

Shifting political influence? UN General Assembly behavior during debt crisis

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Abstract

This paper looks at the political influence that China and Western official creditors exert on how debtor countries act at the United Nations General Assembly. The theoretical framework emphasizes the common agency problem that both China and the West face, predicting increased policy discretion of recipient governments when the country has balanced exposure to debt of both sides. Empirically, the paper leverages macro-economic trends in US dollar strength as excludable instrument to investigate the effects of currency crisis on shifts in the power balance between Western donors and China, and the resulting change in recipient government policy discretion at the UNGA. We find that countries highly indebted to China have lower policy discretion than countries with balanced debt or primarily Western debt exposure. This leads them to initiate UNGA draft resolutions only when joined by large coalitions of other countries. Currency crisis reverse some of this hesitation, likely because they weaken China's political influence.

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1 Introduction

Highly indebted countries of the Global South are experiencing a debt crisis that risks economic hardship and political unrest, jeopardizing gains from economic liberalization. Driven by high global inflation, a strong US dollar and increasing efforts to ‘re-shore’ supply chains among advanced economies, there have been huge capital outflows. By October 2022, international investors had pulled 70 billion US dollars from emerging market bond funds, the worst reversal in 17 years.¹ Many of the economic gains of the Global South were accompanied by the rise of China to the top of international development finance – China is now the biggest single creditor to low- and middle-income countries (The World Bank, 2023). The crisis has the potential to reveal how China’s rise to the top has affected its political influence in debtor countries. During past debt crises, it was Western governments who acted as lender of last resort and coordinated their responses through the Paris Club. In contrast, Chinese bailouts are opaque, combine high interest rates with a lack of debt write-downs (Brautigam, Acker and Huang, 2020; Horn et al., 2023), and are not coordinated with other debtors. As vulnerable countries are seeking to avoid the worst effects of financial destabilization, Western aid is set to play a more important role again (albeit likely short lived). Along with it, Western donors might be better able to impose their policy preferences.

This project uses currency crises resulting from adverse macro-economic shocks as identification strategy to explore how the rise of Chinese development finance reshapes power relationships between the West, China and countries of the Global South, looking at the initiation of draft resolutions at the United Nations Generaly Assembly (UNGA) and voting behavior. It builds on previous works that have demonstrated that official loans and aid flows are associated with greater alignment in voting for UNGA resolutions between donor and recipient countries. This has been shown for US aid flows (Dreher, Nunnenkamp and Thiele, 2008), World Bank and IMF loans (Dreher and Sturm, 2012) and recently also for Chinese development finance (Raess, Ren and Wagner, 2022). The

¹*Financial Times*, 2 October 2022.

paper introduces two innovations: It casts the relationship between multiple donors and a recipient country in terms of a common agency problem. While the insight that foreign aid buys political influence is important, the rise of competing providers of development finance raises the question which donor retains the upper hand in terms of political influence and when. The paper presents the concept of *policy discretion* as central quantity that allows us to study this question – where countries are similarly exposed to Chinese and Western debt, creditors’ political influences balance each other out, and recipient governments are more at liberty to act in line with their own preferences.

The second innovation addresses the challenge of making causal inferences about the effects of debt owed to China and Western donors on political alignment. It arises because of endogeneity, i.e. reverse causality, of loan provision and political influence: For example, China provides more funds to countries that support its foreign policy objectives such as the One-China policy (Dreher et al., 2018; Hoeffler and Sterck, 2022), while support of the US has been associated with more favorable treatment by the International Monetary Fund and World Bank (Clark and Dolan, 2021; Fleck and Kilby, 2006). In this paper, we leverage macro-economic shocks tied to domestic US economic developments as instrument for currency crises in emerging economy countries. High US interest rates and a strong US dollar lead to economic problems in these countries across a range of measures (Obstfeld and Zhou, 2023). Using a Bartik-like approach (Bartik, 1991) that interacts indicators of US dollar strength with a country’s debt load, we have an excludable instrument for currency crises. We draw on insights about Chinese debt-refinancing practices (Brautigam, Acker and Huang, 2020; Horn et al., 2023) to derive predictions how currency crises change the policy discretion of indebted governments.

This paper contributes to a range of research agendas. It adds an important facet to works that explore the implications of China’s rise as development finance provider for its political influence (e.g. Blair, Marty and Roessler, 2022; Dreher et al., 2022; Gelpern et al., 2022). It speaks to a larger literature on South-South aid (e.g. Amanor and Chichava, 2016; Kinyondo, 2019; Mawdsley, 2019) and adds a systematic empirical perspective to

the important case studies that look at the agency of emerging market governments (Winters, 2012; Wethal, 2017). Not least, it provides a lens through which to analyze some of the political implications of the current debt crisis, which is still unfolding.

2 Theory

Scholars have long argued about the role of North-South flows of aid and loans in buying political influence. Theoretical and empirical works have variously focused on the role of promoting domestic economies of donors (Lancaster, 2007; Younas, 2008; Fuchs, Nunnenkamp and Öhler, 2015), the relative size of donors' and recipient governments' winning coalitions (Bueno de Mesquita and Smith, 2009), geo-political interests and post-colonial ties (Alesina and Dollar, 2000; Schraeder, Hook and Taylor, 1998; Lee, 2022), and voting in line with donor countries at the UN General Assembly (Dreher, Nunnenkamp and Thiele, 2008; Carter and Stone, 2015). At the same time, large geo-political shifts such as the end of the Cold War or the US 'War on Terror' have had measurable effects on the relative weight assigned to these motives (Bearce and Tirone, 2010; Fleck and Kilby, 2010).

While this early scholarship exclusively focused on the role of Western aid flows, the rise of China as preeminent provider of development finance since the late 2000s has led to a reevaluation of the same questions. Would Western influence in the Global South be replaced with – similarly motivated – Chinese aid, or would the rise of South-South development cooperation herald an era where the interests of recipient countries (or at least their governments) would take center stage (Lancaster, 2007; Lum et al., 2009; Bräutigam, 2011)? The answer, based on painstakingly collected information on Chinese aid projects (China does not publish or centrally collect statistics on its development finance; Dreher et al., 2022) is that Chinese aid is motivated similar as Western aid efforts. China's concessional aid, comparable to Official Development Aid (ODA), follows foreign policy imperatives (in particular support for China's policy towards Taiwan, Hoeffler and

Sterck, 2022), while the larger share (comparable to Other Financial Flows, OFF) is more commercial in nature and driven by economic interests (Dreher et al., 2018). It is this latter type of funds that results in high indebtedness of recipient countries to China.

Given these similarities, it is not surprising that Chinese aid has been found to exert similar effects as its Western counterpart. For example, there is evidence of local political capture, with aid projects clustering in birth-regions of African rulers (Dreher et al., 2019), comparable to capture of Western aid projects observed in contexts varying from single countries (e.g. Kenya; Briggs, 2014; Jablonski, 2014) to large- n studies (Winters, 2014; Andersen, Johannesen and Rijkers, 2022). Perhaps normatively more desirable, Chinese aid is associated with an improved image among local populations, though this effect is also conditional on the domestic politics of recipient countries, with positive image gains limited to government supporters (Chen and Han, 2021).

This paper concentrates on the influence of donor countries on recipient country behavior at the UN General Assembly (UNGA). Starting with Voeten (2000), scholars have used voting records on UNGA resolutions to study which countries align in their voting behavior. These studies typically have relied on ideal point estimation to order states in one political dimensions, reflecting support for the Western international institutional and economic order (Bailey, Strezhnev and Voeten, 2017). There have been various efforts to link foreign aid flows and Western economic influence to alignment with Western positions at the UNGA. Dreher, Nunnenkamp and Thiele (2008) find a strong connection between US aid flows in the form of budget aid and recipient alignment with US positions, but don't find comparable evidence for other western donors. Dreher and Sturm (2012) find a similar alignment for countries with IMF adjustment or World Bank non-concessional loans and average Western voting positions. Looking at an important domestic source of variation in the strength of alignment, Carter and Stone (2015) attribute support for US positions by democratic aid recipients to more credible US threats of withholding aid when interacting with democratic governments.

The question whether China's development finance activities resemble Western aid

giving extends to the question of vote buying at the UNGA. China's public engagement for a multi-polar international order and its attempts at international institution building (the most prominent example being the Asian Infrastructure Investment Bank; Ren, 2016) suggests that it could use its own aid flows to influence recipient countries in a similar fashion as Western donors. Raess, Ren and Wagner (2022) are the first to show such a relationship. They find that Chinese aid flows are associated with increased voting alignment of recipient countries with China, despite the more commercial, OOF-like character of those flows, compared to Western ODA.

This finding raises the question how the prominent role of China in development finance affects the influence of Western donor countries. Where Chinese funding heavily outweighs other finance flows, its lead donorship likely provides the Chinese government with increased political clout across a range of issues (for a similar argument for the historic lack of coordination among western donors see Steinwand, 2015). However, to the extent that recipient countries can and do choose from a menu of finance options that includes both Western and Chinese offerings, the resulting political dynamics should be quite different. We argue that the competition between China and Western donors sets up a common agency problem which results in increased *policy discretion* of recipient countries.

The situation resembles a principle-agent problem with multiple principals (China and the West) who seek to influence a single agent (in this case a recipient country). Grossman and Helpman (1994) canonically demonstrate how a setup with competing principals with perfectly opposing preferences allows the agent to implement their preferred policy while keeping the principals' payments (applied to the area of lobbying for trade protectionism in a domestic policy competition). This equilibrium persists because neither principal can reduce their own contributions, despite not getting what they want, without risking that policy shifts further away from their preferred position. Schneider and Tobin (2013) demonstrate this dynamic at work in in the area of foreign aid, with member states of the European Union ceding policy control to the EU commission in areas in which they

have policy disagreements. Woo and Chung (2018) show a similar logic at work in the context of UNGA voting, but limited to the historic context of great-power competition between the Soviet Union and the USA.

For UNGA voting, policy discretion means that countries follow their own preferences when casting their vote. This engenders a challenge for empirical research. The true preferences of a country (or of its government) are difficult to decipher independent from observed behavior. Policy announcements are no substitute: what governments say could equally be geared towards satisfying a powerful international actor as voting at the UNGA. In addition, countries of the Global South have formed voting blocks at the UNGA from the beginning of the United Nations (Hovet, 1960), but even in those early days scholars had disagreements whether voting was indicative of expressed preferences or driven by outside influences (Alker, 1964).

To address this empirical challenge, we turn to a new data source. Seabra and Mesquita (2022) provide a comprehensive data base of UNGA resolutions in their various draft stages, including which countries (or coalition of countries) initiated first drafts and who joined at later stages. To leverage this data, we develop novel arguments that relate policy discretion to how countries behave at the drafting stage of UNGA resolutions. This in turn provides us with an empirical way to measure the influence of Western and Chinese development finance on drafting behavior.

We first turn to the decision to *initiate* a draft resolution (or join other countries in initiating). What logic governs whether governments initiate a draft or not? In principle there are several possibilities. Governments can initiate a draft if they strongly feel about an issue, and genuinely want this issue dealt with by the General Assembly. Alternatively, a government could also be pressed by a powerful donor to initiate a draft if the donor does not want to be seen doing so itself, yet wants to a specific topic on the agenda. Finally (without laying claim to comprehensiveness of this list), a government could also initiate a draft because it is asked by another state to join an initiating coalition. This might help to signal the seriousness of an issue to other members of the UNGA, or it could

help dilute the individual responsibility of each initiator for the joined draft, perhaps with an eye towards critical domestic or international audiences.

We believe that not all reasons for initiating are equally likely. Concretely, we argue that countries enjoying policy discretion will be more likely, on average, to initiate drafts (or join initiating coalitions) than countries that are subject to political influence of one donor. We derive this hypothesis from the informal nature of political influence derives from economic dependency. External political influence in the Global South is rarely exercised openly, perhaps because of sensitivity of the affected governments to claims of neo-colonialism. Powerful states also might cloak their attempts at political influence as to not reveal private information about preferences or capabilities relating to economic goals or security issues. All this makes it likely that countries which are heavily dependent on one donor have imperfect information about their principal's wishes. Initiating any draft resolution therefore carries the risk of imperfect alignment with the principal's preferences. Since countries that enjoy policy discretion do not have to worry about such risk, they should be on average more likely to initiate draft resolutions.

Next, the *size of the coalition* that initiates a draft resolution also should relate to policy discretion. As mentioned above, greater numbers of initiating states help to signal the seriousness of a proposal, but acting in a larger coalition also reduces the political exposure from joining for individual members. Similar to the logic that affects decisions to initiate drafts, governments that are constrained by the influence of a dominant donor therefore should on average join larger coalitions when initiating draft resolutions, helping them to diffuse their own political responsibility. In contrast, governments with policy discretion do not need to seek safety in numbers, and on average initiate drafts in smaller coalitions.

How are these predictions about countries' UNGA behavior moderated when they experience a currency crisis? The motivation for this paper is the observation that many highly indebted countries of the Global South struggle in the current inflationary environment with high US interest rates and a strong US Dollar to stay current on their

debt payments. This affords us an opportunity to exploit exogenous variation in these macro-economic trends to identify the effect of currency-crisis on policy discretion and UNGA behavior. This strategy has two parts. First, we argue that macro-economic economic trends form an excludable instrument for currency crisis, that has no direct effect on UNGA draft initiation, other than through moderating the relative influence of Western and Chinese donors. Second, during currency crises China provides debt relief with tougher conditions, which in turn will drive debtor countries to seek increased help from Western institutions and donors.

Beginning with the instrumentation strategy, Obstfeld and Zhou (2023) show that strong appreciation of the US dollar against a basket of advanced economy currencies has adverse effects across a broad range of economic indicators for emerging markets. Causal links include higher yields on risk-free assets such as US treasuries causing investors to leave emerging markets and cost increases in commodities that serves as economic inputs and are traded in US dollars, such as oil. For countries with dollar-denominated debt, an adverse move in the country's exchange rate against the dollar has direct effects on the costs of debt servicing. By themselves, variables capturing these global trends (we use the nominal broad US dollar index, the Yuan-Dollar exchange rate and the US federal fund rate) do not have a plausible direct effect on the decision of emerging market governments to initiate UNGA drafts. However, this variation in macroeconomic trends does not yet allow us to instrument for currency crisis in individual countries. To achieve this, we use a Bartik-like approach (Bartik, 1991) and interact the macro trends with the total value of debt stock for each country. The impact of variation in macro-economic conditions is therefore conditioned on total debt load, and will be larger for higher debts. Debt-levels by themselves seem unlikely to affect the decision to initiate UNGA drafts. They could potentially be correlated with who the debt is owed to (predominantly Western donors, China, or a balanced exposure), though our data do not bear this out.² At any rate, relative debt exposure lies on the causal pathway for which we instrument (i.e., we

²Correlations between our variables categorizing debt exposure and debt stock as percentage of GNI range from -0.02 to 0.08.

instrument for the interaction between reserve levels and debt exposure).

Turning to the effects of currency crisis, we argue that for countries with high Chinese debt, a currency crisis will shift the balance of power towards Western donors. This is because harsh Chinese bailout practices provide indebted governments to turn towards Western sources of relief finance. The stringent nature of Chinese debt relief has been identified by current research. Drawing on data from Africa, Acker, Bräutigam and Huang (2020) show that China typically will agree to increase repayment periods, but does not offer write-downs on debt (except for relatively unimportant zero-interest loans) or other concessions such as reduced interest rates or refinancing. Restructuring is done bilaterally and in an opaque manner. Horn et al. (2023) confirm that Chinese rescue are not transparent and carry high interest based on date covering a larger geographic area. The opaque nature of Chinese debt relief and unfavorable financial conditions imply that crisis countries which are heavily indebted to China have strong incentives to turn towards Western donors for help. Kern and Reinsberg (2022) confirm that countries turn to the IMF if the default on Chinese debt, but only if they also experience a strong adverse economic shock.

In the empirical analysis, we condition the effect of currency crisis for UNGA drafting behavior on a country's debt exposure. How will a crisis affect policy discretion? In a country highly indebted to China, policy discretion is low compared to countries with more balanced exposure to Chinese and Western debt. In a crisis, given the stringent nature of Chinese bailout conditions, such a country will begin to look for potential debt relief from Western sources. Politically, this gives more strength to the common agency problem – as Chinese political influence gets increasingly counterbalanced by Western relief efforts, the policy discretion of the affected governments should increase. Concretely, we expect currency crisis to translate into more initiated UNGA resolutions and a decrease in the size of initiating coalitions that a country joins.

Countries that are highly indebted to Western donors (bilateral or multilateral) start with a similar high political dependence and low policy discretion as those with high

Debt exposure	Policy discretion	
	level	during crisis
to West	low	no change
balanced	high	decrease
to China	low	increase

Table 1: Predictions about policy discretion

Chinese debt exposure. However, the implications of a currency crisis are different because we do not expect those countries to turn to China for a bailout. As a currency crisis hits, economic dependence on the West remains unchanged, and we therefore expect no change in policy discretion or effect on UNGA drafting behavior.

What about countries in the middle, with relatively balanced debt exposure to both Western donors and China? We have argued that these countries enjoy the most policy discretion compared to those with high Western or Chinese debt exposure. During a currency crisis these countries will find easier access to financial relief turning to their Western debtors than relying on China. This should increase their political dependence on Western donors and therefore reduce their policy discretion. Concretely we expect those countries to initiate fewer UNGA draft resolutions and to join larger initiating coalitions during currency crisis. Table 1 summarizes these predictions.

3 Empirical analysis

Data

We collect data for 78 countries defined as low or lower middle-income countries by the World Bank³, covering the years 2000 to 2020. The question which countries to include is not trivial. We seek to capture how variation in economic influence via development finance translates into political influence. The World Bank’s lower middle income threshold (currently at a GNI of 4,465 USD per capita) is an important marker of eligibility for Western development finance (concretely World Bank IBRD programming) and allows

³Based on historic classification based on income. Source: <https://datacatalogfiles.worldbank.org/ddh-published/0037712/DR0090754/OGHIST.xlsx>, accessed 18.9.23.

us to capture the balance of exposure to Western and Chinese debt. At the same time middle-income countries are more advanced economically and therefore should be more isolated against political pressures than poorer governments, providing for a hard test of our theory. Finally, the World Bank's country classification results from a technocratic exercise that is reasonably isolated from direct interference from interested donor countries, especially since it is based on income levels across all countries.

The dependent variables are based on sponsorship behavior of draft resolutions at the UN General Assembly, encoded by Seabra and Mesquita (2022). The latest year available is 2020, which allows to include the beginning of the current debt crisis. Political discretion is an ability of a government to act in line with its preferences. We have argued in the theory section that this implies an ability to take initiative and produce first drafts of UNGA resolutions, whereas more externally constrained governments will not risk alienating principals with potentially problematic initial drafts. Seabra and Mesquita code for each resolution for which a drafting process is initiated the identity and stage at which each sponsor joined. From this they derive a priority index, which differentiates between the initiator ('sponsor zero', the highest priority), co-sponsors, and additional sponsors (the lowest priority). We use this priority index to calculate the share of sponsored drafts per country and year, in which the country acts as initiator.

As second aspect of discretion, countries that are less constrained should be able to initiate draft resolutions by themselves or as part of smaller coalitions, whereas more constrained countries will seek safety in greater numbers of initiators. We use the second metric provided by Seabra and Mesquita called 'ownership score' to capture the number of other countries that join a country each year in initiating draft resolutions. We focus again on initial drafts because joining existing sponsors in later rounds involves less political risk than initiating drafts and thus conveys less information about political constraints. The measure used in the analysis is the average size of the coalition (number of countries) that a country joins when sponsoring an initial draft resolution.

One key independent variable is designed to capture the balance of exposure to West-

ern and Chinese development finance. This involves choosing between flow measures – e.g. annual ODA/ODA-like aid – and stock measures — i.e. debt obligations. Given that the motivation for this paper is based on the current debt crisis in the Global South, we opt for the latter. This also avoids challenges with separating out grant from loan elements and accounting for the length of repayment schedules. We use the World Bank’s International Debt Statistics⁴ to calculate the share of debt owed to China as percentage of a) a country’s total public debt, b) a country’s debt owed to China, all World Bank facilities and the IMF. The first coding is broader, and meant to reflect the overall influence exerted by obligations towards China. The second coding is more narrow, putting debt towards China in the context of the main Western multilateral sources of development finance. It is important to note that the makeup of these different debt stocks is not identical. Whereas World Bank lending facilities typically are sufficiently concessional to count as ODA, the bulk of Chinese lending does not meet ODA criteria and is therefore more correctly classified as Other Official Flows (OOF, Dreher et al., 2018). Arguably, the latter is therefore more ‘political’ in nature. The first specification, making use of the most concessional (and multilateral) types of Western debt, will test if this type of exposure to Western debt can balance out Chinese influence.

The precise point where indebtedness to Western donors and China serves to balance their respective political influence is an empirical question. For the statistical analysis, we deal with this by coding dummy variables to capture very low, very high, and moderate levels of Chinese debt shares. This also helps dealing with the issue of Chinese debt exposure likely being underreported in the International Debt Statistics (Horn, Reinhart and Trebesch, 2021).⁵ The resulting bins capture observations that lie at 10th percentile and below, between the 25th and 75th percentile, and above the 90th percentile of overall distribution of the variable. We expect strong Western (Chinese) political influence for countries with debt balances in the extreme low (high) percentiles. The broad inter-

⁴<https://databank.worldbank.org/source/international-debt-statistics>, accessed 18.8.2023

⁵The more comprehensive Chinese debt data collected by Horn, Reinhart and Trebesch (2021) will be used in future iterations of this paper as robustness check.

val covering 50 percent of the distribution for the moderate category is designed to be sufficiently wide to include the unknown balance point.

Next, we seek to capture how currency crises moderate the role of indebtedness on political influence. We follow (Horn et al., 2023) and use levels of foreign exchange reserves to capture a country’s ability to meet its debt payment obligations.⁶ In a first specification we use the raw variable, coded as reserve levels in terms of months of imports. This has the advantage of providing a continuous measure of reserves. However, the conditioning effect of this variable might be highly non-linear, as crisis conditions only apply when reserve levels sink below a floor. To account for this, in a second specification, we seek to endogenize where this crisis floor might lie. We start with a country’s long-run average reserves levels, and code currency crisis events as occurring if reserve levels drop below one standard deviation of this average.⁷

In order to be able to causally interpret the moderating effect of balance-of-payment crises on the debt-UNGA drafting nexus, we use an instrumental variables approach. As main exogenous instruments we turn to a range of global macro-economic markers that make it more difficult to service debt denominated in US dollars, and have been associated with currency crises and other adverse economic effects (Obstfeld and Zhou, 2023). These are the nominal broad US dollar index, as a measure of overall dollar strength, and the US federal fund rate, capturing risk-free returns on US funds. We also include the Chinese Yuan exchange rate relative to the US-dollar, as a strengthening of the US dollar relative to the Yuan will reduce the relative value of Chinese bilateral debt relief measures such as currency swap lines (Horn, Reinhart and Trebesch, 2021).⁸ While these three variables are correlated with currency crises, they also do not have a plausible direct effect on sponsorship activity of crisis countries at the UNGA. However, the three

⁶Source: World Bank International Debt Statistics.

⁷An alternative would be to set a fixed absolute threshold to signify crisis. However, it is difficult to identify a consensus in the literature where this threshold should lie.

⁸Sources: Nominal broad US dollar index & federal funds effective rate – Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/DTWEXBGS> and <https://fred.stlouisfed.org/series/DFF>, accessed August 24, 2023; Yuan-Dollar exchange rate – IMF Exchange Rate Report, <https://www.imf.org/external/np/fin/ert/GUI/Pages/CountryDataBase.aspx>, accessed August 24, 2023.

variables only depict broad macro-economic trends over time and do not capture country-specific variation in currency crisis. To account for this, we follow a Bartik-like approach (Bartik, 1991) and interact each time-trend variable with the total debt owed by a country. The shared variation between debt-levels and macro-economic trends should be correlated with reserve levels, since a larger debt load is more difficult serve if the macroeconomic environment turns unfavorable. At the same time, debt levels by themselves should not explain political pressure on UNGA behavior, as this is a function not of total levels, but to whom the debt is owed.

Finally, we include a small set of standard controls, GDP per capita (in ppp terms), and population (logged). The wealth measure is a proxy for government capacity, as having an active UNGA policy requires bureaucratic resources. Both the wealth and population measures relate to a country's exposure to international policy issues, with smaller and poorer countries on average being less entangled in international issues. It is difficult to think of other country-level variables that would confound sponsoring decisions at the UNGA. We choose not to include traditional alliance measures, such as an index of alliance similarity (Signorino and Ritter, 1999), as these potentially lie on the causal pathway connecting debt exposure to sponsorship behavior. All variables in the analysis are summarized in table 2.

Model

We estimate panel models of the following form:

$$\begin{aligned} \text{Sponsorship}_{it} &= \alpha_i + \beta_1 \widehat{\text{Reserves}}_{it} + \beta_2 \text{Debt Balance}_{it} + \beta_{12} \widehat{\text{Reserves}}_{it} \times \text{Debt Balance}_{it} \\ &\quad + X_{it}\gamma + \varepsilon_{it}, \\ \text{Reserves}_{it} &= \pi_0 + \pi_1 \text{Macro Trend}_t + \pi_2 \text{Debt Level}_i + \pi_{12} \text{Macro Trend} \times \text{Debt Level} \\ &\quad + \omega_{it} \end{aligned}$$

where i denotes countries, t denotes years, α_i are country fixed effects, X is a vector of

Table 2: Summary of variables

Statistic	N	Mean	St. Dev.	Min	Max
Initiated drafts, share of total sponsored	1,111	0.044	0.061	0.000	0.582
Size of initiating coalitions joined, mean	901	42.204	35.250	1.000	167.000
Debt balance China - WB/IMF , below 10pc	1,111	0.876	0.330	0	1
Debt balance China - WB/IMF , 25-75pc	1,111	0.766	0.424	0	1
Debt balance China - WB/IMF, above 90pc	1,111	0.110	0.313	0	1
Debt balance China - total, below 10pc	1,111	0.874	0.332	0	1
Debt balance China - total, 25-75pc	1,111	0.772	0.420	0	1
Debt balance China - total, above 90pc	1,111	0.102	0.302	0	1
Foreign currency reserves, months of imports	1,111	4.359	2.981	0.067	35.395
Low Reserves, 1 SD below long-run mean	1,111	0.076	0.264	0	1
GDP per capita, ppp	1,111	5,231.362	3,287.855	708.533	17,788.330
Population, log	1,111	16.228	1.788	11.545	20.966
US federal funds rate	1,111	1.549	1.616	0.088	5.017
Broad US Dollar index, nominal	1,111	102.967	9.607	88.777	117.778
Chinese Yuan – US Dollar exchange rate	1,111	7.174	0.794	6.143	8.277
Total debt, percent of GNI	1,111	57.172	53.739	3.278	528.600

control variables and $\widehat{\text{Reserves}}$ are the instrumented results from the first stage regression. Estimates are obtained via 2SLS.

To account for unmodeled unit-heterogeneity, we use country-fixed effects throughout the analysis. This specification is also in line with our arguments about the dynamic effects of balance-of-payment crises. In addition, the balance-point of debt exposure to the West and China might not be comparable across countries. Using a large cross-section ($n = 78$) but short times series (maximal $T = 20$) introduces Nickell bias (Nickell, 1981). However, Beck, Katz and Mignozzetti (2014) show that this bias tends to be very small and hence substantively negligible in reasonably sized samples. In our setting, the advantages of controlling for unmodeled unit-heterogeneity justifies this trade-off.

Results

We begin with results for initiating draft resolutions. Table 3 summarize the IV regression. There are a some suggestive patterns that are line with our theoretical expectations, but just a few reach conventional levels of statistical significance. None of these patterns are robustly replicated when we replace reserve levels with our coding of currency crisis (an overview of these regression results is in table A.1 in the Appendix). We therefore do not put too much stock in these findings. However, within the context of the overall analysis they are worth reporting.

Beginning with difference in policy discretion as a function of debt exposure, countries that are highly indebted to Western donors initiate fewer draft resolutions than countries with balanced debt exposure and those highly indebted to China. Figure 1 shows the marginal effect of belonging to the group of states with high Western debt on the share of initiated draft resolutions. The effect occurs among a wide range of reserve levels, but washes out once reserves fall below 5 months worth of imports. Note that the graphs show 90 confidence bands, so the recovered differences are estimated with considerable uncertainty.

Looking at the effect of currency crises, for countries that are highly indebted to

Table 3: Fixed effects OLS: Initiated drafts & debt exposure, conditional on reserve levels (instrumented)

	(1)	(2)	(3)	(4)	(5)	(6)
Reserves, months of imports	0.11** (0.05)	0.04 (0.03)	0.01 (0.01)	0.11** (0.05)	0.05* (0.03)	0.01 (0.01)
Debt balance China - WB/IMF, below 10pc	0.51* (0.28)					
CN-WB/IMF below 10pc × Reserves	-0.11* (0.06)					
Debt balance China - WB/IMF, 25-75pc		0.18 (0.16)				
CN-WB/IMF 25-75pc × Reserves		-0.04 (0.04)				
Debt balance China - WB/IMF, above 90pc			0.07 (0.12)			
CN-WB/IMF above 90pc × Reserves			-0.02 (0.03)			
Debt balance China - total, below 10pc				0.52* (0.27)		
CN-tot below 10pc × Reserves				-0.11* (0.06)		
Debt balance China - total, 25-75pc					0.22* (0.13)	
CN-tot 25-75pc × Reserves					-0.05* (0.03)	
Debt balance China - total, above 90pc						-0.03 (0.14)
CN-tot above 90pc × Reserves						0.01 (0.04)
GDP per capita, ppp	-0.00 (0.00)	0.00 (0.00)	-0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	-0.00 (0.00)
Population, log	0.08* (0.04)	0.05 (0.03)	0.03 (0.02)	0.07* (0.04)	0.05* (0.03)	0.02 (0.02)
Num. obs.	1111	1111	1111	1111	1111	1111
Num. countries	78	78	78	78	78	78
Weak instrument test - Reserves: F_1	4.19	4.09	4.14	4.16	4.14	4.22
p_1	0.00	0.00	0.00	0.00	0.00	0.00
Reserves × debt balance: F_2	3.64	3.46	0.75	3.32	3.46	0.86
p_2	0.00	0.00	0.63	0.00	0.00	0.54

*** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

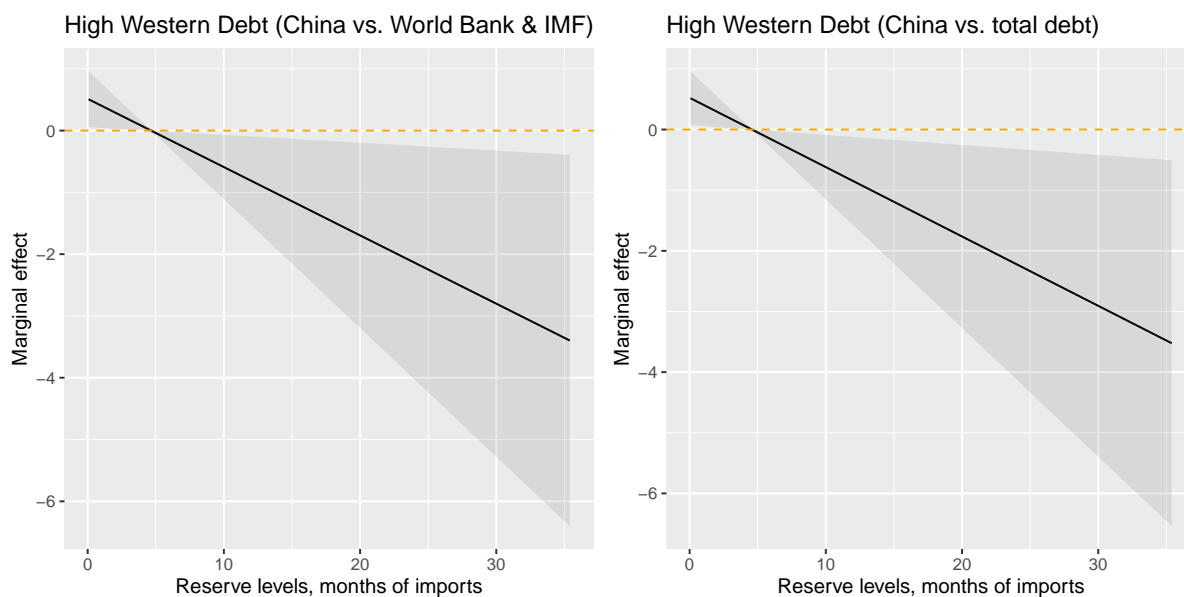


Figure 1: Share of initiated resolutions – effect of debt exposure, conditional on currency reserves (90 percent confidence intervals)

Western donors (models 1 and 4) reserve levels differentially affect the initiation of draft resolutions across different groups of debt exposure. Figure 2 shows the marginal change in the share of drafts that a country initiates, with 95 percent confidence bands. For countries that are highly indebted to the West, there is no effect. This is in line with our expectations that having to ask for more financial help will make little difference to countries that are already indebted to Western donors. For all other countries, a one month increase in currency reserves is associated with a 10 percentage point increase in the share of initiated drafts, indicating that a draw-down of currency reserves reduces policy discretion, as expected. But we can't parcel out a separate effect for countries that are highly indebted to China (models 3 and 6).

Turning to the size of coalitions that a country joins when initiating a draft, we have clearer results. Table 4 provides an overview of the IV regressions for currency reserve levels and table 5 for the currency crisis coding. Across these two specification, we have consistent and statistically significant patterns for countries with balanced debt exposure in terms of Chinese vs. World Bank/IMF debt, and for countries that are highly indebted to China.

Table 4: Fixed effects OLS: Initial coalition size & debt exposure, conditional on reserve levels

	(1)	(2)	(3)	(4)	(5)	(6)
Reserves, months of imports	-13.48 (23.73)	46.72** (20.98)	4.23 (5.89)	-7.01 (23.00)	21.02 (14.13)	5.87 (4.21)
Debt balance China - WB/IMF, below 10pc	-120.53 (132.66)					
CN-WB/IMF below 10pc × Reserves	23.63 (26.31)					
Debt balance China - WB/IMF, 25-75pc		225.14* (115.49)				
CN-WB/IMF 25-75pc × Reserves		-47.28* (24.61)				
Debt balance China - WB/IMF, above 90pc			-258.54** (112.20)			
CN-WB/IMF above 90pc × Reserves			57.27** (25.81)			
Debt balance China - total, below 10pc				-84.66 (133.64)		
CN-tot below 10pc × Reserves				17.64 (27.32)	79.89 (80.12)	
Debt balance China - total, 25-75pc					-17.55 (17.84)	
CN-tot 25-75pc × Reserves						-135.85 (97.72)
Debt balance China - total, above 90pc						34.11 (24.61)
CN-tot above 90pc × Reserves						-0.00 (0.00)
GDP per capita, ppp	-0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	-0.00* (0.00)	-0.00 (0.00)	-0.00 (0.00)
Population, log	4.96 (23.66)	44.43* (24.54)	-1.14 (24.56)	11.50 (20.85)	32.89* (18.20)	8.78 (18.41)
Num. obs.	901	901	901	901	901	901
Num. countries	78	78	78	78	78	78
Weak instrument test - Reserves: F_1	5.02	4.94	4.92	5.01	5.00	5.02
p_1	0.00	0.00	0.00	0.00	0.00	0.00
Reserves × debt balance: F_2	4.23	3.98	1.24	3.61	3.42	1.26
p_2	0.00	0.00	0.28	0.00	0.00	0.27

*** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

Table 5: Fixed effects OLS: Initial coalition size & debt exposure, conditional on low reserves (instrumented)

	(1)	(2)	(3)	(4)	(5)	(6)
Reserves, 1 sd below mean	-364.22** (179.03)	-344.67*** (124.79)	-13.27 (28.03)	-349.97 (270.66)	-378.52* (204.56)	-23.74 (29.68)
Debt balance China - WB/IMF, below 10pc	-14.35 (9.90)					
CN-WB/IMF below 10pc × Low reserves	351.45* (190.25)					
Debt balance China - WB/IMF, 25-75pc		-19.45* (10.20)				
CN-WB/IMF 25-75pc × Low reserves		350.49** (138.53)				
Debt balance China - WB/IMF, above 90pc			27.89 (17.08)			
CN-WB/IMF above 90pc × Low reserves			-435.51** (192.34)			
Debt balance China - total, below 10pc				-20.67 (20.98)		
CN-tot below 10pc × Low reserves				348.59 (300.08)		
Debt balance China - total, 25-75pc					-21.00 (14.88)	
CN-tot 25-75pc × Low reserves					390.77* (231.95)	
Debt balance China - total, above 90pc						24.23 (17.48)
CN-tot above 90pc × Low reserves						-571.91* (337.31)
GDP per capita, ppp	-0.01** (0.00)	-0.01*** (0.00)	-0.00 (0.00)	-0.00* (0.00)	-0.00 (0.00)	-0.00 (0.00)
Population, log	55.54** (21.88)	48.69** (19.41)	16.65 (18.13)	41.40** (19.96)	29.75 (18.78)	13.55 (20.86)
Num. obs.	901	901	901	901	901	901
Num. countries	78	78	78	78	78	78
Weak instrument test - Reserves: F_1	7.96	7.98	7.97	7.98	8.00	8.04
p_1	0.00	0.00	0.00	0.00	0.00	0.00
Reserves × debt balance: F_2	7.69	7.55	1.48	7.23	7.26	0.75
p_2	0.00	0.00	0.17	0.00	0.00	0.63

*** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

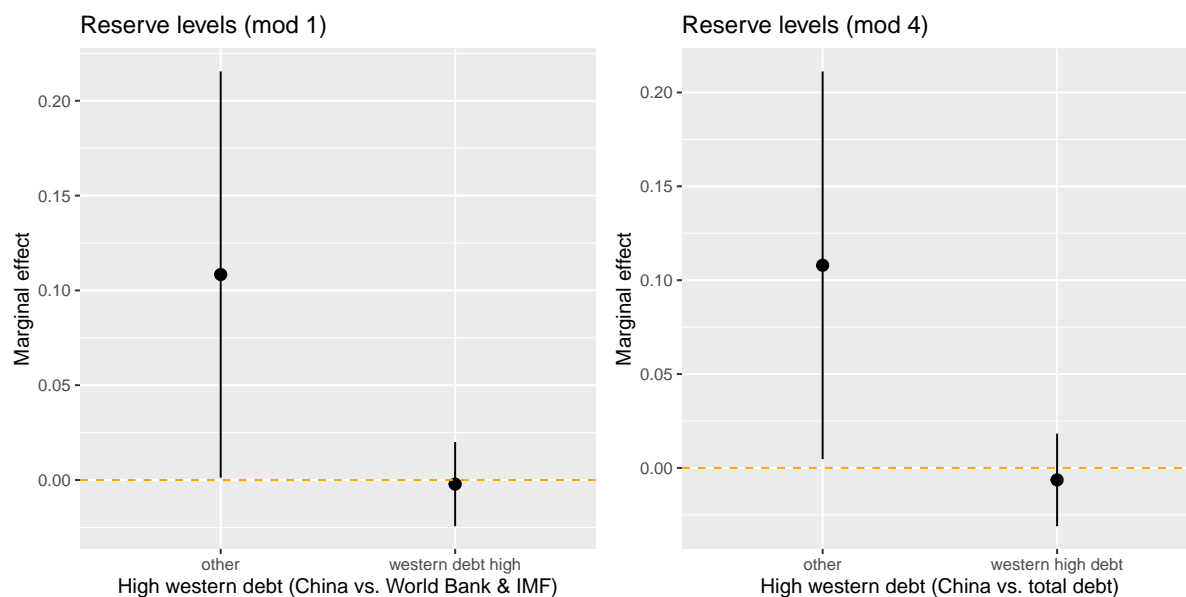


Figure 2: Share of initiated resolutions – marginal effect of currency reserves, conditional on debt balance

Again we begin with comparing levels of policy discretion across groups of countries with different debt exposure (figure 3). Countries with high Chinese debt do join smaller coalitions when initiating countries compared to countries with Western or balanced debt exposure, as expected. However, this effect only is observable for relative low levels of reserves (upper right graph) or where a country experiences currency crisis (lower right graph). For countries with more robust currency reserves, we find high Chinese debt exposure actually associated with larger coalition sizes. For countries with balanced debt exposure, the picture is similarly mixed. These countries do enjoy more policy discretion than the comparison group of highly exposed countries as they join smaller coalitions (upper left graph). However, this effect is conditional on having sufficiently large currency reserves. Again the turning point lies somewhere around 5 months of imports. Below this threshold, this groups of countries actually joins larger coalitions when initiating draft resolutions than those with debt dependency on Western donors or China. This pattern also holds when looking at currency crisis (lower left graph). While the change in coalition size is in line with a predicted reduction in policy discretion (see next subsection), the reversal in levels of coalition sizes is not.

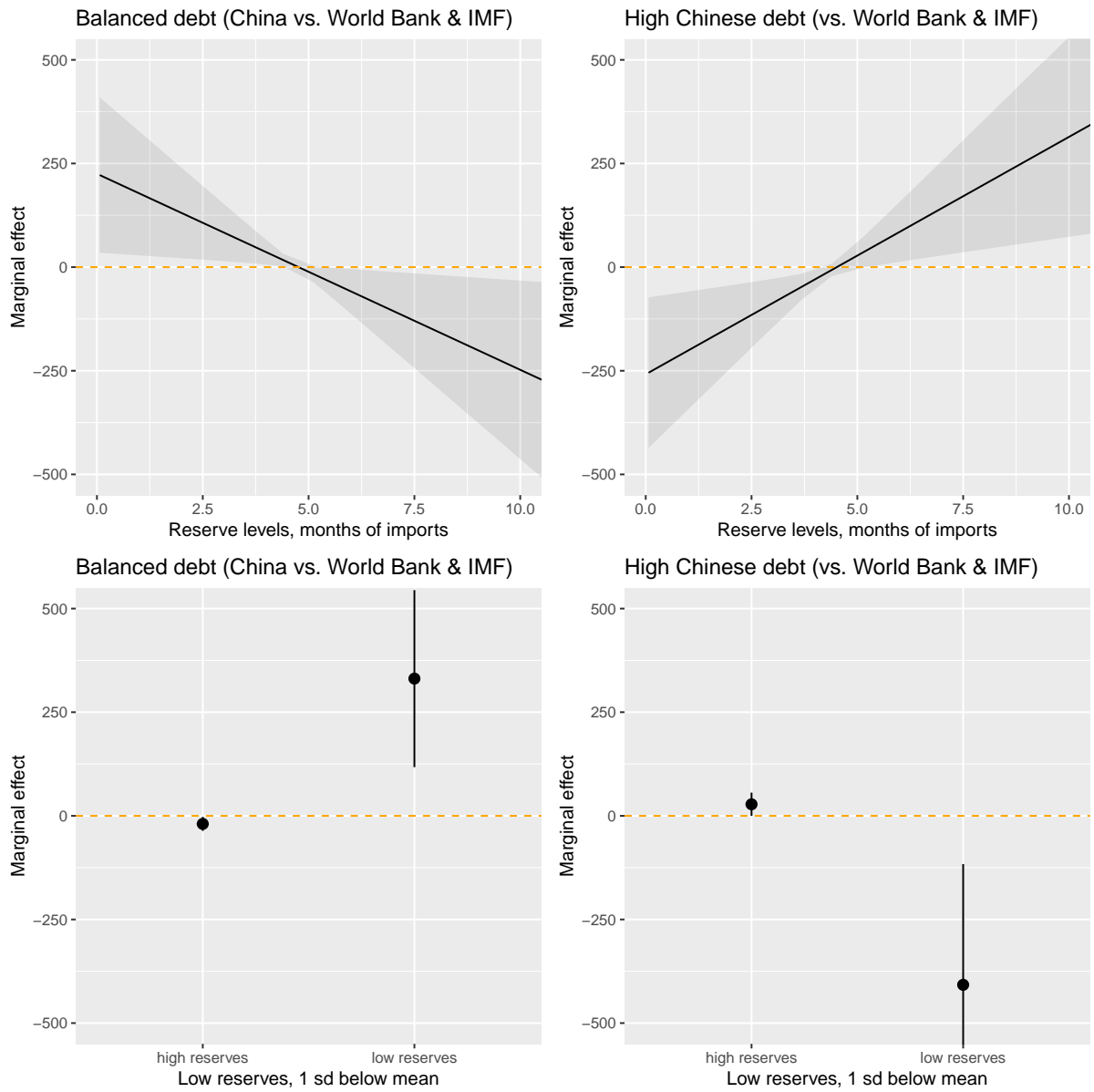


Figure 3: Size of initiating coalition – effect of debt exposure, conditional on currency reserves

Turning to the effect of currency crises, the same patterns emerge. Figure 4 shows the marginal effect of currency reserves (first row) and currency crisis (2nd row) on the number of countries a country joins to initiate a draft resolution. For countries with high debt exposure to China (right column), currency crisis is associated with a large drop in coalition size. For a 1-month drop in reserve levels, the average size of initiating coalition decreases by about 50 countries. When moving from non-crisis to crisis, the effect is even larger, with a 450 country drop – a prediction that is outside of sample range. This effect is also robust to measuring Chinese debt exposure in terms of total debt (model 6 in table 5). These strong reductions in coalition size are in line with an expected increase in policy discretion. Once countries that are highly indebted to China are experiencing crisis, they will have to take look for funding from a broader range of donors, balancing out China’s influence and enabling those countries to increasingly go it alone at the UNGA.

For countries with balanced exposure to Western and Chinese debt, we expected currency crises to reduce policy discretion, as those countries would have to move closer to either (likely) Western donors or China, increasing the influence of that donor group. The data do not bear this out. For countries with well-balanced debt exposure (figure 4, left column), we find a null-effect, both in terms of reserve levels and currency crisis. However, the models confirm the findings for China, as for non-balanced countries (this reference group includes both countries indebted to China and Western donors) a drop in reserve levels and a currency crisis are both associated with joining smaller coalitions to initiate draft resolutions.

Taken together, the support for our theory linking currency crises to UNGA draft initiation decisions moderated by debt-exposure, finds only moderate support. This is not due to quality of instruments: F tests reject the null hypotheses of a weak instrument for currency reserves throughout, and for two thirds of the instrumented interaction terms. Standard Wu-Hausman and Sargan tests confirm the appropriateness of the IV setup and (omitted). The analysis reveals interesting patterns of initiating behavior tied to coalition size that differs significantly for country’s with high Chinese debt exposure. While this

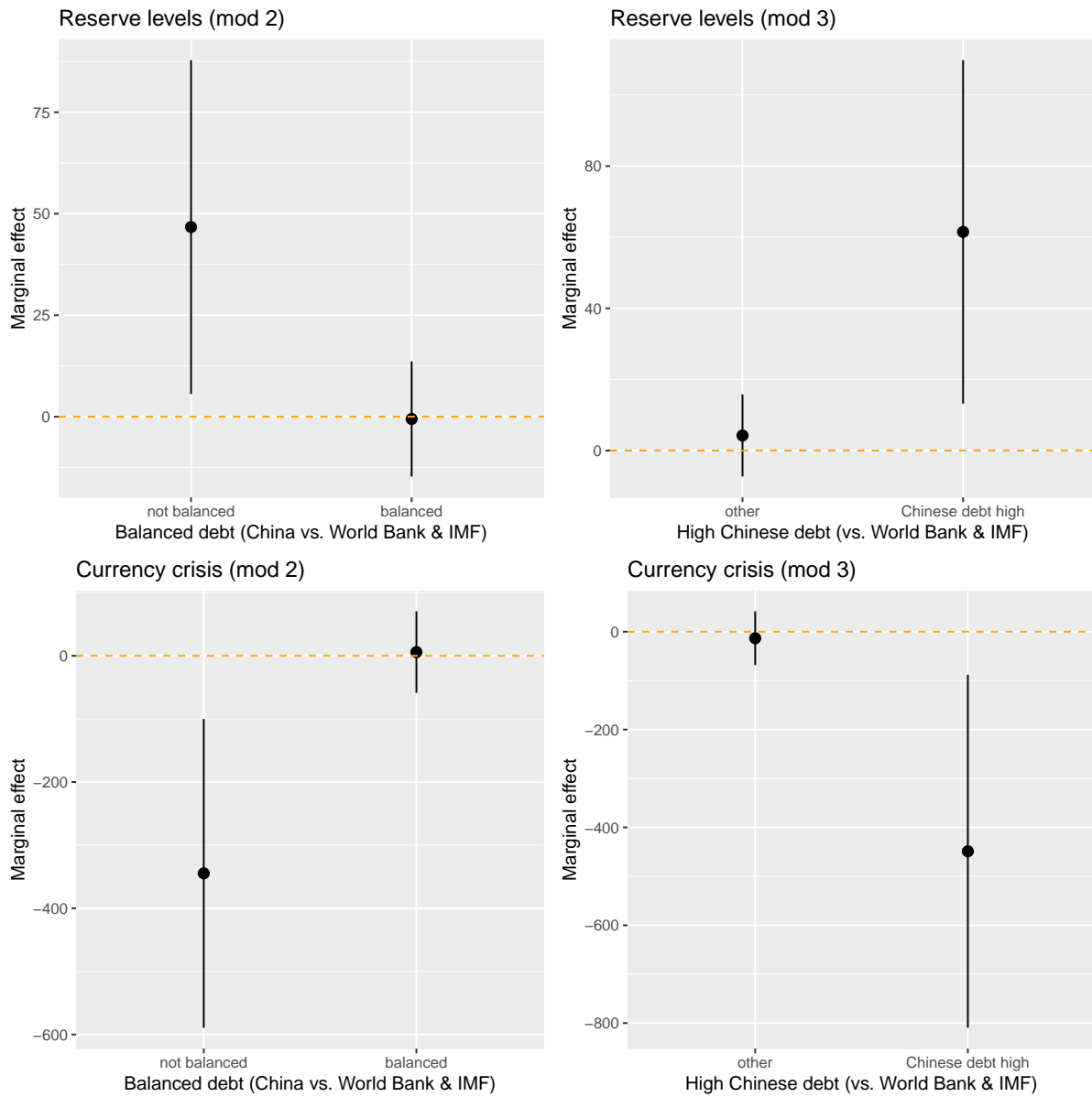


Figure 4: Size of initiating coalition – marginal effect of currency reserves/crisis, conditional on debt balance

is in line with our theoretical expectations, it warrants further exploration, for example with respect to variation in content of initiated draft resolutions. For initiating drafts, our theory finds no robust support in the data. A better theoretical understanding of the decision logic for initiating drafts might be an important starting point for improving on this situation.

4 Conclusion

In this paper we explored the political influence gained by China and Western development finance provider over recipient governments, by looking at how recipient governments initiate draft resolutions. We set policy influence in the context of a common agency problem, in which both the West and China compete for influence. Where this influence is evenly balanced, recipient governments should enjoy increased policy discretion. To achieve causal identification, we leveraged variation in the macro-economic environment, specifically high US dollar interest rates and greater available risk-free returns on US treasury investments, to instrument for currency crises. In the empirical analysis we measured a government's policy discretion as ability to initiate draft resolutions at the UNGA, and to do so without other countries or in only small coalitions. We found that countries who are highly indebted to China indeed initiate draft resolutions when part of a larger coalitions. Experiencing a currency crises changes this behavior, leading these countries to initiate by themselves or in smaller coalitions. This change is in line with our expectation that currency crisis return some policy discretion to countries highly indebted to China, likely because recipient governments need to begin paying more attention to Western interests, balancing out Chinese influence. For the decision to initiate the evidence was overall statistically quite weak. However, there is some indication that primary exposure to Western debt dampens a recipient country's ability to initiate resolutions, with currency crises not changing this pattern.

China's rise to the top of development finance has rightly sparked an important debate

about political dependencies. This has important implications for how Northern and Southern countries continue to reflect on the historic role of the West in colonization and for ongoing dependencies. While previous research has provided important evidence that Chinese aid indeed is targeted to achieve political objectives (Dreher et al., 2018; Gelpern et al., 2022; Lim and Kim, 2023) and does shift UNGA voting behavior (Raess, Ren and Wagner, 2022), little attention has been paid to the competitive nature of the relationship between Western donors and multilateral institutions and China. There is evidence that China's presence has an effect on both Western aid practices, for example by reducing country's willingness to comply with World Bank conditions (Watkins, 2022), and the World Bank changing how it lends money in the presence of Chinese activity (Qian, Vreeland and Zhao, 2023). But we need a more systematic understanding of the conditions under which Western or Chinese influence holds greater sway, and when the two cancel each other out. This paper has suggested government policy discretion as key focus to study how this competition plays out. Measuring policy discretion is difficult, as government preferences are inherently unobservable. Looking at UNGA drafting and voting behavior is just one of possible venue to study policy discretion. Fiscal policy volatility (Fatás and Mihov, 2003, 2013), sensitivity of foreign policies in response to changes in governing coalitions (Mattes, Leeds and Matsumura, 2016), and an ability to align foreign policies with domestic demands are all possible venues to study more systematically how and when Western and Chinese influence sways government actions, and when it doesn't. This paper hopes to provide an impulse towards the development of this important research agenda.

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Appendix

Table A.1: Fixed effects OLS: Initiated drafts & debt exposure, conditional on low reserves (instrumented)

	(1)	(2)	(3)	(4)	(5)	(6)
Reserves, 1 sd below mean	-0.17 (0.19)	-0.23* (0.13)	-0.06 (0.05)	-0.89 (0.58)	-0.61* (0.32)	-0.08* (0.05)
Debt balance China - WB/IMF, below 10pc	-0.00 (0.02)					
CN-WB/IMF below 10pc × Low reserves	0.09 (0.21)					
Debt balance China - WB/IMF, 25-75pc		-0.01 (0.01)				
CN-WB/IMF 25-75pc × Low reserves		0.16 (0.15)				
Debt balance China - WB/IMF, above 90pc			0.03 (0.03)			
CN-WB/IMF above 90pc × Low reserves			-0.52 (0.34)			
Debt balance China - total, below 10pc				-0.07 (0.05)		
CN-tot below 10pc × Low reserves				0.87 (0.62)		
Debt balance China - total, 25-75pc					-0.03 (0.02)	
CN-tot 25-75pc × Low reserves					0.56 (0.34)	
Debt balance China - total, above 90pc						0.02 (0.02)
CN-tot above 90pc × Low reserves						-0.53 (0.44)
GDP per capita, ppp	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)
Population, log	0.03 (0.02)	0.03 (0.02)	0.01 (0.03)	0.06 (0.04)	0.02 (0.03)	0.01 (0.03)
Num. obs.	1111	1111	1111	1111	1111	1111
Num. countries	78	78	78	78	78	78
Weak instrument test - Reserves: F_1	5.10	5.13	5.13	5.09	5.12	5.23
p_1	0.00	0.00	0.00	0.00	0.00	0.00
Reserves × debt balance: F_2	4.95	4.93	1.21	5.03	5.29	0.85
p_2	0.00	0.00	0.29	0.00	0.00	0.55

*** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$