

Tracing the Legacy: China's Historical Aid and Contemporary Investment in Africa

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In this article we depart from the classic model of foreign direct investment (FDI) determinants and examine the effect of sociohistorical factors on FDI. We argue that past foreign aid projects confer social capital that constitutes specific resources available to investors in the present, increasing their preferences for host countries in which their home country has accumulated more social capital. We use new data on China's historical aid in Africa to test these contentions, uncovering a positive, significant connection between China's historical aid program in Africa (1956–1999) and contemporary (2000–2015) investments by Chinese companies. While China's historical aid may have been politically driven, it has had important long-term consequences for its commercial investors. More broadly, these findings suggest a sociohistorical explanation of the puzzle of why Chinese foreign investments deviate from conventional FDI patterns.

Since the 2001 Going Global policy, which encouraged Chinese firms to expand their overseas investments, China has become one of the most important sources of foreign direct investment (FDI) in Africa, almost tripling its investment stock from 2010 to 2015 (UNCTAD 2017, 47). This dramatic rise has sparked research applying conventional models of FDI, including the organization-location-internalization (OLI) paradigm (Dunning 1988), transaction cost approach (Williamson 1981), and obsolescing bargain model (Vernon 1971), to Chinese outward direct investment (ODI). However, the empirical literature remains highly divided as to whether Chinese outward investors conform to these established theories (Berning and Holtbrügge 2012). In particular, the rapid rise of Chinese investment in politically risky African states runs counter to conventional expectations that investors prefer locations that are safer from political risk. Conventional analyses typically point to capital market imperfections in the Chinese economy or direct state control of Chinese investment to explain this puzzling divergence from expected patterns (Wang 2002, 192–96; Buckley, Clegg, Cross, et al. 2007, 513).

Drawing on literatures in economic sociology (White 1981; Granovetter 1985; Bourdieu 2005, 2005; Abdelal 2009), we offer an alternative to conventional approaches. We emphasize that investors' rational choices on whether and where to invest abroad are historically contextualized. Specifically, firms direct their investment toward areas where they enjoy preexisting social capital—defined as their resources linked to a network of relationships—which is in

turn historically constructed. We further argue that historical aid projects serve as a useful measure of the social capital available to foreign investors. Past aid projects act as a means of building social capital for the firms and people that deliver aid on the ground and the governments that negotiate, fund, and oversee them. We put forward two primary mechanisms through which social capital affects foreign investment: at the macro- (state) level, the social capital of the home government in the host country helps to manage the political risks of investing abroad. At the meso- (firm) and micro- (individual) levels, social capital helps to lower information costs.

From this basis, we suggest that China's historical aid program in Africa—which started in 1956—can help to explain patterns of twenty-first century Chinese investment across Africa. We hypothesize that social capital accrued over time leads to a positive relationship between Chinese historical aid and contemporary investment, so that contemporary (2000–2014) investors are more attracted to countries that received more historical aid (1956–1999). While it is of course unlikely that investors know the specific total number of historical aid projects a host country has received, they understand the social assets available to them, constructed (in part) over time through historical aid, and take account of these assets when deciding whether and where to invest.

We further hypothesize that aid in business-facilitating sectors confers more relevant firm- and personal-level social capital to investors than aid in social sectors, leading to stronger effects for aid in business-facilitating sectors. Finally, we hypothesize that the effects of aid are stronger for investments in the primary sector, as primary-sector investors face greater political risk, and are therefore more sensitive to the macrolevel social assets that can help to guard against expropriation by the host government.

We use a dataset of Chinese aid projects in Africa from 1956 to 1999,¹ plus a dataset of approved Chinese investment projects in Africa from 2000 to 2015 sourced from China's Ministry of Commerce (MOFCOM) to empirically test these hypotheses, offering the first comprehensive analysis of the impact of Chinese historical aid patterns on Chinese foreign investment. We find a statistically significant, positive correlation between historical aid and current

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¹This dataset is also used in Morgan (2018).

investment, controlling for other country-specific determinants of investment, which holds after performing a number of robustness checks for geographic, climatic, institutional, and other factors that could affect both historical aid and current investment. As expected, the positive association is most robust when the aid projects are limited to business-facilitating sectors, which deliver the strongest social capital at the firm and personal levels, firmly supporting our argument about information costs. Furthermore, we find the weakest association in the secondary sector (where political risks are lowest as investments are not easily appropriated), corroborating our contention that macrolevel social capital serves as a tool for managing political risk.

Theoretically, we offer a new approach to systematically explaining the effects of path-dependent processes at the macro-, meso-, and microlevels. We depart from classic models of FDI determinants (Vernon 1971; Williamson 1981; Dunning 1988) to examine the effect of overlooked socio-historical factors on contemporary FDI. Through highlighting how social capital helps Chinese investors to manage risks and uncertainties, we suggest an explanation for the puzzle of rising Chinese investment in the politically risky African region.

This article is organized in six sections. The second section reviews relevant literature. The third section outlines our theoretical framework and hypotheses. The fourth section introduces our data and research design and presents the empirical results. The fifth section contains case study evidence from Zambia that illustrates our suggested causal mechanisms. The sixth section concludes.

Explaining Patterns of Foreign Direct Investment

Conventional theories on FDI determinants assume that firms act in accordance with exogenously determined material interests. The classic “eclectic” model developed by John Dunning (1988), for example, posits that, given the costs and risks of doing business abroad, in order to engage in FDI, firms must enjoy organizational, locational, and internalization advantages (the “OLI paradigm”). While the OLI paradigm has been challenged and updated,² it remains the dominant framework for analyzing the “why” and “where” of FDI. Accordingly, most studies of Chinese ODI focus on OLI-related variables such as opportunities for efficiency, market- and resource-seeking, and host-country institutional environments (see, e.g., Buckley et al. 2007; Cheung and Qian 2009; Duanmu and Guney 2009; Cheung, De Haan, Qian, et al. 2012; De Beule and Duanmu 2012; Ramasamy, Yeung, and Laforet 2012).

Relatedly, there is a large body of literature on how host-country political and institutional context affects FDI and specifically on how foreign investors manage political risks. These risks are generally assumed to originate from the time-inconsistency problem (i.e., the risk that host governments will appropriate the investor’s property after an investment has been made) (Vernon 1971). Much research focuses on how the host government can overcome this problem by making a credible commitment not to appropriate (North and Weingast 1989; North 1990, 58–59; Stasavage 2002). Most studies use host-country institutional quality to measure political risk, although there is debate about what kinds of institutions are most attractive for investors (Jensen 2003; Li and Resnick 2003; Busse and Hefeker 2007, 2008; Zheng 2014). In addition, some argue that the risks of foreign investment can be managed through bilateral invest-

ment treaties (BITs) (Büthe and Milner 2009; Gallagher and Birch 2009; Neumayer and Spess 2009).

However, the literature is divided as to whether existing theories of FDI are appropriate for explaining Chinese investment (Berning and Holtbrügge 2012). In particular, lack of empirical consensus seriously challenges the applicability of established institutional conceptualizations of political risk. On the one hand, Duanmu and Guney (2009, 9) find a positive link between institutional quality and Chinese investment. On the other hand, several studies argue that capital market imperfections and government intervention mean that Chinese investors are less concerned about conventional investment determinants (Wang 2002; Ning 2009; Stone, Wang, and Yu 2016). Paradoxically, some find that Chinese investors prefer countries with riskier institutions (Buckley et al. 2007, 510; Kolstad and Wiig 2012, 32–33; Quer, Claver, and Rienda 2012; Ramasamy et al. 2012, 23–24), while others find no link between institutional quality and Chinese investment (Cui and Jiang 2009, 442; Chen, Dollar, and Tang 2016, 627). These contrary findings suggest that the mainstream literature on Chinese ODI is missing an important piece of the puzzle.

Some existing studies on FDI do touch on social or historical issues. Several empirical studies point to the importance of ethnic, cultural, or linguistic ties in driving FDI decisions and/or performance (Buckley et al. 2007, 511–12; Luo 1997; Chen and Chen 1998; Jean, Tan, and Sinkovics 2011). A number of studies also find an empirical link between historical ties and FDI. Kalotay and Sulstarova (2010, 137–41) find that Russian firms invest more in former Soviet Union countries due to their higher levels of organizational assets in these locations. Lundan and Jones (2001) show that Commonwealth countries both invest in and trade more with each other, due to their shared heritage as British colonies. Similarly, Mayer, Mejean, and Nefussi (2010, 122–24) find that French firms prefer to invest in ex-French colonies. More broadly, constructivist approaches to international political economy (IPE) have highlighted the role of social variables in helping actors deal with uncertainty (Woll 2010; Nelson and Katzenstein 2014) and in shaping international economic environments (Abdelal 2007). These studies highlight the importance of historical and relational factors in explaining economic outcomes. However, these factors are undertheorized in the literature on FDI. They are often relegated to control variables or robustness checks.³ Existing studies also stop short of developing a full-fledged theoretical framework that explains why and how investors’ social capital is historically constituted and how this social capital in turn affects FDI.

A Sociological Approach to Political Economy

Economic sociologists critique the limitations of asocial, individualistic approaches to economics and IPE (Fourcade 2007). Sociological perspectives understand the economy as a socially constituted domain in which individuals and firms are subject to common rules, norms, and values. Social capital—a concept pioneered in the work of Pierre Bourdieu—can be converted into other forms of capital, including economic and human capital, depending on field-specific rules of the game (Bourdieu 1986). “Whereas economic capital is in people’s bank accounts and human capital is inside their heads, social capital inheres in the structure of their relationships” (Portes 1998, 7). Robert Putnam also develops the concept of social capital, but he

²See Dunning (2001) for a discussion.

³An exception is Makino and Tsang (2011).

focuses on political content and ideas transmitted through social networks rather than seeing social capital as the mechanics of trust at the individual and firm levels (Putnam 1993).

How is social capital accumulated? Bourdieu highlights the concept of “fields.” Fields are intersubjective social arenas in which actors compete to accumulate capital, which can take various forms including economic, social, and cultural (Bourdieu 1986), and which may overlap and intersect with each other (Fligstein and McAdam 2012). States themselves also constitute fields and exert a determining influence on the way fields function (Bourdieu, Wacquant, and Farage 1994). “Firms undertake actions there which depend, for their ends and effectiveness, on their position in the field of forces, that is to say, in the structure of distribution of capital in all its species” (Bourdieu 2005, 199).

While field-theoretic approaches analyze intersubjective social orders, social network analyses focus on how specific social connections affect economic outcomes. Some emphasize the role of connections in lowering information costs and building trust (Granovetter 1985, 2005). Others focus on how economic actors take cues from others within their social networks (White 1981). While Western theorizing on the role of social networks in the economy remains outside of mainstream IPE, the analogous concept of *guanxi* in Chinese thought and business practice is well established. Loosely translated as “relationships” or “connections,” *guanxi* is social capital that may be converted into economic, political, and symbolic capital (Gold, Guthrie, and Wank 2002, 6). In a business context it describes a relational, rather than contractual way of operating. Social network theories and *guanxi* capture the same basic notion, and some studies explicitly bridge the two, theorizing *guanxi* as a mechanism for reducing transactions costs (Standiford and Marshall 2000) and building trust (Lee and Dawes 2005).

Both social network analyses and field-theoretic approaches suggest that firms' behaviors are oriented by the constraints and possibilities built into their social position. These constraints and possibilities are built over time, not exogenously determined. Conventional empirical measures of firm-level social capital, such as Corporate Social Responsibility (CSR) intensity,⁴ neglect differences in corporate social capital across host countries, the long-term historical contexts through which social capital is accumulated, and the interlinkages between micro- (individual), meso- (firm), and macro- (country) level social capital. In the next section, we describe the context of Chinese aid and investment in Africa and put forward a theoretical framework for explaining how social capital accumulated over time through foreign aid affects subsequent FDI by donor firms.

Aid, Social Capital, and FDI: A Theoretical Framework

How does social capital built through aid facilitate FDI? We reiterate that the accumulation of social capital within host countries is a chronological process, but stress here that the acquisition of investors' social capital is not necessarily an outcome of *deliberate* investment of both economic and cultural resources, as Bourdieu suggests. Instead, we argue that social capital enjoyed by investors was accumulated partly through implementation of politically driven aid projects. Social capital is thus not necessarily “owned” by the investor but instead arises as a resource that is available to them (Coleman 1988, 98–101). Even if a firm or its staff have no historical engagement with the host country, investors may

still be affected by their home country's state-level relationship with the host, which is in turn a product of historical experiences.

Context: From Aid to Investment

Chinese aid to Africa began in 1956, decades before substantive Chinese commercial investment. Despite extreme domestic economic and political difficulties during the Great Leap Forward (1958–1962) and Cultural Revolution (1966–1976), China provided African countries with varieties of assistance including medical teams, agricultural technical stations, and “turnkey” manufacturing and infrastructure projects such as railways, roads, textile mills, and hydropower stations. Projects were generally funded through interest-free loans or grants and involved the dispatch of Chinese managers and workers for a set number of years, as agreed with the recipient country.

After China's reform and opening in 1978, it continued to provide aid but started to slowly reform its policies and practices to make them more economically sustainable and rational and during the 1980s focused on revamping and rehabilitating earlier projects that had declined or failed (Bräutigam 2009, 51–59). Further reform of China's foreign aid system occurred in 1994, with the creation of the Export-Import Bank of China and China Development Bank, now the key organizations involved in dispensing Chinese government-funded loans to developing countries.⁵

Unlike historical aid, China's contemporary investments in Africa have received much attention from researchers and policy-makers. In the 1980s, when China first started to open up its economy, only specific state-owned enterprises (SOEs) under strict state guidance were allowed to invest abroad. Through the 1990s, outward investment was only cautiously encouraged and the approval procedures remained stringent with limited delegation to lower government levels. Prior to 2000, levels of Chinese investment across the developing world, including Africa, were extremely low, and investments were subject to stringent government controls. It was only after China joined the World Trade Organization and launched the Going Global strategy at the turn of the millennium that Chinese outward investment began to surge, and FDI flows to Africa increased from \$75 million US dollars in 2000 to \$2.9 billion in 2015 (MOFCOM 2015, 56).⁶

How Social Capital Influences Foreign Investment

We now lay out the specific mechanisms that underpin our argument. Like social network analyses, we focus on how specific connections between actors affect economic outcomes. Practices of aid projects mainly depend on interpersonal and interorganizational relationships, but dynamics in localized contexts may scale up to the national level, which may exert an influence on interstate relations. Therefore, like Neumann and Nexon (2018), we analyze the dynamics of influence at three distinct but interconnected dimensions: the micro-, meso- and macrolevels. At the meso- (firm) and micro- (individual) levels, we stress the role of social capital in lowering information costs. At the macro- (state)

⁵ See Morgan and Zheng (2019) for a descriptive account of the evolution of Chinese aid characteristics in Africa from the 1950s to the present day, and Morgan (2018) for analysis of the ideological determinants of China's Mao era aid, as well as the relationship between China's Mao-era and postreform aid programs.

⁶ See also China Statistical Yearbook (2016).

⁴ See, e.g., Lins, Servaes and Tamayo (2017).

level, we focus on social capital as a tool for managing political risk.

MESO- (FIRM) AND MICRO- (INDIVIDUAL) LEVELS: LOWERING INFORMATION COSTS

Historically, Chinese aid projects have typically been delivered by state-owned contractors (or, during the Mao era, branches of the bureaucracy that later became state-owned enterprises). Companies and their staff may build organizational or personal social capital through serving as contractors to deliver aid projects. While it is unlikely that individual firms or people can influence political risks, social capital at these levels is likely to be beneficial in lowering information costs, which are another major challenge of operating abroad.

First, historical connections may leave a direct legacy as these Chinese firms have more access to information about preexisting aid projects from their connections with host countries. For example, of the sixteen major Chinese agricultural investments in Africa from 1987 to 2003 identified by Bräutigam (2015, 97), 50 percent are former aid projects. Second, participation in historical aid projects may also leave an indirect legacy as firms or former aid workers use the social capital generated through aid to facilitate new commercial investments. Through the connections generated through their aid implementation experience, Chinese investors may have more access to information about potential opportunities and about how to operate in distinctive host markets.⁷ Likewise, aid workers may bridge their social capital in Africa and China to serve as intermediaries between their African host locations, providing information about opportunities to investors from their hometowns or home provinces (Shi 2016). Journalistic evidence suggests that some workers on Chinese state projects remained behind and later started their own businesses and that they encouraged contacts in China to join them in their new African locations (French 2014, 315–16).

THE MACRO- (STATE) LEVEL: MANAGING POLITICAL RISK

At the macrolevel, the Chinese government may have better social capital in countries that received a lot of Chinese aid, as the process of delivering aid improves the state-to-state relationship and solidifies mutual trust. The relationship may generate the “field of power,” allowing the Chinese government to influence—deliberately or inadvertently—the host government’s policy toward Chinese investors. This may help to smooth the way and reassure Chinese investors that their rights will be protected even if the host-country institutional environment is poor. When their rights are threatened, Chinese investors may appeal to the Chinese government for help. The more social capital the Chinese state possesses with the host, the greater their ability to help. Existing literature offers anecdotal evidence to suggest these mechanisms are in operation. For example, thanks to the strong ties between the two countries, some Chinese businesses secured partial or full “special” exemption from Zimbabwe’s 2008 Indigenization and Economic Empowerment Act, which redistributes part of foreign-owned businesses to locals (Gu, Zhang, Vaz, et al. 2016, 28). As is elaborated further in the case-study section of this article, Chinese investors in Zambia’s mining sector have also leveraged strong

China-Zambia government relations to protect their investments.

Overall, we argue that the effect of historical aid on contemporary investment is likely to be significant and positive for two reasons. First, at the macrolevel, aid is agreed between two consenting parties, not imposed. Thus governments are unlikely to agree to aid projects where past experiences were, on balance, negative, limiting the possibility for ongoing buildup of negative social experiences as a result of aid. Second, assuming that governments are responsive to domestic constituencies, they are unlikely to agree to ongoing assistance that has negative impacts at the meso- and microlevels. This discussion leads to the following testable hypothesis:

H1: *An African country that received more Chinese aid in the past attracts more Chinese investment, all other things being equal.*

Aid and Investment Sectors

Certain types of aid projects may be more likely to confer relevant social capital to investors than others. Specifically, aid in business-focused sectors such as industry, mining, and construction is more likely to be linked with subsequent investments than aid in social sectors such as health and education. This is because, although aid in social sectors contributes to the macrolevel state-to-state relationship, it is much less likely to leave a substantive relevant business-facilitating micro- and mesolevel legacy, as the actors that implement social sector projects tend to be volunteers (e.g., doctors, teachers), not profit-seeking companies/managers.

For example, members of a medical team may be less likely to seek out or facilitate future investment opportunities—either individually or as a team—than commercial contractors. Even if participating in aid projects helps medical staff build social connections in the recipient country, they are much less likely to use them to make investments. The medical team’s efforts contribute to country-level social capital through strengthening the bilateral state-to-state relations between China and the recipient country. However, they do not contribute substantively at the microlevel and so contribute only indirectly—via the macrolevel—to future investors’ sociohistorical capital.⁸

On the other hand, aid in business-facilitating sectors (mostly implemented by contractors that have been restructured into profit-seeking commercial enterprises) is likely to leave stronger relevant micro- and mesolegacies, because the actors involved have a profit motive that makes them more likely to seek investment opportunities in the future and therefore to make use of their social capital within the recipient country. The legacies of business-facilitating aid may be more likely to operate across the micro-, macro-, and mesolevels. To test these contentions, we develop an additional measure of our central explanatory variable: business-facilitating aid, which we expect to have a stronger impact on investment. This leads to our second hypothesis:

H2: *The effect of historical aid on current investment is substantially stronger for business-facilitating aid than other types of aid.*

INVESTMENT SECTORS AND POLITICAL RISK

As elaborated in many early studies, FDI in primary-sector projects is more exposed to structural vulnerability than investments in other sectors, as primary investors suffer from large sunk capital and cannot easily threaten to withdraw

⁷ For example, in Malawi, Anhui Foreign Economic Cooperation Corporation (AFECC) used aid projects to learn about the local environment and particularly to learn where and how to source and manage local labor. They subsequently rose to become one of the largest Chinese commercial investors in Malawi (author interview with AFECC manager, Lilongwe, June 2018).

⁸ Of course, it is possible that some social sector aid workers make or facilitate investments—our point is simply that overall, they are less likely to.

(Truitt 1970, 30; Vernon 1971; Kobrin 1984; Frieden 1994, 579–83). For example, a factory's technical and managerial know-how can be easily removed from the host country, which makes it difficult for host governments to appropriate. A mine or farm, on the other hand, cannot be easily relocated. This makes the risk of expropriation and/or other harmful action by the host government much more acute and means that tools for managing political risk are more important for primary-sector investments than other sectors (Colen, Persyn, and Guariso 2016). As elaborated above, social capital at the state level may help investors to guard against these risks thanks to the stronger connection between home and host government, in turn making FDI more attractive. Chinese investors in the primary sector are therefore likely to be more sensitive to our explanatory variable than those in other sectors. This leads to our third hypothesis:

H3: *The effect of historical aid on current investment is substantially stronger for investments in the primary sector than in other sectors.*

Research Design

Our key explanatory variable is historical (1956–1999) Chinese aid. Research into Chinese aid is hampered by lack of reliable, official data. Unlike the Organization for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) donors, China does not report official country- or project-level aid data, and Chinese Government White Papers provide only high-level, generalized information (State Council 2011, 2014). AidData uses an open source data collection approach to gather project-level information from media, official, and other sources about Chinese finance for Africa from 2000.⁹ However, little attention has been paid to China's pre-2000 aid, and existing project-level historical datasets are limited in time, scope, and detail.¹⁰ To address this data gap, we develop a systematic, transparent, and replicable project-level dataset of Chinese aid projects in Africa from 1956 to 1999, using publicly available but as-of-yet underutilized sources, including records of bilateral treaties and agreements, data from the websites of Chinese Embassies and Economic and Commercial Counselor offices in Africa, and archives of the *People's Daily*, China's official state newspaper. Our data collection methodology is greatly inspired by AidData's Tracking Underreported Financial Flows (TUFF) methodology (Strange, Parks, Perla, et al. 2015; Strange, Cheng, Russell, et al. 2017). However, we rely more on official sources such as bilateral treaties, which has the advantage of added reliability but also means we frequently lack crucial details such as financial amounts. We provide an abridged codebook that outlines the sources and collection methodology in the supplementary materials.

Our dataset records information on around 1,700 official finance projects across Africa from 1956 to 1999, covering sectors as diverse as health, agriculture, industry, mining and construction, and education and transport. On average, each African country received thirty-two Chinese projects between 1956 and 1999, but as shown in Figure 1, projects were not spread evenly between recipients. For example, the largest recipient (Tanzania) received 146 projects, while two countries (Malawi and Swaziland) received none at all. Aid projects are also heterogeneous in sectoral distribution

and size. The largest sector in terms of project numbers was health (30 percent of pre-1999 Chinese projects). Other important sectors included agriculture, forestry, and fishing (14 percent of projects); industry, mining, and construction (9 percent of projects); education (6 percent); and transport (7 percent). Figure 1 maps the total number of Chinese aid projects received by African states up to 1999.¹¹

We construct two measures: (a) total aid, which measures the total number of Chinese official finance projects a country received from 1956 to 1999 and (b) aid by year, which measures the total number of official finance projects from 1956 to 1999, divided by the number of years the recipient had diplomatic relations with China during the same period. While these two variables are highly correlated, they may reflect different aspects of sociohistorical capital. At the micro- and mesolevels, a higher number of total aid projects *overall* indicates more opportunities for firms and individuals to build their local reputations, knowledge, and connections. On the other hand, measuring the total number of aid projects may underestimate Chinese investors' macrolevel sociohistorical capital in younger African countries that achieved independence and/or recognized Beijing later, as these countries have less time to "accumulate" Chinese aid projects, but may nevertheless have received a comparatively large amount of aid relative to their period of relations with China, contributing to macrolevel social capital. We use the "aid-by-year" measure to account for this. We do not include projects that were committed but subsequently cancelled, which means our measures reflect assistance that was actually dispersed.

Aid Sectors

To test our second hypothesis (the association between historical aid and current investment is stronger for business-facilitating aid), we adapt the OECD Development Assistance Committee's (DAC) sector codes for classifying aid projects to construct a measure of business-facilitating aid. Business-facilitating aid comprises projects that do not fall into the health, education, environmental protection, developmental food aid, government, or support to nongovernmental organizations (NGOs) sectors. Aid to all other sectors, such as industry, mining, construction, agriculture, forestry, fishing, etc. falls into the business-facilitating category, which covers 59 percent of projects in our dataset. This leads to two additional measures of the main explanatory variable: (c) total business facilitating aid, which measures the number of business-facilitating Chinese projects a country received from 1956 to 1999, and (d) business-facilitating aid by year, which measures the number of business-facilitating projects from 1956 to 1999, divided by the number of years the recipient had diplomatic relations with the People's Republic of China (PRC) during the same period.

Dependent Variable

Our dependent variable is Chinese investment. Despite increased attention on China's ODI, a significant data gap still exists. Official United Nations Conference on Trade and Development (UNCTAD) statistics have country-year aggregate information since 2003, but they do not have detailed information on sectors, firm types, and projects. Moreover, the official ODI and UNCTAD statistics are likely

⁹The database can be found at <http://aiddata.org/china>.

¹⁰Existing data sources include Bartke (1989) and Hawkins, Nielson, Bergevin, et al. (2010), utilized by Dreher and Fuchs (2015).

¹¹We include bilateral projects as well as projects with more than one recipient.

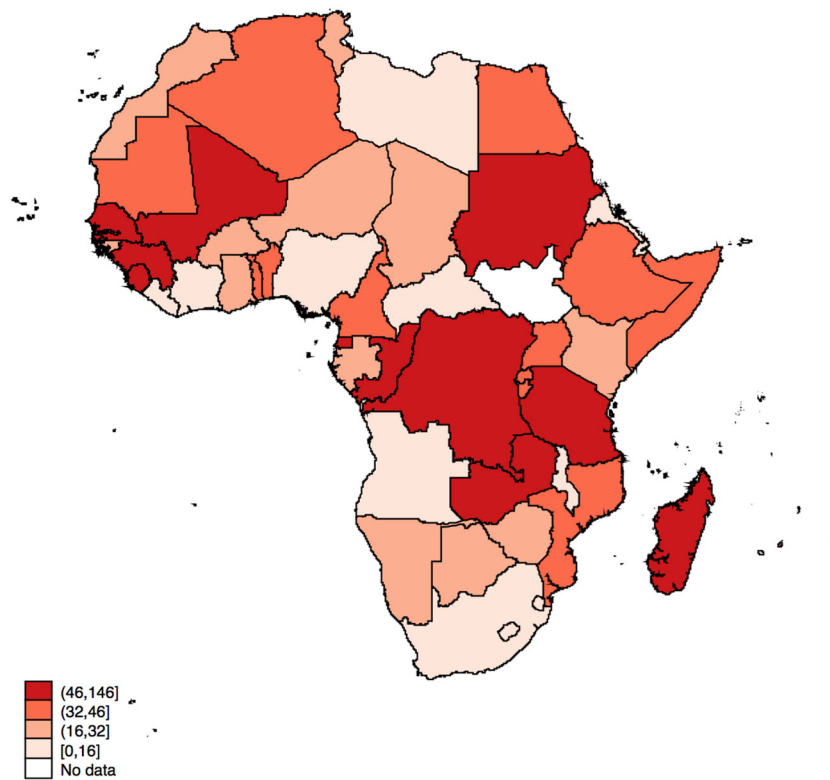


Figure 1. Chinese official development finance in Africa 1956–1999 by recipient

to disproportionately reflect investment decisions by state-owned firms, as they measure the aggregate monetary value of FDI flows, and SOEs tend to make the largest investments by size. Some other popular databases on Chinese ODI focus on developed countries and collect only large mergers and acquisitions (M&A) cases, but their methodologies and coverage are also often challenged.¹²

For data on Chinese investment in Africa, we use a project-level dataset from MOFCOM about companies approved to make overseas investments. The dataset contains details of 3,006 investment approvals in fifty African countries from 2000 to 2015.¹³ As shown in Figure 2, the number of investment approvals varies by country: the standard deviation of total approvals per country is 69.12, with the largest recipient (Nigeria) enjoying 326 Chinese investment approvals and the smallest three (Swaziland, Somalia, and Sao Tome and Principe) receiving zero.

Large SOEs controlled by the central government only accounted for 17 percent of total FDI projects. About one-third of these projects list manufacturing as their primary industry. Wholesale and retail trade, construction, and mining and quarrying are also major industries. While central SOEs have dominated in large infrastructure and natural resource projects, the mass majority of investment projects were contributed by numerous heterogeneous actors, many of which are small-sized and privately run firms. Theoretically, we are concerned with how sociohistorical capital built through aid confers advantages across all types of investors. Using the MOFCOM approvals list allows us to account for

the firm-level investment decisions of the large number of diverse Chinese investors in Africa.

INVESTMENT SECTORS

To test our third hypothesis (the association between historical aid and current investment is stronger for investments in the primary sector, thanks to their greater sensitivity to political risk and therefore to the social tools for managing such risk conferred by social capital), we also construct a measure of the number of investment approvals per country-year for the primary, secondary, and tertiary sectors. Investment approvals were coded according to the United Nations Department of Economic and Social Affairs International Standard Industrial Classification of All Economic Activities (ISIC).¹⁴ Overall, a total of 739 approvals were made for investments in the primary sector; 1,959 in the secondary sector; and 2,617 in the tertiary sector.¹⁵

Although China's reform and opening started in 1978, the late 1990s is the most appropriate chronological cut-off point between historical aid and current investment for two reasons. First, the turn of the century marks the start of China's Going Global policy, after which China started an economically meaningful level of investments in Africa. Second, our data indicate that, despite reform and opening in 1978 and some aid reforms during the 1980s, the key

¹²These Chinese OFDI databases include Thomson Reuters, the Rhodium Group, the American Enterprise Institute, and the Financial Times.

¹³Three African countries received no investment from China during 2000–2015.

¹⁴Further information on sector classifications can be found at UNSTATS (2008, 43). The MOFCOM dataset contains a short description of the business scope for each investment approval. These descriptions were used to classify the approvals into United Nations (UN) International Standard Industrial Classification (ISIC) sectors, with each project potentially covering up to three sectors. After that the UN sector classifications were collated into primary, secondary, and tertiary sectors.

¹⁵Some approvals span two or three sectors, so the added total for all three sectors is larger than the overall total number of approvals.

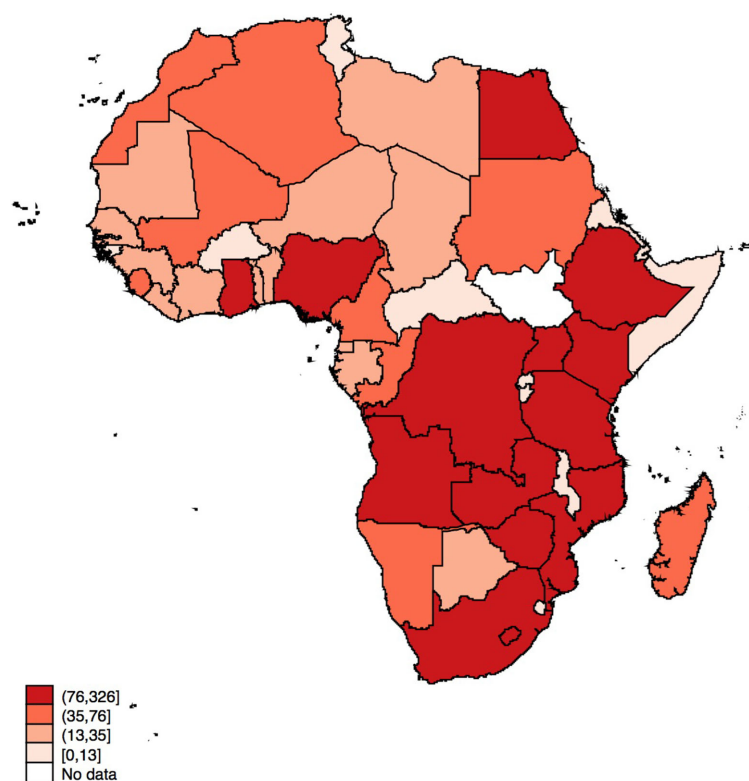


Figure 2. Chinese ODI approvals in Africa 2000–2015, by recipient

change point in Chinese aid practice occurred after China undertook important aid reforms in the mid to late 1990s, which repackaged its approach to aid as a mix of aid and investment. Omitting post-1978 aid excludes a large number of relevant aid projects unnecessarily, while including post-1999 aid in our analysis would introduce endogeneity.

Of course, significant discrepancies between the number of projects and the financial amounts of both aid and investment may exist. However, since our theoretical concern is the sociohistorical legacy effect of aid projects on *firm-level* investment decisions, these discrepancies should not be a major concern.

Control Variables

Drawing from the existing literature on FDI and Chinese investment, in our baseline regressions we control for the following factors.

REGIME TYPE (POLITY)

Host-country regime type has been found to have a significant effect on ODI, as countries with more democratic institutions may also better protect property rights, increasing internalization advantages. We use host countries' polity IV score to control for any possible effects of the host-country regime type. Polity IV is a measure of regime authority ranging from -10 (hereditary monarchy) to $+10$ (consolidated democracy).

GROSS DOMESTIC PRODUCT (GDP) PER CAPITA AND GDP GROWTH

Host-country GDP per capita and GDP growth are positively associated with the market-seeking motive for investment. Accordingly, we include GDP per capita (natural logarithm) and GDP growth as controls.

RESOURCES

Host-country natural resources are associated with resource-seeking motives for investment. Resource-seeking has been identified as important for Chinese FDI by earlier studies (Buckley et al. 2007, 511; Stone et al. 2016, 15–6). Following Stone et al. (2016, 13) we use the ratio of resource rent over the host country's GDP to control for host-country resources.

TRADE WITH CHINA

Host-country trade with China is associated with the market-seeking motive for FDI. Therefore, we use trade (measured by the ratio of imports from China over a host country's total imports plus the ratio of exports to China over a host country's total exports) as a control.

Summaries of data sources for key variables, as well as their summary statistics, are presented in Tables 1 and 2, respectively.

Model

We construct a panel dataset of fifty-three African host countries from 2000 to 2015. Our measures of the key explanatory variables (total aid, aid by year, total business-facilitating aid, and business-facilitating aid by year) vary across countries but do not vary over time. This means that we cannot use a fixed effects (FE) model, which would control for time-invariant differences across countries. Accordingly, we use the panel-corrected standard errors (PCSE) model suggested by Beck and Katz (1995) as our baseline model. The PCSE model uses ordinary least squares (OLS) parameter estimates but corrects the standard errors to account for problems commonly associated with panel data. Because we are dealing with developing

Table 1. Summary of sources for key variables and additional robustness checks

<i>Variable</i>	<i>Measures</i>	<i>Data sources</i>
<i>Dependent variable</i>		
Chinese ODI	Number of Chinese investment approvals	China's Ministry of Commerce (MOFCOM)
<i>Main explanatory variable</i>		
Chinese historical aid	Number of historical (1956–1999) aid projects received per country	Project-level dataset on China's historical aid compiled by authors
<i>Controls</i>		
Regime type	Polity IV index score	Integrated Network for Societal Conflict Research (INSCR)
GDP per capita	Natural logarithm of host GDP per capita	World Development Indicators (WDI)
GDP growth	% GDP growth of host GDP	World Development Indicators (WDI)
Natural resources	Ratio of resource rent over the host country's GDP	World Development Indicators (WDI)
Trade with China	Ratio of imports from China over a host country's total imports (in thousands of USD) plus the ratio of exports to China over a host country's total exports (in thousands of USD)	UN Conference on Trade and Development (UNCTAD)
<i>Robustness checks</i>		
UN voting alignment	Lijphart's index of agreement between the state and China	Bailey et al. (2017)
Distance from China	Distance between host and China	Centre d'Études Prospectives et d'Informations Internationales (CEPII) (Mayer and Zignago 2011)
Extreme weather	Droughts, floods, extreme temperatures (% of population, average 1990–2009)	World Development Indicators (WDI)
Internal distance	Internal distance of country (a measure of average distance between producers and consumers in a country)	CEPII (Mayer and Zignago 2011)
Landlocked status	Dummy variable to indicate if host is landlocked (=1 if landlocked)	CEPII (Mayer and Zignago 2011)
Major colonizer	Colonizer of the country for a relatively long period of time and with a substantial participation in the governance of the colonized country	CEPII ("colonizer1") (Mayer and Zignago 2011)
English as official language	Dummy variable to indicate whether a country uses English as an official language (=1 if yes)	CEPII (Mayer and Zignago 2011)
Host population	Total population of host country (1) historical average 1956–1999 (to create per-capita aid measures) and (2) per country-year 2000–2015	World Development Indicators (WDI)
Government stability	International Country Risks Group (ICRG) government stability score of host	ICRG
Corruption	Host score in Transparency International's Corruption Perceptions Index	Transparency International ¹⁶
Taiwan recognition	Dummy variable to indicate if recipient recognizes Taiwan (=1 if recipient has diplomatic relations with Taiwan)	Compiled from official descriptions of bilateral relations with each African country on china.org.cn, China daily, and other official sites
BITs	Dummy variable to indicate if BIT with China came into force or was in force in a given year (does not include BITs signed but not in force, terminated BITs, or BITs in negotiation) (=1 if yes)	UNCTAD
Lagged total FDI	Foreign direct investment, net inflows (balance of payments, current US\$), lagged by two years	World Development Indicators (WDI)
Freedom House	Freedom House rating	Freedom House ¹⁷
Other Official Finance (OOF)	Chinese Other Official Finance in Africa 2000–2014	AidData (Dreher et al 2017)
African Socialist	Presence of African Socialist Party as ruling party during Mao era (instrument for historical aid)	Morgan (2018)

countries that have limited capacity to collect economic data, data for some country-years is missing: for our baseline regression, the total number of observations is 698 and the panel contains forty-nine countries.

Results and Discussion

The results for testing our first hypothesis are shown in Table 3. As expected, the association between historical Chinese aid and contemporary Chinese investment in

Africa is positive and statistically significant in all four models. African countries that received more aid from China in the past receive more investment in the twenty-first century, all other things being equal. For example, Model 1 shows that a single additional historical aid project over the 1956-to-1999 period is associated with a 0.03 unit increase in annual Chinese investment from 2000. The marginal

¹⁶ Compiled by Graham and Tucker (2019).

¹⁷ Edgell (No Date).

Table 2. Summary statistics for key variables

Variable	Obs.	Mean	Std. dev.	Min	Max
<i>Dependent variable</i>					
investment	848	3.544811	6.977642	0	43
investment_primary	848	0.8714623	2.217508	0	28
investment_secondary	848	2.310142	4.579281	0	38
investment_tertiary	832	3.145433	6.213355	0	40
<i>Main explanatory variables</i>					
aid_by_year_1956_1999	848	1.153808	0.6906852	0	4.171429
aid_business_by_year_1956_1999	848	0.6932361	0.5450626	0	3
aid_total_1956_1999	848	31.73585	23.62089	0	146
aid_business_total_1956_1999	848	18.66038	15.64294	0	92
<i>Controls</i>					
polity	815	1.505521	5.253257	-9	10
ln_gdp_per_capita	824	6.896429	1.16157	4.663599	10.05825
gdp_growth	821	4.613831	7.010878	-62.07592	104.4868
resources	760	13.93826	14.73183	0.0011427	89.00156
trade	799	0.1712599	0.1693331	0.0009985	1.033485

Table 3. Effects of historical aid on investment (PCSE model)

<i>Explanatory variables</i>	<i>Dependent variable: investments</i>			
	(1)	(2)	(3)	(4)
aid_total_1956_1999	0.0292** (0.0130)			
aid_by_year_1956_1999		1.187** (0.547)		
aid_business_total_1956_1999			0.0784*** (0.0247)	
aid_business_by_year_1956_1999				2.616*** (0.858)
polity	0.288*** (0.0561)	0.262*** (0.0462)	0.292*** (0.0563)	0.227*** (0.0385)
ln_gdp_per_capita	1.384*** (0.226)	1.282*** (0.229)	1.499*** (0.236)	1.223*** (0.232)
gdp_growth	0.0469 (0.0427)	0.0472 (0.0424)	0.0340 (0.0419)	0.0395 (0.0419)
resources	-0.0446*** (0.0126)	-0.0401*** (0.0133)	-0.0431*** (0.0124)	-0.0382*** (0.0132)
trade	19.74*** (2.041)	19.64*** (2.191)	19.19*** (1.992)	19.43*** (2.182)
<i>Constant</i>	-9.780*** (1.660)	-9.544*** (1.717)	-11.04*** (1.794)	-9.566*** (1.776)
<i>Observations</i>	698	698	698	698
<i>R-squared</i>	0.250	0.255	0.268	0.281
<i>Number of countries</i>	49	49	49	49

Notes: (1) Standard errors in parentheses. (2) Statistical significance levels: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. (3) Bold text signifies key explanatory variables.

effect seems small, but since the historical time frame is three times longer than the contemporary one, the effect is more substantial than it appears to be. Indeed, Model 2 shows that one additional historical Chinese aid project per year between 1956 and 1999 is associated with 1.19 additional investment projects per year in the post-2000 period. These results support our theory that historical aid projects led to the accumulation of social capital for Chinese actors in host countries, increasing subsequent Chinese investments in those countries.

Our second hypothesis posits that the positive association between historical aid and current investment is substantially stronger for business-facilitating aid than other types of aid, as aid is business-oriented sectors is more likely to

contribute to social capital at the individual and firm levels than aid in other sectors. The coefficients of columns 3 and 4 (where the measure of aid is limited to business-facilitating sectors) are substantially larger than columns 1 and 2 where aid in all sectors (including social sectors such as health and education) is counted. For example, one additional Chinese aid project per year in business-facilitating sectors is associated with 2.62 additional investment projects per year in the post-2000 period. This indicates that historical aid in business-facilitating sectors is more important for contemporary investment.

For more rigorous comparison across these coefficients, we rerun the regressions using standardized variables. As expected, the magnitudes of the standardized coefficients

for business-facilitating aid are greater than those for total aid (these results can be found in Models 37–40 of Table A6 in the supplementary materials). This further supports our second hypothesis: historical aid in business-facilitating sectors is more important for contemporary investment than aid in social sectors, as it delivers a stronger firm- and personal-level social capital contribution.

Table 4 shows results of PCSE regressions when investment is separated into primary, secondary, and tertiary sectors.¹⁸ Our third hypothesis is that the positive association between historical aid and current investment is stronger for investments in the primary sector due to their greater sensitivity to political risks, and consequently to state-level social capital, which can help to manage those risks. Across all panels the relationship between historical aid and investment is positive and significant. However, contrary to expectations, the magnitude of the coefficients for the primary sector is smaller than those of the secondary or tertiary sectors. This counterintuitive result likely reflects a disadvantage of measuring investment by the number of investments, rather than the financial amounts. Primary investments such as mines tend to be small in number, but large in scale and financial amount, whereas secondary and tertiary investments such as factories and restaurants are easier to set up, smaller scale, and numerous. To compare more meaningfully across the coefficients, we rerun the regressions using a new measure of investment for each sector: investment per country-year divided by the sector country-year mean. Through dividing by the mean, we account for the fact that investments in the primary sector are numerically fewer.

The results (summarized in Table 5) support our third hypothesis that the positive association between historical aid and current investment is stronger for investments in the primary sector. This finding reflects the fact that investors in the primary sector are more exposed to political vulnerability than other sectors (Truitt 1970, 30; Vernon 1971; Kobrin 1984; Colen et al. 2016) and alludes to our theory that social capital at the macrolevel helps to manage political risk. As an additional check, we also rerun the regressions using standardized variables. The results (shown in Table A1 in the supplementary materials) show that the magnitude of the coefficient for total aid is highest in the primary sector and that the effect of aid is consistently weaker in the secondary sector, providing modest further support for Hypothesis 3.

Controls

Trade and GDP per capita have a positive and statistically significant relationship with investment, as expected. Chinese investors prefer recipients with higher per-capita GDP and higher trade with China, all other things being equal, suggesting Chinese investments are driven by market-seeking motives. Interestingly, there is no support for the claim that similar political regimes attract one another. Instead, the positive and significant coefficient suggests that Chinese investors prefer democracies.

The negative coefficient for natural resources is counter to existing scholarship and conventional perception. The negative resources result may be due to a high correlation between exports to China and natural resources. When we run the baseline regression using imports from China as the trade control, excluding exports, both the resources and trade (imports) coefficient had the expected positive sign

(see Table A2 in the supplementary materials). Additionally, primary-sector investment approvals are vastly outnumbered by the secondary and tertiary sectors, which are less likely to be drawn by host resources. Indeed, the statistical significance of the negative result for resources disappears in Models 5–8 (table 4) and Models 17–20 (table 5), where the dependent variable is primary-sector investment.

Robustness Checks

To test the robustness of our findings, we run several additional checks, which are reported below.

UNITED NATIONS (UN) VOTING WITH CHINA

UN voting similarity is an established measure of international relationships. Chinese investors could prefer countries that vote similarly to China in the UN, as this indicates a better state-to-state relationship. As a robustness check, we control for contemporary UN voting similarity using Lijphart's index of agreement between the state and China developed by Bailey, Strezhnev, and Voeten (2017). The results can be found in Table A3 in the supplementary materials. All four measures of historical aid retained positive and significant association with investment.

CENTRAL SOES

To check whether the behavior of China's central state-owned enterprises (CSOEs) is distinct from private firms and SOEs that lack close ties to the central government, we run our baseline model with investments made by CSOEs as the dependent variable. To account for the fact that CSOEs are numerically fewer and compare their behavior directly with the wider pool of firms, we also run the regressions for CSOE investment and all types of investment using the number of investments per country-year divided by the mean and using standardized variables material as measures of the dependent variable. The relationship between aid and investment remains positive and statistically significant in all models, and the results (shown in Tables A4, A5, and A6 in the supplementary materials) do not provide consistent evidence that the behavior of CSOEs is distinctive compared to the wider pool of investors.

VARYING THE HISTORICAL TIMESPAN

To check whether there is temporal variation in the effects of aid, we run our baseline regression using total aid and business-facilitating aid over four chronological periods (1956–1969, 1970–1979, 1980–1989, and 1990–1999) as the explanatory variables. With the exception of the total aid coefficient in the 1990–1999 panel, the results retain their expected signs and significance across all panels. These results can be found in Table A7 in the supplementary materials.

ALTERNATIVE STATISTICAL MODELS

We run the baseline regressions using a random effects (RE) model and carried out an OLS cross-sectional regression using the mean values of each of our variables. With the exception of total aid (RE and OLS model), and aid by year (RE model), which lost statistical significance but retained the expected positive sign, our measures of historical aid retained a significant positive association with contemporary investment. The results of these checks can be found in the supplementary materials (Tables A8 and A9).

¹⁸ Due to missing data, to calculate the standard errors for tertiary investment, we were required to drop one country from the panel for Models 13–16 of Table 4 and Models 25–28 of Table 5.

Table 4. Effects of historical aid on investment, by sector (dependent variable: investment by sector)

Explanatory variables	Primary-sector investments					Secondary sector investments					Tertiary sector investments				
	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)			
aid_total_1956_1999	0.0138*** (0.00465)				0.0160* (0.00827)				0.0283** (0.0117)						
aid_by_year_1956_1999		0.391** (0.164)				0.511* (0.293)				1.160** (0.499)					
aid_business_total_1956_1999			0.0260*** (0.00811)				0.0464*** (0.0150)				0.0723*** (0.0222)				
aid_business_by_year_1956_1999				0.565** (0.224)				1.306*** (0.438)				2.457*** (0.775)			
polity	0.0840*** (0.0168)	0.0728*** (0.0140)	0.0828*** (0.0165)	0.0663*** (0.0128)	0.144*** (0.0269)	0.131*** (0.0227)	0.148*** (0.0272)	0.113*** (0.0199)	0.244*** (0.0480)	0.218*** (0.0388)	0.246*** (0.0482)	0.186*** (0.0317)			
ln_gdp_per_capita	0.206*** (0.0531)	0.154*** (0.0576)	0.226*** (0.0531)	0.138** (0.0601)	0.806*** (0.150)	0.747*** (0.157)	0.880*** (0.154)	0.720*** (0.162)	1.287*** (0.202)	1.188*** (0.201)	1.387*** (0.211)	1.131*** (0.203)			
gdp_growth	-0.00105 (0.0115)	0.000530 (0.0114)	-0.00388 (0.0117)	2.22e-05 (0.0114)	0.0392 (0.0309)	0.0406 (0.0307)	0.0311 (0.0304)	0.0360 (0.0305)	0.0342 (0.0374)	0.0344 (0.0373)	0.0225 (0.0368)	0.0274 (0.0368)			
resources	-0.000803 (0.00448)	-1.65e-05 (0.00471)	-0.000964 (0.00442)	-0.000622 (0.00459)	-0.0272*** (0.0100)	-0.0258** (0.0105)	-0.0261*** (0.00997)	-0.0242** (0.0106)	-0.0286*** (0.0110)	-0.0241** (0.0119)	-0.0270** (0.0108)	-0.0225* (0.0117)			
trade	5.934*** (0.974)	6.076*** (1.016)	5.926*** (0.964)	6.184*** (1.003)	13.02*** (1.359)	13.12*** (1.431)	12.65*** (1.324)	12.93*** (1.422)	18.14*** (1.734)	18.01*** (1.886)	17.70*** (1.689)	17.86*** (1.879)			
Constant	-2.001*** (0.448)	-1.679*** (0.446)	-2.178*** (0.458)	-1.517*** (0.466)	-5.622*** (1.072)	-5.317*** (1.100)	-6.440*** (1.142)	-5.430*** (1.177)	-9.296*** (1.492)	-9.073*** (1.553)	-10.38*** (1.617)	-9.036*** (1.582)			
Observations	698	698	698	698	698	698	698	698	682	682	682	682			
R-squared	0.207	0.203	0.217	0.207	0.226	0.225	0.241	0.242	0.257	0.263	0.275	0.291			
Number of countries	49	49	49	49	49	49	49	49	48	48	48	48			

Notes: (1) Standard errors in parentheses. (2) Statistical significance levels: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. (3) Bold text signifies key explanatory variables.

Table 5. Effects of historical aid on investment, by sector (dependent variable: investment per country-year divided by the sector country-year mean)

Explanatory variables	Primary-sector investments (country year/mean)				Secondary sector investments (country year/mean)				Tertiary sector investments (country year/mean)			
	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)
aid_total_1956_1999	0.0158*** (0.00533)				0.00694** (0.00358)				0.00900** (0.00371)			
aid_by_year_1956_1999		0.449** (0.189)				0.221* (0.127)				0.369** (0.158)		
aid_business_total_1956_1999			0.0298*** (0.00930)				0.0201*** (0.00650)				0.0230*** (0.00705)	
aid_business_by_year_1956_1999				0.649** (0.257)				0.565*** (0.190)				0.781*** (0.246)
polity	0.0964*** (0.0192)	0.0835*** (0.0160)	0.0950*** (0.0189)	0.0761*** (0.0147)	0.0625*** (0.0116)	0.0567*** (0.00984)	0.0639*** (0.0118)	0.0490*** (0.00863)	0.0775*** (0.0153)	0.0693*** (0.0123)	0.0783*** (0.0153)	0.0591*** (0.0101)
ln_gdp_per_capita	0.237*** (0.0609)	0.177*** (0.0661)	0.259*** (0.0610)	0.159*** (0.0690)	0.349*** (0.0648)	0.323*** (0.0680)	0.381*** (0.0668)	0.311*** (0.0702)	0.409*** (0.0641)	0.378*** (0.0640)	0.441*** (0.0671)	0.360*** (0.0645)
gdp_growth	-0.00121 (0.0133)	0.000608 (0.0131)	-0.00445 (0.0134)	2.55e-05 (0.0130)	0.0170 (0.0134)	0.0176 (0.0133)	0.0134 (0.0132)	0.0156 (0.0132)	0.0109 (0.0119)	0.0109 (0.0118)	0.00715 (0.0117)	0.00871 (0.0117)
resources	-0.000922 (0.00514)	-1.90e-05 (0.00540)	-0.00111 (0.00507)	-0.000714 (0.00527)	-0.0118*** (0.00435)	-0.0112** (0.00455)	-0.0113*** (0.00432)	-0.0105** (0.00457)	-0.00908*** (0.00351)	-0.00767** (0.00379)	-0.00859** (0.00344)	-0.00714* (0.00373)
trade	6.810*** (1.118)	6.973*** (1.166)	6.800*** (1.106)	7.096*** (1.151)	5.636*** (0.588)	5.681*** (0.620)	5.474*** (0.573)	5.597*** (0.615)	5.766*** (0.551)	5.725*** (0.600)	5.627*** (0.537)	5.679*** (0.597)
Constant	-2.296*** (0.514)	-1.927*** (0.512)	-2.499*** (0.525)	-1.741*** (0.535)	-2.434*** (0.464)	-2.302*** (0.476)	-2.788*** (0.495)	-2.351*** (0.509)	-2.956*** (0.474)	-2.884*** (0.494)	-3.301*** (0.514)	-2.873*** (0.503)
Observations	698	698	698	698	698	698	698	698	682	682	682	682
R-squared	0.207	0.203	0.217	0.207	0.226	0.225	0.241	0.242	0.257	0.263	0.275	0.291
Number of countries	49	49	49	49	49	49	49	49	48	48	48	48

Notes: (1) Standard errors in parentheses. (2) Statistical significance levels: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. (3) Bold text signifies key explanatory variables.

GEOGRAPHIC AND OTHER FUNDAMENTAL FEATURES OF RECIPIENTS

To mitigate against the risk that historical aid and contemporary investment are both explained by a third factor, we also run several regressions introducing additional controls for fundamental features of recipient countries that may affect aid and investment, including distance of recipients from China, crop suitability (proxied by extreme weather events), internal distance, former colonial power, use of English as an official language in host countries, historical aid per capita, and host population. With a small number of exceptions, the coefficients across all measures of aid retain their expected signs and significance. The results of these checks can be found in the supplementary material (Tables A10–A16).

WIDER INVESTMENT CLIMATE

We also control for other features of the wider investment climate of the host country, including host-government stability and corruption perceptions (Buckley et al. 2007). All measures of aid retain a positive and statistically significant relationship with investment (see Tables A17 and A18 in the supplementary materials).

OTHER MEASURES OF HOST RELATIONS WITH CHINA AND SIGNALS FROM OTHER INVESTORS

We also run robustness checks to control for other measures of host relations with China, including bilateral investment treaties (BITs) in force with China, whether or not a recipient country recognizes Taiwan, as well as signals from other investors, including lagged Chinese investment and lagged global investment. With a small number of exceptions, the results retain their expected signs and significance (see Tables A19–A22 in the supplementary materials).¹⁹

MISSING DATA

To check the results are not driven by data missing at random, we first replace the Polity measure of recipient political institutions with the Freedom House Index (Table A23 in the supplementary materials) and also rerun the baseline regression with imputing missing values (using Stata's MI package for multiple imputation) for Polity, GDP per capita, GDP growth, resources, and trade (Table A24 in the supplementary materials). With the exception of the first panel of Table A23, the results retain their expected signs and significance.

INSTRUMENTING FOR HISTORICAL AID

Because our main explanatory variable chronologically precedes the dependent variable and we exclude contemporary Chinese aid from the analysis, reverse causality is not an issue. Nonetheless, as an additional check against other potential causes of endogeneity, we rerun our baseline regression using the presence of an African socialist government during the Mao era to instrument for historical Chinese aid. The exclusion restriction implied is that the presence of an African socialist government during the Mao era has no effect on contemporary investment by Chinese companies today, other than through the social capital measured by aid

¹⁹We also tested whether similar arguments apply for Chinese Other Official Finance (OOF), which is finance given by the Chinese government to recipient governments on commercial terms, using data from AidData (Dreher, Fuchs, Parks, et al. 2017). We find no statistically significant relationship between historical aid and OOF. A probable explanation is that the *government* is more likely to give ODA-like funds (and therefore less OOF-like funds) to countries that received a lot of Chinese aid in the past, as more historical aid is a sign of a closer social relations between the two states.

projects. Due to statistical package functionality, we were not able to utilize the PCSE model together with an instrument variable (IV) approach and so carried out a two-stage RE model, with the second stage results reported in Table A25 in the supplementary materials. All coefficients suggest a positive relationship between past aid and current investment, although two of these lose their statistical significance.

Qualitative Evidence from Zambia

We now present some qualitative evidence from the Zambian textile sector to illustrate how our theorized causal mechanisms work in practice. The Zambian textile sector is a crucial, least-likely case.²⁰ Over the period in question, the sector experienced substantial economic difficulties, and many businesses struggled to make a profit (Bräutigam 2009, 215–19). Conventional approaches are unlikely to explain Chinese investment. Could the individual-, firm-, and country-level social capital established through historical aid projects help explain the unlikely investment activities? If our hypothesized causal mechanisms are correct, we should expect to see strong state-to-state relations facilitating Chinese investment, as well as firms and individuals using their connections and information gained through historical aid to make commercial investments.

China-Zambia Relations at the Macrolevel

China and Zambia have a long history of positive bilateral relations. In addition to the Tazara railway, China's flagship African aid project, China provided aid to Zambia in numerous other sectors, delivering a total of sixty-eight aid projects to Zambia between 1956 and 1999. Although Chinese influence is a sensitive political issue in Zambian politics and certain high-profile Chinese investments have created substantial controversy (see, e.g., Sautman and Yan 2014), the two countries have generally retained friendly relations throughout the twenty-first century. Opinions on China within Zambia are very favorable compared to other African countries (Lekorwe, Chingwete, Okuru, et al. 2016, 5–15). Since the turn of the century, China has become a major commercial investor in Zambia, with a total of 220 investment approvals between 2000 and 2015. Many Chinese investments are in the copper industry. In line with our contention that macrolevel social capital helps investors manage political risk, existing literature suggests that Chinese investors in Zambia's mining sector use close relations between their respective governments to protect their favorable conditions (Schoneveld, German, and Gumbo 2014, 20).

Chinese firms have also invested in Zambia's manufacturing, agricultural, and service sectors, including in the struggling cotton and textiles sector. To better illustrate the effects of historical aid across the state, firm, and individual levels of analysis, we now turn to the legacies of a 1980s Chinese aid project—the Mulungushi textile factory in Kabwe, Zambia.

Mesolegacies: The Mulungushi Textile Factory

Constructed between 1977 and 1981 and funded by a Chinese interest-free loan, the Mulungushi textile factory was a classic turnkey Chinese aid project (Brooks 2010, 114). After its formal handover in 1982, it was managed until 1994 as a Zambian state-owned company. At its height, Mulungushi became the largest textile factory in Zambia with almost one

²⁰See Gerring (2007, 115) on case selection.

thousand employees, supplying mainly school and army uniforms (Schoneveld et al. 2014, 25).

However, during the 1990s and 2000s, the African textile industry hit serious problems due to increased global competition, including—ironically—competition from Chinese imports (Bräutigam 2009, 217–19). In 1994 these pressures, coupled with management issues, forced the factory to close (Brooks 2010, 114).

However, shortly after the closure the Qingdao Textile Holdings Group, a Chinese SOE from Qingdao in China's Shandong province, decided to invest and revive Mulungushi. Illustrating the connections between macro- and mesolevel sociohistorical capital, the investment was facilitated by a suggestion from then Chinese vice premier Zhu Rongji, on a visit to Zambia in July 1995. The agreed deal included 1.5 million US dollars (USD) in Chinese investment, coupled with a 200-million Chinese-Yuan loan from the government. The new enterprise was known as the Zambia-China Mulungushi Textiles Joint Venture Ltd (ZCMT) and was jointly owned by Qingdao Textiles (66 percent) and the Zambian Ministry of Defence (34 percent). For ten years, from 1997 to 2007, Mulungushi operated with investment from Qingdao Textiles under Chinese management (Schoneveld et al. 2014, 25–26). In 2003, China's state news agency, *Xinhua* (2003), reported that the company employed two thousand workers and produced 1,800 tons of cotton yarn, seventeen million meters of various fabrics, and one hundred thousand pieces of garments every year.

Nevertheless, the factory struggled with profitability and management problems and in 2007 closed again (Brooks 2010, 129; Schoneveld et al. 2014, 26). According to the Zambian Minister for Trade and Industry,²¹ the main cause was wider problems in the textile sector, but tensions between Chinese managers and local workers likely also played a role (Brooks 2010). This suggests that, while sociohistorical capital influences investment decisions, it does not necessarily guarantee a successful outcome.

Microlegacies: China-Africa Cotton and the Chipata Cotton Ginnery

While Qingdao Textiles' investment in Mulungushi had limited success, the indirect microlevel investment legacies of Mulungushi have been much more fruitful. Around 2003, Ju Wenbin, a former manager of the Mulungushi aid project and a native of Qingdao, noticed another cotton-related investment opportunity in the form of a ginnery in Chipata, capital of Zambia's eastern province (Tang 2014, 11). The Chipata-China Cotton Ginnery began operations in 2004 with investment from ZCMT, Zambia's largest cotton processing company, Nymba, and other partners from China (Tang 2014, 11).

In 2010, the ginnery increased production from around three thousand tons per year before 2009 to more than ten thousand tons in 2010 thanks to investment from the China-Africa Development Fund (CADF), and it is now owned by Qingdao Ruichang Cotton Industrial, Qingdao Huifu Textile (both of which Ju Wenbin is a part owner), and the CADF and is known as China-Africa Cotton (Tang 2014, 11). The company's current Zambian operations include the ginnery, now an integrated enterprise including planting, ginning, sales, and cooking oil production,²² and the Acid Delinting Seed Plant of China-Africa Cotton Zambia Limited. The legacy of Mulungushi has even spilled out into

neighboring countries, as China-Africa cotton now has operations in Zambia, Malawi, Mozambique, and Tanzania. In 2013 a former Mulungushi manager was hired by China-Africa Cotton to lead their cotton-processing business in Zimbabwe (Gu et al. 2016, 30).

In sum, at the macrolevel, close state-to-state connections between China and Zambia, accumulated in part through Chinese aid, create a welcoming environment for Chinese investors and directly facilitate investments. At the meso- and microlevels, social capital led to new Chinese commercial investment in an old factory and helped a former manager at the factory to find new (much more successful) investment opportunity in Zambia.

Conclusions

Conventional analyses of FDI undertheorize the historical and social determinants of investment decisions. In this article, we put forward a fresh theoretical perspective on how history—specifically China's history as an aid donor—affects patterns of Chinese foreign investment in Africa. We emphasize that economic outcomes are socially constructed over time. We argue that historical aid projects facilitate the accumulation of social capital. At the micro- and mesolevels, the connections and experiences of firms and people that deliver aid projects lower information costs. At the macrolevel, social capital provides a tool for investors to manage political risk. We test these contentions through combining data on Chinese historical aid in Africa with a comprehensive dataset of China's investments in Africa sourced from China's Ministry of Commerce (MOFCOM), offering the first systematic, quantitative empirical test of the effect of past aid on present Chinese investment in Africa.

We find a statistically significant, positive relationship between Chinese historical aid and contemporary investment in Africa, across all our measures of aid and all investment sectors. Moreover, as hypothesized, we find that aid in business-facilitating sectors (such as construction, energy, and industry) has a stronger association with investment than aid in social sectors such as medicine and education, reflecting the greater contribution to firm and individual social capital of aid in these sectors. In addition, we find that the relationship between aid and investment is stronger for primary-sector investments. This reflects the increased sensitivity to political risk of primary-sector firms and buttresses our contention that macrolevel social capital helps investors manage political risk. As such, we address the puzzle of why Chinese investment has risen rapidly in the politically risky African region. Qualitative evidence from the Zambian textile sector demonstrates how Chinese investors leverage both state-level relationships, and their own local knowledge, experience, and connections derived from China's historical aid to make new commercial investments.

Of course, it is important to stress that social capital may have negative consequences (Portes 1998, 15–16; Henke 2018) or a “dark side” (Putzel 1997). Some historical aid projects—if they are unsuccessful, poorly implemented, or cause local tensions—may have a negative effect on Chinese social capital. Moreover, where government connections are used to facilitate commercial investment, the economic effects may be dubious: such linkages may initially appear advantageous and encourage more investment, but these investments may not necessarily be economically efficient, productive, or profitable, potentially discouraging future investment.

The research presented here has two potential, wider implications. First, by setting out a framework for how aid

²¹ Cited in Bräutigam (2009, 215).

²² See the company website <http://www.ca-cotton.com/en/company/b/> for more information (in Chinese).

confers social capital and in turn facilitates FDI, it offers a nonconventional theoretical account of FDI determinants. Further research is needed to understand whether this framework applies to Chinese investments in other locations and to the behavior of investors from other countries, especially to emerging market economies that adopt a strategy of combining aid and investment. More broadly, our findings highlight the importance of historical and social factors in shaping economic outcomes, which are typically neglected in mainstream IPE literature. Second, this article sets the scene for novel future research on the effectiveness of aid in fostering economic development by theorizing the channels through which aid may have a catalyzing effect on subsequent FDI, which is an important tool for growth in developing countries.

Supplementary Information

Supplementary information is available at the *International Studies Quarterly* data archive.

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