Decentralized Economic Statecraft*

Alicia R. Chen†

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Abstract

Foreign economic policy is often constrained by domestic politics, but how these constraints operate in autocratic regimes remains poorly understood. I study this question in the context of China's foreign aid program, a prominent case of economic statecraft by an autocratic government. I document how, unlike Western aid, Chinese aid is allocated by provincial politicians rather than national leaders, and that these politicians are subject to a promotion system that rewards domestic economic performance. Under this incentive scheme, provincial governors use foreign aid to generate overseas business for local firms, boosting firm profits and the tax revenues that underpin their career advancement. I test this argument using provincial-level panel data and a regression discontinuity design that exploits age-based rules for promotion eligibility. The results show that provinces governed by promotion-eligible governors allocate roughly ten times more aid annually than those led by promotion-ineligible ones. I further demonstrate that aid increases the profits and tax contributions of state-owned enterprises, the primary contractors on Chinese aid projects, directly improving governors' performance on promotion-relevant metrics. These findings advance a novel domestic political economy perspective of China's aid program and show that domestic institutions shape and constrain economic statecraft even in autocratic regimes.

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†Ph.D. Candidate in Political Science, Stanford University, aliciarc@stanford.edu

1 Introduction

Foreign economic policy is often constrained by domestic politics, but the nature of these constraints varies across regime types. While democratic leaders must weigh the economic costs of their decisions against the risk of electoral punishment, how autocratic leaders with no electoral accountability choose to balance domestic economic interests with international strategic goals remains poorly understood. The stakes of this question are especially high today: the rise of China has placed unprecedented economic power in the hands of an autocratic government that many fear can freely deploy resources in pursuit of its geopolitical ambitions, unconstrained by domestic political pressures.

One of the most visible displays of Chinese economic projection is its foreign aid program.[1] Under the Belt and Road Initiative (BRI), China has injected massive amounts of capital into the Global South, overtaking traditional Western donors as the primary development financier for many countries. The scale and visibility of these activities have fueled concerns in the West. Policymakers are deeply worried that Beijing will use its economic reach to secure political concessions, expand strategic influence, and reshape the international order to its advantage.

While concerns about China's use of aid to cultivate influence abound, features of its aid program are puzzling. Not only has it generated limited political leverage, but it is also not implemented in ways that would be particularly effective at delivering such returns either. For one, China provides far less concessional aid than its Western competitors, making its offers less financially attractive to recipients (Morris et al., 2020; Chen, 2020; Malik et al., 2021; Chen, 2025*a*). It also seeks commercial returns from these investments, even though this makes aid a less effective tool of economic statecraft (Chan, 2024; Chen and Bethlendy, 2025). Indeed, scholars find that Chinese aid is far more commercially-oriented than Western programs, and that only a small share is allocated based on geopolitical or strategic considerations (Dreher et al., 2018; Chen, 2025*b*). As a result, although China is estimated to have spent upwards of $1 trillion USD since 2000—substantially more than the aid spending of the U.S. and its allies—Chinese aid has not translated into meaningful geopolitical gains abroad. In fact, if the goal were to cultivate influence and goodwill, the BRI seems to be backfiring, creating null or even negative externalities for China.[2]

[1]Scholars of Chinese development finance distinguish true "aid" (i.e., grants or interest-free loans) provided directly by the Chinese government from loan-based development finance extended by state-affiliated banks and firms. The distinction is primarily based on the level of concessionality, following OECD definitions of official development assistance (ODA). However, this distinction is less meaningful in the case of Chinese development finance (see, e.g., Chen (2025*b*)). In this paper, I use "foreign aid" broadly to refer to all forms of financing provided by the Chinese government and its affiliated entities to developing countries.

[2]For instance, global media coverage of China has become increasingly negative in recent years (Parks

These features of China's foreign aid program are puzzling not only because Chinese leaders conceived of the BRI—at least in part—as a geopolitical project, but also because one might reasonably expect few policy implementation frictions in an authoritarian, one-party regime like China's. Yet in practice, China has been reluctant to provide grants and forgive debts, has relied heavily on commercial actors for implementation, and has prioritized market considerations and financial returns over strategic influence. What explains these patterns? And more broadly, what do they reveal about the political economy of China's economic statecraft?

I provide a framework for understanding these questions that is rooted in China's domestic political institutions. A defining feature of China's institutional environment is the delegation of economic governance to subnational politicians, coupled with a performance-based promotion system that rewards alignment with national priorities. This system of decentralized authority and upward accountability is widely credited with fueling China's economic boom, which the Communist Party has relied on for public legitimacy and regime survival over the past four decades. A large body of work shows that these promotion incentives effectively shape the behaviors of local politicians, motivating them to pursue policies that generate economic growth in support of the Party's growth-based survival strategy.

In this paper, I argue that this domestic institutional arrangement shapes not only China's domestic economic policies, but also its foreign economic activities. Drawing on interviews with officials from Chinese government ministries, banks, and firms, I document how, unlike Western aid, the predominant portion of Chinese aid is neither allocated nor managed by national executive agencies in Beijing, but rather by subnational politicians across China's 31 provinces.[3] As opportunities for economic growth at home become more limited, provincial governors increasingly turn to foreign aid as a tool to sustain local economic performance: they use aid to create overseas business opportunities for provincial firms, boost firm profits, and collect tax revenue on those gains—key economic indicators that determine their promotion within the Party hierarchy. Rather than functioning as a coherent instrument of statecraft, Chinese aid is instead shaped by provincial politicians responding to their own career incentives, resulting in inconsistencies between Beijing's global ambitions and the actual distribution of its foreign aid.

et al., 2023). Elites in recipient countries have not aligned their rhetoric or policies more closely with Beijing's positions as a result of receiving Chinese finance (Sun, Kapstein and Shapiro, 2024). And although Chinese projects often yield economic benefits for local communities, they also provoke anti-China backlash in those same communities (Blair, Marty and Roessler, 2022; Iacoella et al., 2021). In fact, public opinion of China has declined drastically across much of the developing world since the start of the BRI, with favorability toward the U.S. capturing much of the loss (Parks et al., 2023).

[3]More precisely, China has 31 provincial-level administrative divisions, which include 22 provinces, 5 autonomous regions, and 4 municipalities. I refer to these as provinces in this paper.

To explore linkages between China's domestic political economy and its foreign aid, I construct a provincial-level panel dataset of Chinese aid from 2000 to 2015. I test my theory using a regression discontinuity (RD) design that exploits institutional age limits and term lengths governing the promotion eligibility of provincial politicians. According to Party regulations, provincial politicians become ineligible for promotion to national positions once they reach the age of 63, and a full provincial term lasts five years. These two rules combined create a discontinuity in forward-looking career incentives at the start of a politician's term: politicians who start their term at age 58 or younger remain eligible for promotion after a full five-year term, whereas those who start at age 59 or older will age out of eligibility before completing a full term and thus face weaker career incentives from the outset.

My primary RD design exploits this discontinuity to identify the local causal effect of promotion eligibility on foreign aid allocation. The results suggest that stronger career incentives lead to increases in aid commitments. Comparing aid patterns from provinces when they are governed by promotion-eligible versus ineligible governors, I estimate a tenfold (0.23 standard deviation) increase in annual aid allocation at the promotion eligibility threshold. Given a sample mean of $2 million in annual aid, this implies nearly $20 million more aid per year for governors just below the cutoff than for those just above it. Consistent with the theorized mechanism, this effect is observed only among provincial governors—not provincial party secretaries, a parallel political role in the Party hierarchy—reflecting how governors' promotion is more directly tied to economic performance than their political counterparts.

I complement the RD analysis with empirical evidence on the mechanisms linking career incentives to foreign aid using various panel-based identification strategies. Using two-way fixed effects, I first show that the effect of promotion eligibility on aid allocation is strongest in provinces experiencing weak economic growth, especially when governors' performance falls short of prior provincial growth—suggesting that governors deploy aid most aggressively when and where it is most likely to enhance their performance record. I further provide direct evidence of the proposed link between aid, firm profits, and local corporate income taxes—key metrics in governors' promotion evaluations. Using a first-differences design, I document that a 1% increase in aid is associated with a 0.4% increase in corporate income tax revenue in provinces with a high share of state-owned enterprises (SOEs), the primary contractors on Chinese aid-funded projects. Focusing on the construction sector, where Chinese aid is most concentrated, I further show that aid increases both the profits of construction firms and the corporate taxes they subsequently pay. Together, these results support my theory that domestic career incentives shape the allocation and function of Chinese aid, as governors deploy it to boost their performance on economic metrics tied to their promotion.

These findings bear important theoretical and policy implications. Much of the existing literature on Chinese aid has been framed around the policy-salient question of whether this money serves economic or geopolitical ends (Brautigam, 2009; Dreher et al., 2018; Ye, 2020; Chen, 2025*b*). Unlike prior accounts that emphasize bureaucratic or organizational features, this paper offers a political economy explanation: commercial objectives dominate China's foreign aid program because they align with the promotion incentives of subnational politicians tasked with implementation. This logic helps explain the persistent economic orientation of Chinese aid, even when national leaders frame it in geostrategic terms. In doing so, this paper provides systematic evidence on the domestic drivers of Chinese aid allocation and identifies a key source of regional and temporal variation in the implementation of China's economic statecraft.[4]

This paper also situates China's foreign aid program within broader debates about donor motives, serving as a reminder that aid can fulfill purposes beyond geopolitics. While foreign aid is often deployed as a tool of influence, it is equally a vehicle for advancing economic interests: opening markets for domestic firms, promoting strategic industries, and stimulating demand for national products. Although Chinese aid is frequently interpreted through a security lens, this paper provides empirical evidence linking it to domestic economic imperatives and offers an explanation for why these objectives predominate. The findings align with interpretations of the BRI as both a response to industrial overcapacity and a means of supporting overseas expansion by firms facing shrinking markets at home. In this respect, China's aid program most closely resembles those of states such as Japan or Germany, where aid functions more as an instrument of industrial policy and export promotion. This perspective also clarifies why practices like tying aid to domestic procurement persist in China's aid program despite international criticism.

A natural question that arises is why China's top leaders would maintain a foreign aid system that seemingly undermines its own geopolitical ambitions. The answer lies in the broader benefits that this institutional arrangement provides. The decision to decentralize economic authority grew out of efforts to correct the failures of Mao-era central planning. By empowering provincial governments and tying officials' careers to local economic performance, the Party successfully incentivized growth and secured its domestic legitimacy during periods of political and economic transition. When this system was later repurposed for foreign aid, it imported the same operating logic: provincial governments were tasked with implementation, but their incentives remain anchored in local economic performance rather than global influence. From the Party's perspective, however, the system continues to deliver on its original purpose—domestic development—even if it generates misaligned in-

[4]See Mueller (2025) for an alternative domestic political economy reading of Chinese aid that focuses more narrowly on ODA allocation.

centives for advancing China's geopolitical objectives abroad. For a Party that has built its legitimacy on growth, this trade-off may be acceptable: even if the system is not advancing the Party agenda abroad, it reliably advances its agenda at home.

This takeaway suggests that even in a one-party system like China's, domestic institutions are sticky and consequential. This has important implications for broader theoretical debates in international and comparative political economy about how domestic interests and institutions shape economic policy across regime types. In democracies, a large literature theorizes how electoral accountability to voters and interest groups can influence policymaking (Moravcsik, 1997; Milner, 1997; Lake, 2009). How these dynamics unfold in autocratic states, however, is less well understood. My findings suggest that even in the absence of electoral punishment, politicians in authoritarian countries are nevertheless constrained by domestic institutions. These insights extend the domestic politics approach to autocratic contexts by shifting attention away from mass preferences and toward the formal institutions that structure elite incentives and behavior. As in democracies, understanding the economic statecraft of autocratic regimes will require close attention to the domestic constraints that their leaders face.

2 The Puzzle of Chinese Aid

The rapid expansion of China's foreign aid program has fueled debates about Beijing's growing geopolitical ambitions. As China rises, Western policymakers have grown increasingly concerned about its use of aid to cultivate political influence abroad at the expense of the U.S. and its allies. These concerns stem not only from the scale and global reach of initiatives like the Belt and Road Initiative (BRI), but also from the long-standing association between foreign aid and economic statecraft: throughout history, governments across the world have actively used aid to induce political alignment in other countries, and China is by no means an exception.

At the same time, a growing body of research challenges many of the assumptions underlying these fears. For one, Chinese aid does not appear to be optimally designed to maximize geopolitical influence. It is typically offered on less concessional terms than Western aid, making it less financially attractive to the very recipient governments China might hope to court geopolitically (Morris et al., 2020; Chen, 2020; Malik et al., 2021; Chen, 2025*a*). Empirically, compared to Western donors, only a small share of Chinese aid is allocated in ways that reflect geopolitical interests or strategic opportunities (Dreher et al., 2018; Chen, 2025*b*). The bulk of Chinese aid instead follows commercial logics, primarily geared toward generating revenue from these investments (Dreher et al., 2018; Ye, 2020), even though this profit-oriented approach reduces its effectiveness as a tool of geopolitical influence (Chan, 2024; Chen and Bethlendy, 2025).

Scholars have attributed this commercial orientation to institutional features of China's aid system that empower economically-oriented actors. At the executive level, China's Ministry of Commerce plays a more central role in managing the aid program than its Ministry of Foreign Affairs (Zhang and Smith, 2017; Zhao and Jing, 2019), in contrast to countries like the United States, where foreign aid is housed within the diplomatic apparatus (e.g., USAID under the State Department). The funding source also differs: most Chinese aid is financed not through the central fiscal budget, as in the West, but through bond issuance by Chinese banks that expect repayment (Chen, 2024). Project selection further reinforces commercial priorities, as Chinese firms play a leading role in identifying and proposing projects, steering aid flows toward ventures that maximize financial returns (Brautigam, 2009; Ye, 2020).

While this institutional explanation highlights important differences between China and traditional donors, it provides an incomplete framework for understanding how Chinese foreign aid operates —and, more broadly, how China conducts economic statecraft. Skeptics rightly point out that in China's state-capitalist system, none of the key actors in China's aid system—ministries, banks, and firms—can credibly be considered independent or private sector entities, even if at times they behave in profit-seeking ways. Yet existing studies rarely explain *why* these state-affiliated actors prioritize commercial returns, especially when national policy also emphasizes geopolitical objectives. A more complete framework is therefore needed to explain how state actors within an authoritarian system navigate the trade-off between economic gains and strategic goals when implementing foreign aid and other forms of economic statecraft.

3 Theory

I provide a framework for understanding the commercial orientation of Chinese aid that is rooted in China's domestic political institutions. In this section, I first describe the institutional context and the career incentives it creates for provincial politicians. Next, I document how China's decentralized foreign aid system exposes aid allocation to those same incentives. Finally, I develop a theory of why and when provincial politicians will manipulate foreign aid to advance their careers and derive testable hypotheses.

3.1 Institutional Context

Economic policymaking in China is governed by a two-part institutional system that combines decentralized authority with upward accountability. Economic decentralization began in the post-Mao era under Deng Xiaoping to correct for the inefficiencies of central planning that produced economic stagnation and national policy failures. Under Deng, the Party delegated substantial fiscal and administrative authority to subnational governments, making them directly responsible for local economic development.[5] Over the next two decades—what is known as China's "reform era"—local politicians gained direct control over land, taxation, and local fiscal budgets, and were granted broad discretion in managing economic affairs within their jurisdictions.[6] At the same time, the Party maintained highly centralized personnel control: subnational politicians are appointed, promoted, and dismissed by their superiors in the Party hierarchy.[7] This structure makes politicians' political survival contingent on meeting the priorities that the Party sets out for them, ensuring that politicians at all levels of government remain accountable to Party goals (Burns, 1994; Maskin, Qian and Xu, 2000; Xu, 2011).[8]

This two-part institutional arrangement has tied subnational politicians' careers to local economic performance. Since the reform era, the Party has built its domestic legitimacy on the ability to deliver sustained economic growth. To enforce this strategy, the Party institutionalized a performance-based promotion system that evaluates politicians primarily on quantitative indicators of local economic performance—most notably GDP growth and fiscal revenue.[9] Subnational politicians are assessed not only against absolute targets but also in comparison to their peers, fostering competition that incentivizes greater effort to deliver visible economic achievements. Annual government reports reinforce this competitive environment by publishing detailed rankings of provincial and sub-provincial performance on key economic outputs, underscoring the Party's growth-oriented priorities over the past four decades.

Promotion incentives are especially powerful for Chinese politicians because career ad-

[5] See Liu, Shih and Zhang (2018) for an alternative account of the causes of economic decentralization in China, which focuses on elite-level bargaining.

[6] The national government remains in charge of national public goods, e.g., monetary policy. See Montinola, Qian and Weingast (1995) for a description of the basic structure of Chinese federalism.

[7] Under the "one level up" rule, politicians are managed by their immediate superiors in the next administrative level. For instance, city-level officials are managed by provincial-level leaders, who are in turn overseen by national authorities in Beijing.

[8] For an overview of China's decentralized authoritarian system, see Xu (2011). See Maskin, Qian and Xu (2000) for a formalization of this system and the tournament-style promotion incentives they create for Chinese officials.

[9] Officials are formally evaluated on four criteria—political integrity, competence, diligence, and work achievements—but work achievements dominate, accounting for more than 60% of the weight (Edin, 2003).

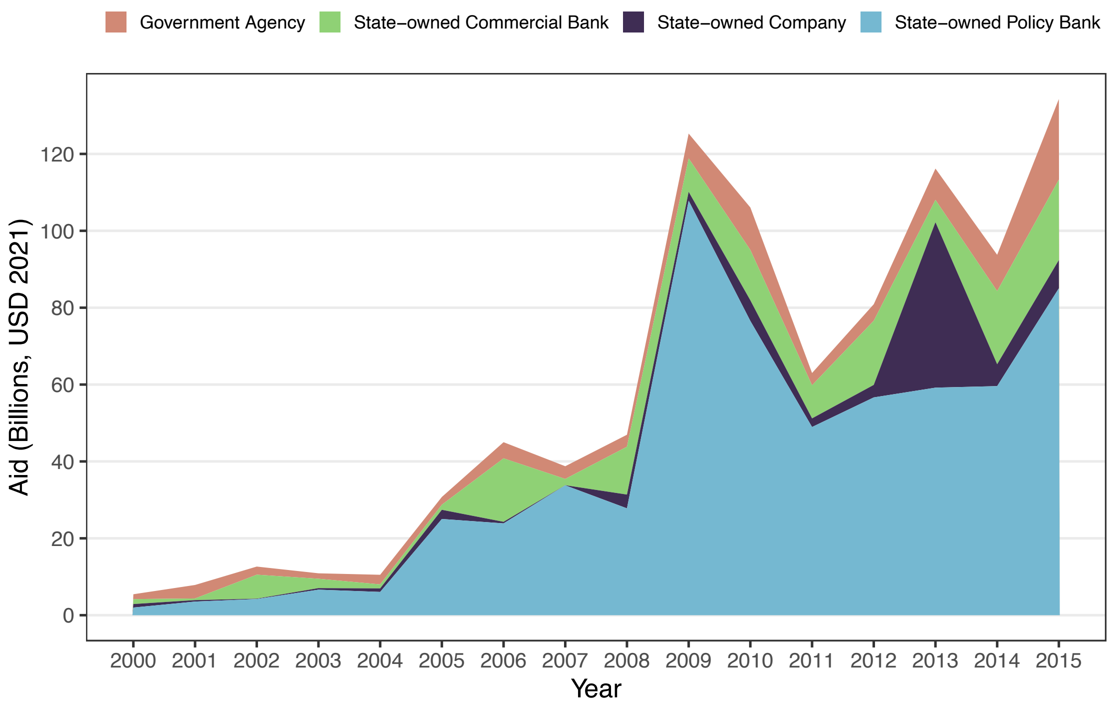
vancement carries substantial personal and monetary rewards. A politician's administrative level—whether as a city mayor, a provincial governor, or in a national position in Beijing—determines base salary, allowances, and a wide range of non-salary benefits, such as housing subsidies, superior healthcare, and elevated social status. In addition, retirement packages are also tied to politicians' administrative level at the time of retirement: under state regulations, politicians can receive up to 90% of their final salary as a pension, meaning that a higher position translates into both a larger current salary and a more generous lifetime benefit. Career advancement also opens the door to lucrative post-retirement opportunities rarely available to lower-level politicians. In short, a single promotion can deliver enduring gains in income, benefits, and social standing, making career advancement a central personal objective for Chinese politicians and reinforcing their incentives to improve local economic performance.

Empirically, this combination of institutional design and personal rewards effectively shapes the policy choices of subnational politicians in China. A large body of work finds that local politicians consistently tailor their economic activities to boost performance on economic and fiscal indicators emphasized in their performance evaluations. Politicians often accelerate investment, expand local infrastructure, and deploy fiscal resources to stimulate short-term economic gains that are visible to their superiors, especially at crucial moments during their careers (Li and Zhou, 2005; Guo, 2009; Chen and Zhang, 2021; Li and Yu, 2023; Zeng and Zhou, 2024; Piotroski and Zhang, 2014; Chen, He and Liu, 2020; Lü and Landry, 2014). Conversely, policies that do not contribute directly to promotion-relevant indicators—or that involve trade-offs against them—tend to be neglected. For instance, local governments have under-invested in environmental protection and industrial upgrading when these objectives conflicted with growth targets (Du and Yi, 2022; Bulman, Yan and Zhang, 2022). The result is a system in which local economic policies are heavily shaped by the career incentives of the politicians who govern each jurisdiction. While this system has been highly effective in driving China's economic boom, bolstering the Party's domestic legitimacy, it has also at times come at the expense of longer-term objectives.

3.2 China's Decentralized Foreign Aid System

The decentralized nature of China's economic governance is often invoked to explain its domestic economic policies, but in this paper, I contend that it also shapes the country's foreign aid. Because China's aid program operates largely outside of central executive ministries and is implemented instead at the provincial level, its allocation is exposed to the same domestic political incentives generated by the performance-based institutions that

Figure 1: Chinese Aid by Funding Agency



govern local economic policymaking.

While foreign aid is often assumed to be the domain of national-level policymaking, over 90% of Chinese aid is administered by state-owned banks and enterprises rather than executive-branch agencies, as is typical in the West. At the core of this system are China's two policy banks—the China Development Bank (CDB) and the Export-Import Bank of China (CHEXIM)—which together financed nearly 70% of Chinese aid between 2000 and 2015. State-owned commercial banks accounted for roughly 15%, and state-owned enterprises another 10%. Only the remaining 10% resembles Western-style aid administered by ministries,[10] and this small share is what has been found to be most politicized, in contrast to the commercially-oriented lending of the banks (Chen, 2025*b*). Figure 1 plots the annual volume of Chinese aid over this period, disaggregated by financing agency.

Although CDB and CHEXIM are centrally-owned and tasked with advancing national strategic objectives, their operations are carried out primarily through provincial branches. This branch-based structure reflects their original mandate to serve local development. Pol-

[10]This statistic forms the upper bound as it includes financing from state-owned funds, PBOC/SAFE, and subnational government contributions. While the Department of Foreign Aid in the Ministry of Commerce (MOFCOM) formally sets the aid budget, this budget applies only to the small fraction of China's grants and zero-interest loans. See Brautigam (2009), Zhang and Smith (2017), and Zhao and Jing (2019) for a history of China's official aid institutions.

icy banks were established to help provincial governments finance infrastructure, support local economic growth, and close fiscal gaps (Chen, 2024). As part of China's broader decentralization process, branches were established in provincial capitals and major port cities to serve as intermediaries between local governments and capital. During the domestic development boom, it was these branches, not headquarters in Beijing, that financed most local development initiatives.

This branch-based model also underpins the banks' international operations. Headquarters raises capital—primarily via bond issuance—and allocates funds to branches, but branches themselves identify projects, negotiate deals, and oversee day-to-day administration both at home and abroad. Interviews with former bank employees confirm that foreign aid is indeed primarily administered by provincial branches. Each branch maintains a domestic arm to finance local development and an international arm that administers the branch's foreign aid and overseas loans. Abroad, branches are assigned a set of countries, typically based on geographic or historical ties, and finance projects primarily within its assigned portfolio. Internal CDB documents corroborate this division of labor (Table A1). For example, CDB's Guangxi branch oversees all lending and aid to Cambodia, Vietnam, Sri Lanka, and the Maldives, meaning that CDB sovereign loans to these countries are drawn entirely from capital allocated to Guangxi. Project-level data—for example, CDB's loan to Vietnam's Bac Me Hydropower Plant came from its Guangxi branch (AidData Record ID 64402)—map to these branch assignments. This arrangement creates a decentralized foreign aid system in which provincial branches, not central agencies, play the leading role.

Bank branches in China operate under procedures that leave them highly exposed to provincial political influence. In particular, they follow a request-based model, reviewing proposals from provincial governments and their state-owned firms rather than scouting projects independently (Ru, 2018). This operating model reflects the banks' original mandate to serve local development: branches wait for provincial actors to propose projects they believe will promote local growth. This kind of access has enabled career-motivated politicians to strategically deploy bank financing for infrastructure and industrial development, boosting local economic performance and their own promotion prospects (Shih, 2007; Chen, He and Liu, 2020; Ru, 2018; Gao, Ru and Tang, 2021).[11]

The same logic now extends overseas. Abroad, the same provincial governments and state-owned firms that drive local development also co-develop projects with recipient governments and submit them to the relevant branch for financing (Ru, 2018; Brautigam, 2009; Zhang and Smith, 2017). Branches themselves rarely scout projects abroad, maintain min-

[11]This dynamic has also biased credit allocation toward industries dominated by state-owned enterprises (SOEs) over private firms (Ru, 2018; Cong et al., 2019; Geng and Pan, 2024; Bulman, Yan and Zhang, 2022).

imal overseas presence, and interact with foreign borrowers primarily through Chinese contractors and provincial governments.[12] As a result, China's foreign aid system is deeply embedded in provincial politics, giving provincial governments and firms substantial leverage over aid allocation, just as they do over domestic credit.

A clear illustration of the active role that provincial governments play in China's foreign aid program can be seen in Zambia. The largest Chinese construction firm in the country, China Jiangxi International Corporation (CJIC), is a state-owned enterprise from Jiangxi province that first entered Zambia through aid projects in the 1980s.[13] CJIC maintains close ties with the Jiangxi provincial government and regularly collaborates with the Zambian government on infrastructure projects. When the Zambia Development Agency met with a Chinese delegation to prepare for the launch of the Jiangxi Multi-Facility Economic Zone, the delegation was led by Jiangxi provincial officials—rather than representatives from Beijing.[14] As one Zambian official explained,

> CJIC came here first and led the provincial government in Jiangxi to focus on Zambia because of how big they are here. Now, most Chinese investments in Zambia are from Jiangxi, and the provincial government plays an important role in helping CJIC, bringing in more investments from Jiangxi firms, and finding financing for their projects.[15]

Consistent with this account, CDB Jiangxi is the branch assigned to Zambia, and trade financing for Zambian projects has also been issued by CHEXIM's Jiangxi branch.[16]

The provincially decentralized nature of China's aid system therefore embeds foreign aid allocation within provincial political economies. Because the same bank branches that finance domestic growth also allocate foreign aid, the politicians responsible for local economic performance also gain influence over overseas projects. With aid decisions made by provincial branches rather than diplomats in Beijing, provincial politicians can treat foreign aid much like domestic credit. In effect, this system elevates provincial politicians and their firms as central actors in China's foreign aid program, giving them the opportunity to deploy

[12] CDB maintains 11 overseas branches, but interviews suggest they are lightly staffed, wield little institutional authority, and remain under the control of provincial branches. For example, the CDB office in Jakarta has only a handful of employees, all seconded from the Xiamen branch, and loan review, approval, and finance for Indonesia are conducted entirely in Xiamen. Multiple interviewees confirmed that China's loan for the Jakarta–Bandung high-speed rail project was ultimately issued by the Xiamen branch, illustrating how even high-profile international projects are administered provincially. See also https://www.yidaiyilu.gov.cn/p/0D0LULN1.html (last accessed May 3, 2025).

[13] https://www.cjic.cn/enhonour.jhtml (last accessed May 3, 2025).

[14] https://www.zda.org.zm/china-jiangxi-delegation-visits-zda-in-the-wake-of-presidents-visit-to-china/ (last accessed May 3, 2025).

[15] Interview with director at Zambia Development Agency, 11 October 2024.

[16] https://www.econstor.eu/bitstream/10419/248179/1/sais-cari-wp51.pdf (last accessed May 3, 2025).

aid strategically to advance their domestic career goals—an incentive I examine in the next section.

3.3 A Theory of Career Incentives and Foreign Aid

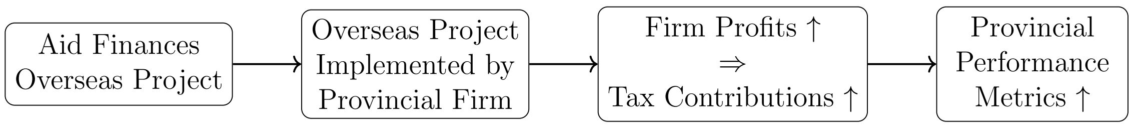
Because China's policy banks operate through provincial branches using request-driven procedures, provincial politicians—who face strong promotion incentives to boost economic performance—can leverage foreign aid much as they do domestic credit. In this section, I develop a theory for why provincial politicians, whose careers depend on local economic performance at home, may be incentivized to manipulate foreign aid to finance projects that are overseas. I argue that foreign aid can deliver political returns similar to domestic investment: by financing overseas projects executed by firms registered in their province, politicians boost those firms' profits and the tax revenue collected on those gains—key metrics in politicians' performance evaluations. Figure 2 illustrates the causal flow of the mechanism linking foreign aid to provincial career incentives.

Foreign aid has long been used as a policy instrument for pursuing overseas commercial opportunities. Beyond its geopolitical role, aid can stimulate demand for domestic goods and has often been used by donors for export promotion (Younas, 2008; Nunn and Qian, 2014; Barthel et al., 2014; Dreher et al., 2021). Chinese aid reflects this practice through its request-driven, tied-aid system: overseas projects financed with Chinese aid generally require Chinese firms to serve as contractors or suppliers (Brautigam, 2009). Interviews with bank officials, firm employees, and development practitioners in recipient countries indicate that the firm that identifies and co-develops a project with the recipient government is usually the one that implements it, ensuring that the resulting commercial gains accrue to the initiating firm. Aid-financed projects implemented by Chinese firms therefore translate directly into higher corporate profits for those firms.

The specific mechanism linking foreign aid to the career incentives of provincial politicians operates through the tax system.[17] Tax revenue is one of the most important criteria for politicians' promotion prospects, appearing on politicians' performance evaluation sheets since the late 1990's (Zuo, 2015; Li and Yu, 2023). Compared to other economic indicators such as GDP growth or industrial output, tax revenue is also less noisy, harder to manipulate, and supervised by central authorities (Lü and Landry, 2014). Provincial politicians are expected to meet annual tax quotas set by their superiors, and strong fiscal performance is a key signal of a healthy local economy, particularly in a system where persistent fiscal deficits are a crucial concern (Han, Li and Oi, 2022). Consequently, provincial tax revenue

[17] See Lin (2022) for an overview of China's public finance and tax system.

Figure 2: Mechanism linking foreign aid to provincial career incentives: Overseas aid projects implemented by Chinese firms increase profits and tax contributions paid to their province of registration, enhancing promotion-relevant performance metrics of the provincial politicians governing that province.



is a coveted, promotion-relevant metric that provincial politicians seek to maximize.

One of the most important sources of provincial tax revenue is the corporate income tax (CIT, 企业所得税) that firms pay on their annual profits.[18] CIT revenue is split 60/40 between the central and local governments, and the locally retained 40% is a key metric in provincial politicians' fiscal performance.[19] In China's tax system, firms pay CIT to the province where they are legally incorporated; for example, a construction firm registered in Yunnan pays CIT to the Yunnan government. This rule applies to the contractors of overseas aid-funded projects, which are primarily the provincial subsidiaries of centrally owned state-owned enterprises (SOEs) (Chan, 2022).[20] While CIT paid by the parent companies of central SOEs is remitted entirely to the central government, the profits earned by their provincially incorporated subsidiaries directly contribute to provincial tax revenue.[21] As such, aid projects implemented by provincially-registered firms generate commercial profits and fiscal gains in the province, directly enhancing provincial politicians' performance on

[18] Corporate income tax is also known as enterprise income tax.

[19] Under China's 1994 tax reforms, which introduced the tax-assignment system (分税制), taxes are divided into three categories: those remitted entirely to the central government, those retained entirely by local governments, and shared taxes, such as the CIT, which split between the two.

[20] Although media coverage of Chinese overseas projects often name the parent company of large central SOEs, in practice, their subsidiaries are the main operators abroad, responsible for scouting, co-developing, and implementing projects (Chan, 2022). For instance, the Indonesian high-speed railway project attributed to China Railway was in fact built by its Third and Fourth Bureaus, which are separately incorporated in Shanxi and Anhui, respectively. According to interviewees from central SOEs, parent companies primarily serve a coordinating role for their subsidiaries, corroborating findings from Chan (2022). By some estimates, only one-quarter of aid-funded projects are implemented by the parent companies of central SOEs (Chen, 2020).

[21] According to the *Administrative Measures for Consolidated Enterprise Income Tax Collection for Cross-Regional Operations* (《跨地区经营汇总纳税企业所得税征收管理办法》), second-tier subsidiaries (子公司) of central SOEs are legally independent entities that pay CIT locally, whereas branches (分公司) without independent legal status file CIT returns with the parent company in Beijing. Interviews with SOE employees and local tax officials confirm that, despite ultimate central control, central-SOE subsidiaries pay CIT to their province of registration.

promotion-relevant metrics.

This arrangement creates strong career incentives for provincial politicians to use foreign aid to generate overseas business opportunities for their firms. That being said, foreign aid, of course, is not the only channel through which provincial politicians can enhance their fiscal performance. As prior research shows, they can just as easily manipulate bank credit to finance domestic provincial projects, which would also generate CIT receipts. Domestic projects even offer clear advantages: they are less risky and more predictable, as politicians retain greater oversight and control over local firms and project implementation. Yet as domestic growth opportunities have contracted, both central and provincial governments have been forced to help firms to "go out" and seek profits abroad. In this environment, aid-financed overseas projects—though riskier because they involve foreign governments and other external actors—become an attractive substitute for sustaining the tax revenue that underpins politicians' promotion prospects as domestic opportunities wane.

Together, this theory generates three testable hypotheses. First, governors facing stronger promotion incentives are more likely to exert effort in facilitating aid projects overseas for local firms, as these projects provide a path to improve fiscal performance. Second, the effect of promotion incentives on aid mobilization should be strongest when domestic market opportunities are contracting, because governors turn to foreign aid as a substitute revenue source. Finally, the underlying mechanism suggests that foreign aid projects implemented by Chinese firms increase local corporate profits, which in turn raise provincial CIT receipts.

H1. Higher Promotion Incentives → More Aid

H2: Higher Promotion Incentives × Shrinking Domestic Markets → Even More Aid

H3: Aid → Firm Profit → Local Corporate Income Tax Revenue

4 Data

I study the relationship between provincial politicians' career incentives and foreign aid allocation between 2000 and 2015, the period for which I have data on both Chinese aid projects and provincial politicians. I construct a provincial-level panel dataset that combines information on Chinese aid, implementing firms, government officials, and economic indicators. Descriptive statistics are presented in Table A2.

Chinese Aid Data. Data on Chinese aid projects come from AidData's Global Chinese Development Finance Dataset, Version 3.0, which compiles all publicly identified Chinese aid projects committed between 2000 to 2021 (Dreher et al., 2021). The dataset includes projects financed by Chinese government agencies, state-owned policy and commercial banks, and state-owned firms, and provides project-level information on the commitment year, sector, financial value, loan terms, and the financing and implementing entities. Given the scope of this study, I exclude debt relief, technical assistance, scholarship programs, and aid channeled through multilateral organizations or non-governmental organizations. I restrict the sample to the 2000–2015 period for overlap with provincial politicians data.[22] The resulting dataset includes 7,807 unique aid projects worth $853 billion USD committed to 140 recipient countries. By value, 7.5% ($64 billion) of aid was financed by government agencies, 83% ($712 billion) by policy and commercial banks, and 9% ($77 billion) by SOEs. Among bank-financed projects, 80% were funded by CHEXIM or CDB, and the remaining 20% by commercial banks.

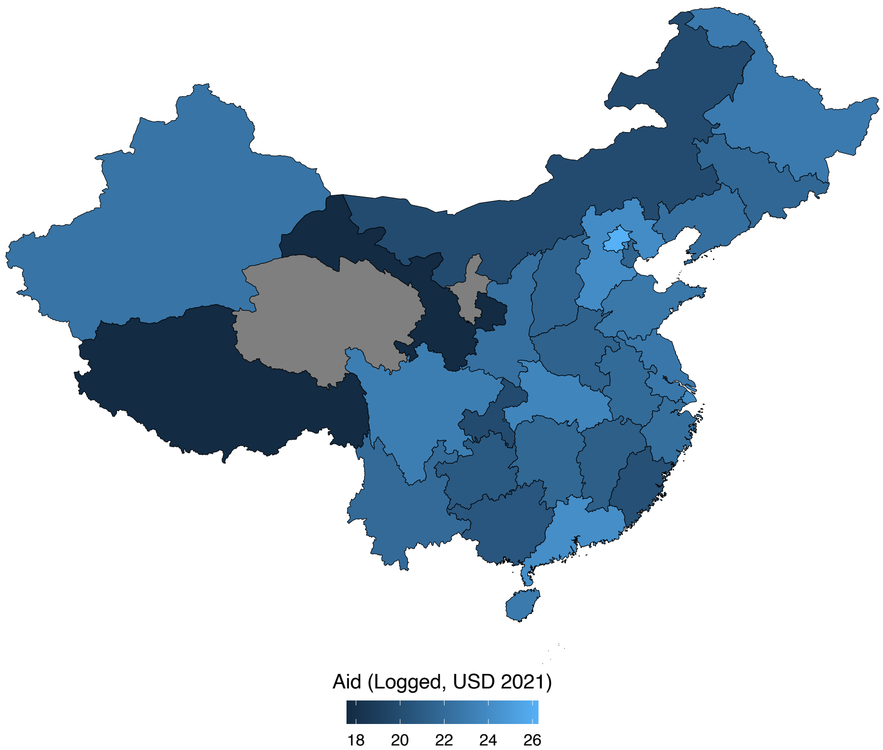
Firm Registration Data. Existing Chinese aid datasets report projects at the national level, but testing my theory requires identifying their provincial origin. I construct a provincial-level dataset by assigning each project to a province based on the registration address of its implementing firm. This assignment mechanism draws on the fact that firms pay corporate income taxes in the jurisdiction where they are registered, so their profits and tax contributions accrue to that province's fiscal balance sheet. As a result, the provincial-level dataset I construct directly maps onto the theorized mechanism by which aid benefits provincial politicians. To identify firms' registration provinces, I rely on two official sources. First, I use Ministry of Commerce (MOFCOM) records listing firms authorized to invest abroad.[23] If a firm is not listed in MOFCOM's database, I use the registration address recorded in the National Enterprise Credit Information Publicity System, China's official credit registry. Using this approach, I identify the registration province for 75% of the 711 unique firms involved in aid implementation.[24] Figure 3 shows the provincial distribution of

[22] I plan to extend the sample period to 2000–2017 in future versions of this paper. 2017 is a natural end date for this study because the Party sought to centralize foreign aid decision-making in 2018 with the creation of the China International Development Cooperation Agency (CIDCA), an executive (deputy ministerial) level agency under the State Council based in Beijing. Interviewees noted that, as part of this reform, sovereign loan approvals were moved back to headquarters in 2019. However, many have documented that most aspects of implementation have remained unchanged in practice (Zhang and Ji, 2020). My interviews corroborate this, as several noted that Beijing remains heavily reliant on the expertise of the provinces, given the limited staffing and capacity at headquarters. According to an individual familiar with debt-restructuring negotiations after Sri Lanka's 2022 default, headquarters had to enlist help from the Guangxi branch, which was assigned to Sri Lanka (see Table A1).

[23] Firms undertaking overseas investment projects exceeding USD $100 million must obtain MOFCOM approval.

[24] The remaining 184 firms are currently identified only at the conglomerate level. In future versions of this paper, I will collect information on the specific subsidiaries responsible for these projects.

Figure 3: Provincial Distribution of Chinese Aid



Chinese aid based on this assignment method.

Provincial Politicians and Economic Data. Data on provincial politicians come from the Chinese Political Elite Database (Jiang, 2018), which provides biographical and career information for all provincial governors and party secretaries from 1995 to 2015. During the sample period, the dataset covers 132 unique governors and 105 unique party secretaries. Approximately 80% of governors and 55% of party secretaries began their terms below the relevant age ceilings for promotion. Provincial economic indicators are drawn from the Finance Yearbook of China and the China Statistical Yearbook. These include measures of GDP, population size, and industrial output, as well as data on fiscal expenditures and tax revenue at the provincial level.

Table 1: Age Thresholds for Promotion Eligibility by Administrative Rank

Rank	Maximum Age for Promotion Eligibility	Mandated Retirement Age
State (正国)	67	75
Deputy State (副国)	67	70
Minister (正部)	63	65
Deputy Minister (副部)	58	60
Bureau Director (正厅)	55	55
Deputy Bureau Director (副厅)	55	55

Source: Kou and Tsai (2014)

5 Empirical Strategy

I study the effect of career incentives using a regression discontinuity (RD) design that exploits two institutional features of China's promotion system. First, each level of the administrative hierarchy is governed by an age threshold that restricts politicians' eligibility for promotion. These age ceilings are shown in Table 1. Politicians who reach the upper age limit for their current rank become ineligible for promotion to the next rank and are typically reassigned to less influential posts until the mandatory retirement age (Kou and Tsai, 2014). A second institutional feature of the promotion system is stipulated five-year terms of office. In principle, subnational politicians should hold each post for five years before they are promoted or transferred.[25]

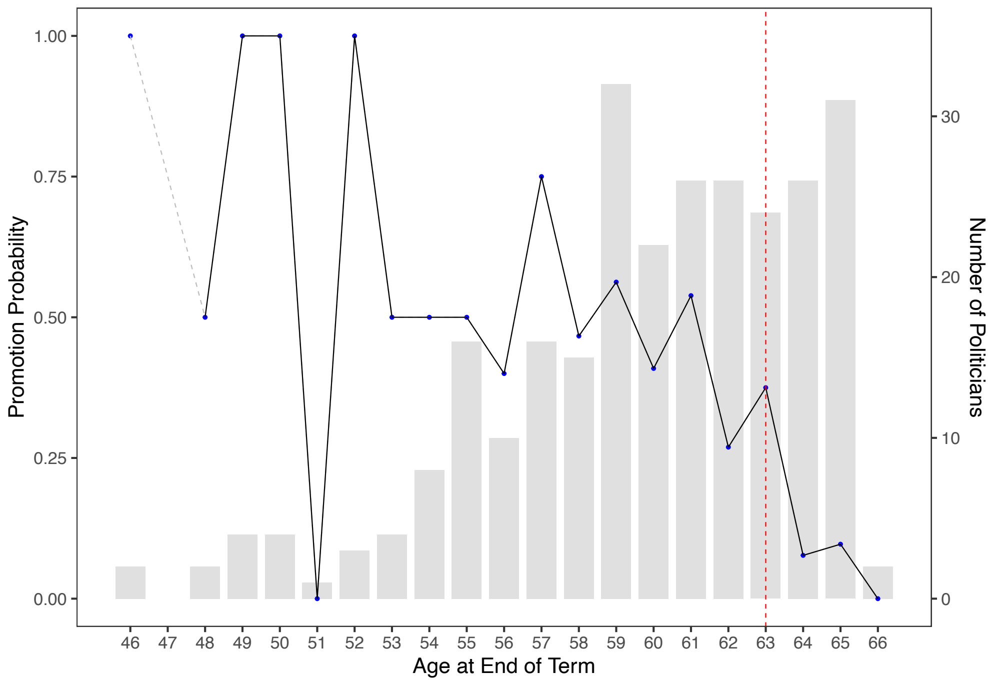
These two institutional features combined create a discontinuity in provincial politicians' forward-looking promotion incentives based on their age at the start of their term. Provincial governors and party secretaries—who are at the Minister rank—are eligible for promotion to national-level positions (State or Deputy State rank) only until age 63.[26] Figure 4 plots the promotion probability of provincial politicians by their age at the end of their term. As the figure shows, promotion probability drops sharply at age 63, suggesting that this age ceiling is strictly enforced.[27] Because a full term lasts five years, this age ceiling implies that

[25]In practice officials can be moved early (Landry, Lü and Duan, 2018), creating an incentive for older officials to sprint. Such behavior would bias my estimates downward, making it less likely to spuriously detect an effect and more likely to understate its true magnitude. I explore this feature of the promotion system in Section 6.1.

[26]At times, party secretaries of China's four provincial-level municipalities (Beijing, Shanghai, Tianjin, and Chongqing) as well as of strategically important provinces like Xinjiang and Guangdong, hold Deputy State rank. I exclude these officials and restrict the sample to those at the Minister rank.

[27]Only three provincial politicians over age 64 have been promoted since 2000, and all are exceptional cases. Guo Jinlong rose from Beijing governor to Beijing party secretary and simultaneously entered the Politburo after overseeing the 2008 Olympics. During the 2012–2013 leadership transition from Hu Jintao to Xi Jinping, Su Rong moved from Jiangxi party secretary to CPPCC vice-chairman, and Zhao Hongzhu,

Figure 4: Promotion Probability of Provincial Politicians by Age at End of Term



Note: Promotion is defined as being promoted to a Deputy State or State rank or, in the case of governors, to a provincial party secretary. Sample is limited to politicians at the Minister rank. Grey dashed line indicates values interpolated for ages with no politicians.

politicians appointed at age 58 or younger can complete a full term while remaining eligible for promotion, and thus face strong career incentives during their tenure.[28] In contrast, those appointed after age 58 know they will age out of eligibility before completing a full term and therefore face weaker career incentives at the outset. I leverage the institutional discontinuity at age 58 in politicians' age-at-appointment to estimate the causal effect of promotion incentives on the allocation of Chinese aid.[29]

I estimate the following local linear regression:

$$Aid_{it} = \alpha + \tau \mathrm{PE}_{it} + \beta_1 \mathrm{Age}_{it} + \beta_2(\mathrm{PE}_{it} \times \mathrm{Age}_{it}) + \gamma \mathbf{Z}_{it} + \mu_i + \nu_t + \varepsilon_{it}, \tag{1}$$

where the outcome variable, Aid_{it}, is the logged value of Chinese aid projects (in constant 2021 USD) announced in year t and implemented by Chinese firms registered in province i. The treatment variable, promotion eligibility (PE_{it}), is a binary indicator equal to 1 if the province's governing politician began their term at age 58 or younger, and 0 otherwise. Correspondingly, the running variable is the politician's age margin relative to the 58-year threshold in the year of appointment. This specification allows the relationship between age and aid allocation to vary on either side of the cutoff. The coefficient τ captures the discontinuous change in aid allocation at the threshold.

The key identifying assumption underlying an RD design is that potential outcomes evolve smoothly around the threshold such that any discontinuity reflects the causal effect of entering office with stronger promotion incentives. A central concern in this setting, however, is that provincial politicians are appointed by central authorities and not randomly assigned. For instance, older leaders might be strategically placed in certain provinces based on political priorities, competence, or local needs. If such unobserved factors are correlated with age-at-appointment and also influence aid outcomes, comparisons across the cutoff could conflate promotion incentives with underlying differences in politicians or provinces.

To address concerns about the non-random assignment of politicians, I embed the RD in a panel framework that exploits variation in age-at-appointment among politicians assigned to the same province in different years. This approach is intended to ensure that politicians just below and above the cutoff are comparable in both their own characteristics and the

Xi's successor in Zhejiang, was promoted to the second-highest post in Xi's anti-corruption agency.

[28]While promotions could occur before completing a full term, this is not guaranteed *ex ante*; politicians must therefore treat their current post as their final opportunity for advancement.

[29]An alternative approach would exploit the sharp discontinuity at age 63 directly created by the age ceiling. However, I use age-at-appointment rather than current age because it better captures forward-looking promotion incentives, which are determined *ex ante*. Since I am interested in how incentives shape behavior during a politician's term, age-at-appointment provides a more accurate measure. Nonetheless, I also estimate an RD using the age 63 threshold and show robustness to this alternative specification in Section 6.1.

provinces they govern, aside from their promotion-eligibility status. The identifying variation therefore comes from comparing politicians who enter the same province just below versus just above the age 58 cutoff. Province fixed effects (μ_i) absorb time-invariant characteristics that shape baseline aid levels, while year fixed effects (ν_t) capture national trends and shocks in aid flows. I also control for time-varying provincial characteristics ($\mathbf{Z}_{it}$), including logged GDP per capita, logged population, and lagged GDP growth in robustness specifications. Standard errors are clustered at the official-year level to reflect the structure of the assignment variable, and I show robustness to alternative clustering at the province-year level.

The identifying assumption is that, within provinces, assignment of politicians just above and just below the age 58 threshold is as good as random with respect to unobservable characteristics that affect aid allocation. While age-at-appointment may correlate with latent traits such as ambition or competence, the sharp cutoff introduces quasi-random variation in promotion incentives. Unless these unobservables change discontinuously at exactly age 58—a strong assumption—such selection would not bias the RD estimates. As in standard RD designs, the critical requirement is that potential outcomes evolve smoothly with the running variable around the threshold. In the panel setting, this assumption applies to residualized aid after conditioning on fixed effects. Under this assumption, any discontinuous change in aid allocation at the cutoff can be attributed to differences in promotion incentives.

I conduct two empirical checks to assess the plausibility of the identification strategy: one to test for manipulation of the running variable and another to assess covariate balance across the threshold. First, I test whether politicians can manipulate their assignment relative to the cutoff by examining the continuity of the running variable, age-at-appointment. Figure A1 plots the number of politicians by age margin and reports results from a formal density test using local polynomial methods (Cattaneo, Jansson and Ma, 2020).[30] I find no statistically significant discontinuity in the density at the threshold ($p = 0.196$), consistent with the institutional reality that appointments are determined by central Party authorities rather than politicians themselves. Given the discrete nature of the assignment variable, I also conduct binomial tests comparing the number of politicians just below and just above the threshold across symmetric bandwidths (Table A3). While imbalances appear in wider bandwidths—unsurprising given that no politician is appointed after age 63—these differences disappear in narrower windows. For bandwidths of 2 to 4 years, the density remains balanced, supporting the continuity assumption in the estimation window. Based on these results, my main specification uses a ±3-year bandwidth, with robustness checks across alternative windows that satisfy the continuity assumption.

[30] Continuity-based density tests such as McCrary (2008) remain valid in discrete settings with sufficiently many mass points; see Cattaneo, Idrobo and Titiunik (2024).

Second, I test for selection on observable characteristics by conducting balance tests on predetermined covariates. Specifically, I re-estimate Equation 1 using observable characteristics measured before appointment as the outcome. These include politician attributes (e.g., education, gender, prior experience, party membership) and provincial economic indicators (e.g., GDP per capita, population, growth, fiscal expenditures, tax revenue), averaged over the 1, 3, and 5 years prior to appointment. As shown in Figure A2, I find no statistically significant discontinuities in these covariates across the threshold once province and year fixed effects are included. This suggests that both the characteristics of politicians and the provincial economic conditions they inherit are balanced across the cutoff, consistent with quasi-random assignment of promotion eligibility within provinces over time. In contrast, in specifications without fixed effects, there are significant imbalances in provincial GDP per capita, fiscal revenue, and tax revenue—highlighting the importance of conditioning on time-invariant provincial characteristics and national trends. These checks lend support to the identification strategy and mitigate concerns about selection bias driving the results.

Under these conditions, the RD estimator τ identifies the causal effect of promotion eligibility at the cutoff.[31] More specifically, it captures the causal effect of entering provincial office just below versus just above age 58, comparing politicians who differ only in whether they remain eligible for promotion through a full five-year term. I interpret this as the effect of stronger promotion incentives for politicians at the cutoff.

6 Results

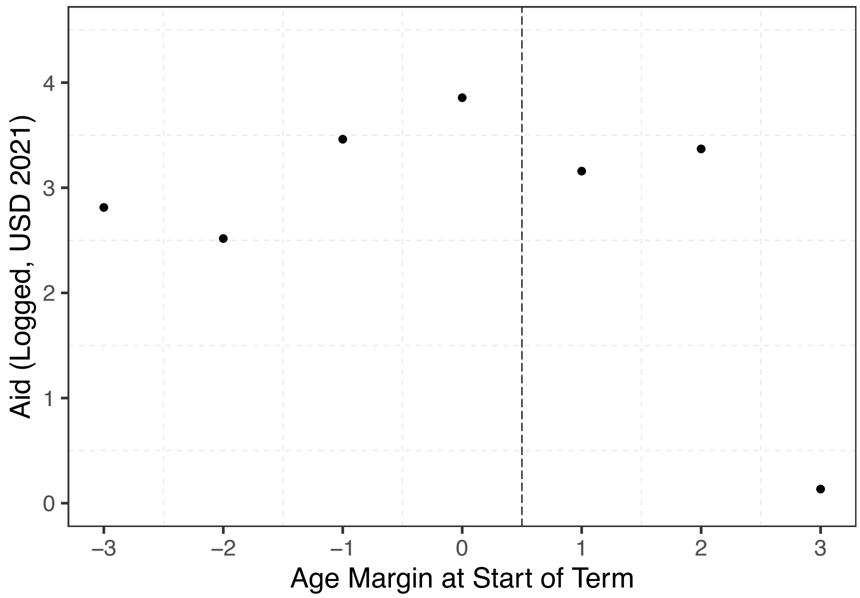
I structure the results in three parts. I begin by testing the main hypothesis that provincial politicians with stronger promotion incentives allocate more foreign aid ($H1$). Second, I assess heterogeneity in this effect across provincial economic conditions ($H2$). Finally, I investigate the underlying mechanism that aid increases corporate profits and corporate income tax revenue ($H3$).

6.1 Promotion Incentives and Foreign Aid Allocation

Do promotion-eligible provincial politicians allocate more foreign aid while in office? Figure 5 provides descriptive evidence by plotting residualized aid allocations against the age

[31] Though I refer to the effect as a local treatment effect at the cutoff, the estimand can also be interpreted as an intention-to-treat (ITT) effect: the causal effect of being eligible for promotion after a full term, regardless of whether eligibility fully translates into stronger incentives in practice. Since I do not observe actual incentive intensity, I do not estimate a fuzzy RD. Instead, I treat promotion eligibility as a sharp and plausibly exogenous shift in officials' incentive structures.

Figure 5: Effect of Promotion Eligibility on Aid



Note: Logged aid values are aggregated by age margin and de-meaned by subtracting province and year fixed effects.

margin at which provincial governors are appointed. The horizontal axis shows the politician's age-at-appointment relative to the age 58 cutoff, with negative values indicating that the politician entered office young enough to serve a full five-year term and remain eligible for promotion. The vertical axis reports the average residualized aid committed across politicians within a given age margin, after removing province and year fixed effects. The figure shows a modest drop in aid allocations just above the eligibility threshold, consistent with the hypothesis that promotion-ineligible politicians allocate less aid due to weaker career incentives. Notably, governors appointed three years above the cutoff at age 61 allocate almost no aid on average, suggesting that those with little chance of promotion are significantly less likely to deploy foreign aid.

Table 2 evaluates this relationship formally using the RD approach described above. I report results separately for provincial governors and party secretaries because their roles in provincial economic governance differ in ways that are central to my theory. Party secretaries are the highest-ranking provincial politicians, overseeing political and personnel affairs, while governors are the administrative heads of provincial governments responsible for day-to-day economic management. One could imagine that party secretaries, as the first in command, might have greater authority and influence over all provincial decisions, including aid allo-

Table 2: RD Estimates of Effect of Promotion Eligibility on Aid, 2000–2015

	Aid (Logged, USD 2021)			
	Governors		Party Secretaries	
	(1)	(2)	(3)	(4)
Promotion Eligibility	1.576**	2.302**	3.697	3.117
	(0.721)	(0.919)	(2.587)	(2.594)
Mean(y_{it})	13.793	14.456	11.814	12.231
No. Provinces	29	29	27	26
Observations	321	283	262	223
Start Age Coverage	55-61	55-61	55-61	55-61
Province and Year FE	Yes	Yes	Yes	Yes
Controls	No	Yes	No	Yes

Notes: Robust standard errors clustered by official and year are reported in parentheses. Promotion eligibility indicates officials who begin office at age 58 or younger, and the running variable is the official's age-at-appointment relative to 58. All models use a local linear specification that allows for different slopes on either side of the age threshold. Controls include GDP per capita (logged), population (logged), and lagged GDP growth. *p<0.1; **p<0.05; ***p<0.01

cation. If aid allocation simply reflected general political influence, leadership capacity, or the ability of senior politicians to mobilize resources, we would expect to see similar patterns for party secretaries. By contrast, my theory predicts that the effect should be concentrated among governors, because they face direct, performance-based career incentives tied to fiscal and economic outcomes. This expectation aligns with the existing literature, which finds that the positive association between economic performance and promotion holds more consistently for provincial governors (Sheng, 2022; Chen and Kung, 2019), whereas there is general consensus that party secretaries' promotions are largely unaffected by economic performance (Chen and Kung, 2019; Choi, 2012; Choi, Givens and MacDonald, 2021; Landry, 2008). Results for party secretaries therefore serve as a placebo test, helping to distinguish whether the observed relationship reflects career-driven behavior or simply a general effect of having a powerful provincial leader.

Columns 1–2 of Table 2 report the RD estimates for provincial governors. In the baseline panel specification in Column 1, governors who begin their term at age 58 allocate 1.575 log units more aid than those who begin at age 59. Adding provincial economic controls in Column 2 increases the estimate to 2.302 log units, which corresponds to roughly a tenfold increase in aid commitments at the promotion eligibility threshold. Given an average of about \$2 million in annual aid commitments, this implies that promotion-eligible governors just below the threshold allocate nearly \$20 million more aid than their promotion-ineligible counterparts just above it. These results remain robust across alternative RD specifications, as discussed below.

Columns 3–4 report the corresponding RD estimates for party secretaries. The point estimates are positive but not statistically significant, indicating no consistent relationship between promotion eligibility and foreign aid allocation for this office.[32] This null effect is consistent with the idea that party secretaries' career advancement is less systematically tied to economic performance than that of governors. Alternatively, although party secretaries hold ultimate political authority in the province, they may exercise less direct control over economic policy instruments such as foreign aid. In any case, within provinces, foreign aid allocation does not systematically increase when the top office is held by a promotion-eligible party secretary compared to a promotion-ineligible one.

In Table 2, I use a bandwidth of ± 3 years around the promotion eligibility threshold to ensure equal support on both sides of the cutoff, given that the maximum observed age-at-appointment is 61. Because RD estimates can be sensitive to model choice, I follow standard practice in RD analyses and assess robustness to alternative bandwidths and specifications. Results are reported in Table 3 for governors and Table A4 for party secretaries. Column 1 replicates the main panel RD specification with a ± 3 bandwidth but with standard errors clustered at the province-year level instead to account for potential within-province correlation. Columns 2 and 3 use narrower (± 2) and wider (± 4) bandwidths, corresponding to windows where the continuity assumption is supported, as indicated by balanced age-at-appointment distributions in the binomial density tests (see discussion of Table A3 in Section 5). Column 4 implements the procedure of Calonico, Cattaneo and Titiunik (2014), which applies a triangular kernel and selects bandwidths that minimize the mean squared error (MSE) of the RD estimator. I allow for asymmetric bandwidths on either side of the cutoff, recognizing that politicians' career incentives may shift differently above and below the promotion eligibility threshold.

As shown in Table 3, the estimated effect of promotion eligibility at the cutoff is consis-

[32] Although the point estimates for party secretaries in Columns 3–4 are larger in log units than for governors in Columns 1–2, the implied dollar effects are actually smaller once rescaled to the baseline means. Estimates for party secretaries in Columns 3–4 imply about \$4-5 million in additional aid, whereas the estimate for governors in Column 2 is nearly \$20 million. Moreover, since party secretaries and governors are in office at the same time, the placebo regression for party secretaries may partially capture correlated governor effects, inflating coefficients without yielding consistent or significant relationships. In a pooled specification that jointly estimates both discontinuities, the coefficient on governor eligibility is positive and significant ($\hat{\beta} = 3.31$, $p = 0.052$), while the corresponding coefficient for party secretaries is small, negative, and insignificant ($\hat{\beta} = -0.08$, $p = 0.97$).

Table 3: Robustness of RD Estimates for Provincial Governors

	Aid (Logged, USD 2021)			
	(1)	(2)	(3)	(4)
Promotion Eligibility	2.302***	3.434***	0.645*	2.893***
	(0.516)	(0.729)	(0.353)	(0.480)
Mean(y_{it})	14.456	13.709	13.420	13.562
Observations	283	230	340	212
No. Provinces	29	29	30	29
Bandwidth	± 3	± 2	± 4	$[-3, +2]$
Start Age Coverage	55-61	56-60	54-61	55-60
Kernel	Uniform	Uniform	Uniform	Triangular
Province and Year FE	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes
Cluster	Province-Year	Official-Year	Official-Year	Official-Year

Notes: Cluster-robust standard errors reported in parentheses. Promotion eligibility indicates officials who begin office at age 58 or younger, and the running variable is the official's age-at-appointment relative to 58. All models use a local linear specification that allows for different slopes on either side of the age threshold. Column 4 uses a triangular kernel and selects the bandwidth using the MSE-optimal procedure proposed by Calonico, Cattaneo and Titiunik (2014). Controls include GDP per capita (logged), population (logged), and lagged GDP growth. *p<0.1; **p<0.05; ***p<0.01

tently positive and statistically significant for provincial governors across all specifications. Point estimates range from 0.645 to 3.434 log units, implying an increase in aid commitments of approximately $600,000 to $27 million depending on the sample mean aid level within each specification. Using the average aid level across the full dataset, the estimated effect at the cutoff ranges from roughly $286,000 to $9.5 million. The largest effect appears in Column 2, which uses the narrowest bandwidth, consistent with the idea that career incentives are strongest for politicians just below the promotion-eligibility threshold. By contrast, the smaller estimate in Column 3, which covers a broader range of politicians, suggests that the effect of promotion incentives diminishes as the distance from the threshold increases. The null pattern for party secretaries also persists across specifications, as shown in Table A4.[33]

One potential concern with the RD design is that the possibility of early promotions may blur the age-at-appointment cutoff. Although governors are formally appointed to five-year terms, in practice they can be promoted early (Landry, Lü and Duan, 2018), creating incentives for older politicians to "sprint" since only an early promotion would allow them to move to a higher rank (Kou and Tsai, 2014).[34] However, such behavior would simply

[33] Although Column 2 of Table A4 yields a statistically significant coefficient, the lack of consistency across specifications suggests that promotion incentives are less systematically associated with foreign aid allocation for party secretaries than for governors.

[34] As illustrated in Figure A3, there is some evidence of sprinting among older politicians. Those who start

bias the RD estimate toward zero, by introducing high-incentive behavior to the right of the cutoff that attenuates the discontinuity at age 58. The positive effects estimated in the main design are therefore unlikely to be spurious and may instead understate the true magnitude of the relationship.

To further probe whether promotion incentives drive the results, I test for an "incentives drop-off" effect once governors past the promotion eligibility age ceiling. In Table A5, I implement an alternative RD using current age as the running variable, defining ineligibility as being above the age ceiling of 63. Politicians above 63 are no longer eligible for promotion, so their career incentives should decline sharply. Column 1 uses the full governor panel, while Column 2 restricts the sample to years in which governors are within two years of the ceiling. In both cases, the coefficient on promotion ineligibility is negative, as expected, though imprecisely estimated. The steep and significant negative interaction term in Column 2 indicates that aid allocation declines more sharply with each additional year once governors pass the ceiling, consistent with an incentives drop-off effect. Column 3 restricts the sample to governors who began office at age 58 or younger—i.e., those who initially had time to serve a full five-year term while eligible—while Column 4 further limits this group to the largest bandwidth used in the main RD. For this subset, the coefficient on promotion ineligibility is negative and statistically significant, indicating that governors who begin with strong incentives allocate substantially less aid after passing the ceiling. These results support the interpretation that both the entry (58) and exit (63) thresholds create discontinuities in career incentives that, in turn, drive shifts in aid allocation.

Overall, these results provide strong support for Hypothesis 1: promotion-eligible governors allocate significantly more foreign aid than their promotion-ineligible peers. Importantly, this pattern does not hold for provincial party secretaries. The absence of a consistent effect for party secretaries reinforces the proposed mechanism that foreign aid is used to enhance performance on economic metrics relevant for governor promotion. This asymmetry between the two offices strengthens the interpretation that the observed effects reflect career-driven behavior rather than a generic function of provincial authority

their term older than 58 allocate a greater share of their total aid in the first year of office, with allocations dropping sharply in the final year when they age out of eligibility. By contrast, officials who enter at age 58 or younger distribute aid more evenly across their term. The difference is most pronounced in year 5, when promotion-eligible governors remain under the age ceiling and can still be promoted, whereas ineligible governors have aged out. In that year, the share of aid allocated by ineligible governors drops sharply, while eligible governors maintain or slightly increase allocations, consistent with sustained promotion incentives.

6.2 Economic Conditions and the Strength of Promotion Incentives

Having established that promotion-eligible governors allocate more aid on average, I now test whether this effect is stronger in provinces with limited domestic opportunities, as predicted by Hypothesis 2. When domestic markets contract, foreign aid becomes a riskier but viable substitute for generating the firm profits and tax revenue that underpin a governor's promotion prospects. By contrast, when the local economy is performing well, the marginal career return to using aid is lower, and the effect of promotion eligibility should weaken.

I assess this heterogeneity using two complementary strategies, each targeting a different aspect of the question: a regression discontinuity (RD) design conditioned on inherited provincial growth and a two-way fixed effects (TWFE) model that exploits over-time variation in lagged GDP growth within provinces. The RD approach tests whether promotion incentives are stronger in provinces with long-term structural constraints, measured as the average GDP growth rate in the five years preceding a governor's term (i.e., under their predecessor).[35] The resulting estimates capture whether governors entering structurally weaker economies exhibit a stronger incentive to deploy foreign aid. By contrast, the TWFE approach tests whether promotion-eligible governors deploy foreign aid more aggressively in response to short-term economic downturns during their tenure. In other words, is aid also a flexible tool that governors can exploit? Together, these two types of empirical evidence help clarify the role of structural and short-term career pressures for foreign aid allocation.

Columns 1–2 of Table 4 report the RD estimates estimated separately for provinces with low and high domestic opportunity. I classify provinces as low- or high-growth based on whether the average pre-tenure GDP growth under their predecessor is below or above the sample median. The effect of promotion eligibility is large and statistically significant in structurally constrained provinces (Column 1) but small and insignificant in provinces with stronger growth fundamentals (Column 2). This pattern is consistent with the idea that, in provinces with fewer domestic growth opportunities, governors face greater pressure to find alternative revenue-generating sources, such as foreign aid.

Columns 3–5 of Table 4 report TWFE estimates of how career incentives interact with annual economic conditions to shape aid allocation. I interact promotion eligibility with lagged GDP growth in the previous year to test whether the marginal effect of career incentives depends on evolving economic conditions during a governor's tenure. A negative coefficient on

[35] This builds on prior work showing that politicians are evaluated not only on their own performance but also relative to their immediate predecessors (Chen, Li and Zhou, 2005).

Table 4: Effect of Promotion Eligibility by Lagged GDP Growth

	Aid (Logged, USD 2021)				
	RD		TWFE		
	(1)	(2)	(3)	(4)	(5)
Promotion Eligibility	7.406**	1.086	7.241**	6.084*	0.880
	(3.436)	(1.769)	(3.349)	(3.418)	(3.461)
GDP Growth $(t-1)$	-2.066	72.109	53.323**	38.334*	39.934
	(84.533)	(43.704)	(18.192)	(19.243)	(24.865)
Promotion Eligibility × GDP Growth $(t-1)$			-68.939**	-59.712*	-61.599*
			(29.013)	(29.815)	(34.788)
Pre-Tenure GDP Growth					-67.247*
					(34.698)
Promotion Eligibility × Pre-Tenure GDP Growth					49.102
					(37.852)
Mean(y_{it})	13.778	14.789	13.089	13.089	13.089
No. Provinces	23	22	30	30	30
Observations	126	137	450	450	450
Province and Year FE	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	No	Yes	Yes
Sample	Low Growth Provinces	High Growth Provinces	All	All	All

Notes: Robust standard errors clustered by official and year are reported in parentheses. Promotion eligibility indicates officials who begin office at age 58 or younger. The RD sample uses a bandwidth of ±3 years around the age threshold. Columns 1–2 restrict the RD sample to provinces with below- and above-median GDP growth in the five years prior to governor's entry. Columns 3–5 uses the full panel. Controls include GDP per capita (logged), population (logged), and lagged GDP growth. Column 5 additionally includes the average GDP growth in the five years prior to a governor's entry. *p<0.1; **p<0.05; ***p<0.01

the interaction term indicates that promotion-eligible governors allocate more aid in response to weak short-term growth, relative to their promotion-ineligible counterparts. Column 3 presents the baseline interaction model, Column 4 adds controls for provincial GDP per capita and population, and Column 5 further includes pre-tenure GDP growth to account for the inherited structural constraints discussed above.

Across all three specifications, the interaction between promotion eligibility and lagged GDP growth is negative and statistically significant, indicating that promotion-eligible governors allocate more aid in years following slower growth than their older peers. Estimates range from –58.8 to –68.9, which implies that, all else equal, aid nearly doubles for each percentage-point decline in GDP growth when a governor is promotion-eligible. Substantively, this translates to a marginal increase of $388,000 to $484,000 in aid per percentage point drop in GDP growth, relative to the sample mean of $485,000. Once inherited economic conditions are included in Column 5, the main effect of promotion eligibility becomes insignificant, while the interaction with lagged GDP growth remains robust. This shift underscores that the career incentive to allocate aid is activated by the *need* to deliver growth under economic stagnation—not merely the capacity to do so.

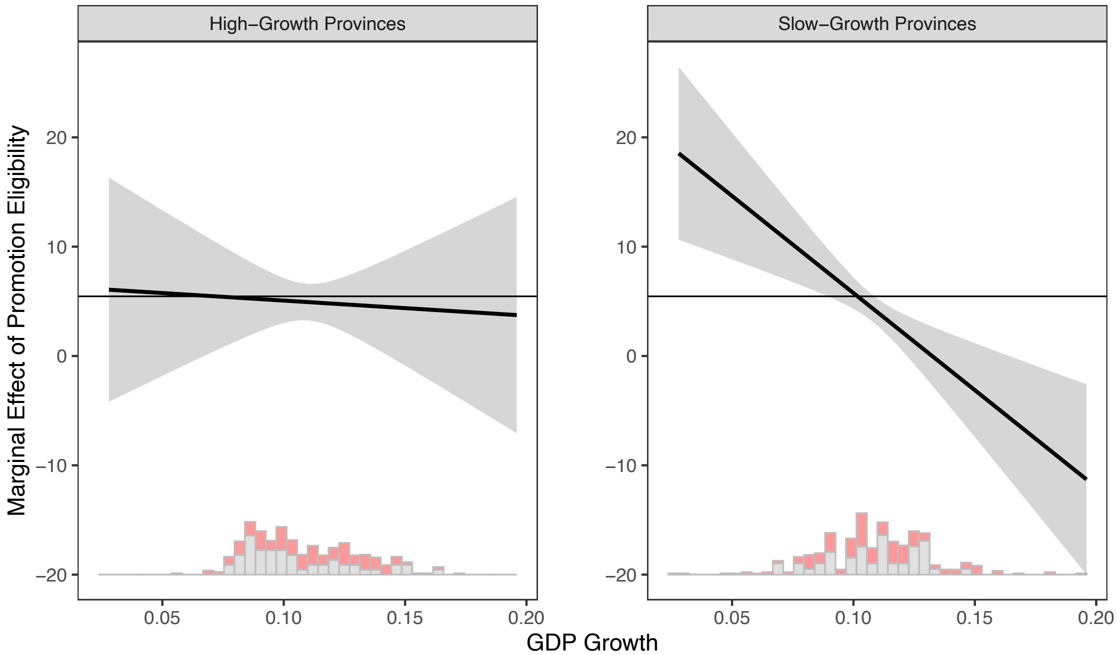
In addition, structurally weaker provinces appear to rely more on foreign aid overall, suggesting that governors turn to aid more readily when conventional domestic growth channels are constrained. In Column 5, the coefficient on inherited growth is negative and statistically significant, indicating that provinces with lower long-term growth allocate more aid on average. This pattern is consistent with the idea that shrinking domestic markets limit the availability of domestic economic tools, prompting governors to rely more heavily on external instruments like foreign aid. However, the interaction between promotion eligibility and pre-tenure GDP growth is indistinguishable from zero, suggesting that inherited economic conditions do not directly amplify the career incentive—unless they are accompanied by economic underperformance during the governor's own tenure. This suggests that while structural constraints shape the set of available policy instruments, it is the governor's own record of performance that ultimately drives career incentives.

To visualize the interplay of structural and short-term economic conditions, Figure 6 plots the marginal effect of promotion eligibility on aid across the observed range of GDP growth, separately for provinces with high and low inherited growth. In structurally weak provinces, promotion-eligible governors allocate more aid when short-term growth is low, but the effect diminishes, and eventually turns negative, as the economy improves. By contrast, in provinces with strong inherited growth, the marginal effect of promotion eligibility remains near zero across all levels of GDP growth. These patterns reinforce the interpretation that foreign aid is used strategically in response to poor performance, but only when the province lacks viable domestic options for stimulating growth.

As a final test, I examine whether governors face stronger career incentives when current economic performance falls short of inherited expectations. In China, politicians are not only evaluated on their own performance but also relative to their immediate predecessors, helping correct for province-specific economic trends (Chen, Li and Zhou, 2005). Underperformance should therefore intensify career pressures to deliver results. Table A6 reports TWFE estimates interacting promotion eligibility with the deviation of current GDP growth from the predecessor's five-year average. The interaction is negative and statistically significant across specifications (Columns 1–2), indicating that promotion-eligible governors allocate more aid when current growth falls short of the previous governor's performance. This effect is concentrated in structurally weak provinces (Column 3), where domestic economic opportunities are limited and reliance on external tools like foreign aid is greater. By contrast, the interaction is null in structurally strong provinces (Column 4), where underperformance may be easier to offset through conventional domestic channels.

Together, these results paint a nuanced picture of how provincial economic conditions shape the intensity of career incentives for aid allocation. Structural weakness raises base-

Figure 6: Marginal Effect of Promotion Eligibility Across Levels of GDP Growth



line reliance on aid, but promotion-eligible governors increase allocation primarily when contemporaneous growth declines—especially when their performance lags behind inherited expectations from the previous governor. The results reveal an important asymmetry: in structurally weak provinces, shrinking domestic markets amplify the incentive to use aid, while in structurally strong provinces promotion eligibility has no consistent effect. This suggests that foreign aid is not a default policy tool but a contingent instrument, deployed when domestic channels are constrained and career incentives to deliver results are high.

6.3 Foreign Aid and Local Fiscal Performance

I now turn to the mechanism linking promotion incentives and aid allocation. According to the theory, aid-financed projects generate profits for provincial firms, which in turn increase corporate income tax revenues for the provincial government (Hypothesis 3). By boosting firm profits and tax revenue, foreign aid therefore improves governors' performance on key evaluation metrics, strengthening their prospects for promotion.

I estimate the elasticity of tax revenue with respect to foreign aid using the following first-differences specification:

$$\Delta \log(\text{Tax Revenue}_{it}) = \beta \Delta \log(\text{Aid}_{it}) + \boldsymbol{\gamma} \Delta \mathbf{Z}_{it} + \nu_t + \Delta \varepsilon_{it}, \tag{2}$$

Table 5: Impact of Aid on Corporate Income Tax (CIT) Revenue

	Δ Corporate Tax Revenue			
	(1)	(2)	(3)	(4)
Δ Aid	0.000	0.002**	-0.002	-0.002
	(0.001)	(0.001)	(0.001)	(0.001)
Δ Aid × SOE Share				0.052***
				(0.013)
Mean(y_{it})	0.155	0.137	0.171	0.155
No. Provinces	30	30	30	30
Observations	450	210	240	450
Year FE	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes
Sample	All	High SOE Share	Low SOE Share	All

Notes: Robust standard errors clustered by province and year are reported in parentheses. State owned enterprises (SOE) share is the proportion of operating firms which are state-owned. Columns 2–3 restrict the sample to provinces with below- and above-median SOE share. Controls include GDP per capita (logged), population size (logged), GDP growth, and government expenditures (logged). *p<0.1; **p<0.05; ***p<0.01

where Δ denotes the year-over-year change in a variable from $t-1$ to t. This first-difference log-log specification models the percentage change in tax revenue as a function of the contemporaneous percentage change in aid, allowing for a straightforward interpretation of how responsive local tax revenue is to changes in aid flows. This approach eliminates province-specific trends and unobserved time-invariant factors.

The first-difference estimator is consistent as long as there are no omitted variables that vary within provinces from year to year which are correlated with changes in both aid and tax revenue. To address this, I control for several time-varying economic variables. These include changes in: GDP per capita to capture shifts in overall economic productivity; population size to reflect shifts in the tax base; government expenditures to proxy for other sources of fiscal stimulus that boost firm profits; and GDP growth to absorb fluctuations in broader economic conditions. Year fixed effects (ν_t) further absorb common macroeconomic shocks or national policy shifts. To be conservative, I cluster standard errors by province and year to account for serial correlation within provinces over time and potential spatial spillovers each year. All results are robust to clustering by province alone.

Table 5 reports estimates of the relationship between aid and corporate income tax (CIT) revenue—the taxes collected by provincial governments on firm profits. In Column 1, I find no statistically significant relationship between changes in aid and changes in CIT. One plausible explanation is that CIT statistics aggregate receipts across all firms in a province, but only a subset—namely, SOEs—are likely to benefit from aid-funded projects. Such aggregation may obscure aid-induced gains by pooling SOEs with other firms that do not benefit from aid-funded projects.[36]

To investigate whether the fiscal effects of aid depend on firm ownership, I examine heterogeneity by the prevalence of SOEs in each province. If aid-financed projects primarily benefit SOEs, as suggested by prior research, then any associated gains in firm profits and tax contributions should be concentrated in provinces where SOEs are more common. I test this by splitting the sample by provinces with above- and below-median SOE share, measured annually as the proportion of operating firms in a province that are state-owned. Columns 2 and 3 of Table 5 reveal stark asymmetries. In provinces with high SOE shares, a 1% increase in aid is associated with a 0.2% increase in CIT, a relationship that is positive and statistically significant. By contrast, in provinces with fewer SOEs, aid is associated with a similarly sized but negative (though insignificant) change in tax revenue.[37] Column 4 formally tests this heterogeneity by interacting aid with the SOE share. The interaction is positive and significant: each percentage point increase in SOE prevalence raises the responsiveness of CIT to aid by 5.2%. These results support the view that aid-funded projects primarily benefit SOEs, who dominate aid contracting, with fiscal returns concentrated in provinces where they are prevalent.

To rule out the possibility that the observed gains in CIT simply reflect an increase in overall tax revenue, I estimate placebo models using total tax revenue and personal income tax revenue as outcome variables (Table A7). Across all specifications, the results are precisely estimated to be null: aid has no discernible effect on either total or personal income tax revenue, regardless of SOE share. If anything, personal income tax appears to decline slightly with greater aid. These null results bolster the interpretation that the observed changes in CIT reflect a specific mechanism: aid increases CIT specifically by boosting the profits of firms directly involved in aid-funded projects, namely SOEs. Taken together, these findings provide support for the proposed mechanism: aid-driven tax gains are realized in the form of corporate income taxes and conditional on SOE presence, consistent with the theory that governors benefit from aid when firms from their province are positioned to profit.

I provide further evidence of the theorized mechanism by focusing on the construction

[36] Prior to 2001, provincial corporate income tax statistics included only income taxes paid by state-owned and collectively-owned enterprises. Since 2001, they have additionally included income taxes paid by private and other non-state firms as well. As a result, it is no longer possible to isolate SOE-specific tax contributions in the aggregate data.

[37] This effect is statistically significant when clustering standard errors at the province level.

Table 6: Impact of Aid on Profits and Taxes of Construction Sector

	Δ Profit		Δ Taxes	
	(1) All	(2) SOE	(3) All	(4) SOE
Δ Aid	0.004***	0.014**	0.002	0.004*
	(0.001)	(0.006)	(0.001)	(0.002)
Mean(y_{it})	0.254	0.250	0.184	0.120
No. Provinces	30	30	30	30
Observations	386	303	390	240
Year FE	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes

Notes: Robust standard errors clustered by province and year are reported in parentheses. Controls include GDP per capita (logged), population size (logged), GDP growth, and government expenditures (logged). *p<0.1; **p<0.05; ***p<0.01

sector. In the previous analysis, SOE prevalence served as a proxy for the share of corporate income tax revenue likely attributable to firms involved in aid-financed projects. By contrast, focusing on the construction sector allows for a more direct test, as provincial-level economic data include SOE-specific profits and corporate income tax payments for this sector. Construction is also substantively relevant: it is the sector where Chinese aid is most heavily concentrated, with state-owned firms often serving as lead contractors on overseas projects and private firms participating as subcontractors. This sector therefore allows for a more precise assessment of the firm-level fiscal returns to aid.

Table 6 reports the results. Columns 1 and 2 show that aid increases profits among construction firms, with larger effects among SOEs: a 1% increase in aid is associated with a 0.4% increase in profits across all construction firms and a 1.4% increase among SOEs specifically. Columns 3 and 4 report corresponding estimates for corporate income tax revenue. While the effect is positive but statistically insignificant among all firms, it is larger and statistically significant for SOEs. These results align with prior research on Chinese political economy, which emphasizes the central role of SOEs in driving local tax revenues and shaping provincial fiscal performance.

These results confirm the proposed mechanism linking promotion incentives to aid allocation. By financing overseas projects executed by firms registered in their province, especially SOEs, foreign aid increases those firms' profits and the corporate income taxes they remit to the provincial government. These fiscal gains, in turn, directly improve governors' performance on key evaluation metrics, creating a career incentive to manipulate foreign aid as a tool for strengthening their promotion prospects.

7 Conclusion

This paper examines how domestic political incentives shape China's foreign aid allocation by focusing on the role of provincial politicians and their career motivations. Using a regression discontinuity design that exploits age restrictions in China's promotion system, I find that provincial governors who face strong promotion incentives allocate significantly more foreign aid than their ineligible counterparts—nearly \$20 million more per year, on average, relative to the sample mean of \$2 million. This effect is specific to governors, whose career advancement depends more directly on economic performance, and is strongest in provinces with weak growth—especially when performance lags behind the growth record of their predecessors—where pressure to deliver results through alternative channels like foreign aid is especially high. I further show that the career incentives behind aid allocation operate through a mechanism of firm profitability: foreign aid increases the profits and tax contributions of state-owned enterprises, boosting governors' performance on key fiscal metrics and, in turn, enhancing their prospects for promotion within the Party hierarchy.

These findings offer new insight into the political logic of China's foreign aid program. Much of the existing debate has focused on whether Chinese aid is driven by altruism, commercial self-interest, or geopolitical ambition. My results challenge the prevailing view that Chinese aid is a centrally orchestrated tool of geopolitical strategy. Instead, they align with accounts that portray Chinese aid as a vehicle to encourage domestic firms to invest abroad in response to industrial overcapacity and shrinking market opportunities at home. In this sense, aid functions less like a geopolitical inducement and more like a tool of industrial policy. In addition, I go further by identifying an entirely distinct operating logic: even the pursuit of commercial interests is not necessarily dictated by national leaders. Rather than a top-down strategy, aid allocation reflects bottom-up political incentives rooted in China's decentralized governance structure. Subnational politicians, motivated by promotion prospects, use foreign aid to generate demand for local firms and meet performance targets—even when this diverges from Beijing's strategic intentions. China's foreign aid program can therefore be seen as an extension of its domestic political economy model, where tournament-style promotion incentives tied to economic growth shape the policies pursued by subnational politicians (Maskin, Qian and Xu, 2000; Xu, 2011). Aid, in this context, is not a giveaway or a geopolitical bribe—it is a domestic political resource.

This view of China's aid program also helps reinterpret several well-known features of its foreign assistance practices. Infrastructure dominates because China's construction and engineering SOEs—deeply embedded in provincial economies—developed their comparative advantage during decades of investment-led domestic growth (Zhang, 2021). Tied aid ensures that these firms capture overseas contracts, channeling the gains of foreign projects back into local economies. As domestic growth slows, shrinking markets push provincial firms—and the governments that rely on them—to seek business abroad to sustain the economic performance that provincial politicians need for career advancement and that the Party depends on for continued legitimacy. These dynamics create a domestic political economy in which foreign aid is embedded in local growth strategies, making its sectoral and institutional profile a reflection of domestic priorities.

Of course, this is not to say that national leaders do not view foreign aid as an instrument of international influence. But policy outcomes are not determined by intentions alone, especially when implementation is delegated to actors with distinct incentives. As a result, different tools of Chinese statecraft may embody markedly different priorities and institutional logics in practice. In the economic realm, China's system of subnational delegation prioritizes the interests of local politicians, commercial returns, and local growth—reflecting an institutional architecture designed to sustain the Party's performance-based legitimacy. This governance structure exposes Chinese foreign economic policymaking to the same principal–agent dynamics that have long shaped its domestic policy (Oi, 1999). This stands in contrast to China's security and military apparatus, where authority is far more centralized and tightly coordinated. Understanding how Chinese statecraft operates in practice therefore requires identifying not just the goals of national leaders in Beijing, but also the actors responsible for implementation and the institutional environments in which they operate.

Finally, this paper makes theoretical contributions to our understanding of how domestic political institutions shape foreign policy in autocratic regimes. A common assumption in international relations is that authoritarian regimes operate with greater coherence and central control than democracies. Yet autocratic states, too, are composed of domestic actors with diverse interests, and it is domestic institutions that determine which of these interests are reflected in national policy. In democracies, institutional structures make leaders responsive to mass or organized interests. In autocracies, the preferences of the public may not matter, but those of political elites do—and this paper highlights how these preferences are themselves shaped by institutional design. In other words, domestic institutions in autocratic regimes shape the policy preferences and behaviors of subnational actors on whom national leaders depend on. In doing so, the paper underscores the need to take domestic institutions seriously even in the study of authoritarian foreign policy, focusing not only on national strategic objectives but also on the internal institutions that shape elite incentives.

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