The Myth About Oil & Chinese Aid

Pascal Jaupart
(University of Oxford)

Abstract

China’s official finance lacks transparency and much suspicion exists regarding its objectives. This paper aims to better understand the importance of oil resources in explaining the allocation of Chinese aid and loans across African countries. While previous studies have examined the association between natural resources and Chinese aid, there has been no explicit study of the causal effect of oil resource wealth. I contribute to filling this literature gap by exploiting the natural experiment that giant oil and gas discoveries present. Largely unanticipated, giant discoveries are akin to a substantial exogenous shock. Using a difference-in-differences research design, I find that oil and gas rich countries receive more Chinese development finance all else equal. This finding is robust to several robustness checks, including replicating the analysis at the subnational level. The increase in official financial flows seem to be driven by both aid and loan flows concentrated in projects focusing on economic infrastructure and production sectors. I don’t find evidence that more democratic political institutions and better managed public institutions affect how much oil rich countries benefit from higher official finance flows. Overall, these findings help improve our limited understanding of Chinese official finance.

JEL codes: H81, O13, O19, Q32

1 This paper has benefitted from insightful discussions with Yunnan Chen, Steve Gibbons, Nathalie Picarelli, Phil Roessler, Olmo Silva, Cheng-Keat Tang, and Felipe Starosta de Waldemar. I also thank seminar participants at the University of Oxford, the 2018 Nordic Conference on Development Economics, the Center for Global Development, and the 2018 INFER Conference for useful suggestions and feedback.

2 University of Oxford, Centre for the Study of African Economies (CSAE). Email: pascal.jaupart@bsg.ox.ac.uk.