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Estimating the Xi Effect: How Chinese Aid Affects Economic and Political Institutions

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Abstract

Under Xi Jinping, China has expanded its aid allocation worldwide and has introduced global infrastructure projects to connect itself to countries everywhere. With such ambitious aid allocation, China has been the recipient of both admiration and scorn on the international stage. This paper assesses these concerns using data from 2000 to 2017 to determine how Chinese aid affects recipient states' economic and political institutions. Specifically, this research looked to ascertain if there is a measurable *Xi Effect* in recipient states. The quantitative analysis shows the *Xi Effect* is small and positive on economic institutions and political institutions, signifying Xi Jinping's tenure is not having adverse effects on institutions in recipient states. However, these questions remain vital because it is well noted that institutions matter for economic development, especially as the world looks to China for development aid and Xi Jinping consolidates his power in China. Lastly, the implications of the findings for U.S. foreign policy in Latin America are considered. Based on quantitative analysis and a qualitative case study, it is recommended that the US promotes bilateral and multilateral ties with its Southern neighbors rather than using China's increasing involvement as a justification for reviving the antiquated Monroe Doctrine.

Author's Note:

Thank you for taking an interest in my senior year thesis at Ursinus College. This thesis is the culmination of one academic year of work through which I have been engaging with literature and data on Chinese aid allocation and institutional quality. This project has been a labor of love, and I am proud to share my work with those who are interested in the project. The project while finished for the year remains one that can be continued as up to date data (i.e., post 2017 data) becomes available for Chinese aid allocation. I will continue to monitor data as I look to ascertain a more precise effect or lack thereof. Should any questions or comments arise, I can be reached via LinkedIn: linkedin.com/in/mackenzie-owens-61723b227

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I. Introduction

Chinese aid allocation has expanded since the rise of Xi Jinping as the leader of the Chinese Communist Party in 2013. Since his rise, Xi has also consolidated power, formed a cult of personality, and leaned heavily into authoritarian rule. As a transformational leader focused on reshaping China's domestic and global identity, Xi Jinping has ushered in a new era of Chinese politics and foreign policy. Due to his unmistakable impact on the CCP and the People's Republic of China, this paper looks to ascertain how he has pursued his agenda throughout the world, especially in the Global South. More specifically, this paper researches the impact Chinese aid has had under Xi Jinping's tenure, which I have termed the *Xi Effect*. In this paper, I look to determine the presence and the possible repercussions of such an effect on recipient states. Further, given the change in Chinese politics and foreign aid, Latin American comes to the centerstage of this paper; since this region has long been considered part of the 'U.S.' sphere of political and military influence, the next section offers an overview of U.S. ties to its Southern neighbors.

Introduction to Latin America & Washington's Relations

Latin America, characterized by the presence of spoken Romance languages, is geographically diverse, home to many indigenous peoples, and predominantly colonized by the Spanish and Portuguese. Long seen as an inevitable part of the U.S. sphere of influence, Latin American countries has become Washington's policy playground. The United States intervened in Latin America, including Guatemala, Chile, and Argentina, among others, via political violence and the installation of dictatorship in the name of purging socialism in the hemisphere; “In the slightly less than a hundred years from 1898 to 1994, the U.S. government has intervened successfully to change governments in Latin America a total of at least 41 times" (Coatsworth 2005). In 1984, U.S. policymakers viewed “Latin America as a laboratory for policies that, for fear of retribution or other dangerous consequences, we [Washington] would not dare try out in other higher priority areas” (Wiarda 1984, 23). In the 1980’s, Central America was an important battleground for the United States to exercise its power in the fight against the expansion of communism. With the end of the Cold War, U.S. interest in Latin America waned. The sentiment that Latin America must remain within the U.S. sphere of influence continued, but engagement was not prioritized. This remains true into today for, “U.S. foreign policy in general… does not routinely focus on Latin America, where threats are assumed to be less pressing than in other parts of the world” (Deare 2020, 1). Despite this, the United States has considerable security interests in Latin America: (1) transnational criminal organizations, (2) foreign states’ presence in Latin America, and (3) ideology (Deare 2020). The focus of this paper will be the rise of a possible new challenger to U.S. hegemony in Latin America, specifically China and its economic and political expansion in Latin American states since the beginning of Xi Jinping’s first presidential term in 2013.

Increasing instability within Latin American States (LAS) due to economic trouble, social protest, and democratic backsliding in recent years raises additional concerns (Myers 2022). The 2010’s saw the fall in global commodity prices which was only worsened with the onset of the Covid-19 pandemic, since authoritarianism and corruption have become entrenched in some Latin American (LA) institutions and states. Instability is rising in Latin America, from the presence of protests throughout the region (i.e., Colombia and Chile) to great waves of migration to the U.S. southern border. The U.S. stance has historically seen LA instability as a threat to U.S. security. This growing insecurity – economic and political – and the presence of potentially hostile foreign states has led some to call for renewed U.S. attention to its "backyard."

Given Latin America's importance to the United States, the rise of China and its growing presence in Latin America could usher the return of one of America's founding foreign policy cornerstones, the Monroe Doctrine. This paper looks to assess the need or likelihood of such a reemergence given the Xi Effect. This is an ever-growing pressing matter and possibility as the Monroe Doctrine celebrates its 200 anniversary this year (2023). Will the Monroe Doctrine experience a bicentennial renaissance?

The paper begins with an examination of Xi's leadership, highlighting its transformational style, and goes on to review scholarship on economic growth and aid as well as the importance of institutions for development. This is followed by a review of studies that examine whether China derives asymmetrical advantages from its relationship with aid recipients or whether Chinese aid produces growth in recipient states. The literature review also summarizes the results of studies examining the effects of Chinese aid on political institutions in recipient states and the possible reputational benefit to China in terms of soft power and influence within international institutions.

Chapter III lays out the hypotheses that will be tested to determine whether Chinese aid has a negative, positive, or no significant impact on economic and political institutions. Chapter IV provides a detailed overview of the empirical model and data. Regression results are presented in Chapter V and VI, including tests for significance, possible errors and limitations.

The paper turns to a qualitative analysis next investigating Sino-Latin American relations and Chinese investment in Peru. This case study allows for an exploration of the Xi Effect since 2017, the last date for which data are available for the empirical study. Following a discussion of the foreign policy implications of Sino-Latin American ties for the United States, the paper ends with policy recommendations and conclusions.

II. Leadership, Institutions, and Aid: Political and Economic Ramifications

Xi Jinping's Leadership

Xi Jinping has been the leader of the People's Republic of China since assuming the presidency in 2013. Breaking tradition, he is now continuing into his third term as president, changing Chinese law to do so. Xi Jinping has come to define China and play a great role in the domestic and international transition of Chinese policy. Chinese foreign policy under Xi Jinping has begun a new era, which some have termed "Chinese Diplomacy 3.0" following the eras of Mao Zedong (leader of the CCP 1935-1976; head of state 1949-1959) and Deng Xiaoping (premier party figure 1978-1989) (Hu 2019). Xi has named this period of change "it is becoming strong," it referring to the Chinese state (1). Chinese diplomacy under Xi Jinping has an international audience, largely due to the Belt and Road Initiative, and looks to a "shared future for humanity" and international collaboration (2). However, within China, Xi Jinping has concentrated power in his own hands through his anti-corruption campaign by removing his adversaries and by cultivating a cult of personality within Chinese society (Xiao 2022). Many westerners find this reminiscent of Mao Zedong's cult of personality, which was responsible for horrific crimes, such as those during the Cultural Revolution (Bloomberg News 2022). Xi Jinping has assumed a title historically given exclusively to Mao Zedong – "lingxiu," which translates to *leader*, and he has undone the works of Deng Xiaoping, who following the violence of Mao's Cultural Revolution and the mass failure of the Great Leap Forward decentralized power and ended the cult of personality (Bloomberg News 2022; Shirk 2018).

There are two prominent leadership styles, transactional leadership and transformational leadership. Leaders who are transformational tend to appeal to moral and higher ideals and preach a vision, while leaders who are transactional utilize reward and punishment appealing to the self-interest of the individual (Hu 2019). Hu (2019) discusses Xi Jinping's leadership style and finds Xi Jinping fits the bill of a transformational leader, appealing to historical memory (i.e., China's Century of Humiliation) in pursuing a historical mission (i.e., China 2035). As a transformational leader, Hu (2019) argues Xi Jinping utilizes both inspirational styles to achieve his goals internally and externally. Due to the transformational nature of Xi Jinping's leadership, he has been more engaged in an international environment, an environment that Hu (2019) notes has become "a much tougher and changing environment" in which China is encounter[ing] severe challenges, internal and external, regional and global" (9). Central to his foreign policy transformation is the introduction of the Belt and Road Initiative which engages more than 100 states and institutions and is inseparable from Xi Jinping's tenure and legacy. But in an ever more hostile environment, the Belt and Road Initiative has received international criticism and skepticism about its motives.

China Within the Global South

China has long been working within the Global South to curb the political and economic power the North has over the Global South (Gray & Gills 2016). Since the Bandung Conference of Asian and African states in 1955 – a conference "without the participation of imperialism" according to the Chinese Foreign Ministry (1955), China has engaged the Global South, especially within Asia and Africa, proclaiming its solidarity as a fellow developing nation (Gray & Gills 2016). Today, China is significantly different from its Mao dominated 1955 self, having embraced economic liberalism by opening its markets to those of the West, yet the CCP continues to maintain strict control and continues to uphold its South-to-South relations. The CCP has revitalized South to South cooperation via its 2013 introduction of the Belt and Road Initiative and its participation as one of the BRICS – Brazil, Russia, India, China, and South Africa – which were predicted to become global economic leaders (Gray & Gills 2016). Through these two initiatives, China is engaging the Global South via development aid and by representing and acting on behalf of developing nations. These two projects look to forward a future in which China leads the world order; however, the Belt and Road Initiative allows Chinese expansion of soft power in a manner not seen in BRICS, as BRICS functions by recognizing each state equally rather than by each state's economic and political clout (Sparks 2018). Thus, China is not necessarily recognized as a leader in BRICS, whereas in the Belt and Road China leads the initiative which demonstrates its economic and political power.

The Belt and Road Initiative (BRI), originally called One Belt, One Road is a massive foreign policy undertaking proposed in 2013 by President Xi Jinping to construct a modern day "Silk Road" on land and by sea (Lew & Roughead 2021). With BRI, "Chinese banks and companies have financed and built everything from power plants, railways, highways, and ports to telecommunications infrastructure, fiber-optic cables, and smart cities around the world" (Lew & Roughead 2021, 2). Since its launch, 147 countries have become involved in the BRI or have become prospective participants (McBride et. al, 2023). For Xi, this project looks to counter US influence and its "pivot to Asia" under the Obama Administration. Yet there are skeptics, as many countries may be taking on more debt than those states can realistically afford to finance, and since the Russian invasion of Ukraine, "a climbing number of low-income BRI countries have struggled to repay loans associated with the initiative, spurring a wave of debt crises and new criticism for BRI" (McBride et. al, 2023). Thus, the purpose of BRI within the Global South has been a question of debate: is BRI is a useful geostrategic tool for the CCP or is it a development strategy? Does it provide other countries with much-needed investment or is it a problematic arrangement leading to increased corruption, growing debt, and loss of autonomy (Ghiasy and Zhou 2017)? Whichever it may be (and there is no consensus, for more information refer to section II), countries throughout the Global South have become partners for the CCP within their BRI program, while others such as India warn against participating.

Through BRICS, Brazil, Russia, India, China, and South Africa have been advancing concerns for the developing world within international organizations. The BRICS group of nations has become a growing force in international organizations; for example, it supplied $75 billion of the $430 billion bailout of the International Monetary Fund in 2012 (Gray & Gills 2016, 560-561). These countries have been fighting to secure a bigger seat at the decision-making table within international organizations including the International Monetary Fund (IMF) and World Bank (WB), arguing for changes to a system dominated by the US and European countries. In 2014, the BRICS states set up their own "New Development Bank" with $50 billion to develop the infrastructure, energy, and telecommunication sectors. With BRI and BRICS, China is increasing its presence within the Global South.

"Perception drives soft power," and as a growing number of people in the Global South see China as a great source of investment and a lucrative export market, the CCP is gaining influence within states (Ellis 2011, 86). Growth of China's South-to-South cooperation has been a soft power initiative, meaning the Chinese government is hoping to improve its reputation in addition to advancing its economic interests. China hopes to extend its political and cultural influence through the expansion of bilateral relationships under the BRI, in part by offering aid without the political and economic conditionality that Western donors often attach to foreign aid and pledging to refrain from interfering in the internal political affairs of other countries (Sparks 2018, 93). In fact, by offering financing with no strings attached, China hopes to convince more countries to choose Chinese rather than Western lenders and investors, thereby building "a new regional order more favorable to China, an order based on political friendliness, economic profitability, and social openness to Chinese government, enterprises, and citizens (Maggiorelli 2019, 115). This reflects an effort to cultivate soft power, which Joseph S. Nye, Jr. describes as an effective type of influence noting that the "proof of power lies not in resources but in the ability to change the behavior of state." (1990, 155). The CCP gains soft power with the presence of Chinese state-owned enterprises (SOEs) and those not owned by the state, for example the expansion Huawei throughout the Global South. Huawei becomes a household name with people using its services and buying its phones as an alternative to Apple's iPhone, and this contributes to the soft power the CCP has within the Global South. Additionally, Chinese aid, its infrastructure projects, and the large market available for commodities in China, can further the CCP's soft power within states (Ellis 2011). This soft power then can be manifested to influence state decisions in the favor of the soft power holder. This has been seen with the growing number of countries who have been faced with the opportunity to join the BRI and have formally changed their recognition from Taiwan to the CCP, the most recent occurring in March of 2023 with Honduras switching to recognizing China, severing ties with Taiwan (see map on page 54).

Economic Growth & Aid

Recently, China has emerged as a provider of developmental aid to the Global South, especially to African nations. Although exact measures of Chinese development finance may be hard to come by, it is clear that Chinese foreign aid and investment have grown dramatically. The World Bank (2021) estimates that Chinese foreign direct investment (FDI) increased from $4.61 billion in 2000 to $216.42 billion in 2016. According to the College of William and Mary's AidData, a research lab that compiles information from official records of development finance activity by official aid donors, "13,427 development projects worth $843 billion [were] financed by more than 300 Chinese government institutions and state-owned entities across 165 countries in every major region of the world from 2000-2017" (Custer et al., 2021). The effect of Chinese aid on economic growth and political institutions is a matter of contention as studies have not found a straightforward answer.

Economic growth has been extensively studied, yet development explanations remain contentious. There are two main means of producing growth: catch-up growth (as exhibited by China) and cutting-edge growth (as seen in the United States). Catch-up growth is spurred when a developing economy is below its steady state; during this period, a developing economy will grow more rapidly to reach its new equilibrium. Aid to developing economies should ignite rapid economic growth.

The Solow Model predicts economic growth that is inherently based in saving and investment which in turn spurs greater capital and output, demonstrating that a positive relationship exists between increased investment and higher capital to output (Solow 1956). The model shows that as investment increases, the investment curve shifts upward, and the economy will work toward a new steady state equilibrium increasing expected steady state output. This growth can occur explosively for states far below their steady state equilibrium but because investment increases at a diminishing rate and the marginal productivity of capital declines over time, growth rates will eventually begin to decline, reaching a steady state where depreciation is equal to investment. Because of diminishing rates, investment cannot drive long-run economic growth, but the model does predict wealthier states will have greater rates of investment. The model attributes long-run growth to technological advancement but does not endogenize it into the model.

Investment rates are related to incentives and institutions. Economic growth in the long run requires improvement in ideas and capital accumulation, as noted by Solow. In the Romer Model (Romer 1990), technological advancement is endogenized to account for workers in research and development contributing to innovation which will shift the output curve upward. This will lead to a higher level of steady state output even if the steady state, where investment equals depreciation, does not move along the investment curve. Growth is determined by Solow via capital accumulation and level of labor; Romer further endogenizes technological advancement.

Ideally, aid acts as an external exogenous variable which can make up for low domestic savings rates in developing economies, helping to build stable and good institutions. Arndt et al. (2016) find that when aid is 10 percent of GDP, it should raise per capita growth rates by one percent on average. Additionally, aid has been shown to have more robust growth effects when it interacts with sound monetary, fiscal, and trade policies (Burnside and Dollar 2000). On the other hand, Rajan and Subramanian (2005) examine how aid affects growth and find little evidence to prove a positive or negative relationship exists. In a similarly negative vein, Boone (1996) finds that aid does not improve the life of the average citizen since it tends to be captured by the wealthy, political elite and does not contribute to economic development. In short, there is no consensus on the effects of aid on growth.

Importance of Institutions

Important for growth are stable institutions which promote property rights, good governance, and fair legal systems, among many others. Institutions, as defined by economist Douglass North (1991), "are the [formal and informal] humanly devised constraints that structure political, economic and social interaction" (97). According to transaction cost theory (Coase Theorem), when the costs of a transaction exceed possible gains, the transaction will not be completed. This is applicable to institutional quality, as weak institutions increase transaction costs and can lead to lower investment – which is necessary to supplement low domestic savings. North (1991) asserts that institutions are central to transaction and production costs and thus institutions alter investment behavior. Accounting for the quality of economic institutions and political institutions is necessary, as demonstrated by North (1991) and Coase (1960).

Institutional quality is a determinant of economic development as states with weak institutions tend to have a weak state capacity, thus the state lacks the ability to enforce the rule of law, for example, or fund itself through tax collection (Pereira and Teles 2011). Buchanan et al. (2012) find that institutional quality affects the volatility of FDI, thus worse institutions cause greater volatility which in turn leads to lower growth – more specifically that "a one standard deviation change in institutional quality improves FDI by a factor of 1.69" (81;88). Chong and Calderón (2000) find that improvements in institutional quality worsen income inequality in the beginning but continued institutional improvements will ultimately improve income inequality, indicating high transaction costs in initiating institutional reform but lower transaction costs over the long term. Acemoglu and Johnson (2005) show the importance of strengthening a state's property rights, an institutional improvement, as it increases the investment to GDP ratio, income per capita, available credit, and the development of a stock market. La Porta et al. (1997) find that the legal environment, specifically investor protections, matter for investment and the size of a state's capital market. Institutions matter and proof of this is that following the 1997 Asian financial crisis, Asian states reformed their institutions to attract greater foreign direct investment (FDI) knowing investment runs to states with stable institutions (Buchanan et al., 2012).

Lehne et al. (2014) analyze the determinants of good economic institutions, noting that openness to trade, investment, and financial flows and a lack of natural resources are influential. Gwartney et al. (2022) of the Fraser Institute notes that the "cornerstones of economic freedom are personal choice, voluntary exchange, freedom to enter markets and compete, and security of the person and privately owned property" (v). Because of the pertinent nature of institutional soundness to economic development, understanding whether Chinese aid affects these in a positive or negative manner will offer notable insights into the true value of Chinese aid.

Aid: Growth, Politics, and the "Rogue Donor"

> '"It's amazing,' [my friend] told me. 'The Chinese have completely priced us out of the market. We can't compete with what they are able to offer.' Of course, manufacturing jobs are lost to China every day. But my friend is not in manufacturing. He works at the World Bank."
>
> - Moises Naim, October 2009, *Foreign Policy*

Studies have looked to establish the nature of Chinese aid – whether it produces growth, promotes certain types of regimes, or furthers Chinese self-interests rather than benefiting recipient countries. Some believe Chinese aid is self-interested by promoting Chinese expansion of Chinese political influence, while others posit it is being used to transition China from a manufacturing to a services economy. Yet others argue that Chinese aid can produce growth under certain circumstances, but this aid may achieve growth by promoting authoritarian governments. The description of China as a rogue donor originates from the expectation that Chinese aid will "underwrite a world that is more corrupt, chaotic, and authoritarian" (Naim 2007). In contrast, supporters argue that Chinese aid will improve billions of lives by providing much needed investment and savings.

The contentious nature of aid is exhibited by studies on Chinese aid. Literature on Chinese aid lending has been mostly focused on the relationship of lending between China and African nations. Some studies have found that Chinese aid can lead to positive effects on development in Africa (Dreher et al. 2021; Xu et al. 2020b). Dreher et al. (2021) find that for every additional Chinese official development assistance (ODA) project, economic growth increases by 0.7 percentage points two years following project commitment. Busse et al. (2016), on the other hand, find that while resource-rich exporting nations in Africa benefit from trade with China through rising terms of trade, Chinese aid has no significant effect on development as firms within Africa must compete with Chinese firms. As for poverty reduction, Gohou and Soumaré (2012) find that Chinese FDI has a greater effect on an African nation the poorer it is and that Chinese FDI efficacy differs across regions. In Central and East Africa, the relationship between Chinese FDI and poverty reduction is significant, while Northern and Southern Africa do not see a significant relationship. Martorano et al. (2019) note that those residing where Chinese aid projects are undertaken have lower child mortality rates and increased educational outcomes but have not seen improved nutrition. Klaver and Trebilcock (2011) find Chinese investment contributes to African growth, but it does present drawbacks. Chinese investment will increase growth via commodity prices, infrastructure, manufacturing, employment, market access, capacity to extract, and consumers, yet there are costs to infrastructure development, such as limited technological spillovers.

Chinese aid overseas often raises alarms for possible corruption. Pinto and Zhu (2016) identify that FDI is associated with greater corruption in less developed countries; In a study on international foreign aid, Efobi et. al. (2019) find that aid projects for the "development of economic infrastructure, multi-sector and programme assistance" lead to the reduction of corruption, while those which focus on social outcomes and debt relief can lead to corruption by means of producing rent-seeking behavior (253). Brazys et al. (2017) find that the proximity to Chinese development projects in Tanzania "is associated with increased local corruption experience, and to some extent perceptions"; however, this is limited to Chinese projects that are non-official development assistance in nature (24). Using the Afrobarometer, Isaksson and Kotsadam (2018) indicate that perceptions of local corruption are higher around Chinese project sites. The authors note that this perception of corruption is not found when examining projects undertaken by the World Bank within Africa. These same findings are corroborated by Cha (2020) who adds that grants lead to the highest perceptions of corruption as opposed to other forms of aid, as do social infrastructure projects that enable local governments to avoid responsibility for public services; Cha also reports that projects implemented by China are associated in host countries with greater perceptions of corruption.

As for aid's effect on political outcomes within recipient states, Bader (2015) investigates Chinese engagement and the continuation of authoritarian regimes finding that only when a state is dependent on exporting to China can some evidence be seen that Chinese engagement promotes and stabilizes authoritarian regimes. Blair and Roessler (2018) add to the literature that Chinese aid is associated with authoritarian regimes and this can arise from self-selection rather than causation; that is, China is more likely to provide aid to regimes that are already authoritarian; therefore, Chinese aid does not cause a country to become authoritarian. Further, Blair and Roessler find that Chinese aid has no effect on eroding trust in government and thus that Chinese aid does not cause a rift between the state and its citizens. However, Gehring et al. (2022) find Chinese aid correlates with more government repression and the normalization of authoritarian values. Mandon and Woldemichael (2022) find Chinese aid positively affects economic and social outcomes and has a negative effect on governance, “albeit negligible in size” (5).

As China increases its presence in the Global South, some have come to question Chinese means of winning support for its policy preferences at the international level. Soft power, sometimes referred to as co-optive power, is “the ability of a country to structure a situation so that other countries develop preferences or define their interests in ways consistent with its own” (Nye 1990, 168). Such preferences could be exhibited through voting records at the United Nations (UN) within the General Assembly; Struver (2016) and Raess et al. (2017) both identify that Chinese aid can increase China's influence in international institutions like the United Nations, for example, by incentivizing states to vote as China does. Favorability within host countries may also offer a soft power advantage to China, but aid allocation does not guarantee more favorable perceptions of China, as shown by the studies discussed above (including but not limited to Gehring et al. 2022; Mandon and Woldemichael 2022; Blair and Roessler 2018; Struver 2016). Blair and Roessler (2018) and Xu et al. (2020a) find those who live near Chinese projects have a better perception of China; Xu et al. (2020a) specifically note this finding with regard to infrastructure and social projects, yet Eichenauer et al. (2018) found specifically in Latin American states that Chinese aid leads to more polarized opinions of China as the educated, wealthier classes take on a more positive view of China than those with less education and wealth.

Given concerns over growing Chinese influence and skepticism about the secrecy surrounding Chinese loans, scholars have also evaluated the impact of Chinese aid on economic performance and compared this to the impact of other aid sources. Studies have been conducted which compare aid efficacy from China in comparison to the United States. Donou-Adonsou and Lim (2018) find that per capita income in African countries improved as Chinese FDI increased, although per capita income improved even more significantly with increased U.S. and German investment. Donou-Adonsou and Lim also find that Chinese aid crowds out U.S. FDI, possibly reflecting African countries' desire to diversify their economic partners and possibly due to the advantage that Chinese firms enjoy in their access to low-cost credit from the Chinese government. Dreher et al. (2021) show that bilateral aid from China, the United States and countries within the OECD's Development Assistance Committee positively affects economic growth, unlike aid from the World Bank. Dreher et. al. (2021) find that developing countries that receive significant financial support from China can simultaneously benefit from aid from Western donors, although they report that "aid from the United States tends to be more effective in countries that receive no substantial support from China." (138).

Once again consensus has been stymied. Due to these uncertainties, this research will look to see the effects of Chinese aid on political and economic institutions within recipient states as institutions matter for economic development. By looking at institutional measures rather than directly at growth, this research will allow for a better understanding of the ways in which Chinese aid can affect growth. If Chinese aid has negative effects on institutions, it could signal that Chinese aid may retard growth. Thus, this research offers insight into the effects of

Chinese loans on institutions and corruption, as well as the factors that influence Chinese loan recipient selection.

III. Hypotheses

Given the lack of consensus over the effect of Chinese aid on economic growth and political institutions, this paper will test the following hypotheses:

H1: In a comparison of Chinese aid recipients, those receiving aid after 2013 and the installation of Xi Jinping will show no significant impacts on economic and political institutions in a recipient state.

H2: In a comparison of Chinese aid recipients, those receiving aid after 2013 and the installation of Xi Jinping will be more likely to have negative impacts on economic and political institutions in a recipient state.

H3: In a comparison of Chinese aid recipients, those receiving aid after 2013 and the installation of Xi Jinping will be more likely to have positive impacts on economic and political institutions in a recipient state.

IV: Data Methods & Theoretical Model

Theoretical Models

Equation for DV of EFI

$$
\begin{aligned}
EFI = B_0 &+ B(\text{logGDP/capita}) + B(\text{individualism}) + B(\text{Aid}) + B(\text{Xi}) \\
&+ B(\text{Aid*Xi}) + B(\text{Region}) + B(\text{Country}) + B(\text{Year}) \\
&+ B(\text{POLIV/PUBCORR}) + E
\end{aligned}
$$

Equation for DV of Polity IV

$$
\begin{aligned}
POLIV = B_0 &+ B(\text{logGDP/capita}) + B(\text{individualism}) + B(\text{Aid}) + B(\text{Xi}) \\
&+ B(\text{Aid*Xi}) + B(\text{Region}) + B(\text{Country}) + B(\text{Year}) \\
&+ B(\text{EFI}) + E
\end{aligned}
$$

Equation for DV of Public Corruption

$$
\begin{aligned}
PUBCORR = B_0 &+ B(\text{logGDP/capita}) + B(\text{individualism}) + B(\text{Aid}) + B(\text{Xi}) \\
&+ B(\text{Aid*Xi}) + B(\text{Region}) + B(\text{Country}) + B(\text{Year}) \\
&+ B(\text{EFI}) + E
\end{aligned}
$$

Data for Institutional Analysis

In testing the hypotheses, the dependent variables will be the Economic Freedom of the World Index (EFI) score from 2000 through 2017 compiled by the Fraser Institute, the Polity IV (PolIV) score for states from 2000 through 2017 from the Center for Systemic Peace, and the Public Sector Corruption Index (PUBCORR) from 2000 through 2017 compiled by V-Dem. The EFI will be used to measure the quality of economic institutions in recipient countries, while PolIV and PUBCORR will be two measures used to assess the political institutions in recipient states. These three dependent variables will be led by one period; preferably the dependent variables would be led by more than one year, but due to data limitations a one period lead will suffice. For descriptive statistics of all variables see Table IV.1 and for an overview of all variables see Table IV.2.

The Economic Freedom of the World Index measures economic institutions across five areas: Size of Government, Legal System and Property Rights, Sound Money, Freedom to Trade Internationally, and Regulation (Gwartney et al., 2022). These five areas are then broken down into 42 smaller data points to establish the EFI on a scale from 0 to 10, with 0 being economically non-free nations and 10 being economically free nations. For countries who did not have EFI scores available, data was pulled from the Heritage Foundation's Index of Economic Freedom. The Heritage Foundation scores are measured from 0 to 100, where 0 is no economic freedom and 100 is economic freedom. To fit within the EFI range, the Index of Economic Freedom scores have been divided by ten. These scores show similar ratings to those of the Fraser Institute. By substituting with the Heritage Foundation's score observations have been increased allowing better regression estimation.

Polity IV is being used as a proxy measure for the political institutions within states; the Polity IV dataset measures for regime type in states:

> "The 'Polity Score' captures this regime authority spectrum on a 21-pont scale ranging from -10 (hereditary monarchy) to +10 (consolidated democracy). The Polity scores can also be converted into regime categories in a suggested three-part categorization of 'autocracies' (-10 to -6), 'anocracies' (-5 to +5 and three special values: -66, -77 and -88), and 'democracies' (+6 to +10)" (Center for Systemic Peace).

For states with the special values of -66, -77, and -88, which signify governments other than autocracy, anocracy, and democracy, the Polity IV score will be changed to 0. The Polity IV score is one of two measures being used since it accounts for regime type. Additionally, the Public Sector Corruption Index (PUBCORR) will be used to assess a slightly different measure of political institutional quality. PUBCORR measures the extent to which "public sector employees grant favors in exchange for bribes, kickbacks, or other material inducements, and how often … they steal, embezzle, or misappropriate public funds or other state resources for personal or family use" (Coppedge et al., 2022, 301). These two measures allow us to estimate two different effects Chinese aid could have on the political sphere in a recipient state.

The independent variables will be the logged gross domestic product per capita of a recipient state, a cultural variable of an individualism measure developed by Geert Hofstede, Chinese aid data as measured in number of projects in a recipient state per year and the logged total US 2017 dollars per 1000 people given to a recipient state from the College of William and Mary's AidData, a dummy variable to represent Xi Jinping's presence in office, an interactive variable of aid and Xi Jinping's presence in office to capture the idea of the "Xi Effect", and either the EFI or political institutional measure to account for the political institutions when testing for economic institutions and vice versa. Region, country, and year will be used as dummy variables in the fixed effects models to account for variation.

Table IV.1: Descriptive Statistics

	Individualism	**GDP/cap**	**EFI**	**Polity IV**	**PUBCORR**	**Sum**	**Project #**
Min	8	569	.10	-10.00	.0010	8.180e+02	1.00
1stQ	20	2614	5.45	-3..00	.1460	1.058e+07	3.00
Median	25	5816	6.18	5.00	.4230	6.106e+07	5.00
Mean	27.7	8587	6.06	2.464	.4205	1.023e+09	6.54
3rdQ	35	12507	6.87	7.00	.6800	4.681e+08	9.00
Max	65	41247	8.29	10.00	.9870	8.432e+10	93.00

To account for economic output and its effect on institutions, GDP per capita will be used and logged. Individualism and region will be cultural and geographic proxy variables. The Individualism score is static in the model, with the score in 2000 mirroring that in 2017, reflecting the fact that cultural change is slow. Additionally, region and country are represented as various studies find that location affects outcomes (Diamond 1997; Haber et al., 2021). Lastly, year will be utilized to account for variations over the 17-year period.

The data for aid comes from the AidData's Global Chinese Development Finance Dataset, Version 2.0. This data set contains 13,427 development projects sponsored by Chinese governmental institutions from 2000 to 2017 (Custer et al., 2021). For this analysis, both the number of projects committed per year and the total sum in US 2017 dollars will be used to measure aid. The data is more complete when measuring for projects than for total dollars. To better utilize the total sum of aid going to a recipient country, it has been transformed into the sum of aid per year per 1000 people and has then been logged.

Since the goal of this research is to measure the Xi Effect, an interactive variable will be created to measure for both Xi Jinping's time in office and the aid (measured in project and sum, which is a per capita measurement logged). This variable will be central to understanding the effect of aid to recipient countries under Xi Jinping's leadership, specifically to measure if Xi Jinping has employed aid differently than previous Chinese leaders.

Table VI.2 Variables in Regression Analysis

Variable	Definition	Manipulations for Regression	Source
Aid as measured by Total Annual Sum per 1000 people	Total 2017 USD to recipient state each year from 2000-2017	Made sum data per 1000 people using population data; logged	AidData
Aid as measured by Number of Projects	Number of projects in a recipient state each year from 2000-2017		AidData
Xi in Presidential Office	Xi in office = 1; Xi not in office = 0; dummy variable		
GDP per capita	Real GDP per capita converted to international dollars using PPP	GDP per capita is logged in regression	GapMinder
Polity IV	Measures for regime type; -10 through 10 and -66, -77,-88	-66, -77, and -88 special values reassigned to 0	Center for Systemic Peace
Public Sector Corruption Index	Measures for public sector corruption; 0 (low) to 1 (high)		V-Dem
Economic Freedom Index	Measures for economic freedom; 0 (low) to 10 (high)	Used Heritage Foundation data to fill data holes	Fraser Institution
The Xi Effect	Interactive Variable Between Sum and Xi	Xi* lnAid per 1000	
The Xi Effect	Interactive Variable Between Number of Projects and Xi	Xi* Number of Projects	
Individualism	Cultural variable; Individualism in comparison to collectivism; scale 0 (collectivist) to 100 (individualist)		Hofstede Insights
Region, Country, Year	SAsia EU&CenAsia MENA SubAfrica EAsia&Pacific LatAm&Carib High OECD All states included in dataset; Years 2000-2017		

Note: See Works Cited for more information on data sources

Theoretical Models and Expected Signs

The models that will be used in running fixed effects regressions to ascertain the Xi Effect on institutional quality will be as follows:

$$\text{Lead\_EFI} = B_0 + \underset{(+)}{B_{\text{logGDP/capita}}} + \underset{(+)}{B_{\text{individualism}}} + \underset{(+)}{B_{\text{Aid}}} + \underset{(-)}{B_{\text{Xi}}} + \underset{(-)}{B_{\text{Aid*Xi}}} + \underset{(+)}{B_{\text{PolIV/PUBCORR}}} + E$$

$$\text{Lead\_POLIV} = B_0 + \underset{(+)}{B_{\text{logGDP/capita}}} + \underset{(+)}{B_{\text{individualism}}} + \underset{(+)}{B_{\text{Aid}}} + \underset{(-)}{B_{\text{Xi}}} + \underset{(-)}{B_{\text{Aid*Xi}}} + \underset{(+)}{B_{\text{EFI}}} + E$$

$$\text{Lead\_PUBCORR} = B_0 + \underset{(-)}{B_{\text{logGDP/capita}}} + \underset{(-)}{B_{\text{individualism}}} + \underset{(-)}{B_{\text{Aid}}} + \underset{(+)}{B_{\text{Xi}}} + \underset{(+)}{B_{\text{Aid*Xi}}} + \underset{(-)}{B_{\text{EFI}}} + E$$

A fixed effects model will be run to see the effect of the independent variables (logGDP/capita, Individualism, Aid, Xi, Interactive Aid*Xi, and institutional score) on the dependent variable of institutional quality as measured by EFI, PolIV, and PUBCORR which will be led by one period. The fixed effects will account for country, year, and region in each model.

GDP per capita is expected to have a positive sign on institutional quality as economists such as Douglass North have noted the importance of institutional quality for growth, thus higher GDP per capita (a proxy for growth) should exhibit higher institutional quality. Since individualism promotes independence and self-reliance, one would expect individualism to have a positive impact on institutions since it should not lead to clientelism, that is to the privileged distribution of selective goods in return for political support; this is considered to increase corruption and weaken state institutions by diverting resources away from public goods toward select groups. While aid is contested, the intent of aid and how it should work within a state should ultimately lead to institutional improvements and growth. Due to his authoritarian nature, it is expected the variable for Xi Jinping to have a negative effect on institutional quality, yet it is important to recognize the goal of lending is to be repaid which is better secured in states with good institutions. The Xi and aid interactive variable are expected to show a negative sign as Xi Jinping would cause a “Xi Effect.” The Regions variable is expected to have to be negatively associated with institutional quality as many of the recipient states are from the developing world where institutional soundness is not always guaranteed priority. Lastly, the EFI is expected to have a positive effect on Polity IV and vice versa, while the corruption perceptions index is expected to exhibit negative signs as better institutions should exhibit less perceived corruption. See Table IV.3 for the summary of expected signs.

Table IV.3: Summary of Expected Signs

Variable	Sign on EFI and Polity IV	Sign on PubCorr
Aid as measured by Total Annual Sum per capita	+	-
Aid as measured by Number of Projects	+	-
Xi in Presidential Office	-	+
GDP per capita	+	-
Polity IV	+	-
Public Sector Corruption Index	-	
Economic Freedom Index	+	-
The Xi Interactive	-	+
The Xi Interactive	-	+
Individualism	+	-
Region	-	+

V. Regression Results

Regression results of the fixed effects estimations are reported below in Figure V.1 for the dependent variable of Economic Freedom of the World Index, which is a proxy for economic institutions in recipient states. In Figure V.2 results are presented for the proxy variable for political institutions, Polity IV, and Figure V.3 presents the results for the public corruption index. Expected relationships are available in Table IV.3. Four models (Model EFI.1, Model EFI.2, Model EFI.3, and Model EFI.4) were run when testing the dependent variable of EFI by using both forms of aid – total sum and number of projects – and using both Polity IV and PUBCORR to control for political institutional quality. Two models were run when testing both Polity IV (Model Polity.1 and Model Polity.2) and PUBCORR (Model PUBCORR.1 and Model PUBCORR.2) as dependent variables to account for both measures of aid.

Model EFI.1 has an adjusted R^2 of .874, which signifies Model EFI.1 accounts for 87.4 percent of the variation in the dependent variable of EFI. Model EFI.2 has an adjusted R^2 of .862, accounting for 86.2 percent of the variation in EFI; Model EFI.3 has an adjusted R^2 of .894, accounting for 89.4 percent of the variation. Lastly, Model EFI.4 has an adjusted R^2 of .885, accounting for 88.5 percent of the variation. Of all the models, Model EFI.3 accounts for the greatest variation in the dependent variable, having the best fit.

Figure V.1

The Xi Effect on Economic Freedom of the World Index

	Dependent variable:			
	EFI_lead1			
	(1)	(2)	(3)	(4)
lnGDP per capita	0.677***	0.700***	0.666***	0.685***
	(0.111)	(0.097)	(0.110)	(0.097)
lnSum of Aid per 1000	-0.003	-0.0002		
	(0.006)	(0.006)		
Number of Projects (N)			-0.002	-0.002
			(0.003)	(0.003)
Xi in Office	0.256**	0.260**	0.327***	0.356***
	(0.122)	(0.118)	(0.092)	(0.088)
Individualism	-0.345***	-0.335***	0.135***	0.122***
	(0.023)	(0.025)	(0.005)	(0.007)
Polity IV	0.017***		0.022***	
	(0.005)		(0.005)	
Public Corruption		-0.477***		-0.567***
		(0.143)		(0.146)
Interactive Term: Xi Effect (Sum)	0.005	0.006		
	(0.009)	(0.010)		
Interactive Term: Xi Effect (# Proj.)			-0.002	-0.002
			(0.004)	(0.004)
Constant	6.853***	6.553***	-2.625***	-2.427***
	(0.923)	(0.855)	(0.908)	(0.845)
Observations	775	813	875	922
R^2	0.887	0.877	0.894	0.885
Adjusted R^2	0.874	0.862	0.883	0.873

Note: These regressions include country fixed effects, regional fixed effects, and time (year) fixed effects all as dummy variables not shown for space.

*p**p***p<0.01

Figure V.2

The Xi Effect on Polity IV

	Dependent variable:	
	POLITYIV_lead1	
	(1)	(2)
lnGDP per capita	-2.558***	-2.805***
	(0.821)	(0.791)
Number of Projects (N)		-0.037*
		(0.022)
Xi in Office	1.026	1.338**
	(0.872)	(0.638)
lnSum of Aid per 1000	-0.037	
	(0.040)	
Individualism	-0.178	0.176***
	(0.185)	(0.046)
Economic Freedom Index	0.718***	0.832***
	(0.263)	(0.234)
Interactive Term: Xi Effect (Sum)	0.046	
	(0.065)	
Interactive Term: Xi Effect (# Proj.)		0.058**
		(0.025)
Constant	13.308*	7.438
	(6.790)	(6.447)
Observations	774	874
R^2	0.874	0.861
Adjusted R^2	0.859	0.847
Note: These regressions include country fixed effects, regional fixed effects, and time (year) fixed effects all as dummy variables not shown for space.	*p**p***p<0.01	

Figure V.3

The Xi Effect on Public Corruption

	Dependent variable:	
	PUBCORR_lead1	
	(1)	(2)
lnGDP per capita	-0.027	-0.019
	(0.026)	(0.024)
Number of Projects (N)		0.002**
		(0.001)
Xi in Office	-0.024	-0.011
	(0.030)	(0.021)
lnSum of Aid per 1000	0.001	
	(0.001)	
Individualism	0.027***	-0.030***
	(0.007)	(0.002)
Economic Freedom Index	-0.023***	-0.026***
	(0.009)	(0.007)
Interactive Term: Xi Effect (Sum)	0.001	
	(0.002)	
Interactive Term: Xi Effect (# Proj.)		-0.001
		(0.001)
Constant	0.333	1.418***
	(0.222)	(0.192)
Observations	811	919
R^2	0.902	0.911
Adjusted R^2	0.891	0.901
Note: These regressions include country fixed effects, regional fixed effects, and time (year) fixed effects all as dummy variables not shown for space.	*p**p***p<0.01	

Model Polity.1, which is testing for the effect on political institutions as measured by Polity IV, has an adjusted R^2 of .859, signifying the model accounts for 85.9 percent of the variation in the model. Model Polity.2 has an adjusted R^2 of .861, accounting for 86.1 percent of the variation in Polity IV.

Model PUBCORR.1 has an adjusted R^2 of .891, which demonstrates the model accounts for 89.1 percent of the variation in the dependent variable of political institutions as measured by the Public Sector Corruption Index. Model PUBCORR.2 has an adjusted R^2 of .901, accounting for 90.1 percent of the variation in PUBCORR.

Economic Institutions Results (EFI)

Across all four models, GDP per capita has a significant and positive effect on economic institutions, and the Xi dummy variable is significant and has a positive effect on institutions. An increase in Polity IV increases EFI, and PUBCORR decreases EFI, as expected.

Political Institutions Results (Polity IV and PUUBCORR)

In the models with Polity IV as the dependent variable, GDP per capita decreases Polity scores (a 1 percent increase in GDP per capita decreases the Polity scores by 2.558 (Model Polity.1) and 2.805 (Model Polity.2) (1 percent level). The number of projects decreases Polity IV by .037 points (10 percent level). The Xi dummy variable increases Polity IV by 1.3 points in the model accounting for the number of projects. EFI increases Polity IV, as expected. The Xi interactive term with aid measured by project number (N*Xi), is significant and increases Polity IV scores by .058 points. In the models which measure institutions by PUBCORR, the number of projects increases PUBCORR and EFI decreases PUBCORR.

Interpretation of Fixed Effects Models

To ascertain the Xi Effect, the partial derivative was taken of each model with respect to aid.

$$\frac{\partial}{d(Xi)}(\text{EFW}) = B_{Xi} + B_{Interactive}(\text{Aid})$$

The estimated Xi Effect is $B_{Xi} + B_{Interactive}$(Value of Aid).

EFI when measuring aid by logged Sum of Aid per capita and Polity IV

$B_{Xi} + B_{Interactive}$(The value of Aid)
.256 – (0.00*8.8[1])
= +0.256

EFI when measuring aid by logged Sum of Aid per capita PUBCORR

$B_{Xi} + B_{Interactive}$(The value of Aid)
.260 – (0.00*8.8)
= +0.260

EFI when measuring aid by Number of Projects and Polity IV

$B_{Xi} + B_{Interactive}$(The value of Aid)
.327 – (0.00*6.54[2])
= +0.327

EFI when measuring aid by Number of Projects and PUBCORR

$B_{Xi} + B_{Interactive}$(The value of Aid)
.356 – (0.00*6.54)
= +0.356

Polity IV when measuring aid by Number of Projects

$B_{Xi} + B_{Interactive}$(The value of Aid)
1.338 + (0.058*6.54)
= +1.717

[1] 8.8 is the median of lnSum per 1000 people.
[2] 6.54 is the average number of projects.

Based on the calculations, the Xi Effect is mostly shown to have a small but positive effect on economic institutions. This would seem logical as any lender would like to see repayment over the course of their loan agreement. For political institutions as measured by Polity IV, the Xi Effect too is positive showing that countries are moving toward freer, more democratic institutions. This does not necessarily mean however, that aid recipients tend to be consolidated democracies; over the course of the seventeen years covered in this project, the average Polity IV score is 2.464, which is categorized as an anocracy – a semi-democratic state. An increase in the Polity IV will be moving states toward democracy; however, this is a global trend – strengthening institutions – and cannot be attributed solely to the Xi Effect. The Xi Effect overall is positive but minute according to the regressions.

VI. Econometric Testing and Discussion of Limitations

To check for heteroskedasticity – a problem that arises from too great a range in the error term – the White Test will be run. Next, the Ramsey Reset Test will be run to check for specification errors – and the Akaike information criterion (AIC) will be used to determine which model fit is best. Previously data has been tested to check correlations via a matrix and no data was too highly correlated, <.8. Lastly, a Durbin Watson test will be run to test for specification error, all test results can be found in *Appendix 1: Econometric Testing Results*.

In checking for heteroskedasticity using the White Test, the results indicate that the null hypothesis of having homoskedasticity is not rejected in all models. This conclusion comes from looking at the p-value; the p-values for all models are greater than .05, signifying one cannot reject the null hypothesis. All models exhibit homoskedasticity.

Next, the Ramsey Reset Test was run to identify any issues with specification error; any models that have p values smaller than .05 will reject the null hypothesis of no specification error thus exhibiting specification error. Specification error exists within all models except for Model EFI.1 and Model EFI.2. There is likely to be an omitted variable; however, this missing variable cannot be determined. Specification error in the model is acknowledged. Differences are exhibited in the AIC. Based on the Model EFI's, Model EFI.1 has the best fit, for Model Polity's, Model Polity.1 is best fitting, and for Model PUBCORR's, Model PUBCORR.1 is best fitting. Variables in the model are not too highly correlated with each other, as none exhibited a correlation coefficient greater than .8 when running a correlation matrix. Running a Durbin

Watson, the models do show positive autocorrelation. The limitation is that the estimations are a little bit less efficient than what they could be, but they are still reasonably unbiased and consistent.

Lastly, endogeneity – when an independent variable is correlated with the error term – may be present in the models. Testing for endogeneity has been determined as beyond the scope of this paper. Models have been run with fixed effects to account for differences in country, region, and year; running models with fixed effects does account for endogeneity.

In order to better understand the finding that there is a small but significant Xi effect, at least up through 2017, the paper turns to an investigation of the extent and impact of Chinese aid in Latin America. The following sections will investigate Sino-Latin American relations and, more specifically, the Xi Effect in Peru since 2017. Peru is a useful case to examine because its economic ties to China have expanded rapidly during a period in which Peru experienced political instability and problems with corruption and social conflict, including protests at the world's largest copper mine, which China owns.

VII. China and Latin America: Engagement

Tale of Two Developments

"Since China began to open up and reform its economy in 1978, GDP growth has averaged almost 10 percent a year, and more than 800 million people have been lifted out of poverty. There have also been significant improvements in access to health, education, and other services over the same period."

- *The World Bank, 2022a*

"After several years of slow growth, the Latin American and the Caribbean economy is facing a new setback because of the COVID-19 pandemic. The World Bank is working with member countries to accelerate support for the pandemic and other development priorities in the region."

- *The World Bank, 2022b*

China within Latin America

"China is a growing influence on other developing economies through trade, investment, and ideas. Many of the complex development challenges that China faces are relevant to other countries, including transitioning to a new growth model, rapid aging, building a cost-effective health system, and promoting a lower carbon energy path"

- *World Bank, 2022a*

Historically, China and Latin America have engaged with one another for over 600 years, beginning with the Manila Galleon Trade Routes which traded fine goods such as spices and silk; further, beyond goods, there have been large Chinese migrant populations within South America – sizable communities exist within Peru, Brazil, and Venezuela (Roy 2022). Therefore, Chinese engagement with LAS is not a new phenomenon, but the current scope of Chinese engagement is. Most notably, the Chinese government has substantially expanded its economic influence throughout Latin America. In 2015, Xi Jinping announced that China would double its current trade with LAS and more than double its investment in LAS by 2025 (Reid 2017).

Today, China is South America's largest trading partner, and Chinese foreign direct investment in 2020 reached $17 billion (Roy 2022). Between 2005 and 2020, two Chinese state-owned banks loaned approximately $137 billion for infrastructure and energy projects in exchange for oil. China is a voting member in the Inter-American Development Bank and the Caribbean Development Bank. China's engagement with Latin America has increased substantially since the early 2000's, as China's growth has coincided with the commodity boom that strengthened Latin American economies until the end of the boom circa 2014 (Roy 2022). Latin American countries are rich in natural resources and have long relied on these commodities as the basis of their economic survival; except for Mexico, all LAS have 60 percent or more of their exports originating from natural resources (Armendáriz & Larraín B. 2017). China's need for natural resources drove up commodity prices and LAS saw the expansion of their economies at 5.5 percent growth a year. Poverty within LAS dropped 16 percent between 2002 and 2012, lifting 60 million Latin Americans out of poverty; this meant a growing middle class and a lessening of inequality within LAS. However, all booms must end, and after escaping the 2008 financial crisis relatively unharmed, the end of the boom left Latin American economies stagnant, even experiencing negative growth with commodity price declines (Armendáriz & Larraín 2017; Reid 2007). Reliance on commodities has thus been recognized as a trap for developing economies, but China has swooped in with loans, aid, and trade to spur Latin American economies in exchange for continued commodity supplies, notably of oil and energy sources.

Ding et al. (2021) question why China is investing more in certain countries within the Global South. They find that China is attempting to maintain growth and reduce excess domestic capacity as it transitions from labor-intensive industries and manufacturing to a service and consumption-based economy. Whereas Chinese overseas investment focused until recently on meeting China's demand for energy, agricultural goods, and other basic materials, Chinese FDI has shifted in the last few years towards consumer goods, financial services, industrial goods, telecommunication services and utilities (Ding et al. 2021, 10). Chinese investment has typically focused on sectors where it has a low revealed comparative advantage, and the destination country has a high revealed comparative advantage (e.g., investing in fossil fuels). Since 2015, and especially in Latin America, Chinese FDI has increasingly focused on sectors where China has a high revealed comparative advantage and recipient countries have a low revealed comparative advantage, increasingly in sectors regarding green energy where China is competing with Americana and European investors (Ding et al. 2021; Lu & Fabbro 2023). Chinese investment in Latin American states "can be associated with the sectoral complementarity between China and [LAS]" (Ding et al. 2021, 5). Not only does the comparative advantage matter, but Chinese investment pools to countries with higher growth rates, low inflation, stronger exchange rates, and strong institutions. Ding et al. (2021) show China's investment strategy hints at its internal economic strategies to transition to a developed, advanced economy.

Trade with China exchanges Latin American commodities for Chinese manufactured goods, which has resulted in the loss of manufacturing within LAS due to competition from inexpensive Chinese goods (Reid 2017). But engagement has not been limited to trade; LAS have seen increased Chinese engagement and investment in the energy sector, infrastructure, and space technologies. Of Chinese investment between 2005 and 2021, totaling $140 billion, 59 percent of the $140 billion was lent for energy projects and 24 percent was for mining projects within LAS (Sullivan & Lum 2022).

China's engagement in Latin America has not been limited to increased economic investment; there has been increased national security engagement vis a vis arms sales and the sharing of military training and knowledge between China and LAS. For example, Venezuela has purchased upward of $615 million in weapons in ten years (2009-2019) (Sullivan & Lum 2022). Cuba has been hosting the PLA with its aspirations of greater military engagement. Military training and joint exercises are a part of China's recently established Global Security Initiative which looks to improve dialogue, diplomacy, and cooperation, be it bilateral or multilateral, as it looks to lead the world into a new order (Ekman 2023). Further, China hosts a China and Latin America High-Level Defense Forum biannually to promote cooperation; this forum has been touted as an alternative to the United States and a direct challenge to the Monroe Doctrine (Ekman 2023; Adel 2022). China is diplomatically, economically, and militarily cooperating with Latin American states.

Additionally, China has engaged in Covid-19/vaccine diplomacy in Latin America. The CCP has sent ventilators, test kits, and masks to LAS and has been offering additional economic aid – offering loans to countries that purchase Chinese vaccines (Sullivan & Lum 2022). China has invested in the manufacturing of vaccines in LAS via vaccine production facilities. In total, China has sent 300 million vaccines doses to LAS, becoming the largest supplier of vaccines to the region, but it is important to note these are not donations – most vaccines have been purchased from the CCP by LAS (Sullivan & Lum 2022).

China's engagement signals it is not exclusively interested economically in the region; it is engaging the region militarily and diplomatically. It is offering aid and investment to states that are looking to increase investment and finance infrastructure projects, leading many states to relinquish ties with Taiwan in the past few years, as in the case of Honduras, which broke ties with Taiwan and established diplomatic relations with the PRC after the Taiwanese government refused to provide $2.45 billion to build a hospital and a dam and to write off debts ("Honduras"

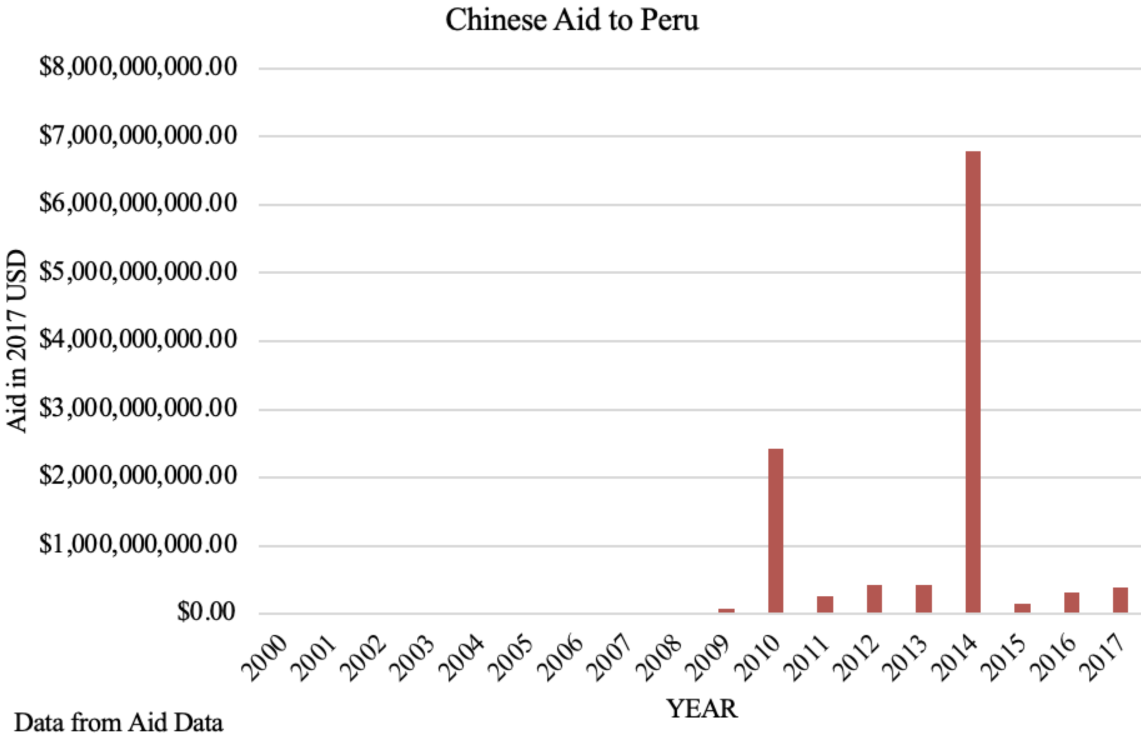
2023). It is offering military and technological transfer and cooperation, along with lifesaving vaccines during a pandemic. China has a lot to offer recipient states, and according to our quantitative findings there is not a political institutional cost or an economic cost in terms of economic freedom when engaging with Xi Jinping's China. In the following section, a case study of Chinese relations with Peru will examine the scope and impact of Chinese aid since 2017, examining how the Xi effect has evolved since the end of the period covered by the data in the empirical study This is a particularly interesting case because the economic growth, reduction in poverty and relative stability that Peru enjoyed from 2000-2016 have been replaced by political turmoil, with six presidents in six years. While Xi Jinping continued to accumulate and centralize power, Peruvian governments quickly rose and fell, raising interesting questions about the impact on Sino-Peruvian relations.

VIII. Case Study of Peru

Peru is considered a less developed country whose main exports are raw materials, especially minerals and foodstuffs. Peru is ethnically diverse, home to Andean peoples, those of European and African descent, and is also home to a Chinese diaspora. Today, China is Peru's largest trading partner. During his tenure, Peru's President Castillo (2021-2022) looked to expand the free trade agreement between Peru and China, noting China as an important partner to Peru. Meanwhile, Peru has free trade agreements with both the United States and China.

Chinese aid to Peru, according to AidData, was at its height in 2014 (see Figure VIII.1) and has declined considerably since then. When Peru signed onto the BRI in 2019, Peruvian Army Colonel Mario Caceres Solis noted, "these investments are of mutual interest and will create development poles that will boost the country's economic growth" (Sweigart and Cohen 2021; Solis 2022, 7). Since 2017, China has continued to lend to Peru; in 2018 and 2021, the Industrial and Commercial Bank of China lent Peru money for mining operations (Meyers 2021). Peru is the second largest destination for Chinese investment in Latin America, following Brazil, and exceeded US$30 billion in 2022 (Lau 2022). Chinese investment in Peru is mainly focused on energy and natural resources (Sweigart and Cohen 2021). Since 2019, Chinese enterprises have bought Peru's third largest hydroelectric power plant, acquired a commanding share of an American firm's stake in Peru's largest power company, and have begun construction on a port. Chinese ownership of Las Bambas, one of the largest copper mines in the world, is seen as a major contributor to economic growth, although protests against China Minmetals Corporation, which owns the mine, has forced regular work stoppages (Espinosa 2022).

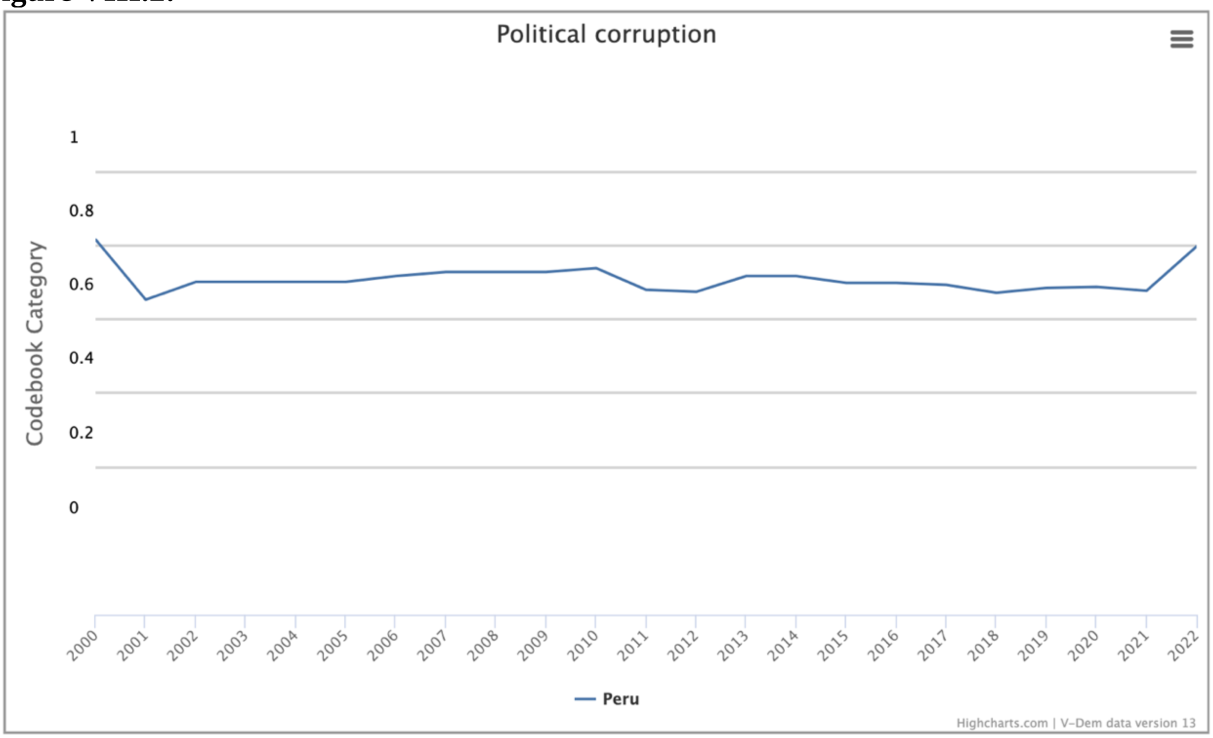
Figure VIII.1



Note: Aid to Peru from 2000 to 2017 held constant in 2017 USD. Aid to Peru was at its height in 2014, since 2017, Peru has joined the BRI. Peru remains a recipient of Chinese aid.
Source: Custer et al., 2021

In Peru, public perceptions of political corruption, seen in Figure VIII.2, have been steady over the past twenty years, but have been on the rise since 2021. This could be attributed to many things including the Covid-19 pandemic but does leave room for concern should this trend continue, especially if a relationship can be drawn between it and Chinese aid. The country faced political turmoil in the final days of 2022 as then President Pedro Castillo attempted to overhaul the political system, was impeached and now is facing corruption charges (Tegel 2022). President Castillo was an adamant supporter of China, having called the relationship one of "brotherhood and cooperation" and made his first international state visit to the PRC (Sweigart and Cohen 2021; Acquino 2021). Although Peruvian democracy withstood Castillo's assault, the legacy of such an assault remains to be known; Freeman (2023) believes the Peruvian state will continue in a downward spiral until rival parties formulate checks and balances on the branches of government (Sweigart and Cohen 2021; Freeman & Rios 2023; Freeman 2023). Additionally, Peru has lost investment during Castillo's presidency, as well as a decline in mining profits due to worker stoppages and anti-government protests. Now, Peru is being governed under Dina Boluarte who widely considered illegitimate as her government has been harshly criticized for the use of deadly force against protestors.

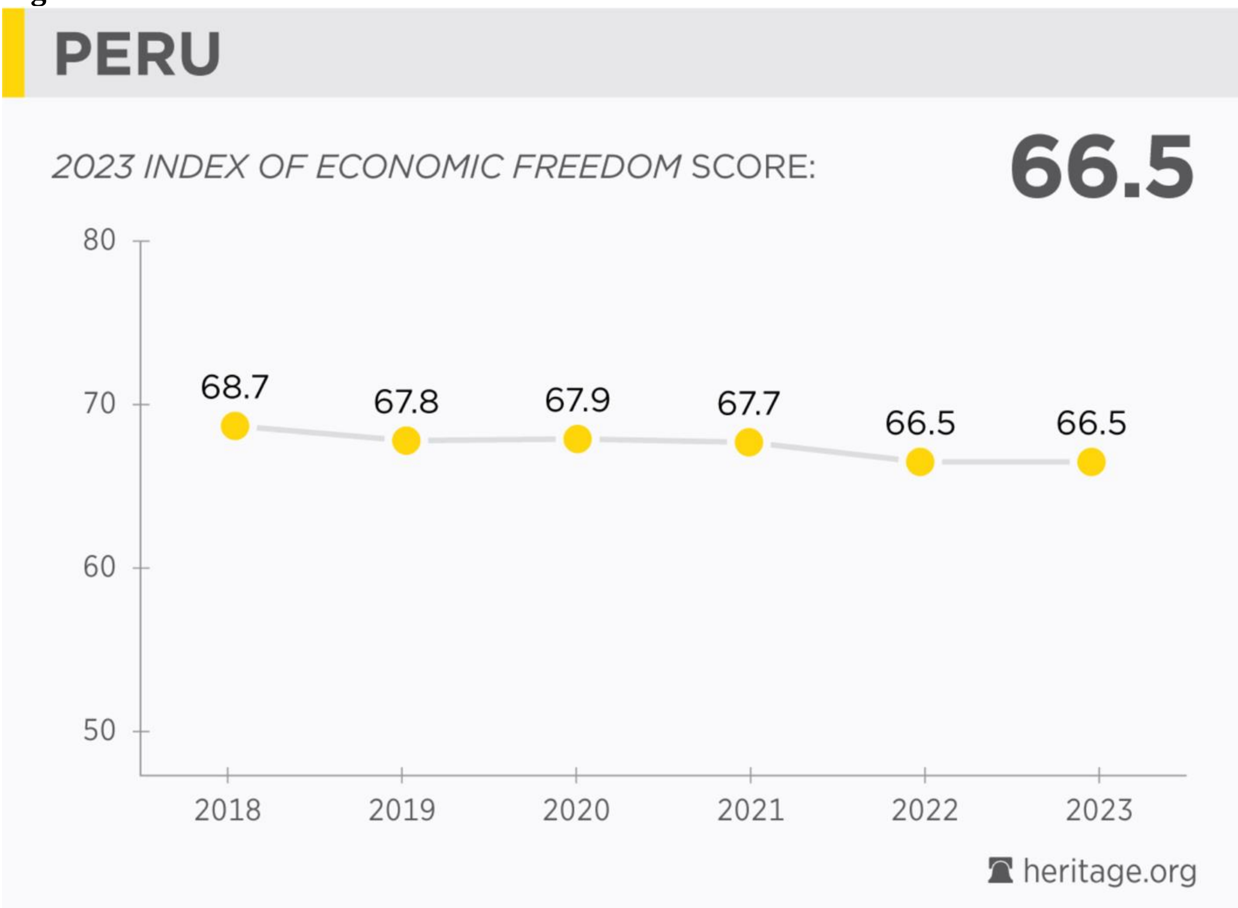
Figure VIII.2:



Note: Peru's Public Perceptions of Political Corruption Score, Scale 0(no corruption) to 1(high corruption); Source: V-Dem, Coppedge et al., 2022

Peru's economy was hard hit by the Covid-19 pandemic, but Peru has enjoyed strong post-pandemic growth. Peru's Economic Freedom Index has declined over the past several years, beginning in 2019 and continuing to decline since the pandemic (see Figure VIII.3). Exports have revived and Peru's fiscal deficit has shrunk thanks to the recovery of economic activity and high mineral prices, though Peru continues to face challenges of high poverty levels, poor quality government services in the areas of education, health and water, sluggish job growth and overemployment in low-productivity jobs in the informal sector (World Bank 2023).

Figure VIII.3



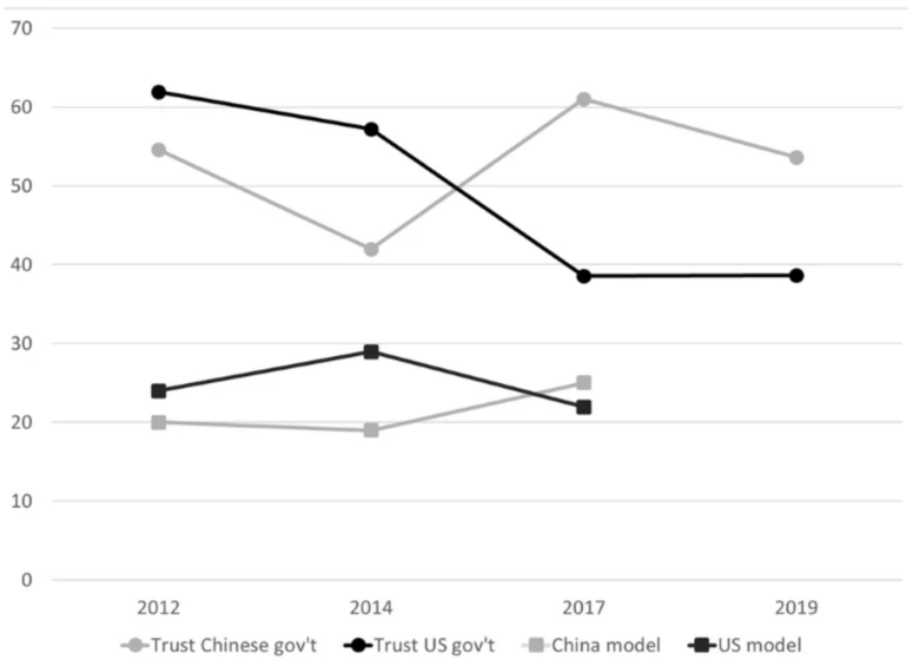
Note: Peru's Economic Freedom Index scores from 2018 through 2023; Source: The Heritage Foundation 2023, "Peru"

As China expands its military footprint in LAS looking to offer assistance in expanding military capabilities for states within the Global South, it is supporting the Community of Latin American and Caribbean States (CELAC), which notably excludes the United States and Canada, and calling for engagement. Peru has cooperated militarily with China over the first two decades of the twenty-first century; for example, in 2011, Peru conducted a joint military training with China, it has purchased weapons from the PRC, and sends its personnel to China for training; however, Peru does not rely solely on China and maintains relations with the US government (Ellis 2020).

Perceptions of China within Peru appear positive. A study conducted using the AmericasBarometer from Vanderbilt University demonstrates there is more trust in the Chinese government than in the US government in Peru in 2017 and 2019 (Ratigan 2021). In 2017, the China model – economic and political model after Chinese growth – was favored by just over 25 percent of Peruvians surveyed compared to 22 percent who favored the United States as a model and 25 percent who favored Japan (see Figure VIII.4). Thus, China is cultivating a "stable and favorable impression," but it is still competing with that of the US and Japan in Peru (Ratigan 2021, 97). Moreover, China is the target of complaints from members of Peru's business community who argue that the country's free trade agreement does not help them since it remains difficult to enter the Chinese market (Lau 2022). The Chinese model is not necessarily preferred by a majority of the Peruvian people, but China does hold a better impression among Peruvians relative to that of the United States.

Beyond investment, Beijing has expanded its propaganda and media presence in the Global South. In 2013, Xi Jinping at the National Conference on Propaganda and Ideological Work promoted a new media that would represent China in a favorable light internationally that would be credible to international viewers as well (Eisenmann 2023). Almost a decade later, Freedom House estimates China spends billions annually on foreign propaganda and censorship. Peru, according to Freedom House (2022), is considered vulnerable to Beijing's media influence efforts. Peruvian media has disseminated pro-Beijing content, and journalists in Peru have relied on Chinese social media to report on China due to lack of transparency and access to Chinese information. While there have been no disinformation campaigns attributed to the Chinese government in Peru, astroturfing[3] by Chinese firms has been acknowledged in Peru (Freedom House 2022; Eisenmann 2023). Freedom House (2022) notes that the "Chinese embassy promoted misleading narratives to local audiences, including those aimed at countering US influence in the region or attempting to minimize Chinese actors' culpability in local scandals related to the supply of COVID-19 vaccines and illegal fishing."

Figure VIII.4



Note: Peruvian perceptions of trust in the Chinese versus US government. The Peruvian people hold more trust in the Chinese government than that of the US government by 20 points in 2017, lowering to around 10 in 2019. Peruvian perceptions of the Chinese versus the US model, showing a preference for the Chinese model, just slightly over the US model in 2017.
Source: Ratigan 2021, pg. 98

[3] "Astroturfing is the attempt to create an impression of widespread grassroots support for a policy, individual, or product, where little such support exists. Multiple online identities and fake pressure groups are used to mislead the public into believing that the position of the astroturfer is the commonly held view" (Bienkov 2012).

In Peru, China is still competing with the United States for influence, yet there has been an erosion of trust in the U.S. government. China is cultivating an environment of trust, an environment congenial to Chinese media and propaganda, and cooperation – economically, politically, and militarily. Peru's institutions in the wake of the Covid-19 pandemic have begun to falter, as Peru suffered the highest Covid-19 mortality rate in in the world (Bureau of Western Hemisphere Affairs 2022). Peru's democracy remains, but the cost has yet to be ascertained, and Chinese growing influence in Peru, especially its propaganda and promotion of anti-US and anti-Western sentiments could foster a state that will become politically and economically unstable in Latin America, a state which has held diplomatic relations with the United States since 1827.

IX. Strings Attached?

"Honduras and Paraguay, for instance, alleged that they faced pressure to renounce their recognition of Taiwan in exchange for doses. In Brazil, regulators reversed an earlier decision to bar Huawei from developing the country's 5G networks weeks after China provided millions of vaccine doses."

- Roy, 2022

March 2023:

Honduras officially cuts ties with Taiwan and recognized One China, the People's Republic of China

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Recognition of Taiwan has become scarcer in Latin American states as China increasingly pressures LAS with loans and investments to renounce their recognition of the Taiwanese government and recognize the Chinese Communist Party. Below in Map 1, the states that currently recognize the CCP's claim over Taiwan are pictured, although this does account for the recent change in Honduras. Belize, Guatemala, Haiti, Paraguay, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines are the states within Latin America that do not recognize the CCP's claim over Taiwan (Roy 2022). Paraguay has reported pressures to switch their recognition but have yet to abandon Taiwan. Paraguay does not have access to Chinese markets and has suffered from this, according to the President of Paraguay (Davidson 2022). Paraguay's economy is heavily dependent on the agricultural sector, so the country's agricultural producers would relish the opportunity to export to the Chinese mainland as a way to stimulate economic development. In September of 2022, Paraguay's President Mario Abdo Benítez petitioned for Taiwan to invest in Paraguay $1 billion USD to "ensure it can resist pressure to switch its diplomatic ties to China" (Davidson 2022). The economic clout the CCP can offer in terms of market access, aid, and loans is appealing as many states, including Honduras, El Salvador, Nicaragua, and the Dominican Republic, have turned to the PRC in recent years, abandoning decades long ties with Taiwan.

Honduras reported that it felt pressured to relent on its recognition of Taiwan; March of 2023 saw Honduras switch to recognizing the CCP over Taiwan – Taiwan had warned the state to not engage in check book diplomacy with China and its empty promises (Blanchard & Palencia 2023). On March 26, 2023, the Taiwanese Ministry of Foreign Affairs (MOFA) issued a statement.

> The Republic of China (Taiwan), in order to uphold national sovereignty and dignity, has decided to terminate diplomatic relations with the Republic of Honduras with immediate effect, end all bilateral cooperative projects, and recall the staff of its embassy, consulate general in San Pedro Sula, technical mission, and electricity mission (Ministry of Foreign Affairs, Republic of China (Taiwan) 2022).

The announcement further noted Honduras demanded billions of US dollars in aid, and Taiwan did offer assistance but ultimately, the Honduran government "weighed Taiwan's assistance proposals against those submitted by China" choosing those of the CCP. The Taiwanese ministry also reminded states of the possible strings attached to Chinese aid and the nefarious intent of Chinese aid.

> China frequently makes ostentatious commitments to lure Taiwan's diplomatic allies into switching diplomatic recognition. However, once China achieves its diplomatic objectives, it often fails to uphold its pledges, leaving some beneficiary countries mired in debt. MOFA urges countries across the globe to recognize the true nature of China's external aid, i.e., its actions do not align with its words (Ministry of Foreign Affairs, Republic of China (Taiwan) 2022).

Map 1:

Note: Recognition of the CCP's Claim over Taiwan: States that recognize the CCP are in dark green. States that do not recognize the CCP are in light green.

Taiwan is not the only one raising the alarm of a possible debt trap. Janet Yellen, U.S. Treasury Secretary under the Biden Administration, testified to U.S. lawmakers on March 30, 2023, stating that she is "very, very concerned about some of the activities that China engages in globally, engaging in countries in ways that leave them trapped in debt and don't promote economic development" (Baptista & Singh 2023). The same criticism came from the prior Trump Administration's Rex Tillerson, U.S. Secretary of State, who noted in contrast to U.S. aid, Chinese aid "encourages dependency using opaque contracts, predatory loan practices, and corrupt deals that mire nations in debt and undercut their sovereignty" (Kelemen 2018). While both administrations warn of debt trap, others, however, call this an outright lie, as Chinese banks have been willing to restructure the terms of loans. The Hambantota Port in Sri Lanka is often cited as the example that demonstrates the predatory nature of Chinese lending, yet Brautigam and Rithmire (2021) argue that this is hardly the case as the port was deemed feasible by both Danish and Canadian companies, Sri Lanka went to the United States and India before securing loans from China in 2007, prior to Xi Jinping's presidency and the introduction of the BRI. When the economic situation in the country deteriorated, the state owed $4.5 billion in debt, five percent of which belong to China, and it was forced into structural adjustments by the International Monetary Fund which required the port be leased. The Sri Lankan government leased it to the Chinese company which bid for the port for 99 years for $1.2 billion. Importantly, Sri Lanka's Central Bank governors are adamant that the cause of Sri Lanka's financial downturn was not Chinese debt trap diplomacy. Others are concerned over the lower environmental and labor standards as compared to those in loans from the West. The rise of economic dependency is also of concern, for example, in the case of Chile which exports 39 percent of its goods to China (Roy 2022). Thus, the controversy remains as seen in the case of Venezuela which has acquired over $62 billion in loans from Chinese state-owned banks since 2007 (Roy 2022).

In a study conducted through the collaboration of Aid Data, Kiel Institute, Center for Global Development, and the Peterson Institute for International Economics, researchers were able to study Chinese lending contracts between the years 2000 and 2017 and found patterns of "far-reaching confidentiality clauses" (Gelpern et al. 2021, 6), special collateral bank accounts approved by lender, a “No Paris Club Clause”[4] in nearly 75 percent of contracts, and cross-default clauses[5] when signed with China Eximbank and Chinese Development Bank, and 90 percent of contracts allowed the lender to cancel the contract and demand repayment given changes in the legal or policy environment within the recipient state (Gelpern et al., 2021). The authors note that, “China is a muscular and commercially-savvy lender to developing countries. Chinese contracts contain more elaborate repayment safeguards than their peers in the official credit market, alongside elements that give Chinese lenders an advantage over other creditors” (Gelpern et al. 2021, 8). China’s lending has increasingly employed multiple safeguards to ensure repayment (see Figure X.1).

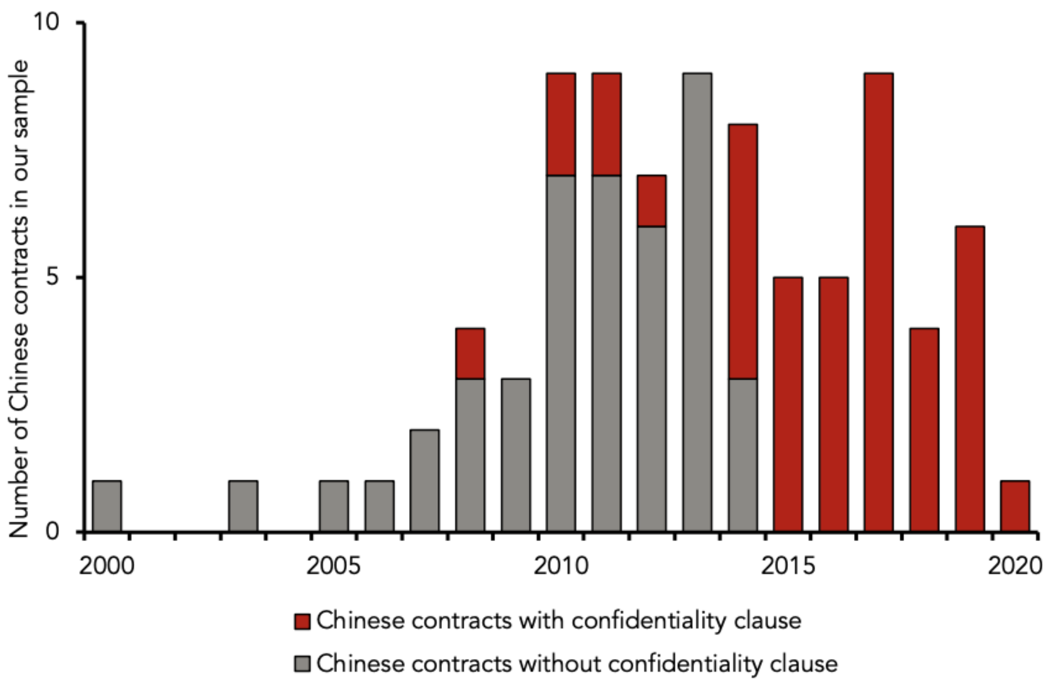
Confidentiality contracts within the control sample of contracts – a sample of bilateral OECD, bilateral non-OECD, multilateral, and commercial bank contracts – are relatively normal; however, within the Chinese sample they are present, but more specifically they are enforced on the borrower, whereas the control sample finds the confidentiality clause is meant for the lender (Gelpern et al., 2021). Additionally, Chinese contracts allow lenders to exert influence over recipient states; the Chinese lenders have “the right to cancel the loan and demand immediate repayment under a wide range of circumstances, including political and economic developments not directly connected to the lending relationship” (Gelpern et al. 2021, 37). Importantly, cross-default and cross-cancellation can happen because of any form of “action” that is “adverse to ‘any PRC entity’” (Gelpern et al 2021, 37). This could allow the PRC to leverage debt to control internal politics and state’s foreign relations. Overall, the contracts show that China looks to be

[4] The Paris Club “is an informal group of official creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries” (Club de Paris). The permanent members of the Paris Club are Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Ireland, Israel, Italy, Japan, Korea, Netherlands, Norway, Russia, Spain, Sweden, Switzerland, UK, and USA.

[5] When a borrower defaults on another loan, this loan will go into default.

repaid, but it does have leverage over recipient states and prefers its contracts to be kept under wraps.

Figure X.I: Confidentiality Clauses in Chinese Aid Contracts



Note: *This displays the use of confidentiality clauses in Chinese aid contracts from 2000 to 2020. Xi Jinping takes office in 2013 and launches his BRI. From 2015 onward all contracts have a confidentiality clause. Source: Gelpern et al., 2021. "How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments" found on pp. 2*

X: The U.S. Policy Response to China’s Growing Influence: Revisiting the Monroe Doctrine

Gaddis Smith, the Larned Professor Emeritus of History at Yale University, places the end of the Monroe Doctrine with the end of the Soviet Union. According to Smith (1994), the end of the Cold War marked the end of a national security threat posed by outside powers in Latin America and thus the end of the doctrine. But as the global balance of power begins to shift and China’s influence in Latin America grows, will the United States resuscitate the Monroe Doctrine?

Latin America has been central to US foreign policy and national security goals since the early nineteenth century, when President James Monroe declared that outside powers must not be allowed to meddle in the Western Hemisphere. The US was not able to assert its hegemony over Latin America until the late nineteenth century but maintained this through the Cold War; certainly, its darker Cold War interventions have left scars. The United States can lose ground in Latin America and survive with other powers in its backyard, yet its credibility as a world power would suffer and many would associate the loss of Latin American states as key to the changing balance of power between states.

Whereas U.S. scholars and policy makers warned against Soviet influence in Latin America, today’s concerns focus on the growing influence of the Chinese Communist Party as a threat to U.S. regional hegemony. In the past administration (Trump 2017-2021), former Secretary of State Rex Tillerson criticized China's economic approach to Latin America, claiming that this brought little lasting benefit for those countries, and praised the Monroe Doctrine as a success (Gramer & Johnson 2018). Tillerson's remarks were met with general skepticism in Latin

America, where less than 25% of people in the region approved of U.S. leadership. Warming relations between China and Russia increase the U.S. government's concerns. As Russia engages in a heinous invasion of Ukraine, violating Ukrainian sovereignty and testing NATO, it may present an opportunity to form a new world order centered around a global authoritarian regime that could be led by China. During the conflict, there has been a deepening of relations between the two states; in February of 2022 Xi Jinping and Vladimir Putin announced a "friendship without limits" (Lo 2022). Continued strategic partnership between the two states looks to deepen military cooperation, and Xi and Putin both acknowledge the strength of their relations in recent years and the need to bolster against an unfavorable international environment (Aljazeera 2022). Importantly, Russia has engaged in Covid-19 diplomacy with LAS, alongside China, and has been spouting Russian propaganda on Latin American media outlets (Linvill et. al, 2022). The pair makes it an uncomfortable position, but it is where the US currently finds itself.

The United States is being tested and seemingly is losing its influence in Latin America as China has swooped in with trade, aid, and loans to fund infrastructure and development projects in the region. China has become South America's largest trading partner, 20 LAS have signed onto the Belt and Road Initiative, and the 2022 Summit of the Americas hosted by the U.S. government saw boycotts from the leaders of Mexico, Bolivia, Honduras, and Guatemala (Editorial Board 2022). As discussed in the next section, the prospect of a shift in the regional balance of power could prompt U.S. leaders to reignite the Monroe Doctrine, advocating forceful action to defend U.S. historical dominance in the Western Hemisphere. During the Trump administration, the U.S. government praised the Monroe Doctrine as a possible response to China's growing influence, but this begs the question whether China's influence jeopardizes economic development and political democracy in Latin America. After nearly 200 years of US hegemony in the Western Hemisphere, one may believe the doctrine lost to history, but the global stage is changing – as China rises and increasingly engages Latin America – the doctrine could be reignited as a U.S. foreign policy cornerstone.

The Monroe Doctrine

"We owe it, therefore, to candor and to the amicable relations existing between the United States and those powers [European Powers] to declare that we should consider any attempt on their part to extend their system to any portion of this hemisphere as dangerous to our peace and safety. With the existing colonies or dependencies of any European power we have not interfered and shall not interfere. But with the Governments who have declared their independence and maintain it, and whose independence we have, on great consideration and on just principles, acknowledged, we could not view any interposition for the purpose of oppressing them, or controlling in any other manner their destiny, by any European power in any other light than as the manifestation of an unfriendly disposition toward the United States."

Excerpt from President James Monroe's seventh annual message to Congress on December 2, 1823, which has come to be known as the Monroe Doctrine.

The United States has long had a vested interest in Latin American politics, so much so that in 1823 the fledgling nation would declare its hegemony in the Western Hemisphere long before it had the power to back this claim. Since President James Monroe proclaimed the Monroe Doctrine in 1823, the United States has declared the Western Hemisphere as its exclusive sphere of influence (National Archives, "Monroe Doctrine"). A hallmark of US security doctrine, Monroe's declaration rallied sentiments of early Americans and has since, "become an integral component of US foreign policy psyche" (Schoultz 1987, 118). This proclamation would come to be used numerous times throughout U.S. history as a justification for keeping foreign states out of the Western Hemisphere, and for meddling in Latin American countries' politics and economies (Gilderhus 2006).

The original intent of the Monroe Doctrine (1823) was to deter European interventionism and colonialism in the West Hemisphere following the Napoleonic Wars; however, its meaning was redefined throughout US history “depending upon shifting policies and preferences, but nevertheless consistently served as a mainstay in the articulation of U.S. policy goals and purposes” (Gilderhus 2006, 6). But the doctrine is not only set against foreign territorial encroachment; it also has served an ideological purpose, as its original historical purpose against European powers was akin to an anti-monarchist positioning (Schoultz 1987). U.S. policy was determined to keep the monarchies of Europe in their own hemisphere – physically and ideologically, and to end colonial rule in the Western Hemisphere and terminate monarchical representation in the colonies. This policy – territorially and ideologically – has served as a basis for US foreign policy since its introduction.

President Monroe cultivated diplomatic ties with newly independent Latin American states (LAS) including Argentina, Mexico, Colombia, Peru, among others, beginning in 1823 following success of the Latin American wars of independence (Gilderhus 2006, 7). Additionally in 1823, Britain and France signed the Polignac Memorandum which stipulated that Britain and France would not interfere in Spain’s prior colonial dominion, yet news of a French fleet bound for the Americas circulated; all the while, Russia was looking to expand its territory into Alaska. The US has used the Monroe Doctrine along with Manifest Destiny to expand the US territory and keep foreign intervention at bay. President James Polk (president term: 1845-1849) invoked the doctrine against French and British presence in California and Texas, soon to be incorporated into the continental US (Gilderhus 2006). Following the Civil War, the US used the Monroe Doctrine to validate its support of Mexican President Benito Juárez against then Emperor

Maximillian I of Mexico (1832-1867, an Austrian Archduke), who sat at the helm of the Mexican Empire on behalf of the French government (National Archives, “Monroe Doctrine”). Citing the Monroe Doctrine, the US involved itself in a dispute between Venezuela and Britain over the border with British Guyana in 1895 (Schake 2019). Britain acknowledged Latin America as within the U.S. sphere of influence, and the US supported British claims. In 1898, the US involved itself in Cuba's independence struggle and subsequently claimed sovereignty over Cuba, Puerto Rico, the Philippines. The US has used the doctrine to expand its territory and remove European interests from the Western Hemisphere.

By the early twentieth century, Venezuela faced a challenge from European creditors. In 1902 Venezuela defaulted on its loans, and the British, Italian, and German forces blockaded Venezuelan ports (National Archives, “Theodore Roosevelt”). By 1904, European powers threatened military invasion into Latin America, as LAS were failing to repay European loans (National Archives, “Monroe Doctrine”). In response, President Theodore Roosevelt expanded the Monroe Doctrine with his Roosevelt Corollary. This corollary, derived from Roosevelt’s speech to Congress in 1904, expanded the powers of the Monroe Doctrine, and asserted that the US had the right to intervene in states within the Western hemisphere.

> Chronic wrongdoing, or an impotence which results in a general loosening of the ties of civilized society, may in America, as elsewhere, ultimately require intervention by some civilized nation, and in the Western Hemisphere the adherence of the United States to the Monroe Doctrine may force the United States, however reluctantly, in flagrant cases of such wrongdoing or impotence, to the exercise of an international police power (National Archives, “Theodore Roosevelt”).

The Roosevelt Corollary would allow US intervention within the Western Hemisphere yet contest any intervention by foreign states. The situation in Venezuela that began in 1902 escalated until Venezuela’s then-President Castro in 1904 leaned on President Roosevelt to negotiate a compromise that allowed Venezuela to repay its debt and ended the European states’ economic boycott of Venezuela. Following the incident in 1904, the Roosevelt Corollary was amended to the Monroe Doctrine.

The Monroe Doctrine would also be an important policy for the Wilson Administration with its intervention in Haiti, the Dominican Republic, and Mexico (Gilderhus 2006). Later, Wilson looked to collective security in the Western Hemisphere, but the policy would fail. Mexico took the issue into its own hands and adopted the Carranza Doctrine to defend Mexican sovereignty. In 1934, President Franklin D. Roosevelt rejected the policy of American intervention and adopted the "Good Neighbor Policy," a significant and beneficial shift to multilateralism in the 1930s and 1940s, as most countries throughout the hemisphere embraced a policy of collective self-defense, which paid benefits for the US during WWII as virtually all LAS sided with the Allies after Pearl Harbor (Schake 2019). But (Theodore) Roosevelt's corollary would reemerge as a central policy within US national security doctrine and its relationship with Latin America during the Cold War (National Archives, "Theodore Roosevelt"; Gilderhus 2006).

During the Cold War (1947-1991) the US invoked the Monroe Doctrine to deter the Soviet Union from encroaching on the U.S. sphere of influence. Latin America became a battleground of the Cold War, where ideology and relation to the Soviet Union could represent a threat to the US and the Monroe Doctrine (Smith 1994). For example, the US tried to intervene in Cuba with the failed Bay of Pigs invasion in 1961. Later, President Kennedy in 1962 used the Monroe Doctrine against Soviet missile defense buildup in Cuba, as the Soviet Union held territory occupied for military purposes within the Western Hemisphere (National Archives, "Monroe Doctrine"). An agreement was struck, and the Soviet Union would remove its weaponry from Cuba and in return the US agreed to remove some of its missile launch sites from Turkey. The existent Monroe Doctrine and its corollaries were also transformed by the Cold War mindset.

This new mindset was exercised as the United States intervened in many other Latin American countries in the name of fighting against communism. The US overthrew democratically elected governments – such as that of Jacobo Árbenz Guzmán, President of Guatemala in 1954 – and situated itself so that the Monroe Doctrine could explain U.S. support of military junta regimes throughout Latin America. Intervention via the Monroe Doctrine would become the norm, as the United States worked to undermine and overthrow democratically elected governments in Guatemala, Argentina, Chile and elsewhere, and engaged in covert military intervention, such as through Operation Condor[6]. Lastly, the use and support of doctrine was transformed by partisan politics during the Cold War; this changed the document from its original ideals of preventing "devious, autocratic, and imperial" intervention (Smith 1994, 7).

The Trump Administration invoked the Monroe Doctrine to threaten the Venezuelan government of Nicolas Maduro. However, is this an appropriate use of the Monroe Doctrine, which celebrates its bicentennial this year? Kori Schake (2019) argues that this was a misinterpretation of the doctrine, which should be used to cultivate "positive change" rather than "threatening invasion or resurrecting the dark history of American imperialism." The US has the opportunity to engage its neighbors and form friendly relationships seen under the Good Neighbor policy, rather than continue the trend of undermining LAS, as seen during the Cold War.

[6] Operation Condor was an operation during the 70's into the 80's to place right wing dictatorships into power in Latin America. Tremlett (2020) notes that during Operation Condor "eight US-backed military dictatorships jointly plotted the cross-border kidnap, torture, rape and murder of hundreds of their political opponents."

"And so as President, I decided that -- given the importance of this region (Asia Pacific) to American security, to American prosperity -- the United States would rebalance our foreign policy and play a larger and lasting role in this region [Asia]. That's exactly what we've done."

- Barack Obama, 2014, Remarks by President Obama at the University of Queensland

Barack Obama (presidential term: 2009-2017) took over the US presidency as the United States was engaging in its War on Terror with eyes to the Middle East and Afghanistan. During his candidacy for the presidency, Obama called for refocusing on climate change and transitioning from the focus on terrorism. Boyle (2016) notes, "Obama cast himself as a brighter alternative to the prevailing course of US foreign policy. He asked his followers to imagine a world in which the United States had not made the disastrous mistakes of the George W. Bush administration (Iraq, Guantánamo Bay, and torture, to name a few) but had instead forged a more careful and pragmatic path." While in office, he improved US-Cuba relations, worked to curb Iranian nuclear capabilities through a nuclear deal, ordered the raid on Osama Bin Laden, carried out the withdraw from Iraq, and bettered relations within the Global South (Pavgi 2011; Boyle 2016). One of his landmark foreign policy decisions was his '*Pivot to Asia*' which called for the United States to focus its resources and investment in the Asia-Pacific region, yet the United States remained entangled in the Middle East, not withdrawing from Afghanistan during his two-term presidency (Boyle 2016). One of his last accomplishments in office was bringing about the Trans-Pacific Partnership (TPP)[7] – this policy was a trade agreement partnership of twelve states, accounting for 40 percent of the global economy, with Pacific Ocean borders, yet this would

[7] Following US withdraw remain countries continued negotiations to ratify the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, CPTPP

soon fade away with the incoming Trump Administration (McBride et al., 2021). Critics see Obama's foreign policy legacy as very mixed, as his exit from the Oval Office saw a world which became more violent and divided, noting civil wars through the Middle East and North Africa (i.e., Syria and Libya) and the rise of ISIS, and a world failing to meet the challenge of climate change (Unger 2016; Boyle 2016). Unger (2016) notes that Obama did manage to improve America's image from that of the Bush era but continued the overextension of U.S. military resources.

Donald Trump's Foreign Policy: Is it Isolationism?

Donald Trump (presidential term: 2017-2021) and his administration departed from the past administration in terms of foreign policy, touting an "America First" isolationist agenda. Trump withdrew from the Iranian nuclear deal, the TPP, and international organizations, and abandoned Obama's opening to Cuba (McBride et al., 2021; CFR 2021; Waterhouse n.d.). His administration saw tariff trade wars with China, increased containment, and increased tensions between the two largest economies (CFR 2021). The United States continued its presence in the Middle East, it transitioned to a counter-terrorism focused mission within Afghanistan eventually agreeing to a US-Taliban Agreement, assassinated Abu Bakr al-Baghdadi the leader of ISIS, brokered agreements between Bahrain, Israel, and the United Arab Emirates, and antagonized Iran with sanctions and the assassination of Qasem Soleimani, commander of the Iranian Revolutionary Guard Corps' Quds Force. Trump saw changes to immigration – a Muslim travel ban, wall building, and strict border enforcement. The United States renegotiated the North America Free Trade Agreement (NAFTA) to the now United States-Mexico-Canada Agreement (USMCA). Trump has been criticized for his somewhat cozy relationship with authoritarian leaders such as Vladimir Putin and Mohammed Bin Salman, and his movement from multilateral and bilateral cooperation (Waterhouse n.d.). Additionally, Latin America, once again, was seen as lacking strategic importance during the Trump administration. The conversations surrounding LAS in the US centered on migration and policies such as *Remain in Mexico*. The administration utilized coercion and withholding of aid to force LAS to help reduce migration across the U.S. southern border (Taladrid 2021). Eerily, Trump's National Security Advisor, John Bolton, declared: "The Monroe Doctrine is alive and well" to veterans from the Bay of Pigs – reminding many of a past of U.S. military intervention into LAS and their internal politics. The Washington Office on Latin America accuses the Trump administration of "severe damage wrought" to the relations between the US and LAS (WOLA Staff 2020).

Joe Biden's Foreign Policy: Is America really back?

Joe Biden has declared America is back and touts a foreign policy agenda that will reincorporate the United States into the international environment, rejoining international organization and pledges, and abandoning isolationism (Levingston n.d.). Accordingly, the United States has rejoined the Paris Climate Accord and the World Health Organization (Waterhouse n.d.). Those who criticize the administration say it is not moving forward but is regressing toward old U.S. foreign policy politics, especially those of the Obama Administration (Levingston n.d.). Within Latin America, those optimistic about the new administration note the rhetoric has changed and the Biden administration speaks to commitment to human rights and sovereignty but has yet to see stark transformations in policy from the prior administration, including but not limited to migration policy and Cuba policy (WOLA Staff 2022). Notably, the Biden Administration remains hostile to China having pushed an "invest, align, and compete" strategy to China and strengthening US-Taiwan relations, yet has not looked to join or renegotiate the Trans-Pacific Partnership (Blinken 2022; Theil 2023).

XI. Policy Recommendations & Conclusions

Chinese aid allocation has expanded greatly since the rise of Xi Jinping as the leader of the Chinese Communist Party in 2013. Since his rise, Xi has also consolidated power, formed a cult of personality, and leaned heavily into authoritarian rule. Using both transformational and transactional methods, Xi Jinping has ushered in a new era of Chinese politics and foreign policy. Due to his unmistakable impact on the CCP and the People's Republic of China, this paper explored how he has pursued his agenda throughout the world, especially in the Global South, through aid allocation and its contingencies. The impact Chinese aid has under Xi Jinping's tenure, the *Xi Effect*, has been shown to have no impact on public corruption, with small, positive impact found on economic institutions and democracy. The case study of Peru suggests that the Xi Effect might produce different results more recently. On the one hand, Chinese aid and investment may continue to encourage a legal framework of economic freedom since protection of property rights, open markets, regulatory efficiency, and low tax burden benefit Chinese investors. On the other hand, economic freedom does not necessarily reduce poverty or prevent corruption, which may have a negative impact on political stability and democracy. Given these findings, the following subsections offer an update on the BRI, the policy recommendation, and directions for future research.

Update on the BRI

The Council on Foreign Relations amassed a Task Force to assess the BRI and publish a detailed report on BRI and its implications; the Task Force found BRI responds to an internal need within China to address issues of its unequal development, yet “BRI poses a significant challenge to U.S. interests, as it has the potential to displace American companies from BRI countries, set technical standards that are incompatible with U.S. products, push countries to politically align with China, and pressure countries to withhold access to U.S. forces during a potential crisis” (Lew et al., 2021, vii).

Yet, the BRI has been determined to be too ambitious and is seen as too connected to Xi Jinping’s legacy for the CCP to acknowledge it failed to achieve its intended purpose (Lu 2023). The Belt and Road has become a “shadow of its former self” as lending by the PRC has decreased since the global pandemic and slowing of the Chinese economy. Chinese loans are now in the hands of countries where 60 percent of borrowers are in “financial distress.”[8] China’s lending to economically unsound states has led to infrastructure projects being taken over by the PRC, but the PRC has also worked to restructure states’ debt. Yet, now Chinese lenders are at risk of facing states’ defaults. As China transitions the BRI to fit in the modern economic and political climate, it continues to maintain and further its relationships with many states in the Global South, including Latin America.

Recommendations Given Findings

The Monroe Doctrine will find a place in modern politics as Chinese investment and influence increase in Latin America, especially as the United States looks to investing in the

[8] Only 5 percent of borrowers were in financial distress in 2010.

same resources in Latin America as China in the name of transitioning to green energy – which is important for US security. Given the quantitative findings, the resurrection of the Monroe Doctrine could be a possible policy to be utilized, but I caution against its use. The Monroe Doctrine, given its historical misuse and its negative reputation in Latin America, should be left to history. Given the circumstances since 2017, demonstrated in the section on Peru, I advise rather that the United States look to bilateral and multilateral cooperation with states in the Americas. The resounding negative association Latin American states have with the doctrine should instead point to importance of the need for a shared and mutual approach to countering China's growth, rather than the renaissance of a doctrine which is associated with military and political intervention. The United States should look to Franklin Delano Roosevelt's Good Neighbor Policy which cemented support for the United States during World War II as a model. Thus, a cooperative approach that supports mutually beneficial economic ties and shared support for democracy, not a renaissance of the Monroe Doctrine, is the policy prescription for responding to the growing influence of China in Latin America.

Directions for Future Research

This project sets a basis upon which future research can build in order to better understand the political and economic ramifications of Chinese aid and/or the presence of a Xi Effect. As data becomes available for the years after 2017 and the world moves forward from the 2019 Coronavirus Pandemic, it will be necessary to reassess the quantitative analysis in this thesis to ascertain with greater certainty these impacts on recipient states.

XII. Appendix 1: Econometric Testing Results

Table: White Test

H0: Homoskedasticity
H1: Heteroskedasticity

	EFI.1	EFI.2	EFI.3	EFI.4
P Value	1	1	1	1
	Polity.1	**Polity.2**	**PUBCORR.1**	**PUBCORR.2**
P Value	1	1	1	1

Table: Ramsey Reset Test

H0: No Specification Error
H1: Specification Error

	P Value
EFI.1	.2261
EFI.2	.9418
EFI.3	.001079
EFI.4	4.816e-08
Polity.1	0.001124
Polity.2	0.001153
PUBCORR.1	5.51e-07
PUBCORR.2	1.848e-08

Table: AIC

	EFI.1	EFI.2	EFI.3	EFI.4
AIC	306.6481	435.8895	443.5483	575.2034
	Polity.1	**Polity.2**	**PUBCORR.1**	**PUBCORR.2**
AIC	3340.295	3827.937	-1800.091	-2111.131

Table: Serial Correlation

H0: No Positive Serial Correlation
H1: Positive Serial Correlation

Durbin Watson Test

	Durbin Watson Statistic
EFI.1	0.87211
EFI.2	0.96383
EFI.3	0.73665
EFI.4	0.80054
Polity.1	0.83761
Polity.2	0.73999
PUBCORR.1	0.65905
PUBCORR.2	0.63089

XIII. Appendix 2: R Code for Models & Findings

```
rm(list=ls())
library(tidyverse)

library(readxl)
Desktop_FINALDATA <- read_excel("Desktop\\FINALDATA.xlsx")
View(Desktop_FINALDATA)

library(readxl)
PUBLIC_CORR <- read_excel("~/Desktop/PUBLIC_CORR.xlsx")
View(PUBLIC_CORR)

FINALDATA<-Desktop_FINALDATA
FINALDATA2<-left_join(FINALDATA, PUBLIC_CORR)
view(FINALDATA2)

data_new<-FINALDATA2
data_new[is.na(FINALDATA2) | FINALDATA2 == "Inf"] <- NA

FINALDATA4<-FINALDATA2 %>% mutate(lnSumPC =(log(SUM/POP)),
                    SUMPC=((SUM)/(POP)),
                    `Xi*lnSum` = XI*(log(SUM)),
                    `Xi*lnSumPC` = XI*(log(SUM)/POP),
                    `Xi*Sum`= XI*SUM,
                    `Xi*SumAdj`= XI*((SUM)/10000000),
                    `Xi*SumPC`= XI*((SUM)/POP),
                    lnGDPpc = (log(`GDP/CAP`)),
                    `Xi*Num` = XI*(`PROJ#`),
                    lnSum = log(SUM),
                    logSum=log(SUM))

data_new <- FINALDATA4 # Duplicate data
data_new[is.na(data_new) | data_new == "Inf"] <- NA
summary(data_new)
view(data_new)

#Regional Variable
SAsia<-ifelse(data_new$Region=="South Asia",1,0)
`EU&CenAsia`<-ifelse(data_new$Region=="Europe & Central Asia",1,0)
MENA<-ifelse(data_new$Region=="Middle East & North Africa",1,0)
SubAfrica<-ifelse(data_new$Region=="Sub-Saharan Africa",1,0)
```

```
`EAsia&Pacific`<-ifelse(data_new$Region=="East Asia & Pacific",1,0)
HighOECD<-ifelse(data_new$Region=="High Income OECD",1,0)
`LatAm&Carib`<-ifelse(data_new$Region=="Latin America & Caribbean",1,0)

data_new1<-data_new %>% mutate(SAsia,
                          `EU&CenAsia`,
                          MENA,
                          SubAfrica,
                          `EAsia&Pacific`,
                          HighOECD,
                          `LatAm&Carib`)
view(data_new1)
summary(data_new1)

data_new<-data_new1
view(data_new)
data_new[is.na(data_new) | data_new == "Inf"] <- NA

library("writexl")
write_xlsx(data_new,"/Users/mackenzieowens/Desktop\\honors_correcteddata_finalcopy.xlsx")

library(dplyr)

#Lead the dependent variable.
2000:2017
dplyr::lead(2000:2017)    #leads 1 year
dplyr::lead(2000:2017,5)  #5 year lead

#You need to first create your lead variables correctly (by country) and then use them:
data_new<-data_new %>% group_by(COUNTRY) %>%
  mutate(EFI_lead1 = dplyr::lead(EFI,1),
        POLITYIV_lead1 = dplyr::lead(POLITYIV,1),
        PUBCORR_lead1 = dplyr::lead(PUBCORR,1))

#Model 1:
m1<-lm(EFI_lead1 ~ lnGDPpc+lnSumPC + `Xi*SumAdj` +
        XI + INDIV + POLITYIV + factor(Region), data=data_new)

m2<-lm(EFI_lead1 ~ lnGDPpc+lnSumPC + `Xi*SumAdj` +
        XI + INDIV + PUBCORR +factor(Region), data=data_new)

m3<-lm(EFI_lead1 ~ lnGDPpc + `PROJ#` + `Xi*Num` +
        XI + INDIV + POLITYIV +factor(Region), data=data_new)

m4<-lm(EFI_lead1 ~ lnGDPpc + `PROJ#` + `Xi*Num` +
        XI + INDIV + PUBCORR +factor(Region), data=data_new)
```

```
#Figure V.1: Economic Freedom of the World Index Results
stargazer::stargazer(m1,m2,m3,m4, type='text')


#Figure V.2: Polity IV Result
v2.m1<-lm(POLITYIV_lead1 ~ lnGDPpc + lnSumPC + `Xi*SumAdj` +
          XI + INDIV + EFI +factor(Region), data=data_new)

v2.m2<-lm(POLITYIV_lead1 ~ lnGDPpc + `PROJ#` + `Xi*Num` +
          XI + INDIV + EFI +factor(Region), data=data_new)

stargazer::stargazer(v2.m1,v2.m2, type='text')


#Figure V.3: Public Sector Corruption Index Results
v3.m1<-lm(PUBCORR_lead1 ~ lnGDPpc + lnSumPC + `Xi*SumAdj` +
          XI + INDIV + EFI +factor(Region), data=data_new)

v3.m2<-lm(PUBCORR_lead1 ~ lnGDPpc + `PROJ#` + `Xi*Num` +
          XI + INDIV + EFI +factor(Region), data=data_new)

stargazer::stargazer(v3.m1,v3.m2, type='text')

names(data_new)

#Interactive Model using R tools

summary(lm(PUBCORR_lead1 ~ lnGDPpc + `PROJ#`*XI + INDIV + EFI +factor(Region),
data=data_new))


### However, this is not enough. You still have time-invariant heterogeneity (which is common
in Panel Data).
### By this, think of things that do not change over time (language of each country, cultural
factors, etc.)
### And you also have country-invariant heterogeneity (things that affect all countries in a single
moment of time).
### To account for the former, you use Fixed Effects. To account for the latter, you add Time
Dummies.
### You can do all of it by adding dummies (for countries and for years) to your model. See
below:

#factor(COUNTRY) will add country dummies (country fixed effects)
#factor(YEAR)  will add year dummies (year time effects)
```

```
##### Figure V.1: Economic Freedom of the World Index Results (Updated leading DV and adding Fixed Effects and Time Effects)
m1.FE<-lm(EFI_lead1 ~ lnGDPpc+ lnSumPC*XI + INDIV + POLITYIV +
        factor(Region)+ factor(COUNTRY)+ factor(YEAR), data=data_new)

m2.FE<-lm(EFI_lead1 ~ lnGDPpc+ lnSumPC*XI + INDIV + PUBCORR +
        factor(Region) + factor(COUNTRY) + factor(YEAR), data=data_new)

m3.FE<-lm(EFI_lead1 ~ lnGDPpc + `PROJ#`*XI + INDIV + POLITYIV + +
        factor(Region) + factor(COUNTRY) + factor(YEAR), data=data_new)

m4.FE<-lm(EFI_lead1 ~ lnGDPpc + `PROJ#`* XI + INDIV + PUBCORR  +
        factor(Region) + factor(COUNTRY) + factor(YEAR), data=data_new)

stargazer::stargazer(m1.FE,m2.FE,m3.FE,m4.FE, type='text')


#Figure V.2: Polity IV Result (Updated leading DV and adding Fixed Effects and Time Effects)
v2.m1.FE<-lm(POLITYIV_lead1 ~ lnGDPpc +  XI*lnSumPC + INDIV + EFI +
          factor(Region) + factor(COUNTRY)+factor(YEAR), data=data_new)

v2.m2.FE<-lm(POLITYIV_lead1 ~ lnGDPpc + `PROJ#`*XI + INDIV + EFI +
          factor(Region) + factor(COUNTRY)+ factor(YEAR), data=data_new)

stargazer::stargazer(v2.m1.FE,v2.m2.FE, type='text')


#Figure V.3: Public Sector Corruption Index Results (Updated leading DV and adding Fixed Effects and Time Effects)
v3.m1.FE<-lm(PUBCORR_lead1 ~ lnGDPpc + XI*lnSumPC + INDIV + EFI +
          factor(Region) + factor(COUNTRY)+ factor(YEAR), data=data_new)

v3.m2.FE<-lm(PUBCORR_lead1 ~ lnGDPpc + `PROJ#`*XI + INDIV + EFI +
          factor(Region) + factor(COUNTRY)+ factor(YEAR), data=data_new)

stargazer::stargazer(v3.m1.FE,v3.m2.FE, type='text')


#Using these specifications, which are better both theoretically and econometrically, you have significant results.
#Now, as you can see, your models are so big that they do not fit on a page.
#To fix that, you can display only the key variables, maybe even just the variables you had before,
#and omit all the country dummies and time dummies from the final output table you present.
#Here is how you do it:
```

```
?stargazer::stargazer
#By saying omit = "factor"  you omit from the output all the country fixed effects and time dummies.

#Table 1:
stargazer::stargazer(m1.FE,m2.FE,m3.FE,m4.FE, type='text', omit = "factor")

#Table 2:
stargazer::stargazer(v2.m1.FE,v2.m2.FE, type='text', omit = "factor")

#Table 3:
stargazer::stargazer(v3.m1.FE,v3.m2.FE, type='text', omit = "factor")

#Keep the number of observations, the R-squared, and the Adjusted R-squared. Your tables would look like this.

#Table 1:
stargazer::stargazer(m1.FE,m2.FE,m3.FE,m4.FE, type='text', omit = "factor", keep.stat=c("n", "rsq", "adj.rsq"))
#Table 2:
stargazer::stargazer(v2.m1.FE,v2.m2.FE, type='text', omit = "factor", keep.stat=c("n", "rsq", "adj.rsq"))
#Table 3:
stargazer::stargazer(v3.m1.FE,v3.m2.FE, type='text', omit = "factor", keep.stat=c("n", "rsq", "adj.rsq"))
#Much cleaner!

#Finally, to save your tables to word, you can do it like this:
#Change the type to html and add the out option with the name of the file for each table.

#Table 1:
getwd()

?stargazer
stargazer::stargazer(m1.FE,m2.FE,m3.FE,m4.FE, title ="The Xi Effect on Economic Freedom of the World Index",
                     type='html',
                     omit = "factor",
                     keep.stat=c("n", "rsq", "adj.rsq"),
                     out = 'Table1_FE2.doc')
stargazer::stargazer(v2.m1.FE,v2.m2.FE, title ="The Xi Effect on Polity IV",
                     type='html',
                     omit = "factor",
                     keep.stat=c("n", "rsq", "adj.rsq"),
                     out = 'Table2_FE2.doc')
stargazer::stargazer(v3.m1.FE,v3.m2.FE, title ="The Xi Effect on Public Corruption",
```

```
        type='html',
        omit = "factor",
        keep.stat=c("n", "rsq", "adj.rsq"),
        out = 'Table3_FE2.doc')

getwd()

library(readxl)
library(dplyr)
library(car)
library(lmtest)
library(randtests)
library(model4you)
library(orcutt)
library(sandwich)
library(ggplot2)
library(plotly)
library(skedastic)
library(rlang)
library(plm)
library(stargazer)
library(tidyverse)
library(glmtoolbox)

##ECONOMETRIC TESTING
#tests for model 1.a

white(m1.FE, interactions=TRUE)
resettest(m1.FE)
AIC(m1.FE)
glmtoolbox::gvif(m1.FE)
dwtest(m1.FE)

#tests for model 1.b

white(m2.FE, interactions=TRUE)
resettest(m2.FE)
AIC(m2.FE)
vif(m2.FE)
dwtest(m2.FE)

#tests for model 1.c

white(m3.FE, interactions=TRUE)
resettest(m3.FE)
AIC(m3.FE)
```

```
vif(m3.FE)
dwtest(m3.FE)

#tests for model 1.d

white(m4.FE, interactions=TRUE)
resettest(m4.FE)
AIC(m4.FE)
vif(m4.FE)
dwtest(m4.FE)

#tests for model 2.a

white(v2.m1.FE, interactions=TRUE)
resettest(v2.m1.FE.aAdj)
AIC(v2.m1.FE)
vif(v2.m1.FE)
dwtest(v2.m1.FE)

#test for model 2.b

white(v2.m2.FE, interactions=TRUE)
resettest(v2.m2.FE)
AIC(v2.m2.FE)
vif(v2.m2.FE)
dwtest(v2.m2.FE)

#tests for model 3.a

white(v3.m1.FE, interactions=TRUE)
resettest(v3.m1.FE)
AIC(v3.m1.FE)
vif(v3.m1.FE)
dwtest(v3.m1.FE)

#tests for model 3.b

white(v3.m2.FE, interactions=TRUE)
resettest(v3.m2.FE)
AIC(v3.m2.FE)
vif(v3.m2.FE)
dwtest(v3.m2.FE)
```

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