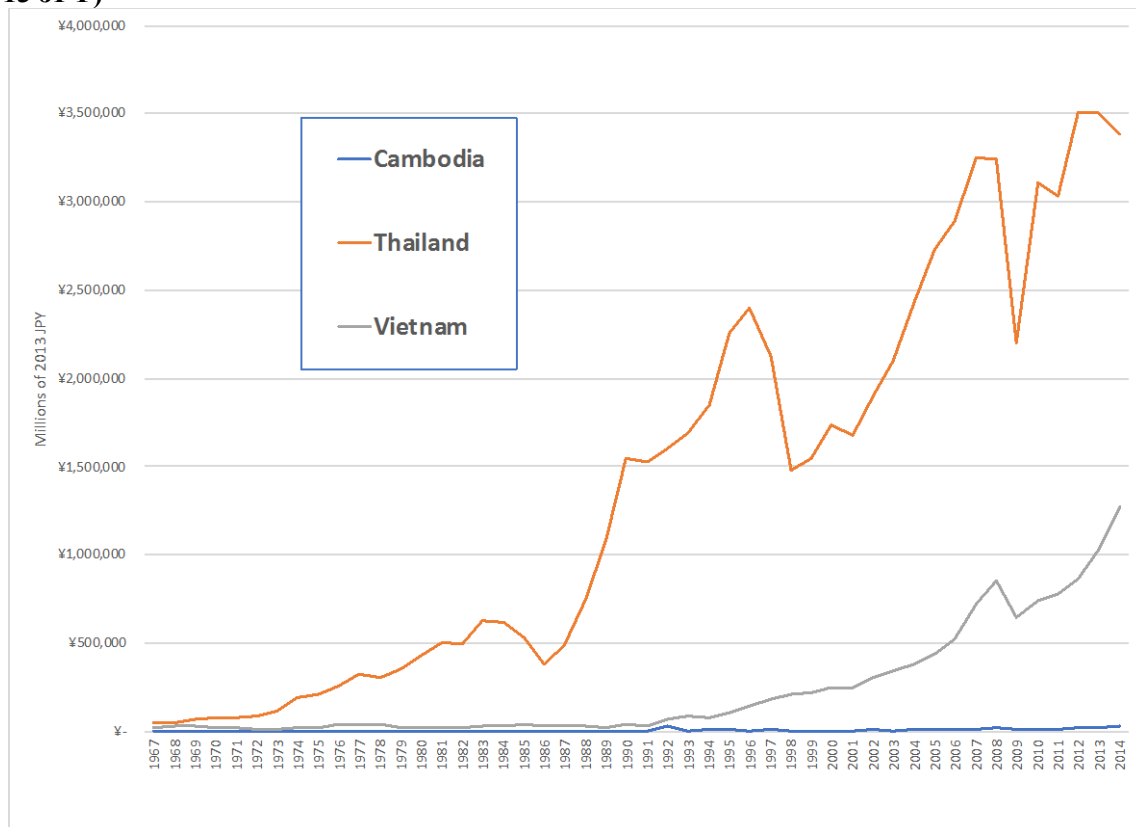
Source: World Bank, World Development Indicators (no data before 1993)

Due to its overall small population, high poverty and lack of substantial natural resources, if aid to Cambodia reflects its economic importance to donor countries, aid levels will be small. This is true for Japan for whom Cambodia has never been a major recipient of Japanese ODA with its peak commitment year in 2009 at just under 2% of all Japanese ODA for that year and just over 25 billion JPY (in 2013 JPY).<sup>590</sup> However, aid from China has been low and high; often below 3% of its aid budget but two times exceeding 15% of China's overall foreign aid. China's aid levels have been more consistently high after 2009 when Cambodia's economic performance was weakest. This suggests there were other factors beyond commercial benefits driving Chinese aid.

<sup>590</sup> Source: OECDStats.

Cambodia is not a large potential market for Japanese or Chinese exports and investments by the Japanese private sector is small. The first year where Japan's outward foreign direct investment is greater than zero is 2006 and only 500 million JPY (less than \$5 million equivalent) and averaging only about 4.5 billion JPY between 2006 and 2013. The corresponding FDI for Thailand was 340 billion JPY and for Vietnam 126 billion JPY, 76 times and 28 times Japan's FDI to Cambodia respectively. Turning to Japanese exports, the most likely impetus for commercially oriented ODA commitments, the difference between Cambodia and its neighbors is stark. Thailand imports from Japan about 123 times that of Cambodia in 2014. Vietnam imports from Japan are over 46 times the level of Cambodia in that year. In the mid-90s, Thailand's imports from Japan between 200 and 300 times the imports of Cambodia while Vietnam's were around 20 times the level of Cambodia (see Figure 6-16 on page 342). From these comparative figures, Cambodia is commercially insignificant to Japan.

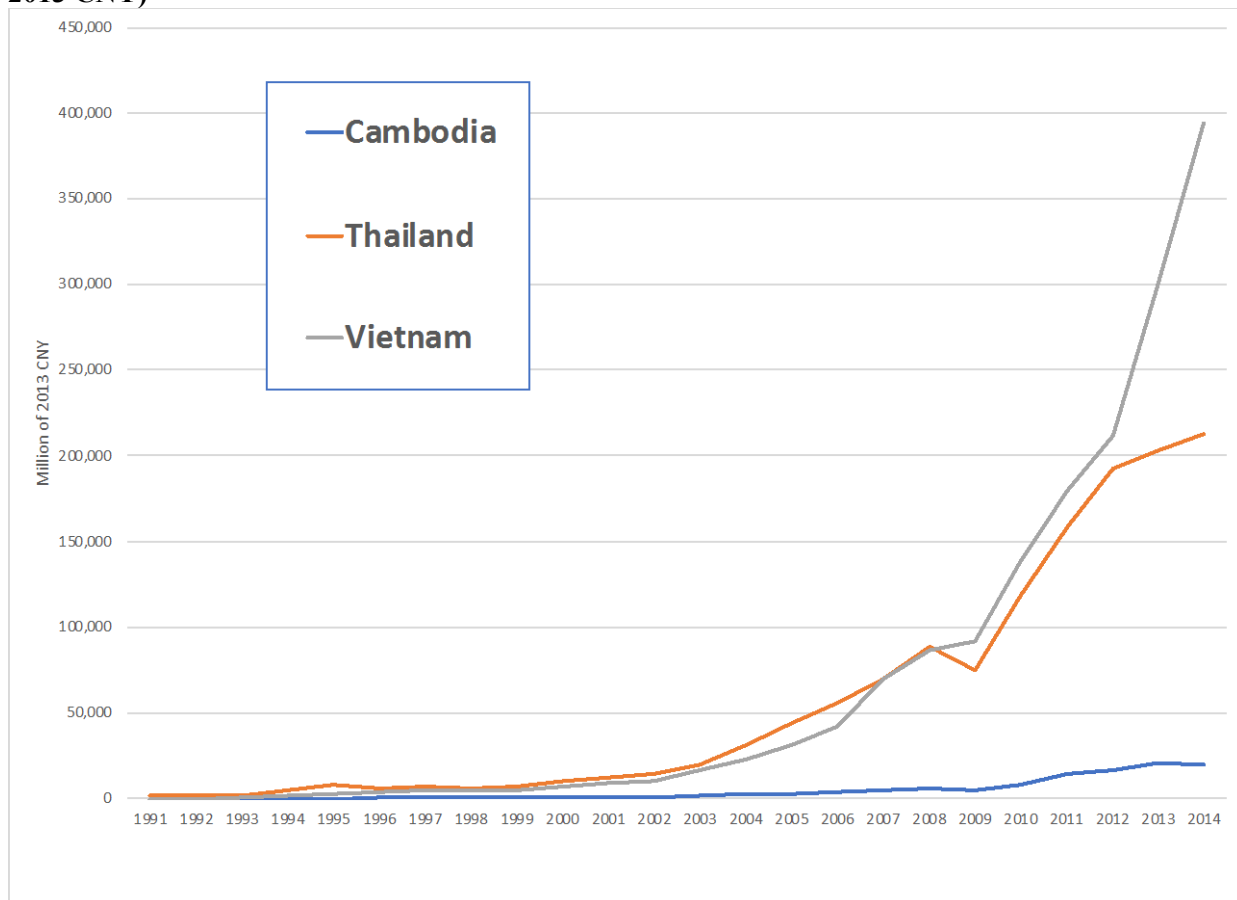
**Figure 6-16: Imports from Japan: Cambodia, Thailand and Vietnam, 1967-2014 (Millions of 2013 JPY)**



Source: International Monetary Fund

The importance of Cambodia to China, like Japan, has little to do with commercial opportunities. As shown in Figure 6-17 on page 343, Chinese exports to Cambodia are growing particularly in the last several years for which data is available. However, Cambodia imports far less than Thailand and Vietnam. From 1997 to 2014, Thailand's imports from China are more than 13 times Cambodia's and for Vietnam the figure is over 12 times. Average annual aid from China was CNY 1.4 billion while Thailand received just CNY 158 million and Vietnam CNY 395 million. The only year that Thailand received substantial aid from China was 2009 at nearly CNY 2.3 billion, the year Thailand was ASEAN chair.

**Figure 6-17: Imports from China: Cambodia, Thailand and Vietnam, 1991-2014 (Millions of 2013 CNY)**



Source: International Monetary Fund

Even though Japan was the largest DAC donor to Cambodia since the early 1990s, Japanese aid to Cambodia was and remains small compared to other Southeast Asian countries. Due to Cambodia's small market and population, it is useful to compare Japan's ODA to Cambodia to its larger and more economically important neighbors on a per capita basis. As Figure 6-18 on page 346 shows, Japan's ODA per capita to Cambodia has consistently fluctuated between JPY1,000 and JPY1,500 since the early 1990s with two significant drops in 1998 and 2003. The drop in 1998 is associated with the 1997 coup when most DAC donors and the International Monetary Fund (IMF) withheld aid from Cambodia. However, Japan did not join other DAC members in suspending aid altogether. At a meeting between Japan's Foreign Minister Ikeda Yukihiko and Cambodia's Foreign Minister Ung Huot, the Japanese

government decided to recognize Hun Sen as prime minister and stated that it would provide aid subject to Cambodia continuing to abide by the Paris Accord, maintain its constitution, respect human rights, and hold “free and fair” elections in 1998.<sup>591</sup> The Japanese government was criticized by other donors for continuing its aid to Cambodia.<sup>592</sup> Japan simply continued ongoing aid projects and committed a total of only \$30 million in 1998, a large drop after committing over \$130 million in aid in 1997. By 1999, Japan’s aid commitments rose substantially to over \$107 million.

Since the government of Cambodia’s budget was heavily reliant on aid in 1997-1998 to pay for reconstruction and recovery, Hun Sen was highly motivated to seek a continuation of aid from Japan. Hun Sen visited Japan in November 1997 for medical treatment (officially) but met top Japanese officials and Prime Minister Ryutaro Hashimoto to request a continuation of Japanese aid. Japan agreed to continue aid in exchange for Hun Sen agreeing to allow Ranariddh to be tried in absentia for plotting a coup, having Sihanouk pardon Ranariddh, and allow Ranariddh to return to Cambodia to participate in the planned elections. Hun Sen agreed to the conditions, but failed to implement them and, in fact, drove King Sihanouk into exile in Beijing in January 1998.<sup>593</sup> Still, Japan did not stop aid, but continued negotiating and put forth a new, though similar, proposal. Ranariddh would cut off his relationship with the Khmer Rouge, the CPP and FUNCINPEC would implement a ceasefire, Ranariddh would be pardoned and allowed to return for the planned election. Japan offered to finance the election to be held on 26 July 1998 and dispatched a team of 30 election observers to Cambodia led by General Nishimoto Tetsuya, former Chief of Staff of the Japan Ground Defense Forces and Chairman

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<sup>591</sup> Mikio Oishi and Fumitaka Furuoka, “Can Japanese Aid be an Effective Tool,” 894.

<sup>592</sup> Hisane Masaki, “Japan to fund Cambodian election with \$4 million,” *The Japan Times*, 12 February 1998.

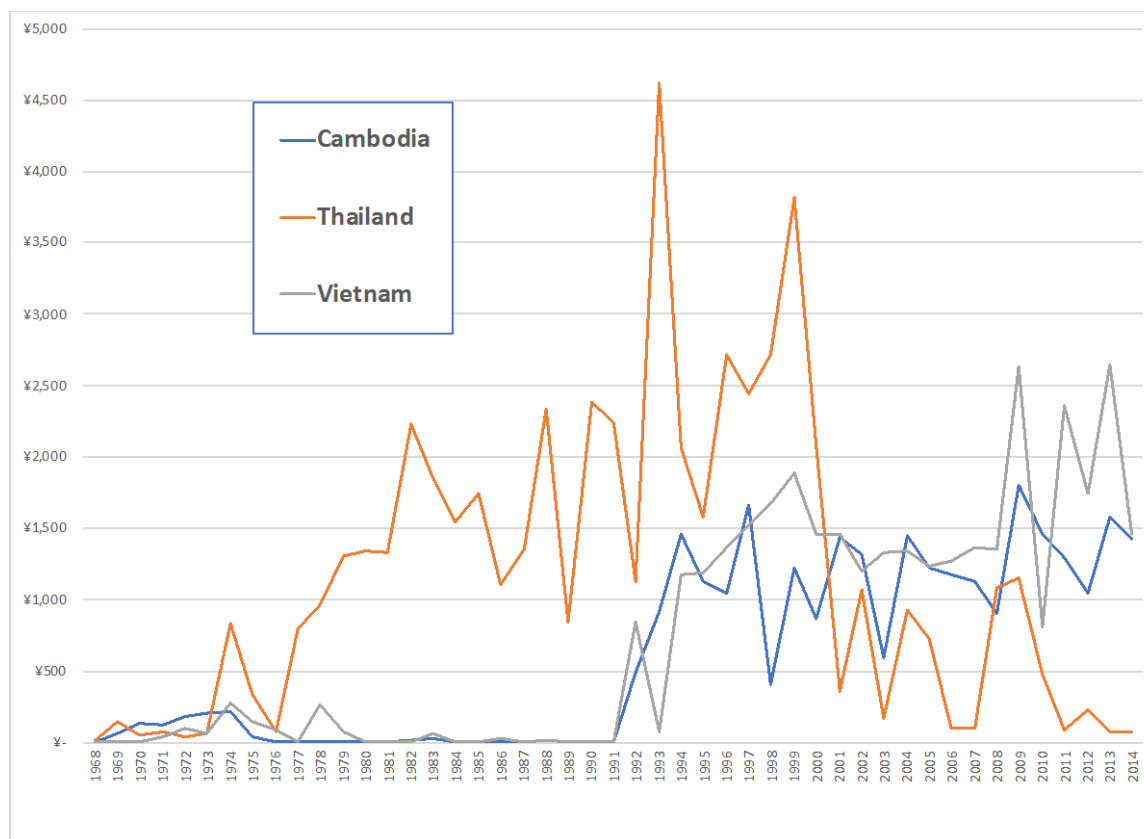
<sup>593</sup> Mikio and Fumitaka Furuoka, “Can Japanese Aid be an Effective Tool,” 895.

of the Joint Staff Office from 1993 to 1996.<sup>594</sup> Japan also explicitly threatened to cut aid if Ranariddh could not return and participate in the election. This time, the agreement was honored, Ranariddh was pardoned and returned for the elections which took place on 27 July. Hun Sen's party (CPP) won the largest share of the votes and Hun Sen became prime minister. FUNCINPEC won the second largest share and Ranariddh became speaker of the national assembly – a post he held until 2006. As the situation in Cambodia stabilized, Japan's aid commitments returned to their previous levels and in 2001, Japan hosted a donor conference in Tokyo (sponsored by the World Bank) which succeeded in attracting \$560 million in aid commitments to support development and reform in Cambodia with Japan pledging \$118 million. Hun Sen met Liberal Democratic Party (LDP) Secretary General Yamasaki Taku and Prime Minister Koizumi Junichiro and requested continuation of Japanese aid to which Secretary General Yamasaki agreed.<sup>595</sup>

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<sup>594</sup> Japan Ministry of Foreign Affairs, "Support of the Government of Japan for the national elections in the Kingdom of Cambodia on 26 July 1998," Tokyo: Press conference by the Press Secretary 19 June 1998.

<sup>595</sup> "Cambodia to get \$560 million," The Japan Times, 14 June 2001, accessed on 26 January 2019, <https://www.japantimes.co.jp/news/2001/06/14/national/cambodia-to-get-560-million/#.XEvnDi2B0mo>.

**Figure 6-18: Japanese ODA/population of recipient, 1968-2014**

Source: OECD DAC for ODA, World Bank for population

Cambodia is not salient for Japan's security and the economic importance of Cambodia is very small. For these reasons, Japan's ODA to Cambodia was and remains relatively small and, even on a per capita basis, was far less than Thailand in the 1990s and generally below Vietnam's since the early 1990s. Table 6-7 on page 347 demonstrates that Japan's ODA to Cambodia was dwarfed by its aid to both Thailand and Vietnam. Aid to Thailand declined significantly in the 2002-2014 period since Thailand had developed to the point of not requiring much ODA while annual aid to Cambodia increased a small amount (though large in percentage terms) and aid to Vietnam increased a large amount (though small in percentage terms).



**Table 6-7: Average annual ODA commitments from Japan to Cambodia, Thailand and Vietnam, Millions of 2013 JPY**

	<b>1991-2001</b>	<b>2002-2014</b>
<b>Cambodia</b>	10,876.25	19,222.46
<b>Thailand</b>	139,698.56	34,105.88
<b>Vietnam</b>	85,715.94	148,342.95

**The impact of security factors.** The initiation of substantial aid to Cambodia strongly resembles the ramp up of aid in the Philippines case where China took advantage of the deteriorating relations between the Philippines and the United States. In Cambodia, China opportunistically filled the void left when Western donors attempted to punish Cambodia for violating Western imposed norms like human rights and governance reforms. China does not impose those types of conditions, but does expect states that benefit from China's largesse to support China's positions in international fora. China's embrace of Cambodia comes with the expectation that Cambodia will break with ASEAN when its position conflicts with Chinese interests such as in the South China Sea territorial disputes. China also wishes to ensure Cambodia does not align with Vietnam which China considers a strategic rival.<sup>596</sup>

From China's perspective, expanding and improving relations with the more authoritarian ASEAN members, Myanmar and Cambodia, provides outside influence on the cohesion of ASEAN. Due to its consensus-based decision-making, China can influence ASEAN to its benefit if it can influence just one member which undermines ASEAN unity. The United States has supported other members of ASEAN to counter China's territorial claims in the South China Sea,<sup>597</sup> so China's ability to secure the support of other ASEAN members prevents a united front from forming against its territorial claims. Another issue of extreme

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<sup>596</sup> Julio A. Jeldres, "China-Cambodia."

<sup>597</sup> Julio A. Jeldres, "China-Cambodia."

importance to China is to counter Taiwanese legitimacy. In the mid-1990s, Ranariddh's FUNCINPEC party started to move to embrace Taiwan due to the pro-Taiwan leanings of many Chinese-Cambodians even allowing Taiwan to establish a representative office. A Deputy Mayor of Phnom Penh visited Taipei in 1995 infuriating China.<sup>598</sup> This issue may explain much of China's subsequent courting of Hun Sen and for looking the other way as Hun Sen overthrew Ranariddh in 1997. After seizing power, Hun Sen almost immediately closed the Taiwan Representatives Office and expelled its diplomats establishing a pattern of quid pro quo actions by Cambodia for Chinese aid. China responded as the first country to recognize Hun Sen's government and set the stage for the large packages of aid to come. In addition to the Taiwan issue, China has long running disputes with Vietnam including the brief war in 1979 and continued territorial conflicts. A close relationship with Cambodia weakens Vietnam's influence in Cambodia in addition to weakening ASEAN unity after Cambodia joined in 1999.<sup>599</sup>

The level of China's aid allocations to Cambodia and the policies adopted by Cambodia that directly benefit China have led to suggestions that China is buying policy concessions with its aid to Cambodia.<sup>600</sup> Hun Sen's government became dependent on China's aid and foreign direct investment when Western aid dried up. United States aid was very low from 1997 until 2007 giving China the opportunity to establish itself as a needed partner to the Cambodian government. That dependence has led to some clear policy wins for China such as the forced deportation of 20 Uighur refugees seeking asylum in Cambodia in 2009. The deportation was

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<sup>598</sup> Julio A. Jeldres, "Cambodia's Relations with China: A Steadfast Friendship," in *Cambodia: Progress and Challenges since 1991* (ISEAS–Yusof Ishak Institute, 2012), 81-95.

<sup>599</sup> Stratfor Assessments, "Cambodia Edges Away from China's Embrace, 29 January 2001, accessed 26 January 2019, accessed at <https://worldview.stratfor.com/article/cambodia-edges-away-chinas-embrace>.

<sup>600</sup> James Kyngé, Leila Haddou, and Michael Peel, "FT Investigation: How China bought its way into Cambodia," *Financial Times*, 8 September 2016, accessed 8 September 2019, <https://www.ft.com/content/23968248-43a0-11e6-b22f-79eb4891c97d>.

carried out one day before a Chinese delegation arrived providing a \$1.2 billion package of loans (not necessarily ODA) and grants.<sup>601</sup>

This pattern of Cambodian actions in support of Chinese interests followed by large packages of aid from China began in 1997 with the Taiwan issue and has been repeated over and over. In July 2010, Hun Sen asked the United States to forgive the \$400 million that the United States claims is owed from the time of the Lon Nol regime in the early 1970s, but the United States did not agree. Though a much smaller debt, China immediately announced it was forgiving the \$4 million owed by Cambodia under the former Khmer Rouge regime, emphasizing its largess compared to the apparently stingy United States.<sup>602</sup>

In 2012, in the widely reported episode relating the Cambodia hosting of the ASEAN foreign ministers meeting in July (Cambodia was ASEAN Chair in 2012), the Chinese government preceded that meeting with a flurry of visits and offers of aid.<sup>603</sup> China's maritime territorial conflicts with the Philippines and Vietnam as well as Japan were escalating during this period. Chinese Premier Hu Jintao visited Cambodia in March 2012 and offered \$70 million in loans and grants. During that visit, Hun Sen reportedly asked for annual loans from China of up to \$500 million. China agreed to support Cambodia's bid to join the UN Security Council while Cambodia promised to ensure the South China Sea issue did not intrude on the ASEAN Foreign Ministers Meeting. China signed a commitment to provide \$20 million for a hospital in Phnom Penh in May 2012 and in June 2012 gave Cambodia a loan worth \$430

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<sup>601</sup> Sebastian Strangio, "China's Aid Emboldens Cambodia."

<sup>602</sup> Joshua Lipes, "China-Cambodia Relations: A History Part Two," *Radio Free Asia*, accessed 24 February 2019, <http://www.rfa.org/english/news/special/chinacambodia/relation2.html>.

<sup>603</sup> Pheakdey Heng, "Cambodia-China Relations: A Positive-Sum Game?," *Journal of Current Southeast Asian Affairs*, Vol. 31, No. 2 (2012), 57-85.

million mostly acquiescing to Hun Sen's request.<sup>604</sup> Perhaps unsurprisingly, no joint statement was issued at the July ASEAN Foreign Ministers Meeting to prevent any mention of the disputes between ASEAN members and China over territorial disputes in the South China Sea. The failure was the first failure to agree on a joint statement in ASEAN's history.<sup>605</sup> The draft joint statement reflected the Scarborough Shoal conflict with the Philippines and the EEZ conflict with Vietnam. Upon submission, Hor Namhong, Cambodia's Foreign Minister and Chair, rejected those references as bi-lateral issues irrelevant to ASEAN amid suspicions that the Cambodians consulted with China during the dispute.<sup>606</sup>

Despite the growing and mutually beneficial quid pro quo arrangements between Cambodian actions in support of China and Chinese aid, Cambodia has been careful not to give in completely to China. Even as it complained about the \$400 million debt to the United States, it still enthusiastically participates in the United States sponsored Lower Mekong Initiative (LMI), a framework for organizing United States economic aid and political engagement with Cambodia, Lao PDR, Myanmar, Thailand, and Viet Nam established in 2009.<sup>607</sup> Cambodia has willingly cooperated with the United States on counter terrorism and joint activities under the LMI.<sup>608</sup>

Chinese aid projects have also been controversial in Cambodia with accusations of forced resettlement, corruption, and lack of transparency and despite pronouncements that

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<sup>604</sup> Joshua Lipos, "China-Cambodia Relations: A History Part Two."

<sup>605</sup> Ernest Z. Bower, "China reveals its hand on ASEAN in Phnom Penh," *East Asia Forum*, 28 July 2012, accessed on 24 February 2019, <http://www.eastasiaforum.org/2012/07/28/china-reveals-its-hand-on-asean-in-phnom-penh/>.

<sup>606</sup> Ibid.

<sup>607</sup> See <https://www.lowermekong.org> for overview and activities.

<sup>608</sup> Bora Ly, "How China influence Cambodia from the past to the present for the case of politics, diplomacy, military and economic relations perspective," Munich Personal RePEc Archive (MPRA) Paper No. 88060, 22 July 2018, accessed on 24 February 2019, <https://mpra.ub.uni-muenchen.de/88060/>.

Chinese aid is unconditional, the history of quid pro quo actions by Cambodia in response to aid from China indicates otherwise. China may not be interested in governance, democracy and human rights, but it appears to pour aid into Cambodia to counter Vietnam, weaken ASEAN, and protect its claims in the South China Sea by enlisting Cambodia as a proxy. Chinese aid projects linked to environmental degradation, human rights abuses and corruption has resulted in some resistance and moves to balance the dependence and maintain good relations with traditional donors.<sup>609</sup> About half of all Cambodia's foreign debt is owed to China and the increasing levels of Chinese lending are putting the country at risk of debt distress.<sup>610</sup> Despite accepting outsized sums of Chinese aid, Hun Sen has proved adept at playing Japan and other major donors and China against each other to reap continued aid allocations from most major donor countries.

While Japanese aid to Cambodia is relatively small compared to its neighbors, we can see an increase in the share of Japan's total ODA given to Cambodia. For example, during the 1992 (when Japan first allocated aid to Cambodia) to 2001 period, Cambodia's share of total Japanese ODA was 0.69%. For the high threat 2002-2014 period, the share rose to 1.22%. Looking at the high threat period, the early 2002-2008 period was 0.98% while the later 2009-2014 period reached 1.5% of Japan's overall ODA program. During the period when Japan was most engaged in Cambodia's peace process was the period when aid from Japan was the least significant in terms of Japan's overall program. During the higher threat period, the share allocated to Cambodia approximately doubled.

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<sup>609</sup> Pheakdey Heng, "Cambodia-China Relations," 77.

<sup>610</sup> Sheridan Prasso, "Chinese Influx Stirs Resentment in Once Sleepy Cambodian Resort," *Bloomberg News*, 21 June 2018, accessed 24 February 2019, <https://www.bloomberg.com/news/features/2018-06-20/chinese-casinos-stir-resentment-on-cambodia-s-coast-of-dystopia>.

During the 1990s Japan began aggressively seeking to gain a permanent seat on the UN Security Council (UNSC). Japanese government officials made a case that by virtue of Japan's large contribution of ODA,<sup>611</sup> expanding contributions to UN peacekeeping operations worldwide including in Cambodia, large contributions to international organizations including the UN itself.<sup>612</sup> The regression analysis in Chapter 5.2.3 shows that UN sanctions and being on the UNSC were significant predictors of Japan ODA commitments in the low threat (1991-2001) period. UN sanctions remained significant in the high threat period (2002-2014) and UNSC membership was significant in the Asia only regressions. In the high threat period, ASEAN chair became a significant predictor of Japan's ODA commitments along with United States related security variables. Japan's role in the UN sponsored peace process in Cambodia was intimately tied to its aid policies in Cambodia.

Cambodia even wavered in its support for Japanese permanent membership in the UNSC in 2005 after Japan-China relations deteriorated and their territorial disputes flared. Cambodian Foreign Minister Hor Namhong retreated from its usual support of Japan and was quoted at a 25 April 2005 new conference saying, "In the past, Cambodia always expressed our support for Japan, India and Germany to be admitted into the permanent council of the United Nations, but right now, we have to wait and see [if] there is a general tendency [before stating] whether or not we support."<sup>613</sup> Following this statement, the Japanese Foreign Minister Machimura Nobutaka visited Cambodia on 10 June 2005 during a tour of Southeast Asia to

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<sup>611</sup> Japan became the largest ODA donor in the DAC in 1989, overtaking the United States. Japan provided more ODA than any other country over the 1991-2000 period. Source: Japan Ministry of Foreign Affairs, *Japan's Official Development Assistance: Accomplishment and Progress of 50 Years*, Tokyo (2004) <https://www.mofa.go.jp/policy/oda/white/2004/index.html>.

<sup>612</sup> Masatsune Katsuno, "Japan's Quest for a Permanent Seat on the United Nations Security Council," Tokyo: Friedrich Ebert Stiftung, International Policy Analysis (January 2012), 2.

<sup>613</sup> Lor Chandara, "Gov't withdraws support for Japan UN seat," *The Cambodia Daily*, 26 April 2005, accessed on 10 February 2019, <https://english.cambodiadaily.com/news/govt-withdraws-support-for-japan-un-seat-47403/>.

build support for Japan's position on the UNSC. After meeting Foreign Minister Machimura and securing \$40 million of development aid from Japan, Foreign Minister Namhong changed direction again and reiterated Cambodia's support for Japan's UNSC position.<sup>614</sup> The speed at which Japan shored up support with its ODA shows a dynamic missing from the regression analysis based on annual data. In this instance, support for Japan's UNSC membership helped Cambodia secure additional ODA. The threat of Cambodia withdrawing its support for Japan gaining a permanent seat was enough for Japan to provide more aid to Cambodia to bring it back into line. The regression analysis does not measure the diplomatic support for Japan's position, so this factor is not measured directly in the large-N quantitative analysis. Based on the actions of the Japanese government during this episode, gaining a permanent seat on the UNSC remains a key goal of Japan's foreign policy and support for that position is important for Japan's ODA commitment decisions.

#### **6.4.4 Conclusion**

The results of the Cambodia case study are clearer for China than Japan. Chinese aid to Cambodia is predominantly security focused and targeted at undermining ASEAN unity and Western influence in Southeast Asia. Japanese aid to Cambodia has been reasonably consistent since the early 1990s and largely reflects the fact that Cambodia is not significant for Japan's security nor its commercial interests but supports Japan's aspirations for an expanded UN role. Cambodia has a very small economy and does not import significant sums from either Japan or China and is dwarfed by its immediate neighbors, Thailand and Vietnam. During the low threat period, Japan's ODA to Cambodia occurred as part of post-conflict reconstruction efforts and

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<sup>614</sup> "Cambodia voices support for Japan's UN Security Council set bid," *Voice of America News*, 10 June 2005, accessed on 10 February 2019, <https://www.voacambodia.com/a/a-40-2005-06-10-voa1-90145932/1354295.html>.

as such, is most consistent with a humanitarian aid purpose as well as to support its security interest in gaining a permanent seat on the UN security council. Overall, the Cambodia case study confirms most, but not all, of the core predictions based on the study hypothesis. Each prediction is assessed below:

1. **Commercial orientation of foreign aid should decline with the degree of threat perception.** This case study was not able to identify any clear indication that commercial factors were salient even during the low threat period. There is scant evidence that Japan's aid to Cambodia increased or decreased due to changing commercial factors in Cambodia. Japan's aid to Cambodia did not rise or fall significantly over the entire analysis period and when it dropped in 1998, it reflected a coup rather than a reduction in the commercial importance of Cambodia. Cambodia's economy grew at its fastest rate in the 1990s, but Japanese ODA only increased significantly after 2008 when Chinese aid to Cambodia jumped to higher levels than Japan. The lack of importance of Cambodia overall explains why Japanese aid to Cambodia is a small proportion of Japan's overall aid program, but the aid Japan provided to Cambodia was primarily security oriented and reflected Japan's concern with its role in the UN.
2. **Security orientation of foreign aid should increase with the degree of threat perception.** Japan should increase its aid to Cambodia when it assumes the ASEAN chair. China should increase aid when United States-Cambodia relations deteriorate, when Cambodia - Taiwan relations deteriorate, and when Cambodia becomes ASEAN chair. For Japan there is no evidence, it considered Cambodia's assumption of the ASEAN chairmanship in its aid allocations. In 2003 and 2012, there is no



detectible change in Japan's aid policy around these events. The one security factor that motivated Japan to increase aid to Cambodia happened in 2005 when Japan offered \$40 million to Cambodia as an incentive to support Japan's bid for a permanent seat on the UN security council. The other notable increase in Japan's ODA pattern occurs from 2009 to 2015 at the same time Chinese aid was rapidly ramping up. The statements of the Japanese government official quoted by the *Nikkei Asian Review* ("China acts as an advocate for Myanmar and Cambodia in the UN...If Japan withdrew from the region, Myanmar and Cambodia would only increase their dependence on China....Even if the West frowns on us, that's still better than letting China become the sole winner.")<sup>615</sup> suggest that Japanese ODA commitments to Cambodia were meant to balance the influence of China in Southeast Asia.

In the case study of China's aid to Cambodia, the pattern of ODA commitments closely follows the predictions from the regression analysis. The large increases in China aid are highly correlated with deteriorating relations between Cambodia and Western countries after the successful coup by Hun Sen in 1997. This event offered China an opportunity to win an ally in Southeast Asia and prevent Western countries and Japan from further influence in the region. Compounding the attractiveness of supporting Hun Sen was the flirtation of the coup target (FUNCINPEC) with improving Cambodia-Taiwan relations. By supporting Hun Sen, China could avoid any drift towards Taiwan and one of Hun Sen's first actions after the coup was to close the Taiwan Representatives office in Phnom Penh.

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<sup>615</sup> Saki Hayashi, "Tokyo goes it alone."

Like the case of the Philippines, China took advantage of deteriorating relations with the United States, which cut off of direct bi-lateral assistance to Cambodia in 1998,<sup>616</sup> by offering several large aid packages. After Cambodia joined ASEAN, China's support for Cambodia allowed it to undermine ASEAN unity and prevent Southeast Asia from uniting against China's interests in the South China Sea. The years around Cambodia's assumption of the ASEAN chairmanship closely match large spikes in aid to Cambodia. In the case of 2012, the link between Cambodia preventing the release of an ASEAN Foreign Ministers Meeting joint statement mentioning disputes in the South China Sea, and aid commitments from China is clear. As China increasingly asserted its maritime claims in the South China Sea, the need to weaken ASEAN and prevent a united front against China became increasingly important. This increasing need to undermine ASEAN explains China's large aid commitments to Cambodia after 2008.

- 3. In the case of Japan, I expect its aid policy to increase support for United States security goals as perceived threat increase because of the dependence on the United States-Japan alliance for Japan's security.** This prediction is not relevant for this particular case study as United States security interests in Cambodia are minimal. Japan has failed to follow the United States lead and cut aid to Cambodia after the 1997 coup to maintain leverage as sponsor of the peace process and when Hun Sen dissolved the opposition party in 2017 specifically to prevent Cambodia from drifting further toward China.

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<sup>616</sup> Thomas Lum, "Cambodia: Background and U.S. Relations," Washington DC: Congressional Research Service, 18 July 2007.

4. **In the case of China, I expect its aid policy to increasingly counter United States security interests as its threat perception of the United States-Japan alliance increases.** The United States has limited security interests in Cambodia, but Cambodia's role in ASEAN allows it to balance United States influence on other key ASEAN members. The increasingly testy maritime conflicts in the South China Sea increased the salience of Cambodia to China's security. Deteriorating relations with the United States were a clear signal to China to step in to make up for the aid lost after the 1997 coup.

Overall, the Cambodia case study partially supports the findings of the regression analysis in the case of China and confirms the predictions that security factors dominate the China-Cambodia aid relationship. In the case of Japan, the minimal commercial importance of Cambodia is reflected in the small aid allocations to that country from Japan. The prediction that commercial factors should dominate during the low threat period is not confirmed in this case. Japan's aid to Cambodia was both humanitarian in nature but entwined with its aspirations to gain a permanent seat on the UN security council. While the regression results do not find any systematic aid competition between China and Japan, the Cambodia case study does illustrate a potential competitive aspect on the part of Japan confirmed by published quotes of Japanese government officials. As Chinese aid to Cambodia rapidly expanded, Japan increased its aid commitments to Cambodia both in total amount and in the share of the overall aid budget of Japan committed to Cambodia.

## **6.5 Case study analysis summary**

The results of the two case studies provide mixed evidence for the predictions based on the hypothesis, but provide important confirmation of the security factors that drive Chinese

foreign aid in particular. Prediction 1 (aid is commercially oriented during low threat periods) is supported for Japan's aid to the Philippines, but not supported for its aid to Cambodia. Japan's aid to Cambodia in the low threat period was primarily to support its effort to claim a place on the UN security council and highlight Japan's role as the chief mediator of the Cambodian civil war. The lack of a low threat period for China means that I was unable to confirm prediction 1 for China in both the quantitative analysis and case studies. Prediction 2 (aid is security oriented during high threat periods) was confirmed by the case studies. Japan's aid to the Philippines and Cambodia during the high threat (2002-2014) period is explained primarily by security variables (intensity of territorial dispute with China, relations with the United States, United States ally, ODA from the United States, aid from China). China's aid to the Philippines and Cambodia is explained by security factors with a heavy emphasis on countering United States security interests – supporting both predictions 2 and 4 (China's aid policy to counter United States security interests). When relations with the United States deteriorated, China responded with large aid inflows to both countries and allocated particularly large aid packages when Cambodia was the ASEAN chair to ensure Cambodia would control ASEAN's stance with respect to territorial conflicts in the South China Sea.

## 7 CONCLUSIONS

This dissertation has demonstrated that Japan's and China's foreign aid increasingly reflects security interests due to increased threat perception precipitated by the rise of China. The results for the analysis of Japan's aid commitments confirms that commercial variables are only significant during the low threat period and security variables are dominant during the high threat periods. This confirms the hypothesis for Japan. Security factors have become the most significant variables that explain Japanese foreign aid commitments. I have also documented emergence and security implications of China's burgeoning foreign aid program. The increase in the emphasis on security in Japan's foreign aid program is the result of its increasing perception of a threat from the emergence of China and its dependence on the United States-Japan alliance for its security.

For China, the analysis cannot fully confirm the hypothesis because there is little variation in the CV (threat perception). The importance of the results for China lie in the findings on the factors that drive China's foreign aid policy. The rapid expansion of China's foreign aid activities since 2000 is best explained as its reaction to the increasing threat it perceives from the United States and the United States-Japan alliance as barriers to China continued rise and regional ambitions. China's aid policy has been predominantly security oriented over the entire analysis period and targeted at countering the security interests of the United States.

The analysis is bolstered by two case studies of the determinants of Japan and China's aid commitments to Cambodia and the Philippines from the late 1990s to 2014. The case studies largely confirm the quantitative regression model results and add richness to the analysis

by enabling a more nuanced assessment of the factors that determine overall aid policy. The regression models illustrate that China's aid is systematically used to counter United States interests across the entire analysis period, while Japan's aid has become more and more aligned with United States security interests as its threat perception increases. The case studies show in detail how Chinese aid has been used opportunistically to counter United States interests and recruit allies.

In international relations theory, liberals have held that foreign aid enhances national security by virtue of its commercial benefits to the donor and promoting interdependence. These commercial benefits are derived through expanded trade, liberal economic policies and foreign direct investment, and finally promoting economic interdependence and, therefore, peace.<sup>617</sup> Realists claim that anarchy, structure, and the overriding need to ensure state survival constrains state behavior to do what society may not want. For realists, foreign aid primarily focuses on balancing external threats, developing and maintaining alliances, and to provide leverage over other countries.<sup>618</sup> This dissertation sought to explain when countries behave more like liberals predict and when they behave more like realists predict in the area of foreign aid. The dissertation found that while commercial factors were the largest determinant of Japan's aid commitments in the low threat period, security remained a large and significant determinant. Security factors dominated in all high threat periods for both China and Japan. The overall findings of the research imply that the realist conception of foreign aid is more likely to be correct.

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<sup>617</sup> Moravcsik, Andrew, "Taking Preferences Seriously," 513-553.

<sup>618</sup> Stephen Walt, *The Origins of Alliances*, 219-227.

### **7.1 High threat perception leads to security oriented foreign aid**

This dissertation tests whether level of threat perception determines whether commercial, security, or normative factors hold sway in the foreign aid commitment decision. During the Cold War, the literature on aid policy was heavily influenced by the strategic competition between the United States and the Soviet Union. Aid was given to allies and along ideological lines in a competition for global influence and to spread and cement particular political and economic ideologies. As the Soviet threat diminished and the Soviet Union dissolved, aid policy entered a period of transition and aid allocations overall began to decline in the 1990s until the 2001 terrorist attacks on the United States on 11 September. Aid suddenly began to jump to levels, adjusting for inflation, exceeding those during the Cold War. At the same time, China's aid program was escalating from the hundreds of millions in the 1990s to the billions in the 2000s and tens of billions in the 2010s. Japan's aid commitments hit a peak in 1991 before entering a slow decline with 2002 the lowest level of aid commitments since 1986. In 2003, Japan's aid jumped to levels similar to the early 1990s and by 2005 commitments hit the highest level ever in real terms. By 2014-2017, aid commitments jumped again to nearly \$25 billion, the highest levels ever for Japan.

The rise of China is used to explain many trends in the international relations literature, but until recently, there has been no reliable data on its global aid activities to enable a detailed understanding of its intentions and motivations of its aid giving. The literature on Japan's aid program has two main thrusts. First, that Japan's aid is increasingly focused on human security and reflective of Japan's role as peacemaker, and second, that Japan's aid has become increasingly tied to its security policy to balance China's rise. The findings of this dissertation shed light on both of these questions by demonstrating the effect of China's rise on Japan's threat perception and the subsequent change in aid commitment behavior. Likewise, China's

rise led it to more skeptically assess the purpose of the United States-Japan alliance and began to perceive it as targeting China.

This dissertation performed a careful study of the level of threat perception in China and Japan over time. Using discourse analysis of Chinese and Japanese media, debates in the Japanese Diet, defense white papers of Japan and China, and published survey results on perceptions in both countries, I demonstrate the Japan's perception of a China threat emerged in the mid to late 1990s and escalated in the early 2000s before becoming an entrenched theme in Japanese political discourse. In the case of China, the perception of threat is related primarily to the United States and only incidentally to Japan in its role as a partner in the United States-Japan alliance. The actions of the United States during the 1996 crisis in the Taiwan Strait and the oblique mentioning of the defense of "areas surrounding Japan" in the 1997 revision of the defense guidelines that govern the United States-Japan alliance stoked a perception in China that the United States-Japan alliance was now targeting it and that both the United States and Japan wanted to contain China's economic growth and limit its power.<sup>619</sup> For Japan, the analysis period of this dissertation divided the time periods up to reflect high threat and low threat environments. Japan's threat perception was high during the Cold War (1967-1991), low during the immediate post-Cold War period (1992-2001) and high for the remainder of the analysis period (2002-2014). For China, the level of threat perception was elevated throughout the period for which data on Chinese foreign aid is available (2000-2014), but China's threat perception has grown over time. Therefore, I expected that foreign aid policy should have changed over the time period to reflect the higher level of threat in the latter part of the analysis period (2009-2014).

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<sup>619</sup> Tomonori Sasaki, "China Eyes the Japanese Military," 560-580.



### 7.1.1 Commercial factors only important in low threat environment

After the end of the Cold War, overall threat perception in the West and Japan declined as the primary security threat of the past 40 years disintegrated. It was hailed as the “end of history” and the triumph of liberal democracy and free market economics where global security threats were thought to be minimal.<sup>620</sup> In such a low threat environment, commercial self-interest was expected to be dominant in the aid commitment decision.

Japan’s aid program has been characterized as an extension of Japanese commercial policy and a means to support Japan’s export sector and recycle foreign exchange earnings. Having grown out of its post war reparations payments, most observers claimed that Japan’s aid program was meant to promote its commercial self-interest. China’s Belt and Road Initiative also seems to point to a commercial motivation for aid to enable more trade and investment to flow between China and its immediate neighbors. Such aid is characterized as “win-win” and mutually beneficial between donor and recipient with the subtext of expanding the commercial relations between states. Authors such as Emma Mawdsley<sup>621</sup> have said that China’s recent aid program is more commercial in nature than DAC aid and points to the 1990s as the time when China changed from more ideological and political aid to an aid program meant to support Chinese enterprises expanding abroad. The findings of this dissertation contradict this view and find that security factors are the dominant explanatory variables for China’s foreign aid commitments.

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<sup>620</sup> Francis Fukuyama, *The End of History and the Last Man* (New York: Perennial, 2002).

<sup>621</sup> Emma Mawdsley, *From Recipients to Donors*, 57-58.

The regression analysis confirms that commercial factors have the highest explanatory power in Japan's ODA commitment decisions only during the low threat period. Key variables that drove foreign aid allocations were FDI and trade with Japan. However, security factors remained more significant than expected and were a close second in determining Japan's aid commitments even in the low threat period. In the high threat periods, the overall explanatory power of commercial variables was extremely low. In the Cold War period, commercial variables explained about 10% of the overall variation in Japan's aid commitments. In the low threat period, this jumped to nearly 38% of the variation explained by commercial factors while security factors were responsible for about 31% of the variation in Japanese aid commitments. In the most recent high threat period, commercial factors are nearly irrelevant, only explaining 2.0% of Japan's overall aid commitment decisions.

The China regressions find little evidence that commercial variables are significant in any period. Though the evidence indicates that China was at least moderately threatened by the United States and the United States-Japan alliance over the entire analysis period, it also shows that the level of threat perception increased over that period. I expected the significance of commercial factors to decline over time but did not expect them to be irrelevant. The regression analysis indicates that commercial factors were, in fact, nearly irrelevant in China's aid commitment decisions over the entire analysis period. In some of the regressions, China FDI, and countries with more Chinese firms received more aid, but the effect is small overall and much less important than security factors and even normative factors.

The case studies confirm that commercial factors only have salience when states face no significant external threats but only for Japan. China's foreign aid to the Philippines and Cambodia are shown to be mostly about security. The Philippines case shows that the security

importance of the Philippines to Japan declined significantly in the low threat period as the United States closed its military bases. At that time, the Philippines was growing rapidly and trade with Japan was taking off. This period represents some of the highest levels of Japanese aid to the Philippines reflecting the country's commercial importance to Japan and heavy investment flows. As the level of threat perception in Japan escalates, aid commitments to the Philippines decline precipitously reaching, by 2005-2006 their lowest levels since reparations even as Philippines economic growth was accelerating. The impetus of Japan to begin increasing its aid to the Philippines was the intensifying territorial disputes between the Philippines and China starting in late 2007 and moves by China to build military facilities on artificial islands in disputed areas of the South China Sea since 2013.<sup>622</sup> Commercial factors did not explain Japan's aid policy toward the Philippines in the high threat period.

The Cambodia case study indicates that Japan's aid to Cambodia in the low threat period was small reflecting the very limited importance of the Cambodian economic and market to Japan and largely for the purpose of supporting Japan's UN ambitions, a security factor with normative aspects. Cambodia was recovering from a long period of conflict and needed reconstruction. Japan and other donors initiated their aid to Cambodia primarily for humanitarian reasons. Japanese aid to Cambodia escalates during the latter part of the high threat period as China's aid to Cambodia jumps to exceptionally high levels. In the case of China, commercial variables were not a factor in its decisions to pump aid into Cambodia. Like Japan, China's trade with Cambodia is very small compared to its neighbors yet, Cambodia received huge aid inflows from China related to its role as a proxy to undermine ASEAN unity.

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<sup>622</sup> James Stavridis, "Collision course in the South China Sea," *Nikkei Asian Review*, 22 May 2019, accessed 8 September 2019, <https://asia.nikkei.com/Opinion/Collision-course-in-the-South-China-Sea>.

### **7.1.2 Security factors always significant in aid decisions**

A perceived high level of external threat is expected to compel states to allocate foreign aid based primarily on security interests. The regression analysis showed that Japanese aid was primarily determined by security interests in its high threat periods and security remained significant even in the low threat period. In the Cold War high threat period, Japan rewarded countries with good US relations and countries receiving more United States ODA. In the post-Cold War low threat period, Japan focused on UN related variables (UNSC, UN Sanctions) but less on US related security variables. In the later high threat period, ASEAN chairs, UN security council members (Asia only), countries with United States military personnel, and United States ODA recipients were rewarded with more Japanese aid. In high threat periods, Japan rewarded states with border conflicts with China. As Japan's perception of a China threat intensified after 2001, Japanese ODA policy became more supportive of United States security interests with variables like number of United States military personnel and United States ODA becoming significant determinants of Japan's ODA commitments.

In the case of China, I predicted that security factors would be important overall but more significant later in the analysis period than earlier. The regression results did not bear this out. In the case of China, security factors are the dominant explanatory variables across the entire period. The exceedingly low explanatory power of commercial variables is striking in the case of China and are in fact less important than normative factors in explaining China's aid commitments. The primary change in the China regression results reflect the shift from the "charm offensive" strategy where China attempted to ingratiate itself to Southeast Asian countries including United States treaty allies early in the decade but switched to a punitive policy later in the decade. This shift is evident by the fact that United States treaty allies received more aid from China in the 2000-2008 period all else being equal, but states in

maritime conflicts with China (Asia regression) and United States treaty allies received less aid after 2008. These effects are strong and statistically significant.

As threat perception escalated in both China and Japan, security factors became the dominant explanatory variables in aid commitments. The case studies confirmed the centrality of security factors in the major changes observed in aid policy for both China and Japan. In the early 2000s China and the Philippines were attempting to mend their relations and pursuing joint development in the area of their territorial dispute. China's charm offensive was in full swing and aid commitments from China exploded after the Philippines relations with the United States deteriorated. China displaced Japan as the main bilateral donor to the Philippines during the charm offensive. When the territorial conflict between China and the Philippines flared again, Chinese aid quickly went to zero and Japan (along with the United States) stepped in with escalating aid packages largely making up for the decline in aid from China.

In the case of Cambodia, Japanese aid has been reasonably consistent over time and commitments to that country have been low compared to Japan's aid to Cambodia's neighbors. The country has limited importance for Japan's commercial and security interests and consequently received limited aid from Japan. Japan's aid to Cambodia has increased significantly from 2009 onward largely as a response to increasing levels of aid from China as a means to ensure Cambodia does not fully align itself with Chinese interests in ASEAN. Chinese aid to Cambodia is highly correlated with events related to Chinese security interests. After the 1997 coup, DAC donors reduced aid to Cambodia. China stepped in immediately to counter moves by Western powers to punish Hun Sen's regime. It saw an opportunity to counter moves by Hun Sen's opposition (FUNCINPEC) to move towards better relations with Taiwan. One of Hun Sen's first actions after the coup was to expel the Taiwan Representatives

Office in Phnom Penh and seek more aid from China. Other major episodes of large-scale Chinese aid commitments surround Cambodia's assumption of the ASEAN chairmanship. Close coordination between aid allocations from China to Cambodia and the 2012 ASEAN Defense Ministers Meeting enabled China to undermine ASEAN unity and ensure it did not take a position on territorial disputes in the South China Sea.

### **7.1.3 Normative factors are generally unimportant in aid decisions**

In the theoretical framework presented in this dissertation, normative factors were not expected to be important in the aid commitment decisions of China and Japan. Since many countries do allocate substantial aid when developing countries experience natural and anthropogenic disasters, the framework accounts for these events. Further, a body of literature on foreign aid primarily from the constructivist perspective emphasizes the role of values and altruism in foreign aid policy. Aid practitioners and agencies use the language of moral values to justify their programs and tend to be reticent about explicitly claiming that aid is self-interested. Within international relations, scholars from the constructivist tradition have argued that aid reflects the altruism of donors<sup>623</sup> while others emphasize aid as an expression of national identity where foreign aid is an established international norm.<sup>624</sup>

This dissertation includes variables that reflect normative values in the aid commitment decision. Variables indicating the level of poverty, the incidence of humanitarian crises, and factors such as liberal voting records in the UN, measures of democracy and human rights enable us to assess whether these issues result in more or less aid from donor countries. Despite a significant body of literature on Japanese aid that asserts a shift towards international norms

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<sup>623</sup> David Lumsdaine, *Moral Vision in International Politics*, 30.

<sup>624</sup> Iain Watson, *Foreign Aid and Emerging Powers*, 6-7.

and values in its aid program, there is little evidence from either the regressions or the case studies that values have a significant influence on Japan's foreign aid. In most instances where normative variables are significant for Japanese aid commitments, the sign is opposite from that expected. For example, a liberal democratic voting record in the UN is not rewarded with more aid from Japan but less. In all time periods, normative factors are a minor influence on Japanese foreign aid commitments but are approximately equal to commercial influences in the post 2001 high threat period.

For China, normative factors appear to be more salient than for Japan and the prediction that normative factors will be less important than commercial factors does not hold for China. Normative factors are more important than commercial factors but less than security factors in all periods for China. In addition, the variables such as the incidence of a humanitarian crisis and poverty indicators have the expected sign indicating a preference for providing aid to victims of disasters and states with high poverty. Interestingly, China rewards countries with more democratic institutions and respect for human rights with more aid commitments even when Japan does not. Some have criticized Chinese aid as being "rogue aid" that supports despotic regimes and undermines the international aid regime. While Chinese aid serves China's interests, and those interests may conflict with the interests of Western countries and Japan; the criticism that China's aid is inferior to DAC aid from a development or humanitarian perspective is not supported. From a normative perspective, there is no evidence that Chinese aid is "worse" than aid from Japan.

## **7.2 Contribution to existing literature**

This dissertation adds to the existing literature in two ways. First, it explicitly links threat perception to changes in aid policy. Increasing levels of perceived threat increase the

importance of security factors in aid decision-making. In this way, I have shown that the rise of China and the accompanying perception of a China threat in Japan has led to more emphasis on security factors in Japan's foreign aid. Second, through the development of a new dataset based on the recently released worldwide China aid database developed by Aiddata.org which I modified for this dissertation, I am able to analyze in detail the motivations behind China's aid commitments. Previous studies based on narrow country studies or regional databases focused on Africa were too limited to understand the overall scope of China's aid program and its worldwide motivations. The results of this research help to illuminate China's motivations with its aid and provide a clearer picture of China's aspirations to challenge the interests and influence of the United States. This dissertation also provides a more comprehensive bespoke dataset developed specifically to test China's intentions with its aid program. The base Aiddata.org worldwide China dataset was recoded to capture all financial flows likely to be perceived as aid from the perspective of recipient countries rather than the Aiddata.org approach that only categorized financial flows that could be definitively shown to meet the DAC definition of ODA as Chinese foreign aid. This revised dataset is more comprehensive and gives a clearer picture of the scope and intent of China's foreign aid commitments than has been possible to date.

### **7.2.1 Explaining the increasing importance of security in foreign aid**

The results of this research indicate that security is almost always a significant determinant of aid commitments to specific countries. Even though Japan's aid program had been considered an adjunct to its commercial policy nearly since its inception, security factors have been dominant over much of Japan's aid giving history. This dissertation lends credence



to the recent literature on the “securitization” of Japan’s ODA (Jain 2016<sup>625</sup>; Yoshimatsu and Trinidad 2010<sup>626</sup>; Carvalho and Potter 2016<sup>627</sup>) and does not indicate any substantial move towards considering normative values in Japan’s aid commitments. Security has become increasingly important in Japan’s ODA commitment decisions after 2001. This trend in ODA securitization is likely to continue. Japan made major changes to its approach to national security in 2013, which was further elaborated and codified in the 2015 Development Cooperation Charter.<sup>628</sup> The National Security Strategy published in 2013 refers to ODA as a “fundamental policy pertaining to national security” and part of the government’s policy of “Proactive Contribution to Peace.”<sup>629</sup> While explicitly stating that Japan will not provide aid for military purposes, the 2015 Charter now allows Japan to provide aid to the armed forces of recipient countries for nonmilitary activities such as peacekeeping and disaster response<sup>630</sup>. These policy changes, combined with Japan’s recent practice of providing quasi-military equipment in the form of coast guard patrol ships for the Philippines, Indonesia, and Vietnam<sup>631</sup>, imply that security factors will continue to become more important in Japan’s ODA commitment decisions.

This dissertation also demonstrates that security variables were the dominant factors that influenced Japan’s aid commitment decisions during the Cold War period (1966-1991). This finding seems contrary to much of the literature on Japanese ODA, which identifies

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<sup>625</sup> Purnendra Jain, “Japan’s Foreign Aid: Old and New Contests,” 93–113.

<sup>626</sup> Hidetaka Yoshimatsu and Dennis D. Trinidad, “Development Assistance, Strategic Interests, and the China Factor in Japan’s Role in ASEAN Integration,” *Japanese Journal of Political Science*, Vol. 11, No. 2 (August 2010), 199–219.

<sup>627</sup> Pedro Carvalho and David M. Potter, “Peacebuilding and the ‘Human Securitization’ of Japan’s Foreign Aid,” 85–112.

<sup>628</sup> Japan Ministry of Foreign Affairs, “Cabinet Decision on the Development Cooperation Charter,” (2015).

<sup>629</sup> Japan Cabinet Office, “National Security Strategy (Provisional Translation),” Tokyo: Government of Japan, 17 December 2013.

<sup>630</sup> Japan Ministry of Foreign Affairs, “Cabinet Decision on the Development Cooperation Charter,” (2015), 11.

<sup>631</sup> Purnendra Jain, “Japan’s Foreign Aid: Old and New Contests,” 93–113.

commercial interests as Japan's primary motivation, especially early in its aid program. However, we must account for the fact that during the Cold War period, Japan's ODA was mostly tied to Japanese contractors and only became predominantly untied during the 1990s. Tied aid benefits Japan commercially no matter which country receives its ODA. Paradoxically, tied aid frees the government to allocate its ODA to specific countries that serve Japan's security interests, serving commercial and security purposes simultaneously. The results of this study demonstrate that Japan only began to align its ODA allocations with commercial factors once tied aid was phased out.

This research demonstrates that China's aid program, since it started increasing aid rapidly in 2000, has been predominantly allocated to serve China's security interests rather than commercial interests. Past studies that suggest that China's search for securing resources and improving trade relations are not confirmed in this research. While we cannot rule out any specific cases of China using its aid for commercial advantage or to secure natural resources, there is very little evidence that it systematically uses its aid to support its commercial interests. Much of the literature that points to cases where Chinese aid seemingly supports Chinese commercial interests appears to be caused by the overall confusion about what financial flows from China should be considered aid and which are simply investment or trade finance. By utilizing the modified Aiddata.org dataset, this research is able to distinguish which financial flows are perceived to be Chinese foreign aid by the recipient.

This research shows that China's aid program began scaling up when it announced its "Going Out" strategy. The "Going Out" strategy was announced two years after China's perceived threat from the United States-Japan alliance rose with the 1997 publication of the Guidelines for U.S.-Japan Defense Cooperation which followed the 1995-1996 Taiwan Straits

Crisis. During the Cold War, China perceived the United States-Japan alliance as the “cork in the bottle” holding back Japan’s military ambitions in Asia. However, with the collapse of the Soviet Union and the dissipation of that threat, China began to perceive that the alliance was aimed at containing China. This research suggests that this increase in China’s perceived threat was partially responsible for its decision to rapidly escalate its aid activities. Since the late 1990s, China’s has used its aid as a tool to counter United States interests and balance against the United States-Japan alliance.

### **7.2.2 Towards understanding China’s aspirations**

One of the motivations for this research was to understand the purpose of China’s aid program and to infer from those findings indications of China’s overall intentions with regard to the Western dominated international system and the United States alliance network in Asia. A large body of scholarly work focuses on China’s intentions; whether it is a status quo or revisionist power.<sup>632</sup> The question itself contains debatable assumptions about what the international system is and whether there is enough of a consensus about international norms to even define such a system. The United States, which is rarely accused of being a revisionist power, has an ambiguous record supporting the international institutions that help define the international system. It has not ratified UNCLOS and explicitly withdrew its signature from the International Criminal Court and periodically has withheld its dues to the United Nations. It would be illogical to label China a revisionist power just because it pursues its own interest which it perceives to be contrary to the interests of the United States or Japan. All countries with the power to influence international institutions and norms constantly try to change them to serve their interests. China is no different.

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<sup>632</sup> Alastair Ian Johnston, "Is China a Status Quo Power?," *International Security*, Vol. 27, No. 4 (Spring 2003), 5-56.

Based on the research in this dissertation, a heightened perception of a threat from the United States-Japan alliance immediately preceded the rapid expansion of China's aid program in the late 1990s. While it is not possible to say that a perceived threat from the United States-Japan alliance caused China to ramp up its aid activities, I have demonstrated that the primary determinants of China's aid commitment decisions were security factors over the entire analysis period. China's aid program was tailored to counter United States security interests and isolate Taiwan. Given the overall security orientation of China's aid program over the entire period for which detailed data is available (2000-2014), the sudden shift from slowly growing aid allocations to extremely rapid growth in aid was likely the result of China's increasing threat perception in the mid and late 1990s.

A consistent feature of China's aid strategy is that of opportunism; China reacts quickly to international conditions to offer aid when that aid can counter the United States and Western dominated institutions. China initiated a reform of its aid program in 1995 and first articulated its "Going Out" strategy in 1997. The Asian Financial Crisis provided China an opportunity to step in with its aid as Asian countries were reacting strongly against many policy conditions imposed by Western multilateral donors and the IMF. China's response to the crisis included aid and export credits to Thailand, Indonesia and other Asian countries, boosted its domestic demand and ensured that its currency was not devalued, which effectively supported the economies in the rest of Asia.<sup>633</sup> China's aid began to take off in 1999 after growing slowly throughout the 1990s.

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<sup>633</sup> China Ministry of Foreign Affairs, "Pro-Active Policies by China in Response to Asian Financial Crisis," Government of the People's Republic of China, accessed 13 March 2019, [https://www.fmprc.gov.cn/mfa\\_eng/ziliao\\_665539/3602\\_665543/3604\\_665547/t18037.shtml](https://www.fmprc.gov.cn/mfa_eng/ziliao_665539/3602_665543/3604_665547/t18037.shtml).

During the early part of the analysis period (2000-2008), China's aid program reflects the "charm offensive" where China sought to reassure countries of its intentions, particularly in Asia. During the charm offensive, China gave more aid to United States treaty allies and those with a US military base. This policy of reassurance lasted until relations with those countries in Southeast Asia such as the Philippines and Vietnam turned testy. As China realized that its aid and diplomatic "charm offensive" were not likely to continue suppressing various conflicts over territory, around 2008, China's aid policy became punitive and punished those same countries by reducing aid.

In all periods, China increased aid to countries with poor or deteriorating relations with the United States. China seeks to undermine United States alliance relationships and interests with its aid program. The case studies show that China stepped in with large aid packages when states like Cambodia acted in ways that the Western powers condemned. Western aid to Cambodia dropped after Hun Sen's 1997 coup, but China responded quickly making up for most of the drop in total aid. When the Philippines angered the United States by withdrawing its troops from Iraq and United States aid dropped, China responded with large offers of economic aid in exchange for cooperation on joint development in contested areas of the South China Sea. In these cases, total aid received by these two countries was not affected much as China stepped into compensate for loss of aid from other donors. In the case of the Philippines, when China pulled its aid after territorial disputes escalated, Japan stepped in to compensate for the loss of Chinese aid. The reaction of Japan with its aid to China's allocations is also noteworthy. In the case of Cambodia, Japan only reduced its aid a small amount and quickly resumed its ODA to that country at higher levels at the same time China was making large contributions. In the Philippines, Japanese aid dropped to very low levels as Chinese aid

displaced it. This was likely because of the Philippines chose to prefer aid from China rather than Japan due to the ease with which corrupt officials could arrange kickbacks under Chinese aid practices. There is no evidence that Japan would have denied the Philippines more aid had it been requested.

### **7.3 Conclusions and policy implications**

This dissertation sought to explain how China and Japan have changed their foreign aid programs as a result of China's rise. Using regression analysis and case studies I have demonstrated that security factors explain the rapid growth of China and Japan's foreign aid programs since the beginning of the millennium. I have modeled how increasing levels of threat perception change how much and to whom foreign aid is committed by China and Japan. The research has shown that for Japan, commercial factors are only salient during the low threat period and that for both Japan and China security factors are the main determinant of how much and to whom aid is given when threat perception is high. I also demonstrate that China's aid program since the late 1990s has been used to counter United States and Japan interests and, through the case studies, document how and when China opportunistically uses large aid commitments to counter United States security interests and provide an alternative to Western donors.

#### **7.3.1 Realism explains foreign aid of China and Japan most of the time**

The theoretical framework proposed for this research hypothesized that during low threat periods, states would behave as predicted by commercial liberalism. During high threat periods, states would behave as predicted by realism. I proposed that the switching of state behavior between the predictions of these two international relations paradigms would be predicted by the overall threat environment of the donors. This effect of switching based on

threat perception is noticeable, but a weaker effect than expected. The research results indicate that security factors are significant predictors of foreign aid commitments even in the low threat period. For Japan, commercial factors only exceeded security factors in their explanatory power during the low threat period, but security variables remained surprisingly significant in Japan's aid decision-making. For China, though there is no detailed foreign aid data during a low threat period, the small influence of commercial factors to explain China's aid commitment decisions is remarkable. Many researchers such as Brautigam have looked at primarily African case studies of China's aid and suggested that business interests and commercial benefits are one of the driving forces in China's aid policy. Contrary to these findings, this dissertation shows that China's aid has been consistently and primarily allocated to promote China's security interests rather than its commercial interests. The overall picture of foreign aid policy, for China and Japan, is that foreign aid is primarily an adjunct to national security policy most of the time. Truly low threat periods are rare and foreign aid is usually allocated as realists predict.

### **7.3.2 Without a security threat, aid declines**

This importance of security factors in foreign aid policy is also evident in the overall size of foreign aid budgets. Without a perceived threat, the overall foreign aid budgets of most large powers decline. As shown in Figure 2-1 on page 19 (DAC Donor ODA), Figure 3-1 on page 78 (Japanese ODA), and Figure 3-3 on page 99 (China's estimated ODA budgets), most major donors reduced total foreign aid allocations substantially after the end of the Cold War and only began escalating their overall aid allocations in the late 1990s (United States, UK, and China) or early 2000s (Japan, Germany, France) as global threats from terrorism and a rapidly rising China became apparent. Foreign aid is a policy choice that requires a degree of domestic consensus among constituencies. Without the support of those primarily interested in national

security, other constituencies supporting commercial interests and those promoting humanitarian aid do not appear to have the political power to maintain foreign aid budgets. It takes an external perceived threat to national security to get a majority of decisionmakers to support increased levels of foreign aid in major donor countries.

### **7.3.3 China's aid is meant to weaken United States influence**

The policy implications of this research revolve primarily around how other donors such as Japan and the United States respond to China's approach to aid and how recipients can position themselves to maximize aid flows from multiple donors. China's aid policy targets weakening the relations between the United States and other countries, particularly in Asia. Japan's aid policy in the high threat periods is aimed at supporting United States security interests. While China's aid does not appear ideological after the Cold War, some of the features of Cold War aid policy is apparent in China's approach. The willingness to step in when aid recipient countries relations with the United States deteriorate in some ways harkens back to the use of aid by the United States and Soviet Union to establish and maintain spheres of influence in countries without strong ideological preferences (e.g. Egypt). China's approach to aid is remarkably similar to that of the United States and other major donors in the past.

### **7.3.4 Criticisms of Chinese aid are largely (but not entirely) wrong**

There is no evidence that China's aid is better or worse from a development or humanitarian perspective than DAC aid. The criticism that China's aid is targeted at gaining access to resources is also not supported by evidence. China's aid engenders such criticism because China is perceived as a threat, its aid is an adjunct to its national security policy, and the purpose of China's aid is to undermine recipient countries relations with existing powers. Hillary Clinton, speaking in Australia in May 2018, claimed that China's aid represented a



“new global battle” for influence around the world.<sup>634</sup> She had been warning about aid from China since becoming Secretary of State and even encouraged countries to be wary of accepting aid from China because she warned it was “more interested in extracting your resources than building your capacity.”<sup>635</sup> Clinton was reiterating a theme of many critics of Chinese aid; that it is not in the best interests of the recipient to accept aid from China. Moyo Dambisa recounts the objections of the European Investment Bank president to China’s aid to Africa which stated that the Chinese don’t care about environmental and social safeguards, human rights and labor standards and undercut Western donors by ignoring these issues.<sup>636</sup> The implication of such criticism is that only the Western donors know what is good for the aid recipients and that developing countries are incapable of ensuring projects meet basic standards. This paternalistic view is one reason China’s aid is appreciated in much of the developing world and the criticisms that imply China’s aid is not beneficial are dubious.<sup>637</sup> Some developing countries do not enforce project environmental and social safeguards, but it is the responsibility of the recipient country to ensure standards appropriate to the recipient’s level of development and needs are met, not China’s. Others criticize China’s aid for trapping developing countries in debt. Again, this argument is paternalistic implying the aid recipient does not know what is good for them. Further, ODA lending to developing countries by DAC donors has led many recipients into debt distress. The same may happen again with Chinese lending but it is up to the recipient country to decide what level of borrowing from international donors is appropriate.

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<sup>634</sup> Ben Doherty and Eleanor Ainge Roy, “Hillary Clinton says China’s foreign power grab ‘a new global battle’,” *The Guardian*, 8 May 2018, accessed on 16 March 2019, <https://www.theguardian.com/us-news/2018/may/08/hillary-clinton-says-chinas-foreign-power-grab-a-new-global-battle>.

<sup>635</sup> Ben Bland and Geoff Dyer, “Clinton warning over aid from China,” *Financial Times*, 1 December 2011, accessed 16 March 2019, <https://www.ft.com/content/33efc23c-1b35-11e1-85f8-00144feabdc0>.

<sup>636</sup> Dambisa Moyo, *Dead Aid*, 103.

<sup>637</sup> *Ibid.*, 105.

Most developing countries receiving aid from China perceive that aid to be in their own national interest. As I have argued, aid is mainly given to promote the interests of the donor and, in the cases of China and Japan, I have shown that it is primarily security interests that drive aid commitments. As the analysis in this dissertation makes clear, China's aid is aimed at undermining United States interests and pulling countries away from United States and Western influence, which is the likely source of most criticism of Chinese aid.

### **7.3.5 Aid recipients can increase their aid and minimize aid conditions**

China's use of aid to balance against the United States may be a challenge to the United States and its allies like Japan but offers developing countries a prime opportunity to extract more total aid than could be gleaned from China or DAC donors alone. The willingness of China to move in when other donors threaten to leave, offers the opportunity to avoid the conditions that may have come attached to past DAC donor aid packages. The fact that China will often step in to make up for losses in aid from other donors also makes other donors less likely to reduce aid even when countries act in ways that Western donors and Japan do not like. Cambodia is a good example of a nation that maximizes its aid receipts while avoiding significant domestic policy conditions even though China's aid appears conditional on Cambodia taking China friendly positions in ASEAN and other international organizations. Other DAC donors, especially Japan, have been reluctant to reduce aid to Cambodia and overall aid to Cambodia has trended upward for well over a decade even without much progress towards democracy and human rights in Cambodia which DAC donors have been promoting since the early 1990s.

The Philippines also seems to have figured out how to leverage large aid packages from all corners. After the Aquino presidency (2010 – 2016) during which China provided next to

no aid to the Philippines, President Duterte has made a habit of insulting the United States and deemphasizing the United States-Philippines alliance. Predictably, China has stepped up with massive promises of new lending to the Philippines. While the China financed projects have not yet materialized as of early 2019, the pipeline of new projects proposed for Chinese financing (\$13.5 billion) exceed the pipeline of proposed Japanese aid financed projects (\$7.6 billion).<sup>638</sup> Both of these numbers are much higher than during the 2008-2017 period when new aid commitments averaged about \$1.46 billion per year.<sup>639</sup> While United States economic aid commitments to the Philippines dropped from around \$172 million in 2015 to \$113 million in 2017 (OECD), aid continues to flow. Even with President Duterte's deteriorating relations with the United States, military aid from the United States to the Philippines between 2016-2018 reached about \$375 million<sup>640</sup> and included many systems meant to help the Philippines assert its claims in the South China Sea. The Philippines has now figured out how to sustain aid from DAC donors while also inducing large aid packages from China.

Developing countries now have an opportunity to receive more aid than ever before due to China's rapidly growing aid program and the unwillingness to other donors to cut aid even when relations falter. The strategy that appears most effective is to follow these steps:

- 1) declare the country's policy independence from the United States, but do not fully break relations
- 2) approach China with requests for aid and investment

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<sup>638</sup> Jenny Lei Ravelo, "Japan, China battle for ODA influence in the Philippines," DEVEX: Inside Development, The Rise of Chinese Aid, 20 November 2018, accessed 16 March 2019, <https://www.devex.com/news/japan-china-battle-for-oda-influence-in-the-philippines-93868>.

<sup>639</sup> Source: OECD.stat DAC3a dataset.

<sup>640</sup> Pia Lee-Brago, "Philippines largest recipient of US military aid," The Philippine Star, 10 September 2018 (accessed at <https://www.philstar.com/headlines/2018/09/10/1850124/philippines-largest-recipient-us-military-aid> on 16 March 2019).

- 3) participate in United States or Western/Japan led initiatives (e.g. military to military exchanges, weapons purchases from the United States, Lower Mekong Initiative, Tokyo International Conference of Africa's Development (TICAD), etc.)
- 4) participate in China led initiatives such as the Shanghai Cooperation Organization (SCO), Forum on China Africa Cooperation (FOCAC), BRI and AIIB

By appealing to all sides, developing countries can extract maximum aid from donors while minimizing the conditions attached to that aid. Countries that have fully rejected relations with the United States, resulting in the cutoff of United States (and other Western) aid, and dependence on China have not fared well. Venezuela is an example of a state that fully rejected relations with the United States under Hugo Chavez (President, 1999-2013) and Nicolas Maduro (President, 2013-present). Venezuela has received \$62 billion in Chinese investment<sup>641</sup> while the United States has provided less than \$20 million per year in aid to Venezuela which is almost entirely given to governance and civil society NGOs, not the government.<sup>642</sup> China, by being the primary backer of the Chavez and Maduro regimes, has succeeded in buying an ally in South America but Venezuela has become a near pariah state with no alternative but to depend on China for external financing. Countries that wish to maximize inflows of foreign aid and investment should avoid overly antagonistic relations with Western donors and Japan to ensure aid and investment flows continue from all parties.

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<sup>641</sup> Cary Huang, "How China's aid to Venezuela has gone from a win-win to a lose-lose," South China Morning Post, 1 February 2019, accessed on 17 March 2019, <https://www.scmp.com/comment/insight-opinion/united-states/article/2184591/how-chinas-aid-venezuela-has-gone-win-win-lose>.

<sup>642</sup> U.S. Agency for International Development (USAID) Foreign Aid by Country: Venezuela, accessed on 17 March 2019, <https://explorer.usaid.gov/cd/VEN>.

### **7.3.6 Ability to impose aid conditions is declining**

The willingness of China to step in with aid when others threaten to leave has significantly reduced the ability of donors to extract policy concessions from aid recipients. The United States, Japan and other DAC countries have increasingly found that China is willing to make up for reduced aid commitments from other donors and reward countries that antagonize the United States. The logical result of this along with the large size of China's aid program which now rivals Japan's in total concessional lending, means that traditional donors cannot extract much in the way of domestic policy concessions to become more democratic, respect human rights and the rule of law, and/or economic liberalization because China is not as interested in the aid recipient's policy actions in these areas. In fact, there is no substantial evidence that China specifically offers aid to more despotic regimes vs. more democratic ones. China's aid is primarily conditioned on support for China in international institutions like ASEAN, support for Chinese territorial aspirations, and isolating Taiwan. DAC donors will likely enjoy more limited leverage over countries that are receiving aid from China. It is an open question whether this will lead to declining aid commitments from DAC donors in the future due to the declining utility of aid to buy policy concessions from developing countries. Data from the OECD shows that DAC aid has been on a nearly continual trend upward (see Figure 2-1 on page 19) since 1997 through 2016. As of this writing there is no evidence that Chinese aid is displacing DAC aid. Thus far, Chinese aid is adding to the total available aid.

### **7.3.7 How should donors respond?**

The landscape of aid has changed. New and emerging donors are expanding the amount of aid available, reducing the leverage of donors to extract policy concessions, and challenging existing donors to work differently. This dissertation is not about aid effectiveness but about

aid motivation. The policy recommendations here are not focused on improving aid effectiveness but how to better respond to the challenge from new and emerging donors. I have shown that donors which perceive significant security threats allocate their aid to enhance their security. They do this by supporting their own alliance partners, weakening the alliances of their adversaries, and buying votes and influence in international institutions. With the expanding number of donors with disparate interests, how should donors promote their interests using aid?

First, donors should avoid imposing negative aid sanctions unless absolutely necessary. In some cases, particularly odious regimes will act with such brutality or corruption that aid to such governments must be severed for moral and political necessity. But other cases, such as the Philippines pulling its support for the Iraq war in 2004 or the military takeover in Thailand in 2014, were not such cases and the reduced aid (from the United States) to these countries in response only served to enable China to increase its influence at the expense of the United States. In the current environment, negative aid sanctions are unlikely to be effective and may be counter-productive if such sanctions result in a closer relationship between an adversary and the recipient.

Second, existing donors should expand concessional lending rather than grant aid. Recipient countries have massive infrastructure deficits that are appropriate for concessional lending. One reason that China's aid program has been so well received by many recipients is that it addresses these needs. While Japan has a high share of ODA loans compared to grants, most other DAC donors heavily favor grants and some, like the United States have very limited ability to provide concessional ODA lending and many DAC donors provide relatively little aid for infrastructure development. Donors should adjust their aid programs to expand ODA

lending in infrastructure sectors to be more competitive with Chinese aid. ODA lending is much lower cost to donors since much of it is repaid by the recipient and offers similar reputational benefits to grant aid.

Third, other donors should understand China's aid program and respond to ensure recipients do not fall into dependence on China. This dissertation has demonstrated that China seeks to undermine Western interests, and the security interests of the United States in particular, with its aid program and moves quickly and opportunistically to pull strategic countries away from Western powers. Other donors should anticipate China's actions and respond with their own aid programs. Donors should understand that leverage over recipients has declined so aid sanctions are not nearly as useful as in the past. To some extent, Western donors and Japan have done this in the case of Myanmar which had long been isolated by Western sanctions and supported by China. When the country transitioned from military rule in 2012, Japan quickly ramped up its aid to over 470 billion JPY in 2013 (over \$4 billion) with over half provided as grants. Such a quick response helps countries reduce dependency on China and will, consequently, be less likely to act contrary to the security interests of its other donors. Donors also can proactively provide alternatives to Chinese aid. As shown in the Philippines case study, China's aid is prone to corruption and usually of higher cost than DAC donor financing. Chinese aid is tied to Chinese contractors who have been willing to pay kickbacks to politicians and has led to corruption scandals that damage the reputation of both China as a donor and the recipient government.<sup>643</sup> False arguments that Chinese aid is only to get access to resources or is not beneficial will not be effective, but other donors can emphasize their generosity,

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<sup>643</sup> Andrew Higgins, "A power plant fiasco highlights China's growing clout in Central Asia," *The New York Times*, 6 July 2019, accessed on 2 January 2020 at <https://www.nytimes.com/2019/07/06/world/asia/china-russia-central-asia.html>.

transparency, and lack of corruption risk in comparison to Chinese aid. Other donors should be prepared to quickly step in and offer better terms than Chinese concessional lending – essentially meeting the challenge of Chinese aid with better aid offers for the recipient.

Lastly, China should continue professionalizing its aid program by expanding the project preparation, implementation, and monitoring responsibilities of CIDCA, investing in staff resources to manage its aid program, and improving the transparency of its decision-making. One of the biggest threats to China's ability to pursue its goals through foreign aid is the susceptibility of its aid to corruption due to the lack of oversight and monitoring, limited staffing, and lack of transparency. China's international reputation and the good will engendered by its aid can be tarnished by corruption scandals and unflattering publicity around Chinese financed projects. China should address these risks with more active participation in project selection and preparation, ensure actual competition in the selection of contractors for Chinese financed projects, and provide more transparency in aid commitment decisions including the publication of disaggregated data on Chinese aid activities.



## APPENDIX 1: Data and notes

All of the data used in this dissertation is available from the author upon request. Data on Japan's ODA program is based on the OECD Development Assistance Committee data set. The OECD data set is used in order to maintain maximum comparability with the available data on Chinese foreign assistance provided by AidData. AidData provides estimates of Chinese financial flows that are intended to be consistent with OECD definitions of ODA and OOF. For this reason, OECD data is preferred over that available directly from JICA for the purpose of international comparability.

This dissertation primarily uses ODA estimates expressed in national currencies at constant prices. OECD data is typically presented in USD so that aid levels from one country can be compared to aid provided by others from the perspective of recipients. However, exchange rate swings can significantly affect our interpretation of the intent of aid policy decisions. Therefore, OECD data is converted back to constant Japanese Yen while AidData's China ODA is expressed in constant Chinese Yuan for most of the analysis. Only when discussing the overall size of aid programs in order to make international comparisons of impact do we revert to constant USD. For Japan, I use the current USD estimate of ODA levels converted to JPY using period average exchange rates and then expressed in constant JPY using the GDP deflator for Japan.<sup>644</sup> For China, ODA is converted to constant 2013 CNY using exchange rates published by the St. Louis Federal Reserve Bank and the GDP deflator for China published by the World Bank.

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<sup>644</sup> Technical notes on OECD deflators: <http://www.oecd.org/dac/stats/informationnoteonthedacdeflators.htm>.



## APPENDIX 2: ODA RECIPIENT COUNTRIES IN THE ANALYSIS

Some countries excluded from the OECD data set. Excluded countries are those that have no country data in the World Bank and IMF datasets or that do not qualify as ODA recipients. Note that some countries that have had regions split and become new states (e.g. Indonesia/Timor-Leste, Sudan/South Sudan, Serbia/Montenegro) are treated as a single state before the split and two states after the split. The countries included in the quantitative analyses are:

Afghanistan	Gambia	Niger
Albania	Georgia	Nigeria
Algeria	Ghana	Northern Mariana Islands
Angola	Grenada	Oman
Antigua and Barbuda	Guatemala	Pakistan
Argentina	Guinea	Palau
Armenia	Guinea-Bissau	Panama
Aruba	Guyana	Papua New Guinea
Azerbaijan	Haiti	Paraguay
Bahamas	Honduras	Peru
Bahrain	Hong Kong, China	Philippines
Bangladesh	India	Qatar
Barbados	Indonesia	Rwanda
Belarus	Iran	Saint Kitts and Nevis
Belize	Iraq	Saint Lucia
Benin	Israel	Saint Vincent and the Grenadines
Bermuda	Jamaica	Samoa
Bhutan	Jordan	Sao Tome and Principe
Bolivia	Kazakhstan	Saudi Arabia
Bosnia and Herzegovina	Kenya	Senegal
Botswana	Kiribati	Serbia
Brazil	Korea	Seychelles
Brunei	Korea, Dem Rep	Sierra Leone
Burkina Faso	Kosovo	Singapore
Burundi	Kuwait	Slovenia
Cabo Verde	Kyrgyzstan	Solomon Islands
Cambodia	Lao PDR	Somalia
Cameroon	Lebanon	South Africa
Cayman Islands	Lesotho	South Sudan
Central African Republic	Liberia	Sri Lanka
Chad	Libya	Sudan
Chile	Macau, China	Suriname
China	Macedonia	Swaziland
Colombia	Madagascar	Syrian Arab Republic
Comoros	Malawi	Taiwan
Congo, Dem Rep	Malaysia	Tajikistan
Congo, Rep	Maldives	Tanzania
Costa Rica	Mali	Thailand
Côte d'Ivoire	Malta	Timor-Leste
Croatia	Marshall Islands	Togo
Cuba	Mauritania	Tonga
Cyprus	Mauritius	Trinidad and Tobago
Djibouti	Mexico	Tunisia
Dominica	Micronesia	Turkey
Dominican Republic	Moldova	Turkmenistan
Ecuador	Mongolia	Turks and Caicos Islands
Egypt	Montenegro	Tuvalu
El Salvador	Morocco	Uganda
Equatorial Guinea	Mozambique	Ukraine
Eritrea	Myanmar	United Arab Emirates
Ethiopia	Namibia	Uruguay
Fiji	Nepal	Uzbekistan
French Polynesia	New Caledonia	Vanuatu
Gabon	Nicaragua	

Venezuela  
Viet Nam  
West Bank and Gaza Strip  
Yemen  
Zambia  
Zimbabwe



### APPENDIX 3: JAPAN DEFENSE WHITE PAPER CONTENT ANALYSIS

Year	Situation around Japan	Security concerns with respect to China	Overall Threat Rating
1991	<p>As we have seen above, the situation of Japan's surrounding areas, is more complicated than in Europe. In the future, through the movement toward easing tensions in the region, such as described above, fostering of political trust is achieved, and therefore, it is expected that the range is preferred also affect the military situation in the region, in the region situation is not change the fact that there is still uncertain.</p> <p><a href="http://www.clearing.mod.go.jp/hakusho_data/1991/w1991_01.html">http://www.clearing.mod.go.jp/hakusho_data/1991/w1991_01.html</a></p>	<p>China, which has a vast territory and a huge population, has a large-scale ground forces, is an excellent country in the defense force, succeeded in the mid-1960s, the atomic bomb experiment, one after another to the nuclear missiles test launch, This has led to the even nuclear weapons capability. In this way, China has become a presence that may have a significant impact on the security of the region independent from the United States and the Soviet Union.</p>	2
1992	<p>Reflecting the above security characteristics, the diagram of conflict in this region is also complex and diverse, and a framework for regional security, like the CSCE seen in Europe, has been created There is no situation. Furthermore, there are political problems that cannot be caught in the composition of the East-West conflict like the Cambodian problem or the territorial issue of the Spratly Islands.</p> <p>As has been seen above, the situation in the surrounding areas of Japan is complicated, and there have been no major changes yet occurred in Europe. Under these circumstances, each country in the region such as China, South Korea, ASEAN countries, etc. has been trying to enrich defense power. (Sections 3.1 3.2)</p> <p><a href="http://www.clearing.mod.go.jp/hakusho_data/1992/w1992_01.html">http://www.clearing.mod.go.jp/hakusho_data/1992/w1992_01.html</a></p>	<p>In this way, China is independent from the United States and the former Soviet Union, which can have a significant influence on the security of this region.</p> <p>Section 3.1</p>	2
1993	<p>Thus, in today's international military affairs, while various efforts are continuing towards stabilization, there are many fluid elements, and there are uncertainty and uncertainty about the future. However, as a result of the fact that the Cold War has come to an end indeed due to the dismantlement of the Soviet Union in general, in general, it can be recognized that the flow to the preferred direction is progressing.</p> <p>Section 1</p> <p><a href="http://www.clearing.mod.go.jp/hakusho_data/1993/w1993_01.html">http://www.clearing.mod.go.jp/hakusho_data/1993/w1993_01.html</a></p>	<p>China seeks a stable foreign relationship to advance reform and open-mind policy, while for military, it is trying to shift from a guerilla war-oriented popular warfare setting to a regular warfare-oriented position, especially high performance in the Gulf Crisis We emphasize the effectiveness of weapons, and in recent years we are trying to modernize equipment. Section 1</p>	1
1994	<p>In this way, the change accompanying the end of the Cold War is not uniform throughout the region, and each country is seeking a more stable order under the security environment in which they are located, It cannot be said that the direction was clarified. For this reason, the military situation around the world is still having a fluid element in the midst of continuing uncertainty about the future. Section 1</p> <p><a href="http://www.clearing.mod.go.jp/hakusho_data/1994/w1994_01.html">http://www.clearing.mod.go.jp/hakusho_data/1994/w1994_01.html</a></p>	<p>China is trying to change its defense capability from quantity to quality, and in recent years it has drastically increased the defense budget and is trying to gradually modernize equipment mainly in the sea and air force. In addition, there are movements to strengthen the base of activities in the ocean centering on the Nansha archipelago and others. Section 1</p>	2

1995	<p>In the Asia-Pacific region, various problems remain unsolved even after the end of the Cold War, and there is no situation where big changes like those occurred in Europe accompanying the end of the Cold War are seen. Also, with the expansion of the economy, many Asian countries are striving to enhance and modernize defense power. Section 1  <a href="http://www.clearing.mod.go.jp/hakusho_data/1995/ara11.htm">http://www.clearing.mod.go.jp/hakusho_data/1995/ara11.htm</a></p>	<p>China is trying to change its defense capability from quantity to quality, and in recent years it has significantly increased its defense budget. China has been modernizing nuclear forces, and last year we conducted a nuclear test twice and this year in May. In addition, we are advancing the progressive modernization of equipment centering on the sea and air force. In February this year concerns of related countries are rising as a result of relocating buildings to the "mischief reef" (commonly known) in the Nansha archipelago. It is necessary to keep a close eye on the movement of such activities in China's oceans in the future. Section 1</p>	2
1996	<p>In the Asia-Pacific region, although there are changes such as the quantitative reduction of Russian forces in the Far East, while there still exists large-scale military power including nuclear forces, many countries are facing increasing economic power, etc. We are striving to expand and modernize military power, and various problems such as our northern territories, the Korean Peninsula, and the Nansha archipelago remain unresolved, and still uncertain elements remain. Furthermore, there is no situation where a multilateral security framework like that in Europe is being built, but the bilateral alliance / friendship relations centering on the United States and the existence of the US military based on this exist in this region It plays an important role in peace and stability, but in recent years, multilateral security dialogue efforts such as the establishment of the ASEAN Regional Forum (ARF) have started and future progress is expected. Section 1  <a href="http://www.clearing.mod.go.jp/hakusho_data/1996/index.html">http://www.clearing.mod.go.jp/hakusho_data/1996/index.html</a></p>	<p>The modernization of the military power of China seems to progress gradually from the fact that the country regards economic construction as the most important task at hand for the time being, but promoting modernization of nuclear forces and maritime and air forces, It is necessary to pay close attention to such trends as the expansion of the scope of activities in Taiwan and the growing tension in the Taiwan Strait due to military exercises around Taiwan. Section 3</p>	2
1997	<p>In the Asia-Pacific region, although there are changes such as the quantitative reduction of the Far East Russian army, while there still exist large-scale military power including nuclear forces, many countries expand economic power, etc. As we are striving to expand and modernize military, various problems such as the Northern Territories of Japan, Takeshima, Korea Peninsula, and the Nansha Archipelago remain unresolved, and uncertain elements remain unknown. Furthermore, there is no situation where a multilateral security framework like that in Europe is being built, but the bilateral alliance / friendship relations centering on the United States and the existence of the US military based on this exist in this region It plays an important role in peace and stability. Also, in recent years, opportunities for bilateral military exchanges have increased, and efforts of multilateral dialogue on regional security such as ARF are getting established. Section 1  <a href="http://www.clearing.mod.go.jp/hakusho_data/1997/def11.htm">http://www.clearing.mod.go.jp/hakusho_data/1997/def11.htm</a></p>	<p>The modernization of the military power of China seems to progress gradually from the fact that the country regards economic construction as the most important issue at the moment, but promoting modernization of nuclear forces and maritime / air forces, It is necessary to keep an eye on the situation of the Taiwan Strait which expanded the scope of activities, the rise of temporary tension last year. Section 4</p>	2
1998	<p>After the end of the Cold War, the possibility of worldwide armed conflict occurred declined, but complicated and diverse regional conflicts occurred Moreover, there is a strong concern that an increase in relocation / diffusion of weapons of mass destruction etc. is strong. In this way, the international situation, We still have uncertain and uncertain elements. Section 1  <a href="http://www.clearing.mod.go.jp/hakusho_data/1998/wp1998_11.pdf">http://www.clearing.mod.go.jp/hakusho_data/1998/wp1998_11.pdf</a></p>	<p>For military power, we are planning to switch from quantity to quality. The modernization of military capability, China is making the economic construction the immediate It seems that it progresses progressively because it is regarded as an important issue, but it is expected to modernize nuclear forces and maritime and air forces It is necessary to keep a close eye on future expansion and expansion of the range of marine activities. Section 4</p>	2



1999	<p>In the Asia-Pacific region, there was no clear East-West conflict like in Europe, such as China's third pole existed even during the Cold War. Therefore, in this region, even after the end of the Cold War, quantitative reductions of the Russian Army in the Far East and changes in the military situation are seen, but while large-scale military forces including nuclear forces still exist, many countries have been trying to expand and modernize military power with the expansion of economic power, etc. Also, various problems such as the Korean Peninsula remain unresolved, and uncertain elements remain unclear.</p> <p>Furthermore, there is no situation where a multilateral security framework like that in Europe is being built, but the bilateral alliance / friendship relations centered on the United States and the existence of the US military based on this as a result of peace in this area and plays an important role for stability. In recent years, there has been an increase in opportunities for military exchanges between bilateral countries in this region, and the efforts of multilateral dialogue on regional security such as the ASEAN Regional Forum (ARF) are also becoming established However, how to utilize such efforts against concrete security problems will be a future task. Section 1</p> <p><a href="http://www.clearing.mod.go.jp/hakusho_data/1999/honmon/index.htm">http://www.clearing.mod.go.jp/hakusho_data/1999/honmon/index.htm</a></p>	<p>China has promoted reform and open-door routes with the aim of constructing socialist countries with "wealthy", "democratic", and "civilized" with economic construction as the most important task, and the stable In order to maintain an environment, on the diplomatic front, we are making efforts to modernize and strengthen national defense capabilities while defending relations with neighboring countries and promoting exchange expansion. Section 4.1</p>	1
2000	<p>On the other hand, there is no dramatic change in the security structure of this region compared with Europe, and there is still a large military power including nuclear forces, respectively. In addition, although it is necessary to consider the impact of the currency and financial crisis since 97 (the same year 9) in many countries in this region, due to remarkable economic growth so far, increase in defense expenses Expansion and modernization of military capabilities such as introduction of new equipment have been carried out. Furthermore, the continuation of tension in the Korean peninsula, various problems such as the Northern Territories of Japan and Takeshima and the Nansha archipelago remain unresolved, and North Korea's missile launches and North and South warships' shooting cases are seen, There are uncertain and uncertain elements left in this area. Chapter 1 Section 3.1</p> <p><a href="http://www.clearing.mod.go.jp/hakusho_data/2000/w2000_00.html">http://www.clearing.mod.go.jp/hakusho_data/2000/w2000_00.html</a></p>	<p>China has promoted reform and open-door routes with the aim of constructing socialist countries with "wealthy", "democratic", and "civilized" with economic construction as the most important task, and the stable In order to maintain the environment, it is important to emphasize the stability and unity of domestic affairs, especially social stability, while at the same time to improve relations with neighboring countries and promote exchange expansion... China is trying to modernize and strengthen its power. It has repeatedly emphasized that there is no change in the policy even after the death of President Deng Xiaoping, the former Communist Party Central Military Commission who created such basic policy of China Chapter 1 Section 3.4</p>	1

2001	<p>With the conclusion of the Cold War, the structure of military confrontation between the East and the West (Note 1-1) with the overwhelming military force disappeared, and the normal strength of Russia has drastically decreased after the Cold War, No country that can militarily counter the United States has appeared, and the possibility of armed conflict of the world scale like the Cold War period is far away.</p> <p>On the other hand, the territorial problem still survives, and conflicts based on religious conflict and ethnic issues are rather manifest, complicated and diverse regional conflicts are occurring. In addition, the risks of nuclear weapons and other weapons of mass destruction (nuclear, biological, chemical weapons) (Note 1-2) and missile spreading are increasing. Thus, even after the end of the Cold War, the international situation remains uncertain and uncertain.</p> <p>On the other hand, while aspects such as deterrence by force and stabilization by the balance of force continue to exist, there is a growing need for international relations with the background of the disappearance of ideological conflict between the US and Soviet Union and the expansion and deepening of interdependence among countries Various efforts are being made to promote international cooperation for stabilization. Chapter 1 Section 1  <a href="http://www.clearing.mod.go.jp/hakusho_data/2001/w2001_00.html">http://www.clearing.mod.go.jp/hakusho_data/2001/w2001_00.html</a></p>	<p>China acknowledges that the multilateralization of the world and the globalization of the economy are progressing more and more towards easing in the international situation, and the situation in the Asia-Pacific region is also generally stable. Meanwhile, nepotism and powerful politics still exist in the world, and negative factors that affect safety are increasing newly in the Asia-Pacific region, strengthening the Japan-U.S. Security system and strengthening the Ballistic Missile Defense (BMD) It shows a sense of caution against Japan-US joint technical research, especially in relation to the Taiwan issue. Under such circumstances recognition, China says it must strengthen its ability to protect sovereignty and safety through military means, and defines "active defense" as a military strategy policy. This is a strategic way of thinking that if you do not attack from your opponent you will never attack yourself, but if you take an attack should actively fight back. Chapter 1 Section 3.4</p>	1
2002	<p>Globalization of security issues is progressing against the backdrop of the expansion and deepening of interdependence among countries accompanying the progress of globalization. A number of cases are recognized that a variety of situations such as massive human rights violations caused by regional conflicts and ethnic conflicts, the occurrence of a large number of refugees, terrorism, etc. are recognized not only as one domestic problem but as a problem of the international community There. In such cases, examples of cases where related countries cooperate to exercise their military capabilities to try to solve problems has come to be seen. Meanwhile, in solving the security problem, the necessity to use not only military ability but also means such as diplomacy, information gathering, police, justice, economy and the like is increasing. One of them is the fight against terrorism by the international community centered on the United States against this terrorist attack.</p> <p>In this way, while the international situation still has uncertain and uncertain elements while adding a new aspect, while aspects such as deterrence by force and stability by equilibrium of power continue to exist, international relations Various efforts are being made to promote international cooperation to further stabilize Japan's economy. Chapter 1 Section 1.1  <a href="http://www.clearing.mod.go.jp/hakusho_data/2002/w2002_00.html">http://www.clearing.mod.go.jp/hakusho_data/2002/w2002_00.html</a></p>	<p>Based on the recognition of the situation that there is a possibility of world warfare occurrence in the past, China emphasized coping with large-scale full-scale warfare, using the vast country land and enormous population, to fight guerilla warfare We have adopted the "People's War" strategy that emphasized (1-248) . However, in addition to the occurrence of harmful effects such as bloating and inefficiency of the military, in recognition of the new situation that global warfare will not take place over the long term, from the early 1980s the territory · It began to focus on dealing with local wars such as conflict over the territorial waters. For this reason, since the mid-1980s, we have promoted the formation and operation efficiency by simplifying the organization and organization, the modernization of equipment, strengthening R &amp; D, etc. from the "amount" to "quality" of military power and is shifting to the position of a regular warfare subject that can respond to modern warfare. In accordance with this basic policy, the reduction of military personnel, mainly the Army (1-249), and the modernization of the entire army centering on nuclear and missile forces and the marine and air forces are carried out. In addition, after the Gulf War of 91 (the same year 3), a policy is being taken to improve the military operation ability to win the local battle under the high-tech condition. Chapter 1 Section 3.4</p>	1

2003	<p>The conclusion of the Cold War I was thought to save humanity from the ruin of death and resolve the conflict factors on the earth. Certainly the possibility of worldwide armed conflict arising is far away. However, various conflicts caused by religious and ethnic problems in various parts of the world, which have been suppressed under the East-West confrontation, have surfaced or sharpened, resulting in complicated and diverse regional conflicts. In addition, the danger of relocation and diffusion of weapons of mass destruction (nuclear, biological, chemical weapons) and ballistic missiles, which had been strictly managed during the Cold War period, has become strongly concerned internationally.</p> <p><a href="http://www.clearing.mod.go.jp/hakusho_data/2003/2003/index.html">http://www.clearing.mod.go.jp/hakusho_data/2003/2003/index.html</a></p>	<p>In general China has been promoting reform and open-door routes with the aim of constructing a socialist country of "wealthy," "democracy," and "civilization" with economic construction as the most important task and its premise In order to maintain stable domestic and overseas environments, we emphasize the stability and unity of domestic affairs, in particular social stability, and at the outward, we are working to improve relations with developed countries, good cooperative relationships with neighboring countries In terms of defense, we are striving to modernize and strengthen national defense capabilities while basically maintaining and promoting.</p> <p>Last November, the 16th National Congress of the Communist Party of China (the party convention) and the 1st General Meeting of the 16th Central Committee (Alliance Alliance) 1 held the 10th National People's Congress of the 10th National People's Congress ( NPC) The first meeting was held, the leadership of the party, the nation, and the military switched, and the basic policy of the party and the nation was indicated. Chapter 1 Section 3.3</p>	2
2004	<p>As a subject of threats, not only conventional nations but also non-state actors are gaining attention, and in recent years, various illegal behaviors including terrorism have become important to the security impact, etc. In recent years, Changes are emerging. Under these circumstances, military forces are also required to change and diversify their roles, and international relations are becoming new, especially in the United States which became the sole superpower.</p> <p>Also in the Asia-Pacific region, territorial issues and unification issues continue to exist, as well as active activities of international terrorist organizations and problems of weapons of mass destruction, etc. are also occurring. Chapter 1 Intro</p> <p><a href="http://www.clearing.mod.go.jp/hakusho_data/2004/w2004_00.html">http://www.clearing.mod.go.jp/hakusho_data/2004/w2004_00.html</a></p>	No section specifically on China	3
2005	<p>As evident in the activities of international terrorists, it is difficult to forecast when and where new threats will emerge. Questions have arisen as to what measures are effective against entities like terrorist organizations which do not necessarily act on rational judgment.</p> <p>In order to properly address such threats, not only military capabilities but also comprehensive approaches including diplomatic, law enforcement, judicial, intelligence, and economic measures are needed. On the other hand, the very nature of new threats makes it difficult for a country to deal with them by itself. International cooperation, therefore, has been promoted to nip threats in the bud, establishing international frameworks and conducting measures based on such initiatives. In such cases as authoritarian regimes threatening regional order or states eroded away by terrorism collapsed, international efforts have been made so as to restore them to responsible nation to prevent them from becoming hotbeds for terrorism. Under the circumstances, the reform of the United Nations (U.N.) has been brought up for agenda so that the U.N. can strengthen its function and more effectively address new threats. Chapter 1 Overview</p> <p><a href="http://www.mod.go.jp/e/publ/w_paper/pdf/2005/1.pdf">http://www.mod.go.jp/e/publ/w_paper/pdf/2005/1.pdf</a></p>	<p>In recent years, China has been continuously achieving dramatic economic growth. The country has also improved its diplomatic image and achieved many results. On the military front, China has been making efforts to modernize its military power supported by the continuing expansion of its military expenditure. China has thus been steadily growing as a political and economic power in the Asia-Pacific region and the trend of its military development draws attention from countries in the region. Chapter 1 Section 3.3</p>	3

2006	<p>The most striking characteristic of the international security environment at present is the diversity and complexity of threats and the increasing difficulty of predicting when and where these threats will emerge. Activities of international terrorist organizations and other non-state actors in particular pose a serious threat to countries. Ch 1 Section 1</p> <p>The possibility of a large-scale armed conflict between states that existed during the Cold War era has been eliminated in Europe, and terrorism and conflicts in neighboring regions are now being regarded by each country as common security threats. In the Asia-Pacific region, on the other hand, the pattern of disputes among countries and areas remain intact even in the post-Cold War era, and views on security and threat perceptions vary greatly by country. Ch1 Section 2</p> <p><a href="http://www.mod.go.jp/e/publ/w_paper/pdf/2006/1-1-1.pdf">http://www.mod.go.jp/e/publ/w_paper/pdf/2006/1-1-1.pdf</a></p>	<p>China has been mounting its position in the world economy and now many countries welcome deeper economic relation and mutual benefit with China. At the same time, it is pointed out that China is seeking diplomacy focusing much on resources acquisition. On the military front, China has thus been steadily growing as an outstanding political and economic power in the Asia-pacific region. And the trend of its military development draws attention from countries in the region. Ch 1 Section 2</p>	3
2007	<p>The most characteristic features of today's security environment are increasing diversity and complexity of threats and difficulty of accurately estimating emergence of such threats. This requires each country to develop new approaches to them. Part 1 Section 1</p> <p>On the other hand, this region boasts considerable political, economic, ethnic, and religious diversity, and conflicts between countries/regions remain despite the end of the Cold War. Since views on security and threats differ by country, major changes in the security environment, which are seen in Europe following the end of the Cold War, have yet to be found. In addition, long-standing issues of territorial rights and reunification still plague the region. Part 1 Section 2</p> <p><a href="http://www.mod.go.jp/e/publ/w_paper/pdf/2007/06Part1_overview.pdf">http://www.mod.go.jp/e/publ/w_paper/pdf/2007/06Part1_overview.pdf</a></p>	<p>Moreover, many countries in this region have taken advantage of economic growth to expand and upgrade their military forces by increasing their defense budgets and introducing new weapon systems. In particular, China, a regional power with tremendous political and economic influence, has been continuously boosting its defense spending and has been modernizing its military forces. Consequently, China has drawn international attention. There are also concerns about the lack of transparency regarding China's military capabilities. When China destroyed one of its own satellites in a test in January this year, the absence of a sufficient explanation by the Chinese government has aroused the concern of other countries, including Japan with regard to the peaceful use of space and their own security. Part 1 Section 2</p>	3
2008	<p>In the international community today, with relations of mutual dependence between sovereign states growing ever stronger, matters of security or the potential for instability emanating in one country have increasing potential to transcend national borders and spread globally, impacting on other countries. As such, it is to the common benefit of each country to secure global and regional peace, stability and prosperity through the promotion of a more stable international security environment. Therefore it becomes more important for multinational cooperation in the resolution of issues to the benefit of the international community as a whole. Part 1 Sec 1</p> <p>On the other hand, this region is considerably rich in political, economic, ethnic, and religious diversity, and conflicts between countries/regions remain even after the end of the Cold War, unlike Europe. Because of these reasons major changes in the security environment have yet to emerge and long-standing issues of territorial rights and reunification continue to plague the region. part 1 sec 2</p> <p><a href="http://www.mod.go.jp/e/publ/w_paper/pdf/2008/04Part1_Overview.pdf">http://www.mod.go.jp/e/publ/w_paper/pdf/2008/04Part1_Overview.pdf</a></p>	<p>Moreover, many countries in this region have taken advantage of economic growth to expand and upgrade their military forces by increasing their defense budgets and introducing new weapons systems.</p> <p>In particular, China, a regional power with tremendous political and economic clout, is increasingly drawing the close attention of many countries. China has been continuously boosting its defense spending and has been modernizing its military forces, with this significant increase in total defense spending. However, with clarity on neither the present condition nor the future image, Japan is apprehensive about how the military power of China will influence the regional state of affairs and the security of Japan. Moreover, due to the insufficient transparency, it is noted that other nations might have distrust and misunderstandings about the process of decision-making concerning the security and the military of China. In this fashion, improvement on the transparency relating to China's national defense policies is demanded, and it has become an important task to pursue dialogues and exchanges, and strengthen the mutual understanding and the trust relationship with China. Part 1 Sec 2</p>	3

2009	<p>As seen above, today's international community confronts a range of issues from traditional inter-state relations to the new threats and diverse contingencies. These issues could arise independently or in combination. In order to respond to such issues, the roles of military forces are diversifying beyond deterrence and armed conflicts to include a broad spectrum of activities from conflict prevention to reconstruction assistance. Moreover, unified responses that incorporate military as well as diplomatic, police, judicial, information and economic measures are becoming necessary. Accordingly, each state continues to enhance its military capabilities in line with its resources and circumstances, and pursue international cooperation and partnership in security areas. Part 1 Sec 1</p> <p>The Asia-Pacific region has been getting more global attention, due to the rapid development of economies such as China and India resulting in enhanced coordination and cooperation among countries, mainly in economic affairs. On the other hand, this region is considerably rich in political, economic, ethnic, and religious diversity, and conflicts between countries/regions remain even after the end of the Cold War, unlike Europe. Because of these reasons major changes in the security environment have yet to emerge and long-standing issues of territorial rights and reunification continue to plague the region. Par 1 Sec 2  <a href="http://www.mod.go.jp/e/publ/w_paper/pdf/2009/04Part1_Overview.pdf">http://www.mod.go.jp/e/publ/w_paper/pdf/2009/04Part1_Overview.pdf</a></p>	<p>Many countries in this region have taken advantage of economic growth to expand and modernize their military forces by increasing their defense budgets and introducing new weapons systems. In particular, China, a major political and economic power in the region with important clout, is drawing the close attention of many countries. China has been modernizing its military forces, with the rapid and continuous increase in its total defense spending. However, with clarity on neither the present condition nor the future of its military power, there is concern how the military power of China will influence the regional state of affairs and the security of Japan. Moreover, due to the insufficient transparency, it is noted that other nations might have distrust and misunderstandings about China's decision-making processes concerning the security and the military. For these reasons, improved in the transparency relating to China's national defense policies are needed, and it has become an important task to promote dialogues and exchanges, and further strengthen the mutual understanding and trust relationship with China. Furthermore, several senior military officials recently made positive remarks on the possession of an aircraft carrier, and maritime activities in the sea surrounding Japan have been intensifying. Such events happened that Japan should keep a careful watch over. Part 1 Sec 2</p>	4
2010	<p>In the international community today, the international security environment has become complicated and uncertain due to factors such as the rise of nations against the backdrop of economic growth in recent years, the proliferation of weapons of mass destruction and so forth, activities by international terrorist organizations and other non-state actors, and the danger of fragile nations becoming hotbeds for international terrorism</p> <p>The relationships of mutual dependence among nations that have brought stability and prosperity to countries at the same time have negative aspects. These include economic problems and security problems that have arisen in certain countries and regional instability factors spreading across borders throughout the world and affecting other countries. In such relationships of mutual dependence, countries have the common interest of ensuring global and regional peace, stability, and prosperity by building a more stable international security environment. Therefore, it is increasingly important for nations that have a common interest in resolving these problems to cooperate in tackling such problems. Part 1 Section 1  <a href="http://www.mod.go.jp/e/publ/w_paper/2010.html">http://www.mod.go.jp/e/publ/w_paper/2010.html</a></p>	<p>In particular, China, a major political and economic power with important clout, is gaining confidence in the international community and demonstrating a more proactive stance. It also continues to promote the further modernization of its military capabilities against the backdrop of the continuing rapid growth of its defense budget. China has not clarified the current status of or future vision for the modernization of its military capabilities, and since transparency is not sufficiently ensured regarding its decision-making processes for security and military matters, it has been pointed out that there is a possibility that this could lead to a sense of distrust and misunderstandings in other countries. Furthermore, China is increasing its activities in waters close to Japan. The lack of transparency of its national defense policies, and the military activities are a matter of concern for the region and the international community, including Japan, and need to be carefully analyzed.</p> <p>Based on this situation, there is a need for further improvements to transparency regarding China's military, and promoting dialogues and exchanges with China and further strengthening mutual understanding and relations of trust are important issues. Recently, noteworthy events have occurred such as the announcement of the testing of missile interception technologies. Part 1 Section 3</p>	4

<p>2011</p>	<p>With regard to Japan’s security environment, in the past one year, continued provocation by North Korea such as the disclosure of a uranium enrichment facility and the artillery firing at Yeonpyeong Island, as well as various notable military movements by China and the continued growing military activities in Russia, have been observed.</p> <p>On the other hand, notable phenomenon have also continuously been observed with regard to global security issues including cyber-attacks, the proliferation of weapons of mass destruction and their delivery means, as well as international terrorism and the weakening of governing systems. Furthermore, as a result of the mutual interdependence among countries that has contributed to the stability and prosperity of each country, it is also possible for security issues and instability arising in one country to go beyond national borders and affect other countries. As such, the international security environment remains complex and uncertain.</p> <p>Under such a security environment, it has become extremely difficult for one country to deal with issues confronting the international community. It is also increasingly important for countries with common interests in the resolution of issues to work together, as countries gain shared benefits by ensuring regional and global peace, stability and prosperity through the establishment of a more stable international security environment. Part 1 Section 1</p> <p>As seen above, today’s international community confronts diverse, complex, and multi-layered security issues and unstable elements. These issues could arise independently or in combination. In order to respond to such issues, the roles of military forces are also diversifying beyond deterrence and handling of armed conflicts to include a broad spectrum of activities from conflict prevention to reconstruction assistance. Moreover, while there are increasing opportunities for the military to take on important roles, unified responses that incorporate military as well as diplomatic, police, judicial, information, and economic measures become more necessary. Part 1 Section 2  <a href="http://www.mod.go.jp/e/publ/w_paper/pdf/2011/05Part1_Overview.pdf">http://www.mod.go.jp/e/publ/w_paper/pdf/2011/05Part1_Overview.pdf</a></p>	<p>In particular, China, a major political and economic power with important clout, has taken active part in international initiatives in non-traditional security fields, and is playing an increasingly important role in the region and the world. Although it is welcome by the international community, it is also promoting the extensive and rapid modernization of its military capabilities against the backdrop of the continuing rapid growth of its defense budget. China has not clarified the current status of or future vision for the modernization of its military capabilities, and since transparency is not sufficiently ensured regarding its decision-making processes for security and military matters, it has been pointed out that there is a possibility that this could lead to a sense of distrust and misunderstandings in other countries. Furthermore, China is expanding and increasing its activities in waters close to Japan. The lack of transparency of its national defense policies, and the military activities are a matter of concern for the region and the international community, including Japan, and need to be carefully analyzed. Based on this situation, there is a need for further improvements to transparency regarding China’s military, and promoting dialogues and exchanges with China and further strengthening mutual understanding and relations of trust are important issues. Part 3 Section 3</p>	<p>4</p>
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2012	<p>With regard to Japan's security environment over the past year, various movements have been observed including the transition of power to Kim Jong-un as the new leader of North Korea, and act of provocation such as launching a missile, which North Korea calls "Satellite", various notable military movements by China and continued growing military activities by Russia. In the meantime, against the background of progress in the U.S. force's drawing down from Afghanistan and Iraq and the serious scale circumstances of the U.S. Government, the U.S. released a new defense strategic guidance, showing policies to rebalance toward the Asia-Pacific region in its security strategy, and to emphasize its existing alliances in the region and to expand its networks of cooperation with emerging partners. Part 1 Section 1</p> <p>As seen above, the international community today faces diverse, complex and multilayered security issues and unstable factors. Such challenges could even occur simultaneously or compound each other. In addition to deterrence and handling of armed conflicts, the roles of military forces in responding to these are becoming more diverse to include a broad spectrum of activities from the conflict prevention to reconstruction assistance. Moreover, as the opportunities for military forces to play such an important role are increasing, comprehensive responses are required that seek to combine military capacity with methods focused on diplomacy, law enforcement and justice, intelligence and the economy. Part 1 Section 3  <a href="http://www.mod.go.jp/e/publ/w_paper/2012.html">http://www.mod.go.jp/e/publ/w_paper/2012.html</a></p>	<p>In particular, as China became an influential country both politically and economically, its military trends draw attention from other countries. On the one hand, the international community welcomes the fact that China has started playing a major role in the region and the world as illustrated by its active participation in international activities in non-traditional security areas. On the other hand, China has been broadly and rapidly modernizing its military forces, backed by the high and constant increase in its defense budget. China has not clarified the current status and future vision of its military modernization, and the transparency of its decision-making process in military and security affairs is not enough. These are why it has been pointed out that there is a possibility that this could lead to a sense of distrust and misunderstandings by other countries. Furthermore, China has been expanding and intensifying its activities in waters close to Japan. These moves, together with the lack of transparency in its military and security affairs, are a matter of concern for the region and the international community, including Japan, which should require prudent analysis. These are why China is asked to further improve transparency regarding its military, and further strengthening mutual understanding and trust by promoting dialogues and exchanges with China is an important issue. While a substantial reshuffle in the Chinese Communist Party leadership is expected after the autumn of 2012, the environment surrounding the next administration would not be rosy due to its various domestic problems. How the next administration would deal with various challenges attracts attention. Part 1 Section 2</p>	4
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<p>2013</p>	<p>Japan’s security environment is encompassed by various issues and destabilizing factors, some of which are becoming increasingly tangible, acute, and serious. Above all, as conflicts between countries etc. remain, major changes in the security environment in the vicinity of Japan have yet to emerge even after the end of the Cold War, unlike Europe. Factors in opacity and uncertainty such as issues of territorial rights and the reunification remain, and neighboring states are continuing to modernize their military capacity. Furthermore, over the past year, North Korea has taken such provocative actions as its launch of the missile, which it called “Satellite” and its nuclear test, China has rapidly expanded and intensified its activities in the waters and airspace surrounding Japan as exemplified by its intrusion into Japan’s territorial waters and airspace, and Russia continues to intensify its military activities. Thus, security environment in the vicinity of Japan has increasingly grown severe. Part 1 Section 1  <a href="http://www.mod.go.jp/e/publ/w_paper/pdf/2013/06_Part1_Chapter0_Sec1.pdf">http://www.mod.go.jp/e/publ/w_paper/pdf/2013/06_Part1_Chapter0_Sec1.pdf</a></p>	<p>In particular, China has now become an influential country both politically and economically, and its military developments also draw attention from other countries. Accordingly, China is strongly expected to recognize its responsibility as a major power, accept and stick to the international norms, and play a more active and cooperative role in regional and global issues. On the other hand, China has been engaging in extensive, rapid modernization of its military forces, backed by continual substantial increases in its defense budget. China has not clarified the current status and future vision of its military modernization initiatives, while its decision-making process in military and security affairs is not sufficiently transparent: Hence it has been pointed out that this could potentially lead to a sense of distrust and misunderstanding by other countries. Further- more, China has been rapidly expanding and intensifying its maritime activities. In particular, in the waters and airspace around Japan, it has engaged in dangerous acts that could give rise to a contingency situation, such as Chinese naval vessel’s direction of its fire-control radar at a JMSDF destroyer in January this year. In addition, Chinese aircraft and surveillance ships affiliated to China’s maritime law enforcement agencies have intruded into Japanese territorial waters and airspace. Coupled with the lack of transparency in its military and security affairs, these moves by China are a matter of concern for Japan and other countries in the region and the international community. Therefore, Japan needs to pay utmost attention to China’s movements. This is why China is asked to further improve transparency regarding its military and why further strengthening of mutual understanding and trust by promoting dialogue and exchanges with China is an important issue. At the same time, while a substantial reshuffle in the Chinese Communist Party leadership has taken place, resulting in the establishment of the Xi Jinping regime, the environment sur- rounding the next administration is certainly not rosy, due to its various domestic problems. Thus, the question of how it will deal with the challenges it faces will be the focus of attention. Part 1 Section 2</p>	<p>5</p>
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<p>2014</p>	<p>The security environment surrounding Japan has become increasingly severe, being encompassed by various challenges and destabilizing factors, which are becoming more tangible and acute. Above all, as conflicts between countries, etc., remain, major changes in the security environment in the vicinity of Japan have yet to emerge even after the end of the Cold War, unlike in Europe. Opaque and uncertain factors such as issues of territorial claims and reunification remain. There is also an increase in the number of so-called “gray-zone” situations that is neither purely peacetime nor contingencies over territory, sovereignty and maritime economic interests, etc.<sup>1</sup> In addition, there are clearer trends for neighboring states to modernize and reinforce their military capabilities and to intensify their military activities. As such, security challenges and destabilizing factors in the Asia-Pacific region including the area surrounding Japan are becoming more serious. Part 1 Section 1  <a href="http://www.mod.go.jp/e/publ/w_paper/pdf/2014/DOJ2014_1-1-0_web_1031.pdf">http://www.mod.go.jp/e/publ/w_paper/pdf/2014/DOJ2014_1-1-0_web_1031.pdf</a></p>	<p>China has now become influential both politically and economically, and its military developments also draw attention from other countries. Accordingly, China is strongly expected to recognize its responsibility in the international community, accept and stick to international norms, and play a more active and cooperative role in regional and global issues. In the meantime, China has been continuously increasing its defense budget at a high level, reinforcing its military forces broadly and rapidly. As a part of such efforts, China is believed to be making efforts to strengthen its asymmetrical military capabilities to prevent military activity by other countries in the region by denying access and deployment of foreign militaries to its surrounding areas (so-called “Anti-Access /Area-Denial” [“A2/ AD”] capabilities<sup>4</sup>). China has not clearly stated the purposes and goals of the military buildup, and transparency concerning its decision making process on military and security matters is not also fully achieved. In addition, China is rapidly expanding and intensifying its activities in the maritime and aerial domains in the region including in the East China Sea and South China Sea. In particular, China has taken assertive actions with regard to issues of conflicts of interest in the maritime domain, as exemplified by its attempts to change the status quo by coercion. As for the seas and airspace around Japan, China has intruded into Japanese territorial waters frequently and violated Japan’s airspace by its government ships and aircraft belonging to maritime law-enforcement agencies, and has engaged in dangerous activities that could cause unexpected situations, such as its vessel’s direction of control radar at a JMSDF destroyer, the flight of fighters abnormally close to JSDF aircraft, and its announcement of establishing the “East China Sea Air Defense Identification Zone (ADIZ)” based on its own assertion thereby infringing the freedom of over flight over the high seas. As Japan has great concern about these Chinese activities, it will need to pay utmost attention to them, as these activities also raise concerns over regional and global security. This is why China is asked to further improve transparency regarding its military and why further strengthening of mutual understanding and trust by promoting dialogue and exchanges with China is an important issue. Part 1 Section 2</p>	<p>5</p>
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<p>2015</p>	<p>The security environment surrounding Japan has become increasingly severe, with various challenges and destabilizing factors becoming more tangible and acute. Even after the end of the Cold War, interstate conflicts remain in the periphery of Japan, and as such, this region has not witnessed major changes in the security environment as were observed in Europe. Opaque and uncertain factors such as territorial disputes and reunification issues remain. There has been also a tendency towards an increase in and prolongation of so-called “gray-zone” situations, that is, neither pure peacetime nor contingencies over territory, sovereignty, and maritime economic interests<sup>1</sup>. In addition, there has been a noticeable trend among neighboring countries to modernize and reinforce their military capabilities and to intensify their military activities. In this regard, security challenges and destabilizing factors in the Asia-Pacific region including the area surrounding Japan are becoming more serious. Part 1 Section 1  <a href="http://www.mod.go.jp/e/publ/w_paper/2015.html">http://www.mod.go.jp/e/publ/w_paper/2015.html</a></p>	<p>In the meantime, China has been continuously increasing its defense budget at a high level and has been rapidly reinforcing its military in a wide range of areas. As part of such effort, China is believed to be making efforts to strengthen its asymmetrical military capabilities to prevent military activity by other countries in the region by denying access and deployment of foreign militaries to its surrounding areas (so-called “Anti- Access/Area-Denial” [“A2/AD”] capabilities<sup>5</sup>, as well as to build its structure for joint operations and enhance combat-oriented military trainings. China has not clearly stated the purposes and goals of the military buildup, and transparency concerning its decision making process on military and security matters is not fully achieved. In addition, China is rapidly expanding and intensifying its activities in the maritime and aerial domains in the region including in the East China Sea and South China Sea. In particular, China has continued to take assertive actions with regard to issues of conflicts of interest in the maritime domain, as exemplified by its attempts to change the status quo by coercion, and has signaled its position to realize its unilateral assertions without making any compromises. As for the seas and airspace around Japan, China has intruded into Japanese territorial waters frequently by its government ships, and has engaged in dangerous activities that could cause unforeseen consequences, such as its vessel’s direction of re control radar at a JMSDF destroyer, the flight of fighters abnormally close to JSDF aircraft, and its announcement of establishing the “East China Sea Air Defense Identification Zone (ADIZ)” based on its own assertion thereby infringing the freedom of over flight over the high seas. In the South China Sea, China has also intensified friction with countries in the surrounding area by proceeding rapidly with land reclamation projects in multiple reefs, among other activities, based on China’s unilateral assertion of sovereignty. In addition, a Chinese fighter is alleged to have flown abnormally close to and conducted an intercept of a U.S. Forces aircraft. As Japan has great concern about these Chinese activities, it will need to pay utmost attention to them, as these activities also raise concerns over regional and global security. This is why China is asked to further increase transparency regarding its military and why further strengthening of mutual understanding and trust by promoting dialogue and exchanges with China is an important issue. Against this backdrop, recently, China has begun to actively respond to the calls to take measures to avoid and prevent unforeseen consequences in the maritime domain. It is strongly hoped that progress on these efforts supplements the existing order based on international law and leads to enhancing China’s compliance with international norms. Part 1 Section 2</p>	<p>5</p>
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## APPENDIX 4: CHINA DEFENSE WHITE PAPER CONTENT ANALYSIS

Year	Key Phrasing	Key words	Threats identified	Threat perception	Threat perception
1998	international security situation has continued to tend toward relaxation....influence of armed conflicts and local wars on the overall international situation has been remarkably weakened...security situation in the Asia-Pacific region is relatively stable. <a href="http://www.china.org.cn/e-white/5/index.htm">http://www.china.org.cn/e-white/5/index.htm</a>	Relaxed, Stable.	"Hegemonism", India Pakistan nuclear tests, military alliances, Taiwan independence	Low	1
2000	international security situation, in general, continues to tend toward relaxation...security situation in the Asia-Pacific region has been on the whole stable...factors that may cause instability and uncertainty have markedly increased...United States is further strengthening its military presence and bilateral military alliances in this region, advocating the development of the TMD system and planning to deploy it in East Asia. Japan has passed a bill relating to measures in the event of a situation in the areas surrounding Japan <a href="http://www.china.org.cn/e-white/2000/20-2.htm">http://www.china.org.cn/e-white/2000/20-2.htm</a>	Relaxed, stable, complicated, uncertainty	"Hegemonism", interventionism, missile defense, US alliance network, Japan law on territorial seas, Taiwan	Low-moderate	2
2002	international situation is undergoing profound changes...Competition in the overall national strength has become increasingly fierce...Peace and development remain the themes of the present era...Asia-Pacific region has, on the whole, continued to enjoy its peace and stability...uncertainties impeding peace and development are also on the increase...serious disequilibrium has occurred in the balance of military power...developing countries are facing a serious challenge in their effort to safeguard sovereignty and security... <a href="http://www.china.org.cn/e-white/20021209/1.htm">http://www.china.org.cn/e-white/20021209/1.htm</a>	Change, uncertainty, stability, disequilibrium, challenge	ethnic and religious conflicts, hegemonism, military technology gap, terrorism and separatism, Taiwan separatism	Moderate	3
2004	Although the international situation as a whole tends to be stable, factors of uncertainty, instability and insecurity are on the increase...military factor plays a greater role in international configuration and national security...struggles for strategic points, strategic resources and strategic dominance crop up from time to time...military imbalance worldwide has further increased...The Asia-Pacific region enjoys basic stability in its security situation...complicated security factors in the Asia-Pacific region are on the increase...China's national security environment in this pluralistic, diversified and interdependent world has on the whole improved, but new challenges keep cropping up. <a href="http://www.china.org.cn/e-white/20041227/1.htm">http://www.china.org.cn/e-white/20041227/1.htm</a>	Stable, improved, uncertainty increasing, complicated	hegemonism and unilateralism, RMA and military imbalance, non-traditional security, US military alliance strengthening, Japan missile defense and constitutional reform	Low-moderate	2
2006	overall international security environment remains stable. But, uncertainties and destabilizing factors are on the increase, and new challenges and threats are continuously emerging...World peace and security face more opportunities than challenges...Hegemonism and power politics remain key factors undermining international security. Non-traditional security threats present greater danger...The overall security environment in the Asia-Pacific region remains stable...China's overall security environment remains sound... <a href="http://www.china.org.cn/english/features/book/194486.htm">http://www.china.org.cn/english/features/book/194486.htm</a>	Stable, sound, destabilizing factors increasing	hegemonism, US alliances and realignment, Japan collective self defense	Low-moderate	2
2008	Peace and development remain the principal themes of the times...a profound readjustment is brewing in the international system. In addition, factors conducive to maintaining peace and containing war are on the rise, and the common interests of countries in the security field have increased, and their willingness to cooperate is enhanced, thereby keeping low the risk of worldwide, all-out and large-scale wars for a relatively long period of time...World peace and development are faced with multiple difficulties and challenges. Struggles for strategic resources, strategic locations and strategic dominance have intensified....The Asia-Pacific security situation is stable on the whole....terrorist, separatist and extremist forces are running rampant...China's security situation has improved steadily....China is still confronted with long-term, complicated, and diverse security threats and challenges... <a href="http://www.china.org.cn/government/whitepaper/2009-01/21/content_17162891.htm">http://www.china.org.cn/government/whitepaper/2009-01/21/content_17162891.htm</a>	Peace, cooperation, low-risk, stable, improved, strength, opportunity	RMA, US realignment to Asia pacific, US arms sales to Taiwan, separatism	Low	1

2010	<p>international strategic competition and contradictions are intensifying, global challenges are becoming more prominent, and security threats are becoming increasingly integrated, complex and volatile...the world remains peaceful and stable...international security situation has become more complex. International strategic competition centering on international order, comprehensive national strength and geopolitics has intensified...International military competition remains fierce...Asia-Pacific security situation is generally stable...Asia-Pacific security is becoming more intricate and volatile...Profound changes are taking shape in the Asia-Pacific strategic landscape. Relevant major powers are increasing their strategic investment. The United States is reinforcing its regional military alliances, and increasing its involvement in regional security affairs...the overall security environment for it remains favorable...China is meanwhile confronted by more diverse and complex security challenges. China has vast territories and territorial seas. It is in a critical phase of the building of a moderately prosperous society in an all-round way. Therefore, it faces heavy demands in safeguarding national security.</p> <p><a href="http://www.china.org.cn/government/whitepaper/2011-03/31/content_22263403.htm">http://www.china.org.cn/government/whitepaper/2011-03/31/content_22263403.htm</a></p>	<p>Competition, volatile, stable, changing, challenges, "vast" territorial seas</p>	<p>strategic competition, non-traditional security, military technology gap, ethnic and religious discord, independence movements, US arms sales to Taiwan</p>	<p>Moderate</p>	<p>3</p>
2012	<p>White Paper (new format) - peace and development remain the underlying trends of our times...China's overall national strength has grown dramatically...On the issues concerning China's territorial sovereignty and maritime rights and interests, some neighboring countries are taking actions that complicate or exacerbate the situation, and Japan is making trouble over the issue of the Diaoyu Islands. The threats posed by "three forces," namely, terrorism, separatism and extremism, are on the rise...China's armed forces broaden their visions of national security strategy and military strategy, aim at winning local wars under the conditions of informationization, make active planning for the use of armed forces in peacetime, deal effectively with various security threats and accomplish diversified military tasks...Safeguarding national sovereignty, security and territorial integrity...</p> <p><a href="http://eng.mod.gov.cn/Database/WhitePapers/2012.htm">http://eng.mod.gov.cn/Database/WhitePapers/2012.htm</a></p>	<p>Peace, China strength, territorial sovereignty</p>	<p>Strengthened military alliances, Japan making trouble re Senkaku, military technology gap, Taiwan independence</p>	<p>Moderate</p>	<p>3</p>
2014	<p>Peace, development, cooperation and mutual benefit have become an irresistible tide...a world war is unlikely, and the international situation is expected to remain generally peaceful. There are, however, new threats from hegemonism, power politics and neo-interventionism...the world still faces both immediate and potential threats of local wars...China still faces multiple and complex security threats, as well as increasing external impediments and challenges...China has an arduous task to safeguard its national unification, territorial integrity and development interests...Some external countries are also busy meddling in South China Sea affairs; a tiny few maintain constant close-in air and sea surveillance and reconnaissance against China. It is thus a long-standing task for China to safeguard its maritime rights and interests...revolutionary changes in military technologies and the form of war have not only had a significant impact on the international political and military landscapes, but also posed new and severe challenges to China's military security. <a href="http://eng.mod.gov.cn/Database/WhitePapers/2014.htm">http://eng.mod.gov.cn/Database/WhitePapers/2014.htm</a></p>	<p>Peace, complex threats, territorial integrity, maritime rights, severe challenge</p>	<p>Non-traditional security, US rebalancing, Japan military and security policy, territorial sovereignty, Taiwan independence, separatist movements, RMA and military technology gap</p>	<p>Moderate-high</p>	<p>4</p>

## APPENDIX 5: China Regression Results – Heckman

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 Files/Logfile\_Heckman\_June16\_2018.smcl  
 opened on: 16 Jun 2018, 12:07:41

### Heckman Selection Model, Robust Standard Errors, Lagged Dependent Variable

Full Time Period 2000-2014

```
. heckman Share_AllChnODA_max L.GDP_2013 L.Pop L.Oil_rent_gdp L.CN_Firm_Est
L.CN_FDIout_2013Y L.CN_exp_Mill2013Y L.CN_imp_Mill2013Y L.Life_exp L.GDP_cap_2013
L.UN_IdealPoints Humanitarian_M L.Polity2_use L.UN_pctwUS L.UN_pctwChina UNSC ASEANChr
BorderChina L.ChinaMaritimeConflict L.ChinaBorderConflict USTreatyAlly USMilBase
L.Total_viol_war L.USMil_Pers L.US_Sanctions UN_Sanctions L.US_Relations_ind L.Coup_Success
L.Coup_Fail L.USAODA_M2013 L.ODACom_JPTot_M2013Y L.Share_AllChnODA_max, select(L.GDP_2013 L.Pop
L.Oil_rent_gdp L.CN_Firm_Est L.CN_FDIout_2013Y L.CN_exp_Mill2013Y L.CN_imp_Mill2013Y
L.Inf_Mort_rate L.GDP_cap_2013 L.UN_IdealPoints Humanitarian_M L.Polity2_use L.UN_pctwUS
L.UN_pctwChina UNSC ASEANChr BorderChina L.ChinaMaritimeConflict L.ChinaBorderConflict
L.Taiwan_Recog USTreatyAlly USMilBase L.Total_viol_war L.USMil_Pers L.US_Sanctions
L.UN_Sanctions L.US_Relations_ind L.Coup_Success L.Coup_Fail L.USAODA_M2013
L.ODACom_JPTot_M2013Y, noconstant) vce(robust) first
```

```
Heckman selection model          Number of obs   =      2,270
(regression model with sample selection)  Selected       =      1,307
                                           Nonselected    =       963
```

```
Log pseudolikelihood = 1966.922      Wald chi2(29)   =      .
                                           Prob > chi2    =      .
```

Share_AllChnODA_max	Coef.	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
Share_AllChnODA_max						
GDP_2013						
L1.	3.67e-16	6.23e-15	0.06	0.953	-1.18e-14	1.26e-14
Pop						
L1.	-2.06e-14	1.16e-11	-0.00	0.999	-2.28e-11	2.28e-11
Oil_rent_gdp						
L1.	-.0000326	.00007	-0.47	0.641	-.0001698	.0001046
<b>CN_Firm_Est</b>						
L1.	<b>.00018</b>	<b>.0000989</b>	<b>1.82</b>	<b>0.069</b>	<b>-.0000138</b>	<b>.0003739</b>
CN_FDIout_2013Y						
L1.	-3.85e-07	4.26e-07	-0.90	0.366	-1.22e-06	4.50e-07
CN_exp_Mill2013Y						
L1.	-6.82e-08	5.42e-08	-1.26	0.208	-1.74e-07	3.79e-08
CN_imp_Mill2013Y						
L1.	-3.85e-08	3.42e-08	-1.13	0.259	-1.05e-07	2.84e-08
<b>Life_exp</b>						
L1.	<b>-.0003448</b>	<b>.0001201</b>	<b>-2.87</b>	<b>0.004</b>	<b>-.0005801</b>	<b>-.0001095</b>
GDP_cap_2013						
L1.	-2.73e-07	2.42e-07	-1.13	0.259	-7.47e-07	2.01e-07
UN_IdealPoints						
L1.	-.0002686	.0031922	-0.08	0.933	-.0065251	.005988
Humanitarian_M						
L1.	.0000151	.0000111	1.36	0.175	-6.68e-06	.0000368
Polity2_use						

L1.	-.0002586	.0002118	-1.22	0.222	-.0006737	.0001564
UN_pctwUS						
L1.	.0211746	.0135016	1.57	0.117	-.005288	.0476372
UN_pctwChina						
L1.	.0071528	.0154896	0.46	0.644	-.0232062	.0375118
UNSC	.0002089	.003476	0.06	0.952	-.006604	.0070218
ASEANChr	.0245782	.0154015	1.60	0.111	-.0056082	.0547647
BorderChina	.0065726	.0057705	1.14	0.255	-.0047374	.0178827
ChinaMaritimeConflict						
L1.	.0111668	.0107726	1.04	0.300	-.009947	.0322807
ChinaBorderConflict						
L1.	-.017506	.0083135	-2.11	0.035	-.0338	-.0012119
USTreatyAlly	.0096247	.0093991	1.02	0.306	-.0087971	.0280465
USMilBase	.0040055	.0060977	0.66	0.511	-.0079457	.0159568
Total_viol_war						
L1.	.0020359	.0010182	2.00	0.046	.0000402	.0040316
USMil_Pers						
L1.	-1.36e-07	6.79e-08	-2.01	0.045	-2.69e-07	-3.19e-09
US_Sanctions						
L1.	.0045384	.005129	0.88	0.376	-.0055143	.014591
UN_Sanctions	-.0065187	.0044592	-1.46	0.144	-.0152586	.0022213
US_Relations_ind						
L1.	-.0024635	.0017632	-1.40	0.162	-.0059193	.0009924
Coup_Success						
L1.	-.0030551	.0053182	-0.57	0.566	-.0134786	.0073685
Coup_Fail						
L1.	-.0111098	.0037574	-2.96	0.003	-.0184742	-.0037454
USAODA_M2013						
L1.	-2.07e-06	2.49e-06	-0.83	0.405	-6.95e-06	2.81e-06
ODACom_JPTot_M2013Y						
L1.	1.14e-08	3.49e-08	0.33	0.744	-5.70e-08	7.98e-08
Share_AllChnODA_max						
L1.	.0553357	.0497181	1.11	0.266	-.0421099	.1527814
_cons	.0262098	.01254	2.09	0.037	.001632	.0507877
-----						
select						
GDP_2013						
L1.	-3.96e-12	1.05e-12	-3.77	0.000	-6.02e-12	-1.90e-12
Pop						
L1.	6.55e-10	6.33e-10	1.04	0.301	-5.85e-10	1.90e-09
Oil_rent_gdp						
L1.	.0156625	.0031883	4.91	0.000	.0094136	.0219115
CN_Firm_Est						
L1.	1.353554	.1531694	8.84	0.000	1.053348	1.653761
CN_FDIout_2013Y						
L1.	.008023	.0010377	7.73	0.000	.0059892	.0100567
CN_exp_Mill2013Y						
L1.	.0002111	.0000423	4.99	0.000	.0001282	.0002939
CN_imp_Mill2013Y						
L1.	-5.18e-06	.0000131	-0.40	0.692	-.0000308	.0000204
Inf_Mort_rate						

L1.	-.0086576	.0015153	-5.71	0.000	-.0116275	-.0056877
GDP_cap_2013						
L1.	-.0000521	.0000212	-2.46	0.014	-.0000937	-.0000105
UN_IdealPoints						
L1.	.6278956	.1139483	5.51	0.000	.4045611	.8512302
Humanitarian_M						
L1.	.0057675	.0011648	4.95	0.000	.0034846	.0080505
Polity2_use						
L1.	.0420282	.0072017	5.84	0.000	.0279132	.0561432
UN_pctwUS						
L1.	-6.230846	.5975634	-10.43	0.000	-7.402048	-5.059643
UN_pctwChina						
L1.	.9859111	.2590038	3.81	0.000	.478273	1.493549
UNSC						
L1.	-.340448	.1672968	-2.03	0.042	-.6683437	-.0125522
ASEANChr						
L1.	.0594488	.834144	0.07	0.943	-1.575443	1.694341
BorderChina						
L1.	.0085061	.1970148	0.04	0.966	-.3776357	.394648
ChinaMaritimeConflict						
L1.	-2.087299	.6663752	-3.13	0.002	-3.39337	-.7812274
ChinaBorderConflict						
L1.	-.1580309	.3270695	-0.48	0.629	-.7990754	.4830137
Taiwan_Recog						
L1.	.1649673	.1055627	1.56	0.118	-.0419318	.3718664
USTreatyAlly						
L1.	-1.490729	.4526186	-3.29	0.001	-2.377846	-.6036132
USMilBase						
L1.	-.1647015	.198312	-0.83	0.406	-.5533858	.2239828
Total_viol_war						
L1.	-.1513869	.0326493	-4.64	0.000	-.2153784	-.0873955
USMil_Pers						
L1.	-.0000141	5.01e-06	-2.80	0.005	-.0000239	-4.23e-06
US_Sanctions						
L1.	-.1208707	.1382024	-0.87	0.382	-.3917423	.150001
UN_Sanctions						
L1.	.4485954	.2392757	1.87	0.061	-.0203763	.9175672
US_Relations_ind						
L1.	.2849596	.0790525	3.60	0.000	.1300196	.4398995
Coup_Success						
L1.	-.0951643	.3472857	-0.27	0.784	-.7758317	.5855031
Coup_Fail						
L1.	.151363	.2478219	0.61	0.541	-.3343589	.6370849
USAODA_M2013						
L1.	.0001174	.0001636	0.72	0.473	-.0002033	.000438
ODACom_JPTot_M2013Y						
L1.	-2.77e-06	1.51e-06	-1.84	0.066	-5.72e-06	1.85e-07
/athrho						
L1.	-.0957393	.0977672	-0.98	0.327	-.2873594	.0958808
/lnsigma						
L1.	-3.523315	.136613	-25.79	0.000	-3.791071	-3.255558
rho						
L1.	-.0954478	.0968765			-.2797026	.0955881
sigma						
L1.	.0295015	.0040303			.0225714	.0385593
lambda						
L1.	-.0028159	.0028988			-.0084974	.0028657

Wald test of indep. eqns. (rho = 0): chi2(1) = 0.96 Prob > chi2 = 0.3275

#### Time Period 2000-2008

. heckman	Share_AllChnODA_max	L.GDP_2013	L.Pop	L.Oil_rent_gdp	L.CN_Firm_Est
L.CN_FDIout_2013Y	L.CN_exp_Mill2013Y	L.CN_imp_Mill2013Y	L.Life_exp	L.GDP_cap_2013	

```

L.UN_IdealPoints Humanitarian_M L.Polity2_use L.UN_pctwUS L.UN_pctwChina UNSC ASEANChr
BorderChina L.ChinaMaritimeConflict L.ChinaBorderConflict USTreatyAlly USMilBase
L.Total_viol_war L.USMil_Pers L.US_Sanctions UN_Sanctions L.US_Relations_ind L.Coup_Success
L.Coup_Fail L.USAODA_M2013 L.ODACom_JPTot_M2013Y L.Share_AllChnODA_max if Year <= 2008,
select(L.GDP_2013 L.Pop L.Oil_rent_gdp L.CN_Firm_Est L.CN_FDIout_2013Y L.CN_exp_Mill2013Y
L.CN_imp_Mill2013Y L.Inf_Mort_rate L.GDP_cap_2013 L.UN_IdealPoints Humanitarian_M L.Polity2_use
L.UN_pctwUS L.UN_pctwChina UNSC ASEANChr BorderChina L.ChinaMaritimeConflict
L.ChinaBorderConflict L.Taiwan_Recog USTreatyAlly USMilBase L.Total_viol_war L.USMil_Pers
L.US_Sanctions L.UN_Sanctions L.US_Relations_ind L.Coup_Success L.Coup_Fail L.USAODA_M2013
L.ODACom_JPTot_M2013Y, noconstant) vce(robust) first

```

```

Heckman selection model          Number of obs   =       1,765
(regression model with sample selection) Selected         =         802
                                         Nonselected     =         963

Log pseudolikelihood = 944.7682      Wald chi2(29)   =         .
                                         Prob > chi2     =         .

```

Share_AllChnODA_max	Coef.	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
-----						
Share_AllChnODA_max						
GDP_2013						
L1.	-3.11e-15	1.08e-14	-0.29	0.774	-2.43e-14	1.81e-14
Pop						
L1.	1.95e-12	1.30e-11	0.15	0.881	-2.36e-11	2.75e-11
Oil_rent_gdp						
L1.	-.000012	.0000925	-0.13	0.896	-.0001934	.0001693
CN_Firm_Est						
L1.	-.0000125	.0003367	-0.04	0.970	-.0006725	.0006475
<b>CN_FDIout_2013Y</b>						
<b>L1.</b>	<b>8.71e-06</b>	<b>5.05e-06</b>	<b>1.72</b>	<b>0.085</b>	<b>-1.19e-06</b>	<b>.0000186</b>
CN_exp_Mill2013Y						
L1.	-1.61e-07	1.57e-07	-1.02	0.307	-4.69e-07	1.47e-07
CN_imp_Mill2013Y						
L1.	-2.77e-08	1.52e-07	-0.18	0.856	-3.26e-07	2.71e-07
<b>Life_exp</b>						
<b>L1.</b>	<b>-.0003682</b>	<b>.0001779</b>	<b>-2.07</b>	<b>0.038</b>	<b>-.0007169</b>	<b>-.0000196</b>
GDP_cap_2013						
L1.	-4.52e-07	4.25e-07	-1.06	0.288	-1.29e-06	3.81e-07
UN_IdealPoints						
L1.	.0046985	.0039058	1.20	0.229	-.0029566	.0123537
Humanitarian_M						
L1.	.0000138	.0000121	1.14	0.256	-.00001	.0000376
Polity2_use						
L1.	-.0003473	.0002864	-1.21	0.225	-.0009086	.0002141
<b>UN_pctwUS</b>						
<b>L1.</b>	<b>.0380327</b>	<b>.0228772</b>	<b>1.66</b>	<b>0.096</b>	<b>-.0068058</b>	<b>.0828711</b>
<b>UN_pctwChina</b>						
<b>L1.</b>	<b>.0425366</b>	<b>.0230343</b>	<b>1.85</b>	<b>0.065</b>	<b>-.0026098</b>	<b>.0876831</b>
UNSC	.0040449	.005695	0.71	0.478	-.0071171	.015207
ASEANChr	.0302498	.0218252	1.39	0.166	-.0125269	.0730265
BorderChina	.0125729	.0093869	1.34	0.180	-.0058251	.0309708
ChinaMaritimeConflict						
L1.	.0188692	.0199564	0.95	0.344	-.0202445	.057983
<b>ChinaBorderConflict</b>						
<b>L1.</b>	<b>-.0216373</b>	<b>.0117691</b>	<b>-1.84</b>	<b>0.066</b>	<b>-.0447043</b>	<b>.0014296</b>



USTreatyAlly		.0206111	.0155474	1.33	0.185	-.0098612	.0510834
USMilBase		.0020331	.0088799	0.23	0.819	-.0153712	.0194373
<b>Total_viol_war</b>	<b> </b>						
L1.		<b>.0021703</b>	<b>.001155</b>	<b>1.88</b>	<b>0.060</b>	<b>-.0000935</b>	<b>.0044341</b>
USMil_Pers							
L1.		-1.02e-07	7.89e-08	-1.29	0.197	-2.57e-07	5.28e-08
US_Sanctions							
L1.		.0052097	.0083355	0.63	0.532	-.0111276	.021547
UN_Sanctions							
L1.		-.0037925	.0057649	-0.66	0.511	-.0150915	.0075065
US_Relations_ind							
L1.		-.0016512	.0020707	-0.80	0.425	-.0057096	.0024072
Coup_Success							
L1.		-.002971	.0066417	-0.45	0.655	-.0159885	.0100465
<b>Coup_Fail</b>	<b> </b>						
L1.		<b>-.0095392</b>	<b>.0049889</b>	<b>-1.91</b>	<b>0.056</b>	<b>-.0193173</b>	<b>.0002389</b>
USAODA_M2013							
L1.		-1.86e-06	3.56e-06	-0.52	0.602	-8.85e-06	5.13e-06
ODACom_JPTot_M2013Y							
L1.		9.43e-09	4.65e-08	0.20	0.839	-8.17e-08	1.01e-07
Share_AllChnODA_max							
L1.		.0245275	.0682294	0.36	0.719	-.1091997	.1582547
_cons							
L1.		-.004701	.0130416	-0.36	0.719	-.0302621	.0208601
-----							
select							
<b>GDP_2013</b>	<b> </b>						
L1.		<b>-3.05e-12</b>	<b>1.00e-12</b>	<b>-3.04</b>	<b>0.002</b>	<b>-5.01e-12</b>	<b>-1.08e-12</b>
Pop							
L1.		3.92e-10	6.30e-10	0.62	0.534	-8.42e-10	1.63e-09
<b>Oil_rent_gdp</b>	<b> </b>						
L1.		<b>.0185636</b>	<b>.003298</b>	<b>5.63</b>	<b>0.000</b>	<b>.0120996</b>	<b>.0250276</b>
<b>CN_Firm_Est</b>	<b> </b>						
L1.		<b>1.173437</b>	<b>.1609294</b>	<b>7.29</b>	<b>0.000</b>	<b>.8580212</b>	<b>1.488853</b>
<b>CN_FDIout_2013Y</b>	<b> </b>						
L1.		<b>.0446566</b>	<b>.0048195</b>	<b>9.27</b>	<b>0.000</b>	<b>.0352106</b>	<b>.0541026</b>
<b>CN_exp_Mill2013Y</b>	<b> </b>						
L1.		<b>.000214</b>	<b>.0000442</b>	<b>4.84</b>	<b>0.000</b>	<b>.0001273</b>	<b>.0003007</b>
CN_imp_Mill2013Y							
L1.		-.0000156	.0000175	-0.89	0.373	-.0000499	.0000187
<b>Inf_Mort_rate</b>	<b> </b>						
L1.		<b>-.008769</b>	<b>.0015887</b>	<b>-5.52</b>	<b>0.000</b>	<b>-.0118827</b>	<b>-.0056553</b>
<b>GDP_cap_2013</b>	<b> </b>						
L1.		<b>-.000085</b>	<b>.0000246</b>	<b>-3.46</b>	<b>0.001</b>	<b>-.0001332</b>	<b>-.0000368</b>
<b>UN_IdealPoints</b>	<b> </b>						
L1.		<b>.557701</b>	<b>.1203324</b>	<b>4.63</b>	<b>0.000</b>	<b>.3218538</b>	<b>.7935483</b>
<b>Humanitarian_M</b>	<b> </b>						
L1.		<b>.0058795</b>	<b>.0011769</b>	<b>5.00</b>	<b>0.000</b>	<b>.0035727</b>	<b>.0081862</b>
<b>Polity2_use</b>	<b> </b>						
L1.		<b>.0390434</b>	<b>.0076579</b>	<b>5.10</b>	<b>0.000</b>	<b>.0240343</b>	<b>.0540526</b>
<b>UN_pctwUS</b>	<b> </b>						
L1.		<b>-6.334521</b>	<b>.6609371</b>	<b>-9.58</b>	<b>0.000</b>	<b>-7.629934</b>	<b>-5.039108</b>
<b>UN_pctwChina</b>	<b> </b>						
L1.		<b>.8432303</b>	<b>.279754</b>	<b>3.01</b>	<b>0.003</b>	<b>.2949225</b>	<b>1.391538</b>

UNSC	-1.4084291	.1834278	-2.23	0.026	-.767941	-.0489171
ASEANChr	.1501578	.7607905	0.20	0.844	-1.340964	1.64128
BorderChina	.0715375	.1970807	0.36	0.717	-.3147335	.4578086
<b>ChinaMaritimeConflict</b>						
L1.	-1.733065	.6081325	-2.85	0.004	-2.924983	-.5411475
ChinaBorderConflict						
L1.	-.1454144	.3243614	-0.45	0.654	-.781151	.4903222
Taiwan_Recog						
L1.	.1497158	.1139049	1.31	0.189	-.0735337	.3729653
<b>USTreatyAlly</b>	-1.388848	.4393982	-3.16	0.002	-2.250052	-.5276429
USMilBase	-.0239351	.2009714	-0.12	0.905	-.4178318	.3699616
<b>Total_viol_war</b>						
L1.	-.1434971	.0323396	-4.44	0.000	-.2068815	-.0801128
<b>USMil_Pers</b>						
L1.	-.0000186	6.12e-06	-3.04	0.002	-.0000306	-6.59e-06
US_Sanctions						
L1.	-.1302155	.1437276	-0.91	0.365	-.4119164	.1514855
<b>UN_Sanctions</b>						
L1.	.471757	.2590944	1.82	0.069	-.0360587	.9795728
<b>US_Relations_ind</b>						
L1.	.3070559	.0859818	3.57	0.000	.1385348	.4755771
Coup_Success						
L1.	-.1723301	.3908754	-0.44	0.659	-.9384318	.5937715
Coup_Fail						
L1.	.1941777	.2474435	0.78	0.433	-.2908026	.679158
USAODA_M2013						
L1.	.0001289	.0001759	0.73	0.464	-.0002158	.0004735
ODACom_JPTot_M2013Y						
L1.	-3.34e-06	1.93e-06	-1.73	0.084	-7.13e-06	4.48e-07
/athrho	-.0553375	.099208	-0.56	0.577	-.2497816	.1391065
/lnsigma	-3.488247	.1719141	-20.29	0.000	-3.825193	-3.151302
rho	-.0552811	.0989048			-.2447133	.1382161
sigma	.0305544	.0052527			.0218142	.0427964
lambda	-.0016891	.0030912			-.0077478	.0043697

Wald test of indep. eqns. (rho = 0): chi2(1) = 0.31 Prob > chi2 = 0.5770

#### Time Period 2009-2014 FAIL

```
. heckman Share_AllChnODA_max L.GDP_2013 L.Pop L.Oil_rent_gdp L.CN_Firm_Est
L.CN_FDIout_2013Y L.CN_exp_Mill2013Y L.CN_imp_Mill2013Y L.Life_exp L.GDP_cap_2013
L.UN_IdealPoints Humanitarian_M L.Polity2_use L.UN_pctwUS L.UN_pctwChina UNSC ASEANChr
BorderChina L.ChinaMaritimeConflict L.ChinaBorderConflict USTreatyAlly USMilBase
L.Total_viol_war L.USMil_Pers L.US_Sanctions UN_Sanctions L.US_Relations_ind L.Coup_Success
L.Coup_Fail L.USAODA_M2013 L.ODACom_JPTot_M2013Y L.Share_AllChnODA_max if Year >= 2009,
select(L.GDP_2013 L.Pop L.Oil_rent_gdp L.CN_Firm_Est L.CN_FDIout_2013Y L.CN_exp_Mill2013Y
L.CN_imp_Mill2013Y L.Inf_Mort_rate L.GDP_cap_2013 L.UN_IdealPoints Humanitarian_M L.Polity2_use
L.UN_pctwUS L.UN_pctwChina UNSC ASEANChr BorderChina L.ChinaMaritimeConflict
L.ChinaBorderConflict L.Taiwan_Recog USTreatyAlly USMilBase L.Total_viol_war L.USMil_Pers
L.US_Sanctions L.UN_Sanctions L.US_Relations_ind L.Coup_Success L.Coup_Fail L.USAODA_M2013
L.ODACom_JPTot_M2013Y, noconstant) vce(robust) first
Dependent variable never censored because of selection:
model would simplify to OLS regression
r(498);
```

#### Time Period 2007-2008 FAIL

```
. heckman Share_AllChnODA_max L.GDP_2013 L.Pop L.Oil_rent_gdp L.CN_Firm_Est
L.CN_FDIout_2013Y L.CN_exp_Mill2013Y L.CN_imp_Mill2013Y L.Life_exp L.GDP_cap_2013
```

```
L.UN_IdealPoints Humanitarian_M L.Polity2_use L.UN_pctwUS L.UN_pctwChina UNSC ASEANChr
BorderChina L.ChinaMaritimeConflict L.ChinaBorderConflict USTreatyAlly USMilBase
L.Total_viol_war L.USMil_Pers L.US_Sanctions UN_Sanctions L.US_Relations_ind L.Coup_Success
L.Coup_Fail L.USAODA_M2013 L.ODACom_JPTot_M2013Y L.Share_AllChnODA_max if Year == 2007 | Year
== 2008, select(L.GDP_2013 L.Pop L.Oil_rent_gdp L.CN_Firm_Est L.CN_FDIout_2013Y
L.CN_exp_Mill2013Y L.CN_imp_Mill2013Y L.Inf_Mort_rate L.GDP_cap_2013 L.UN_IdealPoints
Humanitarian_M L.Polity2_use L.UN_pctwUS L.UN_pctwChina UNSC ASEANChr BorderChina
L.ChinaMaritimeConflict L.ChinaBorderConflict L.Taiwan_Recog USTreatyAlly USMilBase
L.Total_viol_war L.USMil_Pers L.US_Sanctions L.UN_Sanctions L.US_Relations_ind L.Coup_Success
L.Coup_Fail L.USAODA_M2013 L.ODACom_JPTot_M2013Y, noconstant) twostep first
Dependent variable never censored because of selection:
model would simplify to OLS regression
r(498);
```

**Rerun Heckman without CN\_Firm\_Est 2000-2014**

```
. heckman Share_AllChnODA_max L.GDP_2013 L.Pop L.Oil_rent_gdp L.CN_FDIout_2013Y
L.CN_exp_Mill2013Y L.CN_imp_Mill2013Y L.Life_exp L.GDP_cap_2013 L.UN_IdealPoints Humanitarian_M
L.Polity2_use L.UN_pctwUS L.UN_pctwChina UNSC ASEANChr BorderChina L.ChinaMaritimeConflict
L.ChinaBorderConflict USTreatyAlly USMilBase L.Total_viol_war L.USMil_Pers L.US_Sanctions
UN_Sanctions L.US_Relations_ind L.Coup_Success L.Coup_Fail L.USAODA_M2013 L.ODACom_JPTot_M2013Y
L.Share_AllChnODA_max, select(GDP_2013 Pop Oil_rent_gdp CN_FDIout_2013Y CN_exp_Mill2013Y
CN_imp_Mill2013Y Inf_Mort_rate GDP_cap_2013 UN_IdealPoints Humanitarian_M Polity2_use UN_pctwUS
UN_pctwChina UNSC ASEANChr BorderChina ChinaMaritimeConflict ChinaBorderConflict Taiwan_Recog
USTreatyAlly USMilBase Total_viol_war USMil_Pers US_Sanctions UN_Sanctions US_Relations_ind
Coup_Success Coup_Fail USAODA_M2013 ODACom_JPTot_M2013Y, noconstant) first
```

```
Heckman selection model          Number of obs   =      2,464
(regression model with sample selection) Selected       =      1,408
                                         Nonselected   =      1,056

Log likelihood =      2113.38          Wald chi2(28)   =          .
                                         Prob > chi2    =          .
```

Share_AllChnODA_max	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
Share_AllChnODA_max						
GDP_2013						
L1.	-1.90e-15	7.60e-15	-0.25	0.803	-1.68e-14	1.30e-14
Pop						
L1.	2.04e-12	1.29e-11	0.16	0.874	-2.32e-11	2.72e-11
Oil_rent_gdp						
L1.	.0000151	.0000642	0.24	0.814	-.0001108	.000141
CN_FDIout_2013Y						
L1.	1.01e-08	7.46e-07	0.01	0.989	-1.45e-06	1.47e-06
CN_exp_Mill2013Y						
L1.	-4.58e-09	6.70e-08	-0.07	0.945	-1.36e-07	1.27e-07
CN_imp_Mill2013Y						
L1.	-3.93e-08	4.07e-08	-0.97	0.334	-1.19e-07	4.05e-08
<b>Life_exp</b>						
<b>L1.</b>	<b>-.0002519</b>	<b>.0001011</b>	<b>-2.49</b>	<b>0.013</b>	<b>-.0004501</b>	<b>-.0000537</b>
GDP_cap_2013						
L1.	-2.77e-07	3.53e-07	-0.78	0.433	-9.68e-07	4.15e-07
UN_IdealPoints						
L1.	-.0014349	.0031719	-0.45	0.651	-.0076517	.004782
<b>Humanitarian_M</b>						
<b>L1.</b>	<b>.0000115</b>	<b>5.15e-06</b>	<b>2.23</b>	<b>0.025</b>	<b>1.41e-06</b>	<b>.0000216</b>
Polity2_use						
L1.	-.0001215	.0001742	-0.70	0.486	-.000463	.00022
UN_pctwUS						
L1.	.0100355	.0150657	0.67	0.505	-.0194928	.0395637
UN_pctwChina						

L1.	.0030968	.0166247	0.19	0.852	-.029487	.0356806
UNSC	.000259	.0033198	0.08	0.938	-.0062477	.0067657
ASEANChr	.0257872	.0098996	2.60	0.009	.0063844	.04519
BorderChina	.0094035	.0035035	2.68	0.007	.0025368	.0162702
ChinaMaritimeConflict						
L1.	.0099882	.0060916	1.64	0.101	-.0019511	.0219275
ChinaBorderConflict						
L1.	-.0186606	.0070701	-2.64	0.008	-.0325179	-.0048034
USTreatyAlly	.0106623	.0058288	1.83	0.067	-.0007619	.0220866
USMilBase	.0033062	.0043795	0.75	0.450	-.0052774	.0118899
Total_viol_war						
L1.	.0016445	.0007438	2.21	0.027	.0001867	.0031022
USMil_Pers						
L1.	-1.77e-07	1.10e-07	-1.61	0.108	-3.93e-07	3.89e-08
US_Sanctions						
L1.	.0047075	.0032128	1.47	0.143	-.0015895	.0110045
UN_Sanctions	-.004296	.0041221	-1.04	0.297	-.0123751	.0037832
US_Relations_ind						
L1.	-.0021273	.001565	-1.36	0.174	-.0051946	.00094
Coup_Success						
L1.	-.0058611	.0075566	-0.78	0.438	-.0206717	.0089495
Coup_Fail						
L1.	-.0102257	.006925	-1.48	0.140	-.0237985	.003347
USAODA_M2013						
L1.	1.13e-07	3.42e-06	0.03	0.974	-6.59e-06	6.82e-06
ODACom_JPTot_M2013Y						
L1.	5.17e-09	2.91e-08	0.18	0.859	-5.19e-08	6.22e-08
Share_AllChnODA_max						
L1.	.0834217	.0287338	2.90	0.004	.0271044	.1397389
_cons	.0214816	.0158876	1.35	0.176	-.0096575	.0526206
-----						
select						
GDP_2013	-8.66e-12	1.10e-12	-7.85	0.000	-1.08e-11	-6.50e-12
Pop	1.22e-09	8.08e-10	1.51	0.131	-3.64e-10	2.80e-09
Oil_rent_gdp	.0067057	.0030559	2.19	0.028	.0007162	.0126951
CN_FDIout_2013Y	.0026163	.0004899	5.34	0.000	.0016561	.0035765
CN_exp_Mill2013Y	.0003042	.0000268	11.36	0.000	.0002517	.0003567
CN_imp_Mill2013Y	9.43e-06	8.50e-06	1.11	0.267	-7.23e-06	.0000261
Inf_Mort_rate	-.0079161	.0013602	-5.82	0.000	-.010582	-.0052502
GDP_cap_2013	.0000141	.0000176	0.80	0.423	-.0000203	.0000485
UN_IdealPoints	1.064149	.1083843	9.82	0.000	.8517197	1.276578
Humanitarian_M	.0051881	.0006637	7.82	0.000	.0038872	.006489
Polity2_use	.0320617	.0067796	4.73	0.000	.018774	.0453494
UN_pctwUS	-8.188034	.4295453	-19.06	0.000	-9.029927	-7.346141
UN_pctwChina	2.131822	.2361753	9.03	0.000	1.668927	2.594717
UNSC	-.3478508	.1588382	-2.19	0.029	-.659168	-.0365335
ASEANChr	-.1408224	.6098498	-0.23	0.817	-1.336106	1.054461
BorderChina	-.1657045	.187332	-0.88	0.376	-.5328684	.2014594
ChinaMaritimeConflict	-4.235803	.5503598	-7.70	0.000	-5.314489	-3.157118
ChinaBorderConflict	.0938393	.2855888	0.33	0.742	-.4659044	.653583
Taiwan_Recog	-.0403352	.0933705	-0.43	0.666	-.223338	.1426676
USTreatyAlly	-1.631591	.3777192	-4.32	0.000	-2.371908	-.8912754
USMilBase	-.5417848	.1939328	-2.79	0.005	-.9218862	-.1616834
Total_viol_war	-.1605804	.0300238	-5.35	0.000	-.219426	-.1017348
USMil_Pers	-.0000164	4.92e-06	-3.34	0.001	-.000026	-6.77e-06
US_Sanctions	-.1023275	.127518	-0.80	0.422	-.3522581	.1476031
UN_Sanctions	.7615507	.2192738	3.47	0.001	.3317819	1.191319
US_Relations_ind	.146784	.0693727	2.12	0.034	.010816	.282752
Coup_Success	.0823787	.3175871	0.26	0.795	-.5400806	.704838
Coup_Fail	-.1971322	.2625465	-0.75	0.453	-.7117139	.3174494

USAODA_M2013		.000186	.0001221	1.52	0.127	-.0000532	.0004253
ODACom_JPTot_M2013Y		-1.69e-06	1.50e-06	-1.13	0.258	-4.63e-06	1.24e-06
-----							
/athrho		.0311443	.0585634	0.53	0.595	-.0836379	.1459265
/lnsigma		-3.551356	.0188494	-188.41	0.000	-3.5883	-3.514412
-----							
rho		.0311342	.0585066			-.0834434	.1448994
sigma		.0286857	.0005407			.0276453	.0297653
lambda		.0008931	.0016788			-.0023973	.0041835
-----							
LR test of indep. eqns. (rho = 0):				chi2(1) =	-29.07	Prob > chi2 =	1.0000

**Rerun Heckman without CN\_Firm\_Est, 2000-2008**

```
. heckman Share_AllChnODA_max L.GDP_2013 L.Pop L.Oil_rent_gdp L.CN_FDIout_2013Y
L.CN_exp_Mill2013Y L.CN_imp_Mill2013Y L.Life_exp L.GDP_cap_2013 L.UN_IdealPoints Humanitarian_M
L.Polity2_use L.UN_pctwUS L.UN_pctwChina UNSC ASEANChr BorderChina L.ChinaMaritimeConflict
L.ChinaBorderConflict USTreatyAlly USMilBase L.Total_viol_war L.USMil_Pers L.US_Sanctions
UN_Sanctions L.US_Relations_ind L.Coup_Success L.Coup_Fail L.USAODA_M2013 L.ODACom_JPTot_M2013Y
L.Share_AllChnODA_max if Year <= 2008, select(GDP_2013 Pop Oil_rent_gdp CN_FDIout_2013Y
CN_exp_Mill2013Y CN_imp_Mill2013Y Inf_Mort_rate GDP_cap_2013 UN_IdealPoints Humanitarian_M
Polity2_use UN_pctwUS UN_pctwChina UNSC ASEANChr BorderChina ChinaMaritimeConflict
ChinaBorderConflict Taiwan_Recog USTreatyAlly USMilBase Total_viol_war USMil_Pers US_Sanctions
UN_Sanctions US_Relations_ind Coup_Success Coup_Fail USAODA_M2013 ODACom_JPTot_M2013Y,
noconstant) first
```

```
Heckman selection model                               Number of obs   =    1,917
(regression model with sample selection)              Selected       =     861
                                                       Nonselected    =    1,056

Log likelihood = 1234.767                             Wald chi2(28)   =          .
                                                       Prob > chi2    =          .
```

Share_AllChnODA_max	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
-----						
Share_AllChnODA_max						
GDP_2013						
L1.	-2.84e-15	1.47e-14	-0.19	0.847	-3.17e-14	2.60e-14
Pop						
L1.	2.52e-12	1.68e-11	0.15	0.881	-3.04e-11	3.54e-11
Oil_rent_gdp						
L1.	.0000488	.0000841	0.58	0.561	-.000116	.0002136
<b>CN_FDIout_2013Y</b>						
<b>L1.</b>	<b>8.72e-06</b>	<b>4.42e-06</b>	<b>1.97</b>	<b>0.048</b>	<b>6.01e-08</b>	<b>.0000174</b>
CN_exp_Mill2013Y						
L1.	-1.24e-07	1.98e-07	-0.62	0.532	-5.11e-07	2.64e-07
CN_imp_Mill2013Y						
L1.	-4.08e-08	1.18e-07	-0.35	0.729	-2.72e-07	1.90e-07
<b>Life_exp</b>						
<b>L1.</b>	<b>-.0002687</b>	<b>.0001357</b>	<b>-1.98</b>	<b>0.048</b>	<b>-.0005346</b>	<b>-2.67e-06</b>
GDP_cap_2013						
L1.	-6.00e-07	6.45e-07	-0.93	0.353	-1.86e-06	6.65e-07
UN_IdealPoints						
L1.	.0042133	.0048968	0.86	0.390	-.0053841	.0138108
<b>Humanitarian_M</b>						
<b>L1.</b>	<b>.0000172</b>	<b>8.66e-06</b>	<b>1.99</b>	<b>0.047</b>	<b>2.47e-07</b>	<b>.0000342</b>
Polity2_use						
L1.	-.0001716	.0002424	-0.71	0.479	-.0006467	.0003035
UN_pctwUS						
L1.	.0177399	.0272365	0.65	0.515	-.0356426	.0711225
UN_pctwChina						
L1.	.0373573	.0253779	1.47	0.141	-.0123824	.087097

UNSC	.0035995	.0045257	0.80	0.426	-.0052707	.0124698
ASEANChr	.030875	.0129227	2.39	0.017	.0055469	.056203
BorderChina	.0138431	.0048298	2.87	0.004	.004377	.0233093
ChinaMaritimeConflict						
L1.	.0183883	.0087108	2.11	0.035	.0013153	.0354612
ChinaBorderConflict						
L1.	-.0210235	.0088343	-2.38	0.017	-.0383383	-.0037086
USTreatyAlly	.0208619	.0080054	2.61	0.009	.0051716	.0365522
USMilBase	.0022634	.0058228	0.39	0.697	-.0091491	.0136758
Total_viol_war						
L1.	.0017768	.0009659	1.84	0.066	-.0001163	.0036699
USMil_Pers						
L1.	-1.31e-07	1.80e-07	-0.73	0.467	-4.83e-07	2.21e-07
US_Sanctions						
L1.	.0033314	.0045051	0.74	0.460	-.0054985	.0121612
UN_Sanctions	-.001487	.0062863	-0.24	0.813	-.0138079	.0108339
US_Relations_ind						
L1.	-.0015753	.0021667	-0.73	0.467	-.0058219	.0026713
Coup_Success						
L1.	-.0045638	.0115654	-0.39	0.693	-.0272316	.0181039
Coup_Fail						
L1.	-.0084281	.008883	-0.95	0.343	-.0258385	.0089822
USAODA_M2013						
L1.	-1.57e-06	5.07e-06	-0.31	0.757	-.0000115	8.37e-06
ODACom_JPTot_M2013Y						
L1.	9.01e-09	3.63e-08	0.25	0.804	-6.22e-08	8.02e-08
Share_AllChnODA_max						
L1.	.0313004	.03454	0.91	0.365	-.0363969	.0989976
_cons	-.0072125	.0230811	-0.31	0.755	-.0524506	.0380257
-----						
select						
GDP_2013	-5.13e-12	1.23e-12	-4.18	0.000	-7.54e-12	-2.73e-12
Pop	1.24e-09	8.90e-10	1.40	0.163	-5.02e-10	2.99e-09
Oil_rent_gdp	.0146748	.0037584	3.90	0.000	.0073085	.0220411
CN_FDIout_2013Y	.0183129	.0033831	5.41	0.000	.0116821	.0249437
CN_exp_Mill2013Y	.0002266	.0000298	7.61	0.000	.0001682	.000285
CN_imp_Mill2013Y	2.01e-06	.0000126	0.16	0.873	-.0000227	.0000267
Inf_Mort_rate	-.0098362	.0016723	-5.88	0.000	-.0131138	-.0065586
GDP_cap_2013	-.0000338	.0000235	-1.44	0.151	-.00008	.0000123
UN_IdealPoints	2.028073	.1559156	13.01	0.000	1.722484	2.333662
Humanitarian_M	.0059773	.0008161	7.32	0.000	.0043778	.0075767
Polity2_use	.0273346	.0085942	3.18	0.001	.0104903	.0441789
UN_pctwUS	-16.77149	.79694	-21.04	0.000	-18.33347	-15.20952
UN_pctwChina	3.435462	.3185358	10.79	0.000	2.811143	4.059781
UNSC	-.3701094	.201553	-1.84	0.066	-.765146	.0249271
ASEANChr	.0728482	.7336062	0.10	0.921	-1.364994	1.51069
BorderChina	.1073295	.2322846	0.46	0.644	-.34794	.5625989
ChinaMaritimeConflict	-2.80692	.6503708	-4.32	0.000	-4.081624	-1.532217
ChinaBorderConflict	-.2767034	.3818162	-0.72	0.469	-1.025049	.4716426
Taiwan_Recog	.0018767	.1179168	0.02	0.987	-.229236	.2329894
USTreatyAlly	-1.537915	.4148004	-3.71	0.000	-2.350909	-.724921
USMilBase	-.1738715	.2312924	-0.75	0.452	-.6271962	.2794533
Total_viol_war	-.151701	.0354088	-4.28	0.000	-.221101	-.082301
USMil_Pers	-.0000145	5.73e-06	-2.52	0.012	-.0000257	-3.23e-06
US_Sanctions	.0844881	.1576898	0.54	0.592	-.2245782	.3935544
UN_Sanctions	.6076434	.3193054	1.90	0.057	-.0181836	1.23347
US_Relations_ind	.435103	.0912305	4.77	0.000	.2562945	.6139115
Coup_Success	-.0115199	.3992646	-0.03	0.977	-.7940641	.7710242
Coup_Fail	-.2080776	.3119825	-0.67	0.505	-.8195521	.4033968
USAODA_M2013	-.0000578	.0001394	-0.41	0.678	-.0003309	.0002154

```

ODACom_JPTot_M2013Y | -1.41e-06  1.89e-06  -0.75  0.455  -5.10e-06  2.29e-06
-----+-----
      /athrho | .0728996  .1217905  0.60  0.549  -.1658054  .3116046
      /lnsigma | -3.514431  .0241849 -145.31  0.000  -3.561833  -3.467029
-----+-----
      rho | .0727707  .1211455  -1.1643025  .3018961
      sigma | .0297647  .0007199  .0283868  .0312096
      lambda | .002166  .0036107  -.0049109  .0092429
-----+-----
LR test of indep. eqns. (rho = 0):  chi2(1) = 0.54  Prob > chi2 = 0.4606

```

**Rerun Heckman without CN\_Firm\_Est 2009-2014 FAIL**

```

. heckman Share_AllChnODA_max L.GDP_2013 L.Pop L.Oil_rent_gdp L.CN_FDIout_2013Y
L.CN_exp_Mill2013Y L.CN_imp_Mill2013Y L.Life_exp L.GDP_cap_2013 L.UN_IdealPoints Humanitarian_M
L.Polity2_use L.UN_pctwUS L.UN_pctwChina UNSC ASEANChr BorderChina L.ChinaMaritimeConflict
L.ChinaBorderConflict USTreatyAlly USMilBase L.Total_viol_war L.USMil_Pers L.US_Sanctions
UN_Sanctions L.US_Relations_ind L.Coup_Success L.Coup_Fail L.USAODA_M2013 L.ODACom_JPTot_M2013Y
L.Share_AllChnODA_max if Year > 2008, select(GDP_2013 Pop Oil_rent_gdp CN_FDIout_2013Y
CN_exp_Mill2013Y CN_imp_Mill2013Y Inf_Mort_rate GDP_cap_2013 UN_IdealPoints Humanitarian_M
Polity2_use UN_pctwUS UN_pctwChina UNSC ASEANChr BorderChina ChinaMaritimeConflict
ChinaBorderConflict Taiwan_Recog USTreatyAlly USMilBase Total_viol_war USMil_Pers US_Sanctions
UN_Sanctions US_Relations_ind Coup_Success Coup_Fail USAODA_M2013 ODACom_JPTot_M2013Y,
noconstant) first
Dependent variable never censored because of selection:
model would simplify to OLS regression
r(498);

```

**Rerun Heckman without CN\_Firm\_Est 2007-2008 FAIL**





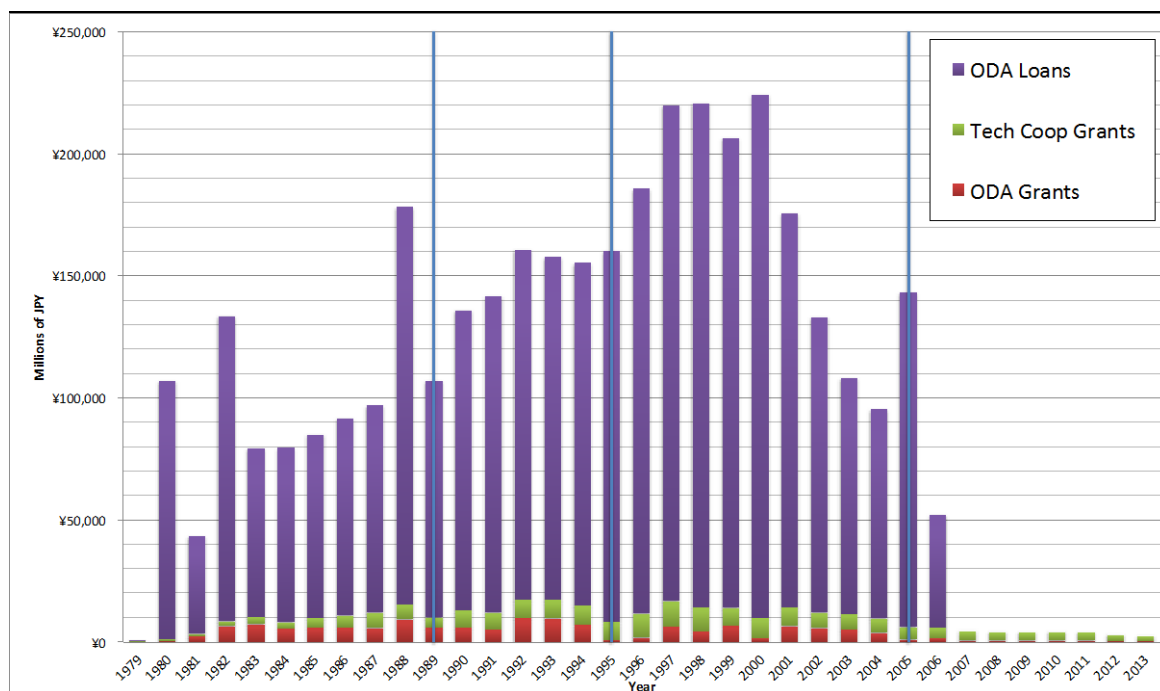
## APPENDIX 6: Supplemental case study - Japan's aid to China

The evolution of Japan's aid policy and the move towards more explicitly strategic foreign aid can be seen in the changes in Japan's approach to aid for China. Japan was the first country to provide ODA to China in 1979. During much of the 1980s and 90s, Japan was the largest provider of foreign aid to China.<sup>645</sup> Figure 7-1 on page 420 shows Japan's ODA to China including ODA project loans, ODA project grants, and technical cooperation grants. Project loans and ODA grants pay for specific projects agreed to between the two governments. ODA loans tend to be used for economic infrastructure while ODA grants tend to be used for peacebuilding, human security, and grants to Japanese NGO projects. Technical cooperation grants pay for capacity building, conferences and working groups, dispatch of experts, training, and Japanese Overseas Cooperation Volunteers.

There have been three major disruptions since the beginning of Japan's ODA program to China: 1) the suspension of ODA in 1989 in response to the Tiananmen incident, 2) the suspension of ODA grants in 1995 in response to China's nuclear testing, and 3) the 2005 decision to phase out ODA loans to China altogether. The blue vertical lines in the following charts indicate these points.

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<sup>645</sup> Quansheng Zhao, "Japan's Aid Diplomacy with China," 163-187.

**Figure 7-1: Japan's ODA Commitments to China, 1979-2013 (Millions of JPY)**

Notes: Data are commitments rather than disbursements because commitments are more representative of policy choices. Horizontal blue lines represent Japan's key ODA policy events regarding China. Figures not adjusted for inflation.

Source: Japan International Cooperation Agency

Many scholars view Japan's ODA program as commercially oriented to benefit Japanese business and, in the case of China, to ensure China is integrated into regional and international institutions. A substantial amount of quantitative research on Japan's ODA has confirmed that it is commercially oriented.<sup>646</sup> Commercial orientation helps Japan justify its ODA to the public and ensure benefits accrue to Japanese taxpayers. As Japan's Official Development Assistance White Paper 2012 states that ODA "will contribute to both assisting developing countries and stimulating the Japanese economy."<sup>647</sup>

Contrary to the commercial view, Takamine Tsukasa<sup>648</sup> makes the case that Japan's aid to China was primarily to institutionally bind China to the global economic system. He argues

<sup>646</sup> Peter J. Schraeder, Stephen W. Hook and Bruce Taylor, "Clarifying the Foreign Aid Puzzle: A comparison of American, Japanese, French and Swedish Aid Flows," *World Politics*, No. 50 (January 1998), 294-323.

<sup>647</sup> Japan Ministry of Foreign Affairs, "Japan's International Cooperation: Japan's Official Development Assistance White Paper 2012," Tokyo: Government of Japan (2013), 24.

<sup>648</sup> Tsukasa Takamine, "The Political Economy of Japanese Foreign Aid: The Role of Yen Loan in China's Economic Growth and Openness," *Pacific Affairs*, Vol. 79, No. 1 (Spring 2006), 29-48.

that this policy was meant to constrain China's unilateral behavior and encourage more cooperative international relations. If these explanations (commercial orientation and institutional binding) explain Japan's ODA policy, the cutoff of yen loans is puzzling. Stopping ODA loans would seem to be at cross-purposes to both goals. **Key question: Why did Japan decide (2005) to eliminate ODA loans to China?**

**Explanation 1:** Japan reduced and eliminated ODA loans to China in order to pursue a policy of balancing against China's rise. Many realist international relations scholars interpret the decision as the point where Japan finally started acting like a realist power. Realists expect Japan (and other regional powers) to balance against China's rise and to pursue policies that provide relative gains for Japan vis-à-vis China.<sup>649</sup> Richard Samuels notes the tone of discourse in Japan during 2001 to 2003 regarded China as an economic threat, regionally uncooperative, and militarily dangerous.<sup>650</sup> Some scholars (e.g. Michael Green) have called Japan's overall policy "soft containment" or "reluctant realism".<sup>651</sup> Japan may have phased out ODA lending to China because ODA was perceived to be harmful to Japan's security.

**Explanation 2:** Japan eliminated ODA loans to China because they no longer served Japan's economic interests and/or to sanction behavior contrary to Japan's interests and provide incentives for China to be more cooperative in the future. This explanation is more consistent with commercial and institutional liberalism.

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<sup>649</sup> John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W.W. Norton and Company, Kindle Edition, 2013), loc. 5922 of 10916.

<sup>650</sup> Richard J. Samuels, *Securing Japan: Tokyo's Grand Strategy and the Future of East Asia* (Ithaca: Cornell University Press, Kindle Edition, 2011), loc. 3336 of 8578.

<sup>651</sup> Michael J. Green, "Managing Chinese Power," 152-175.

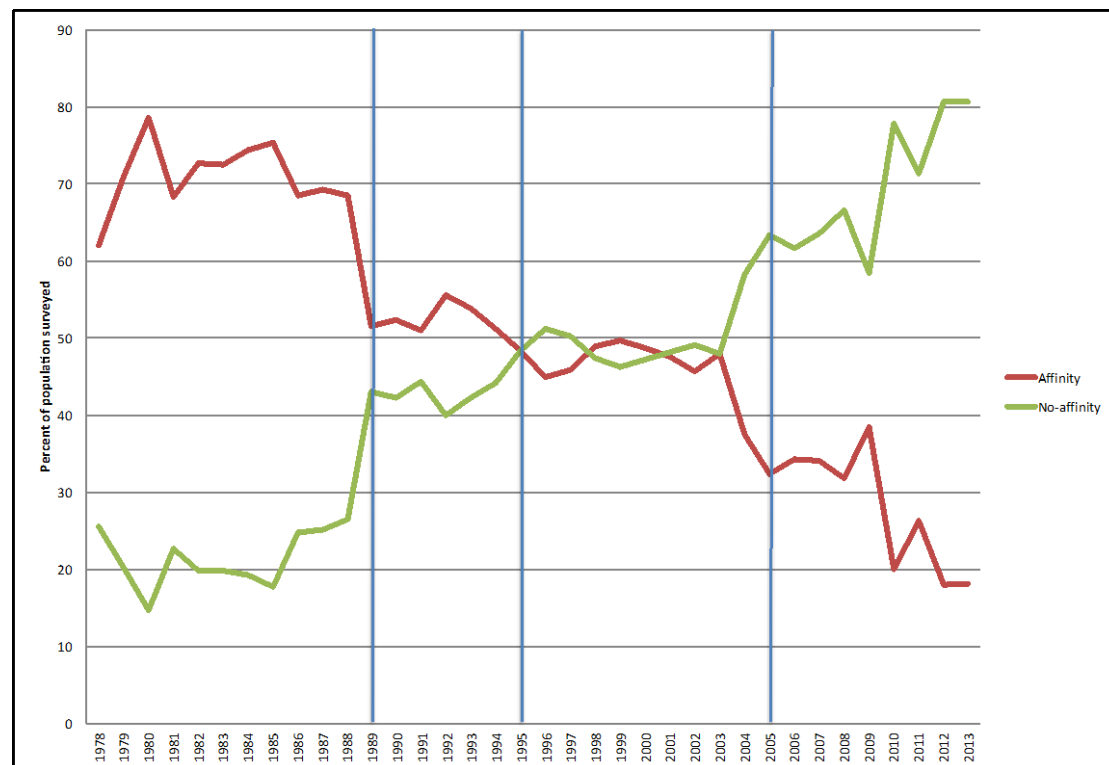
**Explanation 3:** Japan eliminated ODA loans to China because of domestic politics. This is consistent with either explanation and could be interpreted as a condition variable that facilitated the cutoff of ODA loans.

The evolution of Japan's foreign aid policy can be discerned from its ODA policy responses and conditions during the China ODA controversies in 1989, 1995, and the 2000s. The different responses represent the evolution in Japanese leaders' perceptions regarding China and the changing purpose of ODA. The competing hypotheses will be evaluated to determine if one can be supported over the others based on these three historical events.

#### **Subcase 1: Response to Tiananmen Incident (1989)**

On June 4, 1989, the Chinese government forcefully cracked down on democracy protesters in Tiananmen Square, killing a large number while arresting and imprisoning thousands of others. The Japanese people's reaction was severe (see Figure 7-2 on page 423). Japanese affinity for China dropped by nearly 20 percentage points and has been on a downward trajectory ever since. However, while a major drop, over 50% of Japanese still felt affinity for China immediately after the Tiananmen incident so it is unlikely that public pressure or domestic politics was a major factor in the decision.

Figure 7-2: Japanese Citizen's Reported Affinity for China, 1978-2013



Source: Cabinet Office - 内閣府、外交に関する世論調査 - 2013 (see <http://survey.gov-online.go.jp/index-gai.html> Accessed 1/30/2017).

Japan together with its G-7 partners at the economic summit in Paris on July 15, 1989 announced a suspension in ODA and imposed other economic sanctions on China. Some scholars point to foreign pressure from the United States in particular as a key reason Japan was the only Asian country to sanction China after the incident.<sup>652</sup> However, Japan was the most reluctant member of the G-7 to take punitive action against China. Japanese leaders felt that if China's integration into the global economy were derailed, it would be contrary to Japan's economic and political interests.<sup>653</sup> Japan announced that it would resume existing ODA projects on a selective basis on August 17, 1989 and resumed regular ODA to China on July

<sup>652</sup> Akitoshi Miyashita, "Consensus or compliance: Gaiatsu, interests, and Japan's foreign aid," 40.

<sup>653</sup> Koji Murata, "Domestic sources of Japanese policy towards China", in ed. Peng Er Lam, *Japan's Relations with China: Facing a Rising Power* (Oxon: Routledge, 2006), 38.

11, 1990.<sup>654</sup> Watanabe Shino argues that Japanese leaders believed it was more important to support continued economic reforms and China's opening to the world than to punish it.<sup>655</sup> Katada Saori notes that Japan resumed ODA to China unilaterally and China "appreciated" the move.<sup>656</sup>

Katada also claims that business support for resumption of ODA was important for the Japanese government's decision-making (p. 46). While there was business support for continued ODA to China, Figure 7-3 on page 425 shows that in 1989 China's economy was a small fraction of Japan's. Figure 7-4 on page 425 also shows that foreign direct investment from Japan to China was very limited in 1989. The commercial potential for China may have been large, but the actual economic activity between China and Japan was small in 1989. In fact, Watanabe references Ishiwara Takashi (Chairman of the Keizai Douyuukai 経済同友会, a prominent pro-business lobbying group) as demanding that "the Japanese government take stronger measures against the Chinese authorities."<sup>657</sup> It is doubtful that commercial pressure was dominant in Japan's reluctance to impose sanctions.

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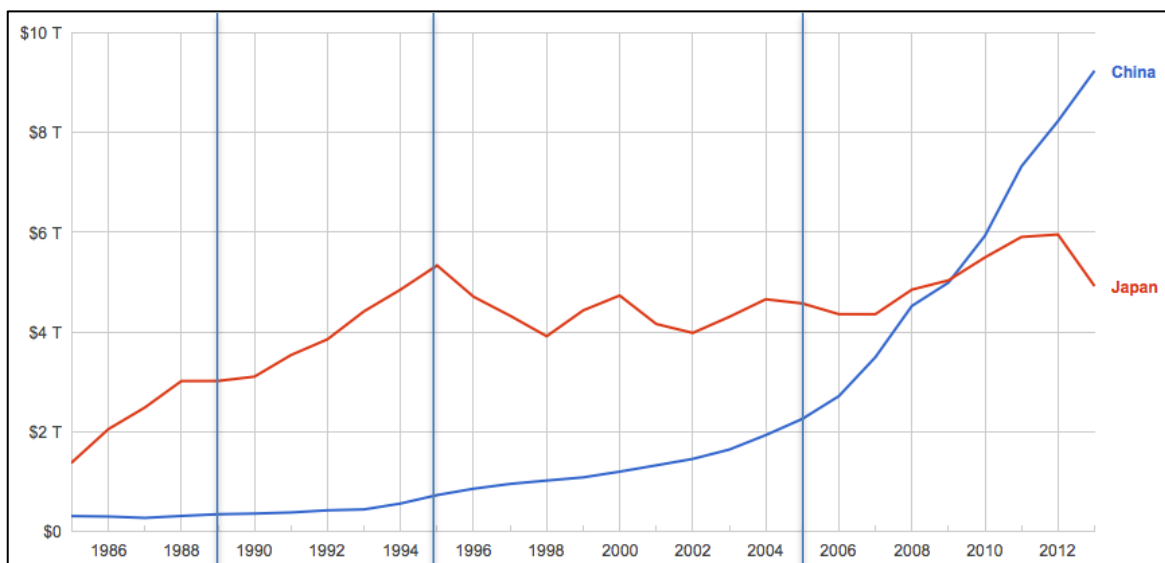
<sup>654</sup> G. Hufbauer, J. Schott, K.A. Elliott, and B. Oegg, *Economic Sanctions Reconsidered, 3rd Edition* (Washington DC: Petersen Institute for International Economics, 2008). See Chronology of Events at <http://www.iie.com/research/topics/sanctions/china.cfm#chronology>.

<sup>655</sup> Shino Watanabe, "Foreign Aid and Influence: Paradoxical Power Dynamics in Japan's Official Development Assistance to China," Doctoral Dissertation, Department of Politics, University of Virginia, January 2007.

<sup>656</sup> Saori Katada, "Why did Japan Suspend Foreign Aid to China? Japan's Foreign Aid Decision-making and Sources of Aid Sanction," *Social Science Japan Journal*, Vol. 4, No. 1 (2001), 45-46.

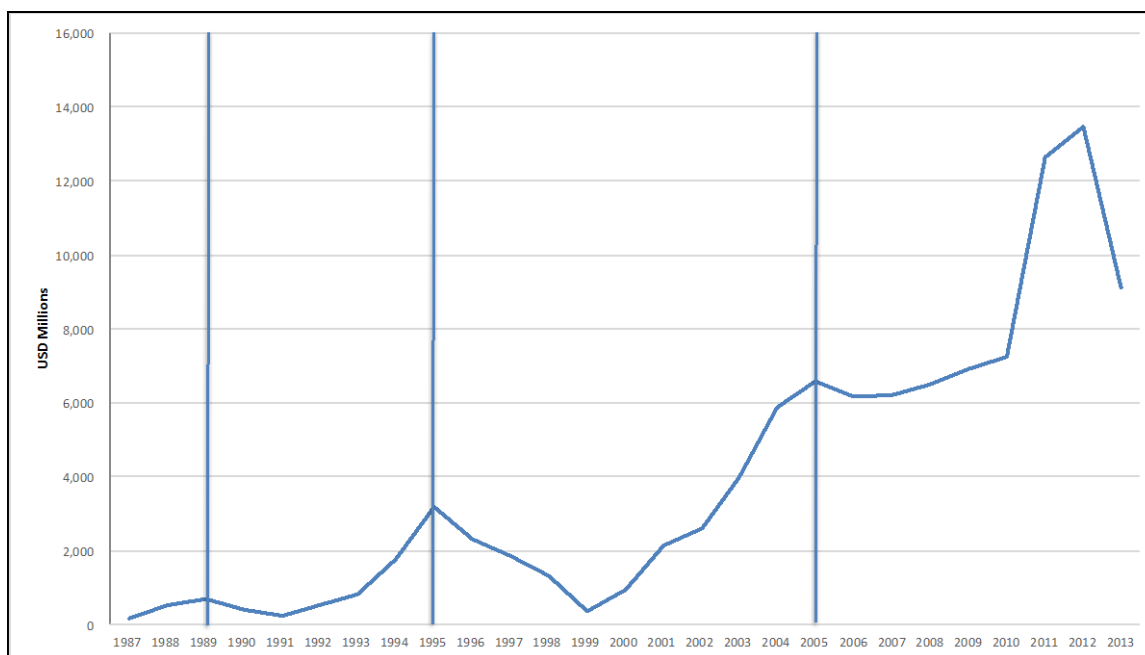
<sup>657</sup> "Head of Japan Economic Association promotes critical view of China," (Japanese: 経済同友会の石原代表、中国への日本政府の批判的見解を求める, Asahi Shimbun, 7 June 1989, referenced in Shino Watanabe, "Foreign Aid and Influence," 110.

**Figure 7-3: Japan and China GDP, Trillions of USD**



Note: Blue lines represent key ODA events of 1989, 1995, and 2005.  
 Source: World Bank

**Figure 7-4: Japan's Foreign Direct Investment in China, 1987-2013 (USD Millions)**



Note: Blue lines represent key ODA events of 1989, 1995, and 2005.  
 Source: JETRO based on Ministry of Finance Balance of Payments Statistics and Bank of Japan foreign exchange rates.

Further, there is little evidence that Japan was militarily concerned about China. The Cold War had just ended and there is no evidence that Japan was actively pursuing strengthening the United States Japan Security Alliance at the time. It was not until the Gulf War in 1991 that Japan's failings as an alliance partner began to be an issue and the Japanese

Government did not revise its National Defense Program Outline until 1995.<sup>658</sup> Japan was not acting like a "realist" power in 1989.

In the Tiananmen case, Japan quickly resumed ODA because of concern that China's reform and opening up policy might be reversed if it were isolated from the international community. As Zhao Quansheng argues, Japanese leaders thought sanctions would strengthen hard-liners in China and heighten anti-Japanese nationalism. Japanese leaders believed that an isolated China would behave in ways contrary to its interests and be destabilizing for the region.<sup>659</sup> Kesavan summarizes Japanese thinking towards China in 1989 as follows: "Japan attaches great importance to China's role...and believes that China, if diplomatically isolated, could become disruptive and combative."<sup>660</sup> Japan's policy in 1989 adhered most closely to the institutional binding hypothesis. Japan was acting consistent with institutional liberal predictions.

### **Subcase 2: Response to nuclear tests**

On May 15, 1995, China conducted a nuclear weapons test. After the first test, Japan announced a reduction in grant aid to China. A second test was conducted in August 1995. Japan quickly froze all grant aid to China (\$75 million) aside from humanitarian assistance. China then conducted missile tests in Taiwan Straights in 1995 and 1996. These events mark a beginning of Japanese concern regarding China's military behavior and its potential to threaten Japan.

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<sup>658</sup> Michael J. Green, "Managing Chinese Power," 154-5.

<sup>659</sup> Quansheng Zhao, "Japan's Aid Diplomacy with China," 163-187.

<sup>660</sup> K.V. Kesavan, "Japan and the Tiananmen Square Incident: Aspects of the Bi-Lateral Relationship," *Asian Survey*, Vol. 30, No. 7 (July 1990), 681.



Unlike the 1989 case, no other state imposed meaningful sanctions on China for these tests. Masuda Masayuki argues that after the Cold War, Japan began to see ODA as a tool for imposing sanctions on undesirable behavior.<sup>661</sup> In the nuclear test case, Japan intended to signal its displeasure with Chinese behavior and combined ODA sanctions with official protests to the Chinese government.<sup>662</sup> Since Japan had protested the first nuclear test and warned China about further damage to the bilateral relationship, Japan needed to impose a consequence on further tests. Also, the policy of aid sanctioning was consistent with the 1992 ODA Charter<sup>663</sup>, which identifies development of weapons of mass destruction as a factor in aid decisions. China's ambassador to Japan Xu Dunxin reacted angrily to the move:

...**Japan's** nuclear policy is "not persuasive," since **Japan** is under the nuclear umbrella while taking an antinuclear stance....**Japan's** decision to link political factors to its economic cooperation will hurt the Chinese people's feelings, and will "pour cold water" on Chinese-Japanese relations...<sup>664</sup>

But why did Japan choose only to freeze grants and not the larger loan program? Compared to 1989, the commercial importance of ODA to China had increased. FDI was substantially higher as was the level of lending with China becoming (again) the largest single recipient of Japanese ODA and had become the 2nd largest trading partner after the United States.<sup>665</sup> As shown in Figure 7-5 on page 428, China was considered the most promising destination for foreign investment according to a survey of Japanese companies.

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<sup>661</sup> Masayuki Masada, "Japan's Changing ODA Policy Towards China", *China Perspectives*, Vol. 47 (May-June 2003), 2.

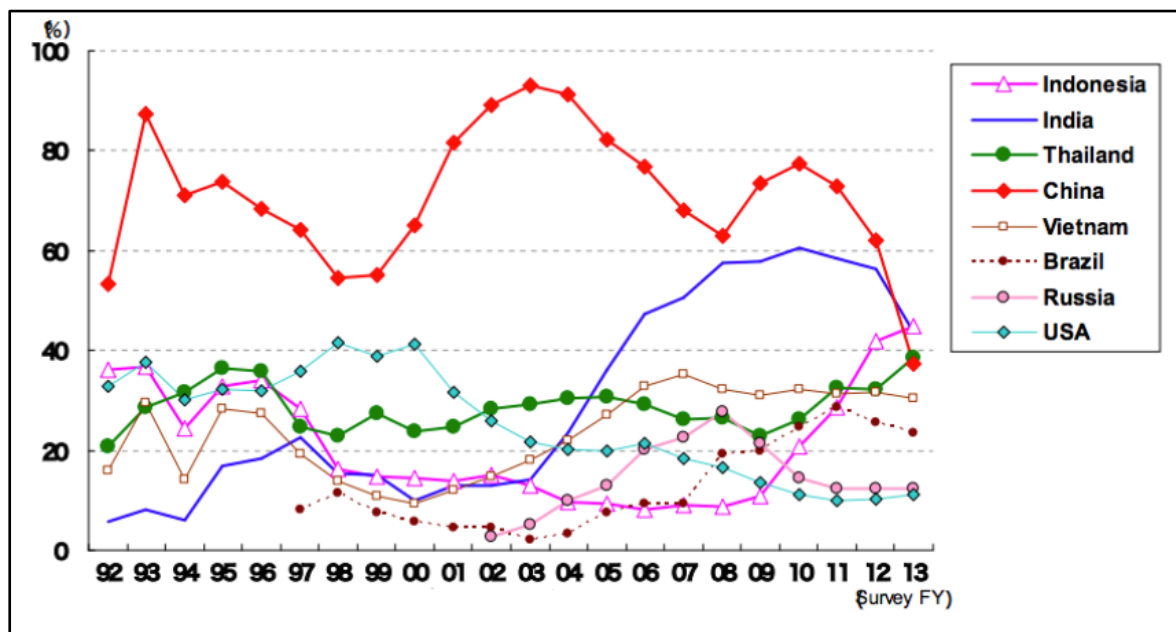
<sup>662</sup> "Japan Announces Freeze on Grant Aid to China," *Jiji Press English News Service*, 30 August 1995.

<sup>663</sup> See summary at: <http://www.mofa.go.jp/policy/oda/summary/1999/ref1.html>.

<sup>664</sup> "China Envoy Raps Japan's Aid Cut as 'Unwise'," *Japan Economic Newswire (Kyodo News International)*, 30 August 1995.

<sup>665</sup> Yong Deng, "Relations with Japan: Implications for Asia-Pacific Regionalism", *Pacific Affairs*, Vol. 70, No. 3 (Autumn 1997), 378-9.

Figure 7-5: Promising Countries for overseas Business in the Medium Term (3-years)



Source: JBIC, Survey Report on Overseas Business Operations by Japanese Manufacturing Companies: Outlook for Foreign Direct Investment (25th Annual Survey), November 2013.

Watanabe Shino documents that several business leaders supported the grant aid freeze but argued against freezing yen loans.<sup>666</sup> It is impossible to say if business pressure was decisive, but suspending grant aid rather than yen loans served Japan's commercial interests. Japan's aid to China was substantial in 1995, but amounted to only about 0.2% of China's GDP. China's economy was large enough by 1995 that ODA from Japan was not economically significant and held largely symbolic and political meaning. For this reason, Japan could signal its displeasure with the Chinese nuclear tests without harming its business interests by freezing yen loans. Japanese leaders were also aware that China was set to join the Comprehensive Test Ban Treaty (CTBT) and was likely testing its nuclear weapons a last time before signing. Therefore, Japan could claim success for its policy when China signed the CTBT in September 1996. There is no evidence that domestic politics was a significant factor in 1995 given the insignificant change in Japanese affinity for China. Overall, this case supports the view that

<sup>666</sup> Shino Watanabe, *Foreign Aid and Influence*, 144.

Japan acted in a manner consistent with institutional binding but more commercial orientation. Japan ODA policy towards China was still consistent with liberalism.

### **Subcase 3: ODA loan phase-out**

Following several controversial incidents (e.g. Yasukuni Shrine visits, repeated Chinese encroachments into Japan's territorial waters) and deteriorating relations between Japan and China, Japan announced on April 17, 2005 that it would stop providing ODA yen loans to China by 2008. This event coincided with a sharp deterioration in Japanese people's feelings of affinity towards China and increasingly contentious rhetoric between governments. Zhang Qiyue, spokesman for the Chinese Foreign Ministry, reacted angrily stating that "irresponsible remarks" about ending ODA "would damage Sino-Japanese relations."<sup>667</sup>

Economic difficulties in Japan have been reported as a domestic factor in the decision to end yen loans to China.<sup>668</sup> However, ending of yen loans to China would be an ineffective means of helping Japan's budgetary predicament. From a budget perspective, ODA loans are reported net of repayments. Further, the issuance of a yen loan is also a government receivable so while it is a budgetary expenditure, it does not harm the government's balance sheet and China has never failed to repay on time. If Japan was trying to improve its fiscal condition, cutting ODA grants would have been much more effective. That Japan continues to provide ODA technical cooperation grants to China indicates that financial difficulties most likely had little to do with the decision to cut ODA loan aid in 2005.

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<sup>667</sup> "China Official Raps ODA Remarks by Japanese Leaders," *Jiji Press English News Service*, 3 December 2004.

<sup>668</sup> Murata, Koji, "Domestic sources," 44.

Does the conventional wisdom that Japan's ODA program serves primarily commercial interests explain the 2005 case? As seen in Figure 7-5 on page 428, China was considered by far the most promising country for Japanese business investment and was reaching a peak in the early 2000s. It did not lose its top ranking until 2013. FDI from Japan to China was also rising strongly throughout this period (Figure 7-4 on page 425). Given the increasing level of dependence of Japan on the Chinese economy, even if ODA was only modestly beneficial to Japanese companies, phasing out ODA loans antagonized the Chinese side. The Chinese government tends to penalize firms from countries with which it has disputes and the yen loan phase-out would have predictably had negative consequences for Japan's commercial interests. Japanese FDI in China declined in 2006 and 2007 before recovering later in the decade. The Japanese government appeared to ignore its commercial interests in the 2005 decision.

Another argument is that yen loans were stopped to signal displeasure with China's behavior in the same manner as the 1995 grant freeze. However, when using a sanction to signal displeasure with a state's behavior, there must be the possibility of resumption of the original policy. Otherwise the target state will have no incentive to change their behavior. Further, aid sanctions are generally imposed immediately rather than phased in over a period of years. The 1989 and 1995 cases fit the aid sanctions model well, but the 2005 decision does not. Therefore, Japanese leaders most likely did not consider the phase-out of yen loans as an aid sanction or as an incentive for China to change its international behavior. Japan did not appear to be acting in a manner consistent with commercial or institutional liberalism in 2005.

Sino-Japanese relations were on a downward trajectory from around 2003 so many observers point to domestic politics as the reason for the 2005 decision. However, many

Japanese leaders had been arguing for ending ODA loans to China as early as 1995.<sup>669</sup> The reason commonly cited was to stop promoting China's prosperity at Japan's expense, a relative gains argument consistent with realism.<sup>670</sup> Newspaper editorials frequently called for Japan to stop helping China who was claimed to be building up its military contrary to Japan's 1992 ODA charter and providing aid to third countries.<sup>671</sup> By 2003, editorials opposed ODA to China because it was becoming a military and economic "threat" to Japan.<sup>672</sup> These debates preceded the sharp deterioration in relations in 2004 and 2005.

Xu Xianfen argues<sup>673</sup> that Japanese disillusionment with the effect of ODA on anti-Japanese sentiment in China is to blame for the political pressure to end yen loans. He argues that Japan expected that the historical problems between Japan and China could be lessened if the Chinese people understood and felt gratitude for Japanese ODA and the failure of this to happen explains the 2005 decision. Xu's argument is not persuasive because the discourse on ending yen loans to China began years earlier. Most likely, domestic political factors contributed to the momentum behind the 2005 decision, but the perception of China as a rising military and economic threat to Japan was behind the Japanese leaders reticence about continued ODA to China. Japanese leaders<sup>674</sup> had already decided that Japan's ODA to China was against its interests, driven by concerns about Japan's relative power vis-à-vis China.

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<sup>669</sup> Japan Forum on International Relations, *The Future of China in the Context of Asian Security*, (Tokyo, January 1995), 9, referenced in Reinhardt Drifte, "The ending of Japan's ODA loan programme to China," 109.

<sup>670</sup> "Japan will not slash aid budget for East Asia; Ignoring calls at home to stop financing China's prosperity, Tokyo says it still regards the region as a 'priority area'," *The Straights Times (Singapore)*, August 13, 2002.

<sup>671</sup> "ODA Getting the Review it Needs," Japan Economic Newswire (Translated from Daily Yomiuri), December 12, 2000.

<sup>672</sup> "Should Japan Curtail ODA Spending?", *The Daily Yomiuri*, August 11, 2003.

<sup>673</sup> Xu Xianfen, *The Diplomacy of Japan's ODA to China: Profit, Power, and Values Dynamics* (Tokyo: Regional Studies Series on Modern China, 2011), 236-9.

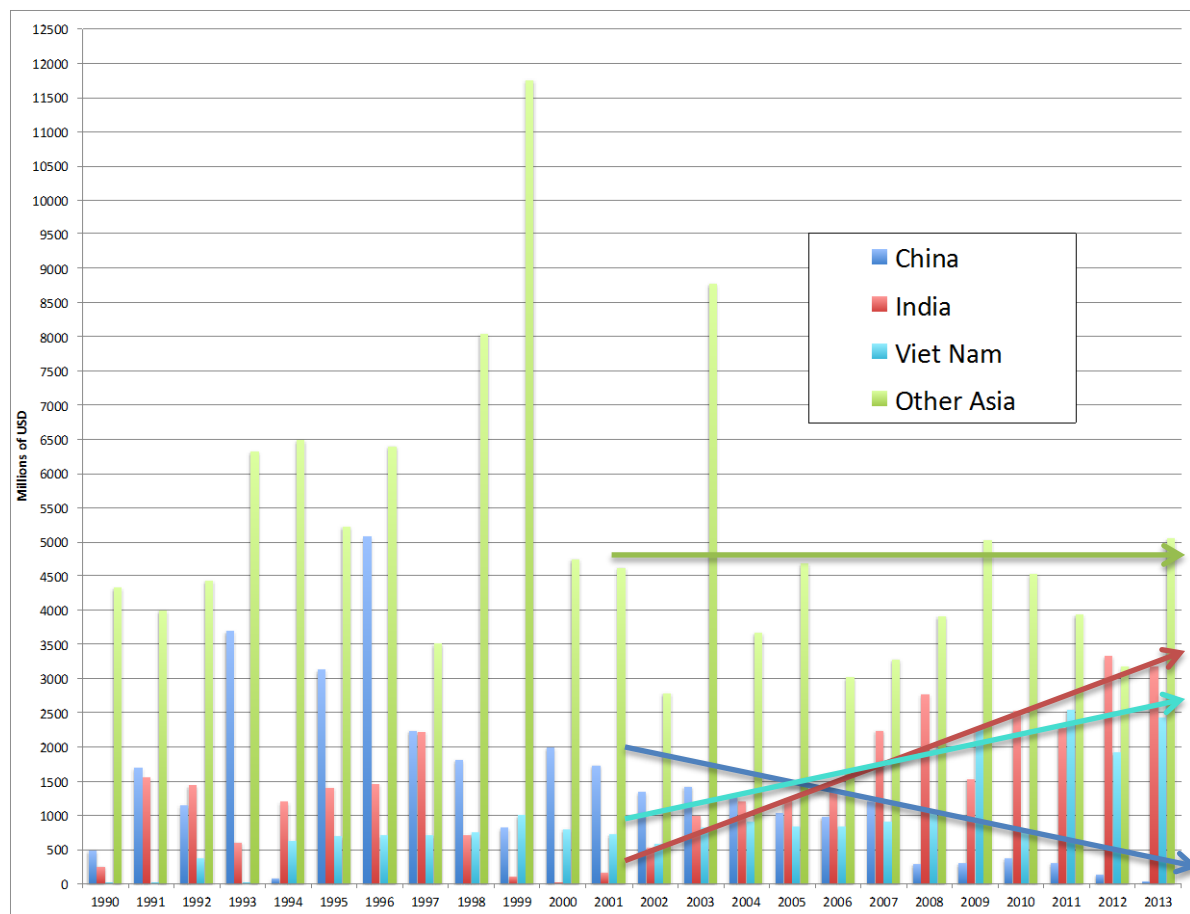
<sup>674</sup> Masayuki Masuda, "Japan's Changing ODA Policy Towards China", 10.

If Japan were using ODA as part of a balancing strategy, we would expect a shift of ODA from China to states likely to balance against China. India and Vietnam, each with active border disputes and a history of military conflict with China, are the most likely candidates. Since 2006, Japan's ODA to India and Vietnam together has grown 15% annually while Japan's ODA to the rest of Asia combined (excluding China, Myanmar<sup>675</sup> and Afghanistan<sup>676</sup>) grew only 5 percent. Figure 7-6 on page 433 shows the rapid rise of ODA to India and Vietnam beginning around 2002 and continuing to the present and coinciding with the slide in ODO to China.

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<sup>675</sup> Myanmar excluded due to confounding factor of 2012 opening resulting in massive increase in Japan's ODA in 2013.

<sup>676</sup> Afghanistan excluded due to confounding factor of 2001-2014 US led war and recovery effort, which brought large ODA allocations.

**Figure 7-6: Trends in Japan's ODA to Asia, 1990-2013 (Millions of USD)**

Note: Other Asia excludes China (end of ODA loans), Myanmar (lifting sanctions) and Afghanistan (war) due to external cofounding factors. The spike in ODA seen in 2003 reflects large onetime increases to Indonesia and Pakistan. Arrows are trend lines for China (blue), India (red), Vietnam (turquoise), and Rest of Asia (green). Source: OECD DAC Database.

Aside from 2003 where one-time spikes in ODA occurred for Indonesia and Pakistan, ODA to the rest of Asia has held relatively steady since the early 2000s. Overall, the picture is consistent with realist balancing behavior.

### **Why did Japan decide to end yen loans to China?**

The most reasonable explanation for the 2005 ODA loan phase-out is to contain China's rise. Japanese leaders understood that ending yen loans to China would antagonize the Chinese government, hurt bilateral relations, reduce China's incentives to cooperate with Japan, and result in commercial losses. They pursued the policy anyway.

Through these three cases, the evolution of Japan's foreign policy approach to China becomes clearer. Business support for ODA has been consistently strong, but commercial considerations in ODA decline even as the commercial importance of China to Japan increases. Institutional binding is the most compelling rationale for Japan's behavior in 1989. The 1995 case shows the beginning of Japan identifying China as a threat and using ODA as a means of signaling its displeasure but trying not to harm business ties, a blend of institutional and commercial liberalism. By the early 2000s, Japanese leaders became convinced that China's rising economic and military power was a threat to its interests. Ending ODA loans became the most obvious policy tool to begin implementing a containment and balancing strategy.

The impact of the ODA phase-out in 2005 was probably counterproductive. Thomas Christensen argues that preventing a security dilemma from emerging with China is critical for continued peace in East Asia.<sup>677</sup> He proposes a reassurance and multilateral engagement strategy toward China. If Chinese leaders believe that Japan is working to prevent its rise while also taking a larger role in an expanding military alliance with the US, the likelihood of a security dilemma increases. Murata Koji argues "Japan-China cooperation is essential for regional stability...".<sup>678</sup> Cutting off yen loans removes whatever leverage Japan's ODA provided and removes one incentive for China to participate in multilateral institutions where Japan is a key actor. Most of the impacts of the policy were negative.

The 2005 decision is also unlikely to have much effect on China's rise due to the small scale of the assistance and large size of China's economy. In fact, the Ministry of Foreign

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<sup>677</sup> Thomas Christensen, "Security Dilemma in East Asia," 49-80.

<sup>678</sup> Koji Murata, "Domestic sources of Japanese policy," 46.



Affairs (MOFA) had already begun responding to concerns that ODA was fueling China's rise at Japan's expense and began reorienting Japan's ODA to environmental, institutional capacity building, and projects in China's underdeveloped Western Provinces. This would have oriented ODA toward projects that more clearly benefit Japan, explicitly promote institutional binding, and promote development in areas of China far from the industrial centers in China's East that directly compete with Japan.<sup>679</sup> MOFA bureaucrats probably understood the negative consequences of stopping ODA loans altogether and sought to reorient loans to more clearly target areas that did not threaten Japan. In the end, political leaders overruled them. The result has been the continued slide in Sino-Japanese relations, reduced bi-lateral and multilateral cooperation, and less security in Asia.

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<sup>679</sup> David Arase, "Japanese ODA policy toward China: The new agenda," in ed. Peng Er Lam, *Japan's Relations with China: Facing a Rising Power*, 100.



## APPENDIX 7: AIDDATA.ORG METHODOLOGY FOR TRACKING CHINESE FINANCIAL FLOWS

China's ODA-like flows are identified using Aiddata.org's methodology called Tracking Underreported Financial Flows (TUFF).<sup>680</sup> The process begins with a media-based data collection (MDBC) effort through structured searches using Factiva to identify the broad universe of potential Chinese financed projects. This first versions of Aiddata's methodology explicitly labeled the methodology as MDBC approach. Since those early efforts, the methodology has been extended from the media-based approach to augment and fact-check the data in ways that extend well beyond MBDC.

The media-based data collection phase uses Factiva is the starting point. The Factiva search is extended by searches of Chinese Embassy websites operated by the Ministry of Foreign Affairs, Economic and Commercial Counselor websites operated by the Chinese Ministry of Commerce, and aid recipient government websites that often publish data on foreign aid projects. The data set is also extended using case studies by affiliated scholars. During the research phase of this dissertation, I provided data collected from the Philippines case study to AidData.org, which have been incorporated into the final data set. In addition, the Development Cooperation chapters of the Asian Development Bank's (ADB) project approval documents contain a listing of aid projects financed by other donors and often include Chinese aid financed projects among them. I mined ADBs approval documents for explicit references to Chinese financed aid projects and provided this information to AidData.org to

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<sup>680</sup> Austin M. Strange, et. al. , *AidData's Methodology* (2015).

include in the Global Chinese Official Finance Dataset, 2000-2014, Version 1.0.<sup>681</sup> ADB's project documents were particularly useful for identifying Chinese financed projects in Central and South Asia where news reports may be sparse but where local ADB country offices keep track of Chinese financed aid projects in the sectors where the ADB also provides concessional financing.

Aiddata uses a prescribed step-by-step methodology that is published in detail in the its report on tracking unreported financing flows.<sup>682</sup> The data collection process contains three steps: project identification, source triangulation, and quality control. The project identification step mines aid project reports from aid systems in recipient countries, Chinese embassy and economic and commercial counselor websites, IMF staff country reports, and targeted Factiva searches. Data triangulation is intended to bolster the level of detail and information regarding the projects identified during identification. This is done through Google and Baidu searches and the new sources used to confirm the project and add details on the project. During quality control, each record is reviewed individually by Aiddata senior project managers to ensure projects are not double counted, are logically consistent, and remove or correct any suspicious records. Aiddata converts all project costs into constant 2014 USD to ensure local currency changes and revaluations are accounted for.<sup>683</sup> During data set development, several advance draft datasets were circulated to scholars, including this author, for quality control about one year prior to the official public release of the China dataset. Researchers analyzed descriptive and summary statistics on the data to identify anomalies and questionable values, compared the

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<sup>681</sup> Axel Dreher, Andreas Fuchs, Bradley Parks, Austin M. Strange, and Michael J. Tierney, "Aid, China, and Growth: Evidence from a New Global Development Finance Dataset," AidData Working Paper #46, Williamsburg, VA: AidData, 2017.

<sup>682</sup> Strange, et. al, (2017).

<sup>683</sup> Ibid., 4-6.

results to official Chinese Government publications and other third-party estimates to identify significant differences to investigate further. Individual project records were carefully reviewed by Aiddata.org project team members to identify missing or anomalous entries. The public release of the dataset was on 11 October 2017.<sup>684</sup>

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<sup>684</sup> The dataset is downloadable from <http://aiddata.org/data/chinese-global-official-finance-dataset>.



## APPENDIX 8: TECHNICAL NOTES ON DATA AND METHODOLOGY

### **Japan regressions**

The models are estimated using random effects generalized least squares (GLS) with robust standard errors to control for heteroscedasticity. A lagged dependent variable is included as an explanatory variable for two reasons. First and most important is that there are good reasons to expect that ODA allocations have some degree of path dependency. ODA commitments must be agreed by both the donor and the recipient and successful ODA projects in particular countries tend to make aid bureaucrats more comfortable preparing new projects. It is, therefore, reasonable to expect that past ODA commitments would have positive effect on commitments in the current period, all else being equal. The second benefit of a lagged dependent variable model is to correct for serial correlation. The models were estimated with and without the lagged dependent variable which confirmed that the signs and overall magnitude of the coefficients are consistent between both specifications. Therefore, the reported results include the lagged dependent variable for the reasons stated above.

### **China regressions**

While basically the same models and methods as used for Japan were used in the China aid commitment regressions, there are a number of differences and limitations do to idiosyncrasies in the China data set and overall aid program that required some adjustments. These are described in detail in the following sections

**Dealing with data limitations.** The approach with respect to China is necessarily somewhat different than the approach with the models of Japanese aid flows. First, Japanese aid data is publicly available at the project level for over 50 years allowing the analysis of broad policy changes over long periods. Chinese project level data is only available for 2000-2014, a time when there does not appear to be major variations in China's security situation and the level of China's threat perception may not change much. However, the analysis on threat perception indicates that China's threat perception may have been lower around the worldwide financial crisis in 2008-2009. Therefore, I test whether China's aid policy was driven by different explanatory variables during this time of lower perceived threat than before or after. It may also be the case that the nature of China's threat perception changed from earlier in the 2000s to more recent years after 2009 when China's territorial disputes with Japan and various Southeast Asian countries became more intense.

The models also need to account for the massive growth in China's aid commitments over the analysis period. In the case of Japan, there is also growth over time, but the magnitude of the increase is much less and therefore, less prone to distorting the results. The rapid growth of total foreign aid committed could explain year to year increases in aid allocations to specific countries and not the independent variables included in the model. The most attractive way to deal with this problem is to use the percent of total aid committed in year  $i$  to country  $j$ . This removes the effect of a growing program on the annual allocations to specific countries leaving only the effects of the independent variables on the propensity of the China to allocate its aid budget to a specific recipient.<sup>685</sup>

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<sup>685</sup> The analysis for the Japanese data presents both regressions on total aid commitments in JPY and on the share of all Japanese aid commitments to a country in a given year. The results of these regressions are only slightly different, and the overall findings would be the same, regardless of the form of the dependent variable.



**Dealing with program idiosyncrasies.** China's aid program is less established, less professionalized<sup>686</sup> and varies much more year-to-year than the aid programs of DAC donors such as Japan – an issue particularly acute when using aid commitments as the DV. Large commitments may be offered in one year and then implemented over a period of years and new commitments may not be offered until later years. This pattern presents difficulties because the aid commitment data contains many zeros. One approach to accounting for processes with multiple zeros is to use two-step models the best known of which is the Heckman Selection Model<sup>687</sup> to correct for sample selection bias. These models are meant to estimate processes that have a two-step decision structure where an initial decision is made which defines the sample for a subsequent regression. Heckman was considering a labor force model of wages and noted that the wage equation ignored everyone not in the labor force. To correct for this sample selection bias, he developed a two-step process where a binary choice is made to participate in the labor force resulting in the probability that each individual is employed. Then the self-selection is corrected by incorporating these individual employment probabilities as an explanatory variable. Such models have been used to analyze foreign aid allocations in Meernik et. al (1998)<sup>688</sup> and Berthelemy (2006)<sup>689</sup>. The problem when applying these types of models to foreign aid allocations is that the decision to give or withhold aid in a given year should be based on the variables included in the binary decision model. However, in the case of China's aid program, year to year volatility is primarily the result of China's decision-making process

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<sup>686</sup> China established its first aid agency, the China International Development Cooperation Agency, or CIDCA, in April 2018. The agency is still in a formative stage as of this writing and aid implementation remains with MOFCOM. See Cornish, Lisa, "China's new aid agency: What we know," Devex: Inside Development, The Rise of Chinese Aid, 20 April 2018 (accessed at <https://www.devex.com/news/china-s-new-aid-agency-what-we-know-92553> on 10 November 2018).

<sup>687</sup> James Heckman, "Sample selection bias as a specification error," *Econometrica*, Vol. 47 (1979), 153-61.

<sup>688</sup> James Meernik, Erik L. Krueger, and Steven C. Poe, "Testing Models of US Foreign Policy," 63-85.

<sup>689</sup> Jean-Claude Berthelemy, "Bi-Lateral Donors' Interests vs. Recipients' Development Motives in Aid Allocation," 179-194.

for aid where there are no annual programs agreed with recipient governments and periodic blanket agreements that cover multiple years are common and may depend on state visits by Chinese leaders and the overall status of past aid projects. Therefore, the zeros in the data set are not likely to be caused by conditions that we can model. Rather, the zero values just reflect the fact that China is not making ODA loans that often even in its most important aid recipient countries. For example, note the aid pattern to Angola in Table 7-1 on page 444 below. Over a period of 15 years, China provided grants in 11 of those years and loans in only 6 of those years. In three of those years, Angola received neither grants nor loans from China. It does not follow, however, that in for example 2004, Angola suddenly became less important to China commercially or strategically. Quite the contrary, high levels of aid resumed a few years later suggesting Angola's continued importance to China. The periodic zero values are simply the result of an aid program that less systematic than most DAC donor programs, at least in the case of Angola. This is not to say that two-step models are necessarily useless for modeling the aid decision-making process since certain variables, such as recognition of Taiwan, may influence China's initial decision to offer aid in the first place. For this reason, I test the Heckman selection model approach as a supplementary exercise to determine if any useful results can be derived. The results are reported in APPENDIX 5.

**Table 7-1: China ODA-like flows to Angola (2014 USD), Aiddata.org definition**

<b>Year</b>	<b>ODA-Like Grant</b>	<b>ODA-Like Loan</b>
2000	\$0	\$0
2001	\$74,486,700.21	\$0
2002	\$4,077,553.88	\$327,725,552.35
2003	\$660,988.13	\$24,236,231.27
2004	\$0	\$0
2005	\$2,204,410.25	\$11,984,691.71
2006	\$367,882.20	\$0
2007	\$11,124,718.61	\$379,214,930.88
2008	\$0	\$39,709,939.26

2009	\$0	\$0
2010	\$11,146,068.93	\$0
2011	\$343,571.61	\$0
2012	\$16,777,243.28	\$0
2013	\$32,820,949.66	\$0
2014	\$29,356,545.09	\$54,900,000.00

Source: Aiddata.org Global Official Finance Dataset, 2000-2014, Ver. 1.0.

In addition to the Heckman approach, there are other approaches that may be used to deal with multiple zero values in the China dataset in this dissertation. The first is to define multiple cross-sections using averages over the years in the cross-section. This approach removes most zero observations unless China provided no aid during the entire time period. The problem with using the cross-section approach is that it cannot capture the information available in the year to year variations and China's aid commitment responses to those serial changes.

Lastly, the models can be estimated using statistical approaches developed to handle data sets with many zero observations. These models have been developed for use in applied econometrics of demand when purchases are infrequent. Examples include long distance air travel, food purchases when consumption is from stored foodstuffs, and other large purchases made infrequently. The choice of model to handle these zeros depends on the reason for the zeros. In the case of foreign aid commitments, the problem is truncated data at zero. Truncated data is when the value of the variable of interest has a boundary value and the observations at the boundary are not missing data, but the true value. The selection of the appropriate estimation model depends on why the data is truncated. Options for handling this include the Tobit

model<sup>690</sup>, double hurdle models such as Cragg's<sup>691</sup>, and the aforementioned Heckman Selection Model.<sup>692</sup> Recently, the Poisson Pseudo Maximum Likelihood (PPML)<sup>693</sup> has gained favor for cases with heteroskedasticity (variance of a variable is not constant over time) which is the case in the aid commitment panel data.<sup>694</sup> PPML was designed for the case of trade data where many bi-lateral trade observations happen to be zero especially in the case of small and/or distant countries.<sup>695</sup> The aid relationship is not precisely analogous to the case of trade since it is quite likely that zero trade will be more consistent by country than the periodic zeros in aid commitment data. There have some studies that have shown that PPML estimators with large numbers of zero observations are less biased than other alternatives, at least in the case of trade data with heteroskedasticity.<sup>696</sup> Some critics of the PPML approach have use simulation models to demonstrate that the Heckman Selection Model is preferred when the initial sample selection equation differs from the subsequent model.<sup>697</sup> However, the assumptions of the Heckman Selection Model; namely, that the choice whether to give aid or to give no aid (the selection equation) is a function of the explanatory variables in a particular year, do not reflect the actual decisionmaking process resulting in zero aid. In fact, the "lumpy" nature of China's aid program is likely to result in confusing results since countries that receive zero aid in one year may have received a large package in a previous year and simply do not have the capacity to

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<sup>690</sup> James Tobin, "Estimation of relationships for limited dependent variables," *Econometrica: Journal of the Econometric Society*, Vol. 26 (1958), 24-36.

<sup>691</sup> John G. Cragg, "Some statistical models for limited dependent variables with application to the demand for durable goods," *Econometrica: Journal of the Econometric Society*, Vol. 39 (1971), 829-844.

<sup>692</sup> James Heckman, "Sample selection bias," 153-161.

<sup>693</sup> Joao M.C. Santos Silva and Silvana Tenreyro, "The log of gravity," *The Review of Economics and Statistics*, Vol. 88 (2006), 641-658.

<sup>694</sup> Dreher and Fuchs, 2012.

<sup>695</sup> Joao M.C. Santos Silva and Silvana Tenreyro, "The log of gravity."

<sup>696</sup> William J. Martin and Cong S. Pham, "Estimating the Gravity Model when Zero Trade Flows are Frequent and Economically Determined," The World Bank: Policy Research Working Paper #7308, 2015.

<sup>697</sup> Estrella Gómez Herrera, "Comparing alternative methods to estimate gravity models of bilateral trade," The Papers 10/05, Department of Economic Theory and Economic History of the University of Granada, 2010.

receive more aid from China until the projects are complete. Other zero observations may be the result of security or commercial factors that are a result of the explanatory variables.

The Tobit model, developed to handle limited dependent variables where a selection by an agent reverts to zero, is not an appropriate approach because it assumes the reason for the zero is a corner solution. A corner solution occurs when an agent maximizes their utility by choosing zero such as the case where a consumer decides to purchase nothing because the price is too high.<sup>698</sup> This assumes that the main reason for not providing aid to a given country in a given year is due to budget constraints which is not likely the case for China or the aid giving of any country for that matter. This restrictive assumption is the reason that two-step models like Craggs and the Heckman Selection Model were developed.

The case of zeros in aid commitments from China most closely resemble infrequent purchase models (IPM) which attempt to model demand for goods that are not purchased annually. The main problem with China's aid commitment data is that their aid program is not based on an annual allocation but provided at different periods depending on a variety of factors which might include the importance of the country politically or economically, the performance of past projects, the relations between China and the recipient, or the ability of the recipient to take on more foreign debt. Further, prior aid projects may still be under implementation and the recipient country may simply be unable to absorb any more until the existing projects are complete. Infrequent purchase models (IPM) have been developed but have not proven to be effective and generally result in systematic under prediction of the number of zeros and hence,

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<sup>698</sup> Palayo Arbues, Jose Banos, Matias Mayor, and Patricia Suarez, "Econometric Modeling of Long-Distance Domestic Travel," *Revista de Economia Mundial*, Vol. 38 (2014), 101-126.

overprediction of the dependent variable.<sup>699</sup> Recent work on IPM which compares results of the models to actual consumption of infrequently purchased foodstuffs shows that IPM results are highly biased.<sup>700</sup>

There is no perfect solution for a situation like the China aid commitment data. The approach chosen for this dissertation is to follow a sequence of methods to derive results comparable to the analysis of the more consistent, extensive and high-quality data on Japan's ODA program. By analyzing China's aid program using the best available tools for the data that exists, the overall pattern of China's aid behavior will become clearer even if each individual quantitative approach has drawbacks. First, I mirror the approach to the Japan analysis using standard panel regression techniques estimated by generalized least squares controlling for heteroskedasticity in different periods that can reasonably be expected to represent different levels of threat perception (2000-2007, 2008-2009, and 2010-2014). Next, I construct cross sections for those periods and estimate the regression equations on the period averages to reduce the impact of multiple zeros in many years, but with a loss of the ability to capture information from year-to-year variations. The cross-section regressions are estimated using fractional probit is provided which is specifically tailored to variables that are limited to values between 0 and 1. The models are then estimated using PPML. The Heckman Selection Model approach is then tested because the selection equation could reasonably be constructed using different variables than the subsequent model; for example, using recognition of Taiwan as an explanatory variable in the selection equation but not the aid commitment equation. For

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<sup>699</sup> Angus Deaton and Margaret Irish, "Statistical Models for Zero Expenditures in Household Budgets," *Journal of Public Economics*, Vol. 23 (1984), 59-80.

<sup>700</sup> John Gibson and Bonggeun Kim, "Testing the Infrequent Purchases Model Using Direct Measurement of Hidden Consumption from Food Stocks," *American Journal of Agricultural Economics*, Vol. 94, No. 1 (January 2012), 257-270.

all methods, the independent variables are lagged one year if the information from the previous year is the only information available to decisionmakers. At the outset, it is clear that the statistical results of the China models are unlikely to perform as well as the Japan models and it should be expected that goodness-of-fit measures such as  $R^2$  will be lower for the China models in the cases where such measures are produced. All models are estimated in Stata 15. The PPML execution routines are Stata add-ons developed by Silva and Tenreyro (2015).<sup>701</sup>

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<sup>701</sup> Joao M.C. Santos Silva and Silvana Tenreyro, "[PPML: Stata module to perform Poisson pseudo-maximum likelihood estimation](#)," [Statistical Software Components](#) S458102, Boston College Department of Economics, 2015.





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