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Does It Matter Whom You Trade With?

The Case of African Institutions and Chinese Trade

MASTER'S THESIS
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Abstract

The debate on Chinese activities in Africa has so far been polemic and inconclusive. In parallel, the literature on how trade affects institutions has evolved while failing to draw any definite conclusions. By joining the two areas of research, this study seeks to make contributions to two ongoing debates. The study is based on the understanding that entrepreneurs engage in foreign trade, and in activities intended to promote institutional change, based on their perceived self-interest. Through a cross-country analysis of the effects of trade with China, and with a group of Western countries, on institutional development in Africa, this study finds that different trade partners can have divergent impacts on institutions. Importantly, the results indicate that trade with China had a positive impact on African institutions in the 1980s, but a negative impact in the 1990s.

Keywords: *Institutions, Institutional change, Trade, China, Africa*

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List of abbreviations

ANC	African National Congress
CPC	Communist Party of China
FCPA	Foreign Corrupt Practices Act
FNLA	National Front for the Liberation of Angola
FOCAC	Forum on China-Africa Cooperation
MPLA	Popular Movement for Liberation of Angola
NIE	New Institutional Economics
OECD	Organisation for Economic Cooperation and Development
PRC	People's Republic of China
ROC	Republic of China
SWAPO	South-West Africa People's Organisation
TAZARA	Tanzania Zambia Railway Authority
UN	United Nations
UNITA	National Union for Total Liberation of Angola
WIPO	World Intellectual Property Rights Organisations
WTO	World Trade Organisation

1 Introduction

The debate on Chinese activities in Africa is heated.¹ Two of the most noted recent books on development illustrate the divide very well: in *Dead Aid* Dambisa Moyo (2009, 89-113) describes Chinese trade, aid and investment as much needed additional funding for development; whereas Paul Collier (2007, 86) in *The Bottom Billion* points out that the lack of scruples of Chinese businessmen risks undermining efforts to improve governance in Africa. The debate spans many if not most fields of economics, but I would argue that at the heart of it, lies a question that becomes ever more pertinent as globalisation progresses. Are economic interactions between countries ever neutral in terms of the impact on institutions?

In its simplest form, modern trade theory models economic exchanges without any consideration of institutions – sellers and buyers simply exchange goods for money without any further interaction or implications. The impact of institutions on trade, and of trade on institutions, is not taken into account. Similar implicit assumptions are common throughout neoclassical economics. Nevertheless, if new institutional economics (NIE) has provided strong and consistent support for any one proposition, it is that institutions matter (for an early example see Knack and Keefer, 1995). They matter both because institutions define the structure of economical and political exchanges, but also because the entrepreneurs can try to influence institutions in order to change the structure of future interactions.

Economic research on institutions has so far focused more on how institutions shape political and economical interactions, and less on how and why institutions emerge and change. In this study I will try to address the latter issue, specifically focusing on how trade with foreign countries affects domestic institutions. Empirical testing has made clear that there is an empirical connection between trade and institutions; here I try to outline a theoretical framework that could explain the underlying causality.

¹ This study will use the words “Africa” for all countries on the African continent, and “the West” for a selected group of countries in Western Europe and North America. Although these broad terms do not reflect the diversity within both groups, they can be useful in identifying general trends. Where distinctions are necessary, they will be presented.

As globalisation brings down trade barriers and decreases transport cost many new countries will emerge as significant trading powers. I will argue that trade with different countries can have different impacts on institutions depending on the composition of trade and the behaviour of political and economical entrepreneurs. In this context, the case of China and Africa is a most pertinent example. The long-established trade between African and Western Countries, coupled with the fairly recent increase in Chinese commercial activities, provides for a natural experiment of sorts. Has the entry of China altered the course of institutional development in Africa? The divergence in institutions between China and the West, the differing interests and behaviours of entrepreneurs from the respective areas, as well as the sudden on-set of Chinese trade should make the diverging effects of trade on institutions, if any, clearly visible.

The heated yet inconclusive debate on the motives and nature of China's trade with African countries is the main reason why I chose to study the effect of trade on institutions. Western countries want China to take on a greater role in providing global public goods – support to developing countries included – yet when China does show an increased interest in Africa it attracts fierce criticism. For good reason? By studying the effects of trade between China and Africa, I hope to kill two birds with one stone by contributing both to the debate on China in Africa and to the evolving literature on change in institutions.

1.1 Research Hypothesis

In one word, this study will examine the mechanisms through which foreign trade affects a country's domestic institutions. As will be argued in the next section, empirical studies have found that increased trade openness improves the quality of institutions, but those studies do not clearly identify the reasons why. This study will argue that the interests of the foreign trading partner, as well as the composition and conduct of trade, determines who in the domestic market profits from the trade, and thus who has the power to change institutions. Additionally, this study will posit that foreign entrepreneurs may be capable of influencing the domestic institutions of their trading partners directly. The general hypothesis that this study takes as its starting point is therefore:

It matters whom you trade with because trade with different partners empowers different groups in the domestic struggle to define institutions.

The specific case of China's trade with Africa is a relevant example in testing this hypothesis for at least three reasons. First, China's trade policy, as well as the composition of goods that China trades in, differs significantly from Africa's traditional trading partners in the West. To some extent, Chinese entrepreneurs thus trade with different partner in Africa and under different condition as compared to their Western competitors. Second, Africa's trade with China has increased rapidly in comparison to other partners over recent years, which might make it easier to tease out the particular effects of Sino-African exchanges. Third, the debate on China in Africa is not only an academic one, but also involves politicians interested in foreign policy and development. Any empirical findings may thus have important policy implications. The hypothesis that this study will consider in its empirical chapters is therefore:

Institutions in African countries have been affected in different manners by trade with China and by trade with the West.

Methodological issues involved with evaluating these hypotheses are addressed throughout the study, and in particular in the chapter presenting the empirical results.

1.2 Data

This study will not be the first to lament the difficulties of finding suitable data on institutions, or the first to devise strategies to overcome some of those difficulties. The indices available for measuring institutional change are not perfectly suited for this study for at least three reasons. First, any measure of institutional quality or change is inevitably subjective. Indices are always produced by someone, for someone – most commonly by Western academics and companies, for Western governments, companies or the public. Thus, even though it is not necessarily true that Western institutions are best suited to promote growth or participatory politics in developing countries, indices are often constructed based on Western ideals. For this reason, when a developing country comes closer to achieving the scores attained in the West, it is invariably described as progress. Results that indicate that trade with China has a “negative” impact on institutions should therefore be seen in the light of this Western bias.

Second, many institutional changes of a more technical nature – for example the propagation of a language as the *lingua franca* of business, or the spread of a common unit of measurement – cannot be, and are indeed not, included in the aggregate measures available, yet they may well be

the result of trade. Changes in the indices may thus not reflect the full range of institutional change fostered through trade.

Third, indices usually aggregate data on a country level, yet trade may also have an impact on institutions at lower levels. The optimal unit for analysing institutions is arguably a “society” that shares the same set of institutions. A relevant example is what happens if institutions improve in a sector where Western companies are predominantly active – say renewable energy – but deteriorates in a sector where Chinese companies prevail – say infrastructure. How could an aggregate index reflect both changes? The effects that this study seeks to explore might thus be confounded in the process of aggregating data.

Nevertheless, the available measures of institutional quality do undoubtedly reflect some very real and relevant differences among countries. More relevant for this study, as they change over time something must certainly be happening on the ground. This study will use two of the most well known and time-honoured data sources available: the two indices produced by Freedom House (FHI); and data from the International Country Risk Guide (ICRG) produced by Political Risk Services. Both sources have the advantage of encompassing a broad definition of institutions, as well as being available for continuous periods beyond a few years.

1.3 Limitations

The endogenous nature of institutions – institutions affect the activities of entrepreneurs, the activities of entrepreneurs affect institutions – makes it difficult to study their development. As such, any study that considers the effects in only one direction, as in the present case, risks overestimating the impact. A common strategy to address this difficulty, which will be used in this study, is to use lagged data for the independent variables. While this strategy reduces the problem of endogeneity, it can however not remove it entirely. Since institutions tend to change quite slowly, even long lags are not always enough. On the other hand, with too long lags, the effects of more recent event – which can sometimes be of great significance – are ignored.

The limitations imposed by the available measurements of institutional quality might make it difficult to distinguish the effects that this study seek to explore, possibly rendering it sensitive to underestimation as well. As was discussed above, indices that seeks to reduce institutional quality to one measurement risk missing effects that occur at levels below the national average. Using

several measurements from two separate sources as dependent variables may to some extent alleviate this problem.

1.4 Outline

The next chapter presents the theory on how trade affects institutions and reviews some of the literature on the subject. Chapter three seeks to provide a historical background to the relationship between China and Africa, and within this context present arguments on why trade with China may have a different impact than trade with the West. The fourth chapter presents data and results, before chapter five concludes.

2 Theory – Trade and Institutional Change

Douglas North (1990) has provided an oft-quoted definition of institutions that may serve as a fitting starting point for this chapter:

Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social, or economical (North 1990, 3).

Numerous studies have found that institutions matter for economic growth. For example, Knack and Keefer (1995) find that institutions may be as important as education in promoting economic growth, and suggest that they also have a role in determining both the size and allocation of investments. Acemoglu and Johnson (2005) spell out the underlying causal links in a manner that has since been applied in many other studies. They contend that property rights institutions constrain the behaviour of those in power, limiting expropriations and arbitrary acts, and thus improve the incentives of entrepreneurs to invest in developing businesses, which in turn leads to growth. Contract institutions on the other hand affect the forms of financial interactions in society, but not growth directly, since entrepreneurs can structure their contracts, at a greater or lesser cost, to take account of the institutional environment.

The multitudes of studies on how institutions have developed, and on what causes them to change, are much less consistent. Three main groups of theories can however be identified. The first emphasises the importance of chance events in determining the subsequent development of the institutional structures. As an example, La Porta *et al* (1999) find “clear evidence of systematic influence of historical circumstances, as captured by ethnolinguistic heterogeneity, legal origin, and religion, on government performance”. While Alesina *et al* (1999) have demonstrated that present-day changes in ethnolinguistic fractionalisation can lead to institutional changes, invariant factors such as legal and religious origin can be assumed to have a limited direct bearing on current developments. Focusing on historical circumstances has thus produced a set of theories with limited power to explain changes that occur today.

The second group of theories was dubbed “the Political Coase Theorem” by Darren Acemoglu (2003) in reference to Ronald Coase’s proposition that entrepreneurs can contract to achieve an efficient allocation and outcome, irrespective of who owns what, as long as there are no transaction costs and property rights are well defined (Coase, 1960). According to this school of thought, societies will develop institutions that effectively respond to the current economical circumstances, as long as transaction costs are low. For example, North and Thomas (1973) and Demsetz (1967) respectively argue that the emergence of feudalism in medieval Europe, and of property rights among the aboriginals of the Labrador Peninsula, were efficient responses to changes in economical incentives. As Acemoglu (2003) points out, this group of theories fails to recognise the important reverse effects of institutions on economic development and to explain why obviously inefficient institutions often persists for long periods of time.

The third group of theories emphasises how different groupings within a society have different preferences regarding the institutional structures. Given the relative power of the groups, they compete for influence in order to reshape institutions for their own benefit. This study draws on the framework developed within this school of thought. The next section describes in greater detail the link between the competition among entrepreneurs and institutional change, providing a structure for the following two sections that focus on trade and institutions.

2.1 Social Conflict as the Source of Institutional Change

Daron Acemoglu, Simon Johnson and James Robin have together developed what they (2004) fittingly label the “Social Conflict View” of institutional change. Following North (1981, 1990 and 2005) this view places the private interests of entrepreneurs – persons who engage in economical or political exchanges – centre stage of the analysis. In this view “[t]he agent of change is the individual entrepreneur responding to the incentives embodied in the institutional framework” (North 1990, 83). When individual entrepreneurs are not capable of changing institutions themselves, if a group of entrepreneurs can overcome the difficulties of collective action, in particular the free-rider problem, they can instead form organisations to further their interests collectively.

Considering both political and economical institutions, and recognising that the former have the authority to influence the latter, Acemoglu *et al* (2004) describe political power as being divided into *de jure* and *de facto* power. Framing their argument following the common distinction between formal and informal institutions (see for example Williamson, 2000), *de jure* power can be said to

stem from formal political institutions – the constitution, the laws, the form of government – whereas *de facto* political power stems from informal political institutions – the courts of public opinion, clans or networks, economic and military resources. The key argument of Acemoglu *et al* (2004) is that entrepreneurs or organisations that wield political power, both *de jure* and *de facto*, can use it to change political and economical institutions according to their own preferences. It follows that the institutional framework is only rarely determined by the whole of society or all citizens in a country, but by the entrepreneurs that have the most power. These entrepreneurs will generally favour institutions that promote their interest, fostering structures that suit their preferred line of business rather than those that would maximise general welfare. As Acemoglu *et al* (2004) put it, the “equilibrium economic institutions will not be those that maximise the size of the overall pie, but the slice of the pie taken by the powerful groups”.

The allocation of political power is often stable and self-reinforcing. By shaping economical institutions for their own benefit, entrepreneurs can increase their riches and gain greater *de facto* power; by shaping political institutions they can solidify their *de jure* power. Not surprising, this dynamic may cause once-efficient institutions to persist beyond their “due date” because those who profit from the current order have gained enough power to resist pressure for reform. The system can however also be prone to exogenous shocks. Acemoglu *et al* (2004) write:

In particular, “shocks”, including changes in technologies and the international environment, that modify the balance of (*de facto*) political power in society [...] can lead to major changes in political institutions and therefore in economic institutions and economic growth (Acemoglu *et al* 2004, 6).

For the purposes of this study it is important to recognise that in international trade, two groups of entrepreneurs may have an interest in changing institutions or in blocking changes favoured by others – those active on the domestic market, as well as their foreign partners. Indeed, entrepreneurs have much to gain from influencing the institutions that their trade partners operate under. Furthermore, the interests of foreign entrepreneurs cannot always be assumed to coincide perfectly with the interests of their domestic partners. Undoubtedly, an entrepreneur stands to gain if his partner does well, but when it comes to institutional design, entrepreneurs may also find it profitable to strengthen their own rights *vis-à-vis* their partners. The nationalisation of an industry or an asset may for example constitute situations that pit foreign and domestic entrepreneurs against one another.

The next section will review empirical studies from three related fields – trade and governance, trade and corruption, and natural resources and institutions – to outline the established empirical findings and theoretical models of trade and institutions. In general this literature fits nicely within the broader social conflict view as presented above, save that most models focus exclusively on the incentives and actions of domestic entrepreneurs.

2.2 Trade and Institutional Change

As in the case of studies on institutions and economic growth, the first conclusion to emerge on institutions and trade was that “institutions matter”, both for the volume of trade, and for what is traded. For example, Anderson and Marcouiller (2002) estimate a gravity model, where insecurity enters as a hidden tax, to illustrate that poor institutions can constrain trade just as much as tariffs. Furthermore, Ranjan and Lee (2007) consider trade in two groups of goods – differentiated goods which are assumed to require more developed contracting institutions, and goods possessing a reference price – to demonstrate that institutional quality influence the volume of trade in both cases, but more so in the former (see also Levchenko 2004). The standard conclusion on causality is not far fetched – institutions matter because they determine the cost of information and contracting in international trade.

While there is reason to believe that trade does also influence institutions, the literature on this subject is less developed, and it has long stretch to go before a common understanding of the causal mechanisms can be established. As it stands, increased trade openness has been modelled to cause both institutional races-to-the-bottom (Bagwell and Staiger 2001), and to-the-top (Levchenko 2004). Nonetheless, a growing number of empirical studies have found that increased trade openness improves the quality of governance and decreases corruption, while providing a compelling theoretical framework. In parallel studies on the curse of natural resources have found trade in some types of goods has a detrimental effect on institutions. The following three sections will first briefly outline the empirical findings of the respective literatures, and then review the causal links that they suggest.

Trade and Governance

Several studies have found that increased trade openness leads to better institutions (see for example Islam and Montenegro 2002, and Khalid 2011). Al-Marhubi (2004) uses trade openness as a control variable, but finds that it has a consistent significant positive impact on institutions.

Following on this result, Al-Marhubi (2005) finds that the relationship is robust to the use of different indicators for governance and openness, as well as to variation in sample composition. Bhattacharyya (2011) finds “evidence to support the role of trade policy in improving institutions”.

Al-Marhubi (2005) identifies five mechanisms through which increased trade openness may increase domestic entrepreneurs’ incentives to improve governance. First, a country may deliberately choose to harmonise its governance structures with those of its trading partners or to implement the rules of an intergovernmental organisation such as the World Trade Organisation (WTO) (Rodrik 2000). Al-Marhubi argues that such harmonisation may increase the legitimacy of domestic policies.

Second, trade openness provides both domestic and foreign entrepreneurs with an exit option. Faced with an adverse change in governance, companies and investors can choose to diversify internationally or to leave a country altogether. Governments thus have an incentive to provide a hospitable institutional environment in order to prevent domestic entrepreneurs from fleeing overseas and to attract new foreign entrepreneurs (Al-Marhubi 2005). Levchenko (2004) makes a similar argument by modelling an institutional race-to-the-top where countries improve their institutions in order to attract the most lucrative businesses.

Third, referencing Romer’s (1993) argument that unexpected monetary expansion is less beneficial, and the resulting real depreciation more costly, in more open economies, Al-Marhubi (2005, 457) argues that “by raising the cost [of] bad policies, openness to world markets generates stronger incentives to create governance structures such as independent central banks and autonomous tax agencies to free monetary policy and tax collection from political influence.” Accordingly, all entrepreneurs would have an incentive to improve institutions to the extent that it would enhance the general business climate, as in this example by reducing exchange rate volatility.

Fourth, good governance may be used to reduce the risks associated with greater openness. Al-Marhubi (2005) argues that well governed countries have an easier time finding social bargains that enable macroeconomic adjustments. Facing recurring external shocks, entrepreneurs may find it favourable to improve institutions rather than to engaging in fierce negotiations to determine the distributional consequences of each shock. Interestingly, Cameron (1978) and Rodrik (1998) make the parallel argument that more open economies have bigger governments –

in terms of social security spending, or in government employment and consumption – in order to provide a buffer against external shocks. Of course, an increase in the scope of government does not necessarily imply an improvement in governance, but it does reflect a change in institutions.

Fifth, Al-Marhubi (2005) notes that trade exposes countries to alternative sources of information, new cultures and ideas, and different institutional arrangements. Over time, such experiences may change the preferences as well as the institutional ingenuity of entrepreneurs. Trade may thus also influence the deeper layers of institutions.

Several studies have also considered how trade can increase the power of entrepreneurs to the point where they can take action to improve governance. For example, Acemoglu *et al* (2005) demonstrate that the countries with access to the Atlantic Ocean grew faster than other countries in Europe after the year 1500. Citing Engerman (1972), O'Brien (1982) and Inikori (2002), the authors argue that the growth was greater than what the profits from trade alone could have produced, and point instead to the role of trade in promoting institutional change. By enriching entrepreneurs and merchants who were not affiliated with the monarchies, Atlantic trade created a powerful interest group that favoured strengthened property rights. In Spain and Portugal, where the monarchy was fairly absolutist, the established powers managed to hold back these groups, but in Great Britain and the Netherlands, the newcomers became powerful enough to have it their way (see also Acemoglu and Robinson 2009 and Segura-Cayuela 2006).

Furthermore, the increased competition that results from trade openness could also help entrepreneurs become powerful enough to change institutions. Bernard *et al* (2003) demonstrate that “[l]ower trade barriers [...] tend to nudge out low-productivity plants while enabling the highly productive to sell more abroad.” Trade can thus have the effect of concentrating earnings and lowering the number of entrepreneurs in a business segment, therefore potentially increasing the incentives for cooperation and decreasing the difficulties of collective action.

To summarise, trade may provide the incentives and grant the means for entrepreneurs to improve governance. These theories generally only provide for trade promoting an improvement in institutions.

Trade and Corruption

In parallel, a set of studies have found that increased international trade can decrease the level of corruption in an economy. Ades and Di Tella (1999) find that countries where the market is sheltered by “natural or policy induced barriers” have higher levels of corruption. Torrez (2002) finds some support for the notion that corruption increases with trade restrictions, but notes that it is dependent upon what measurement is used for corruption. Sandholtz and Gray (2003) consider to have found “strong support for [the] proposition that the more a country is integrated into international society, the more it will encounter economic and normative pressure against corrupt practices.” Using a range of variables to unearth the causes of corruption Treisman (2000) finds a “surprisingly small” and not always significant negative effect of openness to trade on corruption. Neeman *et al* (2008) find that corruption is negatively associated with output in open economies, but not in closed economies, however the results only hold if openness is measured by the black market premium.

Sandholtz and Gray (2003) suggest that international trade affects the level of corruption in a country in two ways. First, drawing on Krueger’s (1974) seminal article, which posits that corruption stems from rents generated by restrictions in trade, Sandholtz and Gray (2003) model corruption as an additional tax on domestic business that creates a disadvantage in trade. As competition from abroad increases, the entrepreneurs who participate in corrupt practices may under such circumstances find it more difficult to compete, and may either be forced to leave the market or to stop paying bribes. Furthermore, the profits of corrupt officials will diminish as competition reduces the earnings of bribe-paying companies, to the point where it may no longer pay-off to engage in corruption.

Second, similar to Al-Marhubi’s argument regarding exposure to new ideas, Sandholtz and Gray (2003) argue that anti-corruption values and norms are transmitted through the “social dimension of economic interaction”. The authors recognise that the mechanisms involved in such social transfers are usually difficult to pinpoint, but at the same time, point out that international organisations may serve as loci of exchange. They argue that an “international anticorruption movement” including governments, intergovernmental organisations, and civil society, has emerged as a major normative influence.

Natural Resources and Institutions

In contrary to the results presented above, the literature on trade in certain categories of goods has tended to find that trade has a detrimental effect on institutions. One example is the effects of trade in arms or riot control equipment to a country with a repressive government or that has just emerged from civil war. On this point, the work of Paul Collier on military expenditure and arms trade is of particular relevance (see for example Collier 2003 and 2007). In the same vein, but focusing on a different category of goods, this section will consider the literature on trade in natural resources and institutions.

Recent empirical studies have found a robust negative relationship between dependence on natural resource exports and institutional quality. Through cross-country regressions and a case study of Nigeria, Sala-i-Martin and Subramanian (2003) find consistent evidence that natural resources such as oil and minerals have a detrimental effect on institutions. The authors demonstrate that once the effect on institutions has been controlled for, natural resources do not have a negative impact on economic growth, thus potentially dispelling the myth of an inexplicable “curse of natural resources”. Bulte *et al* (2005) identify the same “indirect link that operates through institutional quality” from resource abundance to slow development. Collier and Hoeffler (2005) find that “[r]esource rents tend gradually to undermine both checks and balances and [...] electoral competition”. Furthermore they find that democratic countries perform better than autocratic countries in terms of economic development when resource rents are small, but that autocracies outperform democracies when rents are large. Collier and Hoeffler argue that this is because democratic competition becomes susceptible to vote buying if resource rents are high – especially if checks and balances are simultaneously eroding.

Following Salomonsson and Sandberg (2010) the main causal mechanisms suggested by the literature on natural resources and institutions can be grouped into three broad categories. First, the presence of natural resource rents may provide incentives for entrepreneurs to compete for spoils rather than to run productive companies. Svensson (2005) refers to this phenomenon as a source of corruption and provides a definition: “[r]ent seeking is the socially costly pursuit of rents”. Indeed, in standard economic theory competition is considered to be favourable for economic growth, but when entrepreneurs compete for access to rents rather than to increase the productivity of their businesses, greater corruption and institutional decay, rather than economic prosperity, is the result (Kolstad *et al* 2009).

A second mechanism focuses on how entrepreneurs spend resource rents. Kolstad *et al* (2009) writes: “patronage is defined as the use of public resources to secure political power.” Natural resources may provide an incentive to engage in patronage since they increase the pay-off to political power, as well as provide the funds to give kickbacks to supporters. Again, competition among political entrepreneurs is the very essence of democracy, but when it takes the form of outright vote buying the institutional structures are no longer the same. Indeed, this mechanism reproduces the social conflict view argument that political power can be used to shape institutions for personal profit, proving for the opportunity to gain even greater power.

The third category of mechanisms are connected to the concept of the “rentier state”, which original stems from area studies of the Middle East (see Ross 2001 and 2004). In a rentier state, a large fraction, if not the majority, of government income stems from the rents generated by natural resources, in particular oil or geostrategic assets, such as the Suez Canal in Egypt. If the government earns sufficient income from rents, it can lower both taxes and the provision of public goods. In a reverse application of the familiar slogan “no taxation without representations” – citizens will be less likely to make demands of or oppose a government that does not cost anything. Government can thus focus on catering to those who control it without risking popular uproar, with the effect that general institutional performance is neglected (Ross 2004). Chaudhry (1989) further more points out that as tax authorities weaken, so does data collection, and thereby the capacity of the government to adapt policies to the conditions on the ground.

2.3 Accounting for New Patterns of Trade

As was hinted at earlier in this chapter, the casual mechanisms that connect trade and institutional quality that were presented in the preceding section focus almost exclusively on the behaviour and incentives of domestic entrepreneurs. This section will argue that this one-sidedness, coupled with the tendency to use north-south trade as the main example, has left the literature on trade and institutions incomplete. The key argument is not that the empirical results or causal relationships presented above are inaccurate, but that they only tell one side of the story.

Many of the studies presented above explicitly base their reasoning on north-south trade flows. For example, Levchenko (2004) uses a model of the world with two regions – the North, which has good institutions, and the South, which has bad institutions. Other studies, apply models with

similar characteristics without explicitly recognising that they have north-south interactions in mind (see for example Rodrik 2000; Al-Marhubi 2004 and 2005; and Sandholtz and Gray 2003). As an example, Rodrik (2000) writes: “Civil liberties and political freedoms are among the most important imported concepts in the developing world; the demand for democracy to which these ideas give rise are a direct product of openness [...]”. In other words, openness inspires developing countries with poor institutions to import good institutions from developed countries. Models of this kind are based on one or both of two implicit assumptions. First, it must be in the interest of entrepreneurs in the country with good institutions that institutional quality increases in the countries of their trading partners. Second, there can be no reverse effects – countries with good institutions are not affected by trading with countries with bad institutions.

Neither of these assumptions are valid under all circumstances. Regarding the first assumption, foreign entrepreneurs are certainly not universally benevolent – the primary goal of an entrepreneur engaging in trade must be to make a profit, or at least to make ends meet. As such, entrepreneurs are likely both to search for trading partners that offer profitable terms rather than have well-meaning intentions regarding institutions, and to try to influence the institutions in the countries of their trading partners in their own interest. Examples are available to document the occurrence of both types of behaviour. Regarding the search for trading partners, Engerman and Sokoloff (2002) demonstrate that Spanish commercial interests in what is today Mexico and Peru, in colonial times actively reinforced hierarchical social structures and oppressive institutions that had been established prior to the arrival of Europeans in America since they found them well adapted for resource extraction. Regarding the propensity of entrepreneurs to try to influence institutions in foreign countries, the list of hundreds of accredited observers – most of them international or regional business associations – to the World Intellectual Property Rights Organisations (WIPO) serves as an illustrative example of the degree of international business lobbying (WIPO 2011).

Regarding the second assumption, it should be obvious that there is no clear reason why trade can only have an influence in countries that start out with poor institutions. A case in point, socialisation and the exchange of ideas are certainly reciprocal processes where both foreign and domestic entrepreneurs can potentially draw new conclusions. An example, albeit anecdotal, is the recurring suggestions in Western business magazines that the West should learn from this or that country which does well economically but has poor institutions. Rinehart (2011) for example suggests that Australia should learn from Singapore – a country that at best receives mediocre scores on aggregate institutional quality – even on matters of governance and social policy.

Furthermore, many African politicians and businessmen suggest that the continent would benefit from mimicking Chinese institutions (see for example Obiorah 2007). As for voluntary harmonisation with trading partners, the amount of trade must surely provide a stronger incentive for harmonisation than the features of a trading partner's institutional system.

As a final point, while the literature based on north-south trade has clear limitations, as has been pointed out above, it completely overlooks the growing south-south trade. What happens when partner countries have equally bad institutions, or when a country with low-quality institutions has a major trading partner where the situation is even worse? With an annual growth rate of 12,5 percent, south-south trade has been expanding faster than north-north and north-south trade over the past two decades, and today accounts for roughly six percent of global trade (OECD 2006). While this is still only a fraction of the total, the growth in south-south commerce can have a significant impact on individual countries. OECD (2006) for example notes that "there is some evidence that for certain Asian and Latin American developing countries, trade with other developing countries exceeds 50 percent of their total services trade".

2.4 An Outline of an Updated Theory

To summarise, studies of trade and institutions have in general found that greater trade openness improves the quality of institutions, with the exception for trade in certain categories of goods. To accompany these findings the literature has suggested a range of causal mechanisms. While the findings are certainly well based, and the explanations quite plausible, the preceding section suggested that this literature is based on overly restrictive and out-dated assumptions that are bound to become less and less relevant as new patterns of international trade establish themselves.

While it goes far beyond the scope of this study to suggest a complete and detailed model of how trade influences institutions, the discussions in this chapter point to at least three features that such a theory would have to be based on. First, a general theory on trade and institutions would have to focus on the interests and actions of political and economical entrepreneurs. It is entrepreneurs who change institutions, and they do so in accordance with their interests and the incentives that they face. Second, it would have to recognise that it takes two entrepreneurs to trade. A general theory would only be worthy of its name if it applies the same framework of assumptions to all entrepreneurs, both at home and in foreign countries. Third, and related to this, a theory would have to be based upon the assumption that entrepreneurs who engage in

international trade have an interest, and to some extent the possibility, of influencing both their domestic institutions and those of their trading partners. That is to say, influence over institutions is a two-way street.

3 China in Africa

The literature on China in Africa has been growing at an almost exponential rate over recent years. Broadman (2006), Goldstein *et al* (2006), Mephram and Wild (2006), Taylor (2006), Manji and Marks (2007), Rotberg (2008), Brautigam (2009), and Cheru and Obi (2010) are only some of the more recent examples. Unfortunately, this literature is based on few empirical findings and has a fairly weak theoretical underpinning – for the most part, it relishes in anecdotes while holding a normative tone. In one word, the literature seeks to answer the question of whether China is good for Africa? So far, no substantive conclusions have emerged. This study, in the limited area that it explores, may offer the beginnings of an answer to that question.

This chapter will briefly present some of the main historical features of the relationship between China and Africa, with the intention of providing some insight into why the current debate is so heated. Additionally, this historical overview will serve as a background to the final section of this chapter, which presents arguments on why trade with China may have a different impact on institutions compared to trade with the West.

3.1 Establishing a Relationship

Scholars and Chinese politicians alike, almost unmistakably trace the beginnings of Sino-African relations to the voyages of Zheng He between 1405 and 1433. During that period eunuch admirals from the Ming court – among whom, Zheng was the most prominent – commanded a fleet that at its peak consisted of 62 vessels carrying 28 000 men, which explored the waters from India, via Aden, down the East African coast (Taylor 2006, 16-17). Though the exploration resulted in fifty new tributaries for the emperor and fifteen return trips conveying gifts of tribute, Chinese leaders today prefer to point out how these explorers differed from their later European colleagues. Brautigam (2009, 23) quotes a Chinese diplomat saying that they took “not an inch of land, not a slave, but a giraffe for the emperor to admire”. These early contacts are often referred to during Chinese-African interactions today. When Chinese premier Zhou Enlai visited Tanzania in 1965 he stated: “[M]y colleagues and I do not find ourselves in a strange land. Intercourse between our countries dates back to nine hundred years ago. Some five hundred

years ago, Chinese navigator Zheng He reached East African coasts” (Taylor 2006, 16). More recently, in 2005 a girl living in Kenya, who was confirmed to be descending from one of the fifteenth century Chinese sailor, received a scholarship to study medicine in her long lost home land (Brautigam 2009, 23-24).

The early explorations of the Ming (1368–1644) were however aborted during the Qing (1644–1912) who chose solitary seclusion behind a closed-door policy (Taylor 2006, 16). The only official contact between the Qing emperors and Africa begun as late as 1897, when a Chinese consulate was opened in Johannesburg to aid and support the local Chinese community (Taylor 2006, 16-18). The Chinese-South African relationship of the time was however severely strained by a campaign to recruit cheap Chinese labour to the gold mines of the Witwatersrand between 1904 and 1906 (Richardson 1977).

Following the revolution of 1911, the Guomindang continued the policies of the Qing and maintained only limited contacts with Africa (Taylor 2006, 16-18). At the end of the civil war in 1949 the new government of the People’s Republic of China was thus in principle unbound by traditions in its relationships with African countries, but also largely inexperienced in dealing with the continent. Up until the end of the Korean War (1950-1953) the PRC was however too preoccupied by internal matters and its relationship with the two superpowers to define a full-scale foreign policy. At home, the government was working to reorganise Chinese society, and to define the countries borders in contested regions such as Tibet and Manchuria. Abroad, following the formation of the Sino-Soviet alliance in 1950, the PRC strived to counter what it perceived as aggressive American policies in Korea and Indochina (North 1960; Taylor 2006, 17-20).

3.2 The Primacy of Ideology

During the first decades of Sino-African relations, the People’s Republic placed great emphasis on ideology in its relations with Africa. The government saw it as the obligation of socialist countries to help the developing countries of Asia, Africa and Latin America break the yoke of imperialism and to further world revolution (Chien-min, 1986). The scope and depth of the relationship did however only grow very slowly.

Before 1949, chairman Mao had developed a theory of two world systems – capitalism, promoted by the United States, and socialism, promoted by the Soviet Union – where all countries in the

“intermediate zone” between the two superpowers must lean towards one or the other. Once in power, Mao insisted that all Chinese must chose to lean either towards imperialism or communism – the government had already chosen the latter. In those early years, the PRC thus mostly supported Soviet Union foreign policy while focusing on developing its relationships with its neighbouring countries (Taylor 2006, 17-19). In 1954, Zhou Enlai and Jawaharlal Nehru of India agreed upon five principles of mutual coexistence to guide the relationship between the two countries. They were: respect for each other’s territorial integrity; non-aggression; non-interference in each other’s internal affairs; equality and mutual benefit; and peaceful coexistence. At the Asian-African Conference held at Bandung, Indonesia a year later, these five principles were agreed among a further 27 countries. Although only six of these were in Africa, the meeting in Bandung marked the first time the PRC had acted to formally define its relationship with African countries (Taylor 2006, 17-21).

Following Bandung, China slowly began to engage in African affairs, primarily with a focus on North Africa. Following the signing of a bilateral trade deal, Egypt in 1956 became the first African country to recognise and establish formal diplomatic ties with the People’s Republic of China. Involving itself for the first time in an African independence movement China from 1956 until the independence in 1962 supported the FNL and other anti-French rebels in Algeria (Taylor 2006, 21-22).

Towards the end of the 1950s, ideological differences between China and the Soviet Union began to grow, and following the 1960 Communist Party Conference in Moscow the relationship quickly deteriorated. Suspicious of the Soviet Union’s commitment to the true revolutionary cause, Mao developed his theory of the two world systems to allow for an “intermediate zone” where the newly independent developing countries could come together outside of the influence of the two superpowers. Following this logic, Beijing sought to engage with the countries and the guerrilla movements on the African continent in search of new allies to be able to cease to lean towards Moscow (Taylor 2006, 22-23). Whilst clinging to the five principles of peaceful coexistence in official statements, China established relations with a number of non-state actors across Africa in the early 1960s, while avoiding the countries and groups that were seen as too pro-Soviet.

The lack of socialist fervour in some newly liberated countries or among the revolutionary movements did in principle pose a problem for the PRC. Following nationalist struggles for independence, too many countries willingly adopted the liberal constitutions developed by their

former colonisers. For the time being China was however willing to present an accepting stance, but the ambition for a large-scale revolution were not abandoned. Accordingly, the PRC in Congo (Kinshasa) for example adopted a strategy of supporting several rebel groups that were fighting against the national government, while officially denying any involvement (Taylor 2006, 23-26).

In its support for various African liberation organisations, the PRC primarily tried to counter Soviet influence on the continent. Especially following the Sino-American rapprochement of 1972. China often selected and changed partner organisations largely as a function of a need to uphold a position vis-à-vis perceived Soviet ideological revisionism. Few organisations could of course be labelled fully pro-Soviet or pro-Chinese, but the actions of the PRC signal a tendency to decide policy on Africa as part of a wider strategic and ideological framework. Accordingly, Taylor (2006, 29) writes:

China in essence adopted an anti-hegemonic policy towards the Southern African liberation organisations that effectively reacted to the actions of Moscow and not to the local situation. Whenever a movement indicated a willingness to deal with Moscow, China encouraged a rival organisation by switching aid to them, thus aiming to reduce the Soviet Union's influence. [This] led to China aiding even patently ineffective organisation because of their supposed hostility to Moscow [...]

Zhou Enlai became the first Chinese prime minister ever to set foot in Africa when he in the winter of 1963-1964 took a much-publicised tour of ten African countries. Most of his hosts however gave him only a half-hearted reception. The first three countries visited – Egypt, Algeria and Morocco – did not favour the Chinese initiative to hold a second Bandung conference, but were instead preparing to participate in a non-aligned movement conference that would exclude the PRC. Though the following seven countries – Tunisia, Ghana, Mali, Guinea, the Sudan, Ethiopia and Somalia – in general showed greater interest for the conference, the communiqués that were issued after each visit showed that agreements on other issues had been scarce. On the last leg of the tour, in Somalia, Zhou Enlai made the infamous remark that he had found excellent revolutionary prospects in Africa, for which his trip is most commonly remembered (Adie 1964; Taylor 2006, 22-32). In a wider perspective, the tour was not so much failure as a first stumbling introduction for the PRC to Africa, and a launch of a more active Chinese policy towards the continent.

A period of great domestic upheaval, the Chinese Cultural Revolution from 1966 occasionally affected Sino-African relations – especially in the summer of 1967 when Red Guards occupied the Ministry of Foreign Affairs in Beijing and initiated the so-called “boxer diplomacy” (Taylor 2006, 32). During this period all ambassadors in Africa, except the one in Cairo, were recalled to China, and a series of deliberate provocations angered several African countries. For example, the *chargé d'affaires* at the Chinese embassy in Nairobi was expelled from Kenya after he had sent a letter to the government that accused the Minister of Planning of sabotaging Sino-Kenyan relations, and Tunisia broke of relations with the PRC when China accused the government of supporting American imperialism. In total six African countries, out of 19, broke of relation with the PRC in this period (Chang, 1981). Larkin (1971, 173) contends that Chinese provocations during this period bordered on bizarre, but Taylor (2006, 33) notes that Beijing, even during the peak of the Cultural Revolution, effectively maintained good relations with its key allies in Africa and only provoked those it could afford to loose.

Indeed, one of China’s largest aid projects to date was both negotiated and implemented during the span of the Cultural Revolution. In October 1964 Tanzania and Zambia declared their intention of building a railway from the copper mines around Kapiri Mposhi in northern Zambia to the port at Dar-es-Salaam in Tanzania. The project was intended to foster economic development and to make Zambia less reliant on the still colonised or white-minority controlled countries on its southern border. After lengthy negotiations, Western donors proved unwilling to fund the project and the two countries therefore agreed to accept a Chinese offer. Between 1970 and 1975 over 13 000 technical experts and engineers from China and 38 000 Tanzanian and Zambian workers built the 1 860 kilometres long TAZARA railroad (Tanzania Zambia Railway Authority, 2011). Although the two countries had at first been hesitant to receive Chinese assistance, once they acquiesced, the project was used by Beijing as a symbol of Sino-African solidarity. Diplomatic records have later revealed that Western countries followed the Chinese involvement closely and partially reevaluated their understanding of the PRC’s capacities in Africa as a consequence (Altorfer-Ong 2003; Monson 2006).

3.3 Political Considerations

Following the official end of the Cultural Revolution in 1969, the PRC begun to repair the damages that had been done, and slowly shifted from using its foreign policy for ideological pursuits, including countering the influence of the Soviet Union, to promoting domestic political goals (Bih-jaw, 1982). In Africa, the emphasis on revolution was toned down and the PRC made

clear to the independent countries that it would no longer support insurgents or rebellions against free, but non-socialist, governments. This improved relations with the free countries in Western, northern and eastern Africa and made it possible for China to focus its attention on the remaining colonies and white-minority controlled countries in the south (El-Khawas 1973). In this regard, China's close contact with Tanzania and Zambia proved advantageous as the Liberation Committee of the Organisation of African Unity (OAU) was headquartered in Dar-es-Salam and several liberation organisations had offices in Lusaka. China also began increasing its aid funding, and to widen its development cooperation to countries that could not be considered socialist or even supportive of Beijing's policies. Taylor (2006, 45) cites as an example the establishment of the of the first air link between China and Africa through Ethiopia – a country that was then ruled by an emperor.

October 1971 saw the People's Republic of China make a major foreign policy gain at the United Nations (UN). The Republic of China (ROC) had been one of the founders of the UN in 1945 and retained the role of representing China at the organisation even after the People's Republic had been established on the mainland and the ROC government forced to settle in Taiwan. Since the 1960s, annual resolutions had however been introduced by allies of the PRC at the United Nations General Assembly to wrest the seat at the UN from the government in Taiwan and give it to Beijing (El-Khawas 1973). As long as the UN remained Western-dominated the resolutions failed, but following the independence of increasing numbers of African countries, the balance of votes slowly shifted till the General Assembly in 1971 decided:

[...] to restore all its rights to the People's Republic of China and to recognize the representatives of its Government as the only legitimate representatives of China to the United Nations, and to expel forthwith the representatives of Chiang Kai-shek from the place which they unlawfully occup[ied] at the United Nations and in all the organizations related to it (United Nations General Assembly 1971).

The general shift in policy notwithstanding, the ambition of countering Moscow's influence still effected the PRC's policies towards some rebel groups and independent countries, and in the case of Angola lead to a major set-back. In the final years of the struggle for Angolan independence from Portugal, the Popular Movement for Liberation of Angola (MPLA) was primarily associated with Cuba and the Soviet Union, and the National Union for Total Liberation of Angola (UNITA) in an uneasy alliance with the National Front for the Liberation

of Angola (FNLA) with the US, South Africa and China. When Portugal in 1974 announced that they would withdraw from Angola in the following year and the different organisations begun fighting amongst themselves to secure their positions ahead of independence, South Africa, with encouragement from the US, sent troops to support UNITA and FNLA, and Cuba, with logistic support from the Soviet Union, did the same to support MPLA. While the PRC tried to limit its engagement in the conflict, it was clearly siding with the US and white-minority controlled South Africa in an armed struggle against two revolutionary socialist countries. The Soviet Union did not fail to exploit this in its propaganda and many African countries and liberation movements had a hard time understanding the Chinese rationale (Klinghoffer 1980, 101-108; Valenta 1978).

3.4 The Open Door

In a speech to the UN General Assembly in 1974 Deng Xiaoping had modified Mao's theory of the two world systems. Deng considered that all countries fitted into three groups: the two contending superpowers formed the First World; other developed countries the Second World; and the developing countries of Africa, Asia and Latin America the Third World. China was thus a member of the wide group of developing countries and tried to position itself as a leader within this group, and as a staunch opponent of superpower hegemonism. Deng's speech also included a strong reference to the need for a more equitable economical world order, placing China as strong advocate of the interests of the developing world (Taylor 2006, 43-44).

After Mao's death in 1976, the policies that Deng implemented followed a very different logic. Under the 'Open Door Policy', which was launched in 1978, Deng initiated domestic liberalisation projects that strived to integrate China in the global economy and to learn from the successes of the developed countries. Both in domestic and foreign policy, Deng promoted a policy of stability that would allow for economic growth, over strictly adhering to ideological doctrines (Deng 1994, 20-21, 62-65; Taylor 2006, 49-53). Furthermore, Hsiung (1988) quotes Deng Xiaoping as saying "When we decided on the domestic policy of construction, we adjusted our foreign policy". Accordingly, components of the foreign policy that had been designed to serve political purposes were downgraded in favour of economical priorities. For example, many large aid projects, such as the construction of TAZARA during the early 1970s, were no longer considered as generating sufficient economical returns (Copper 1986, 117-118).

Although China needed to cooperate with the West to gain access to capital and technology for its development, the government did not want to give the impression that the PRC had turned its

back on the developing countries (Taylor 2006, 56-60). Thus, Zhao Ziyang became the second Chinese Premier to take a tour of Africa when he visited Egypt, Algeria, Morocco, Guinea, Zaire, Congo (Brazzaville), Zambia, Zimbabwe, Tanzania, Kenya and Gabon in December 1982. Through what he said and did, Zhao did however signal that much had changed since Zhou's visit in 1963. For example, Zhao emphasised that the PRC would not meddle in conflicts within independent African countries – such should be solved through peaceful means, without foreign interference – and he was willing to meet representatives of the soviet-friendly liberation organisations ANC and SWAPO. Zhao also used the trip to introduce four principles that would guide China's future economical cooperation with African countries. They were: equality and mutual benefit; emphasis on practical results; diversity in form; and common development. Chang Ya-chun (1983, 11) describes what this meant in practice:

[Beijing] will no longer unconditionally provide African countries with aid. The development of such cooperation must be based on mutual benefit and the actual needs and possible conditions of both sides.

Despite Zhao's trip, by the mid 1980s it became clear that Africa had slipped far down the list of Beijing's foreign policy priorities. The domestic agenda of rapid modernisation required that China make its peace with the two super powers and use all its resources to achieve economic development. Taylor (2006, 60) points out that the *People's Daily* during this period went so far as to blame the slow progress in some developing countries on “errors in policymaking” rather than hegemonism or an unfair world order.

3.5 Tiananmen and Beyond

The move towards closer relations with the developed world came to an abrupt end following the Chinese government's decision to strike down the Tiananmen Square protest of 1989. Whilst the West reacted by freezing diplomatic relations and imposing sanctions, developing countries kept quiet for the most part (Richelson and Evans 1999). The PRC resented the censure by developed countries labelling it hegemonistic and neo-imperialistic, and therefore began to reassess its strategic position. Through a series of visits of Chinese dignitaries to Africa and African leaders to China, the PRC sought to reinforce its relationship with the continent. The People's Republic was very pleased to note that African government in general “understood” the necessity of striking down the counter-revolutionaries at Tiananmen. Interestingly, during these

visits Chinese officials began to emphasize the wealth of natural resources and development potential of African countries (Taylor 2006, 62-65).

While Deng remained influential until his death in 1997, after Tiananmen the so-called third generation of Chinese leaders began to assert itself. Jiang Zemin ascended to the post of Secretary General of the Communist Party of China (CPC) in 1989 and became President of the PRC four years later. Fearing that the reform policies were being questioned, Deng in the spring of 1992 toured the major cities of southern China and made a series of speeches that reaffirmed the importance of economic reform. Hou (2011) writes:

To most, this is the true pivotal point of China's economic Reform. The 1989 Tiananmen student demonstration rocked the [CPC] to its core and the future of the reform was at doubt. Deng's southern tour reaffirmed the determination [...] and restored courage (Hou 2011, 423).

If their convictions had been wavering before, from 1992 President Jiang and fellow third generation leaders, Premiers Li Peng and later Zhu Rongji, firmly supported the economic reform programme. The fourteenth congress of the CPC in the autumn of 1992 also gave its full support to the policies initiated under Deng by confirming that the Party's key task was to establish a "socialist market economy" (Lau 1999). Since China was thus at once, seeking to continue the economic reform programme, and unwilling to increase its reliance on the West, the developing world, and in particular Africa, regained the centre-stage of Chinese foreign policy making. An example of the foreign commercial policy of this period, the 1999 "Going Global Strategy" marks the point where the PRC moved from regulating to encouraging Foreign Direct Investment (FDI) by Chinese companies (Cai 2006). The 1990s are however also noted as the period when corruption began to pervade Chinese institutions. At the time, Overholt (1996) wrote: "[...] China had a well-deserved reputation as substantially free of corruption. Now corruption is pervasive, and the speed with which it has spread is frightening." Indeed, this development is confirmed by the ICRG – in terms of corruption, China fell from a score of four out of six, to one, in the course of the 1990s (Political Risk Services 2005).

In the early 2000s a new group of Chinese leaders, often referred to as the fourth generation, began to take over the helm of the PRC. General Secretary Hu Jintao and Premier Wen Jiabao both assumed office in 2003, and have since begun to leave their mark on the PRC's policies. Under these leaders, expected to remain in office until 2012, the focus of reform efforts has

expanded beyond the creation of a socialist market economy to a “Scientific Development Concept”. In essence this policy strives to foster broad-based and sustainable development in the whole of China including, in particular, the hinterland (Fewsmith 2004). The policies of the fourth generation have however on occasion been criticised for abandoning the policy of economic reform in favour of populist market interventions. For example, Scissors (2009) argues that the Chinese government has recently focused solely on promoting growth, leaving aside market reform, and occasionally even reversing privatisation and reintroducing state controls.

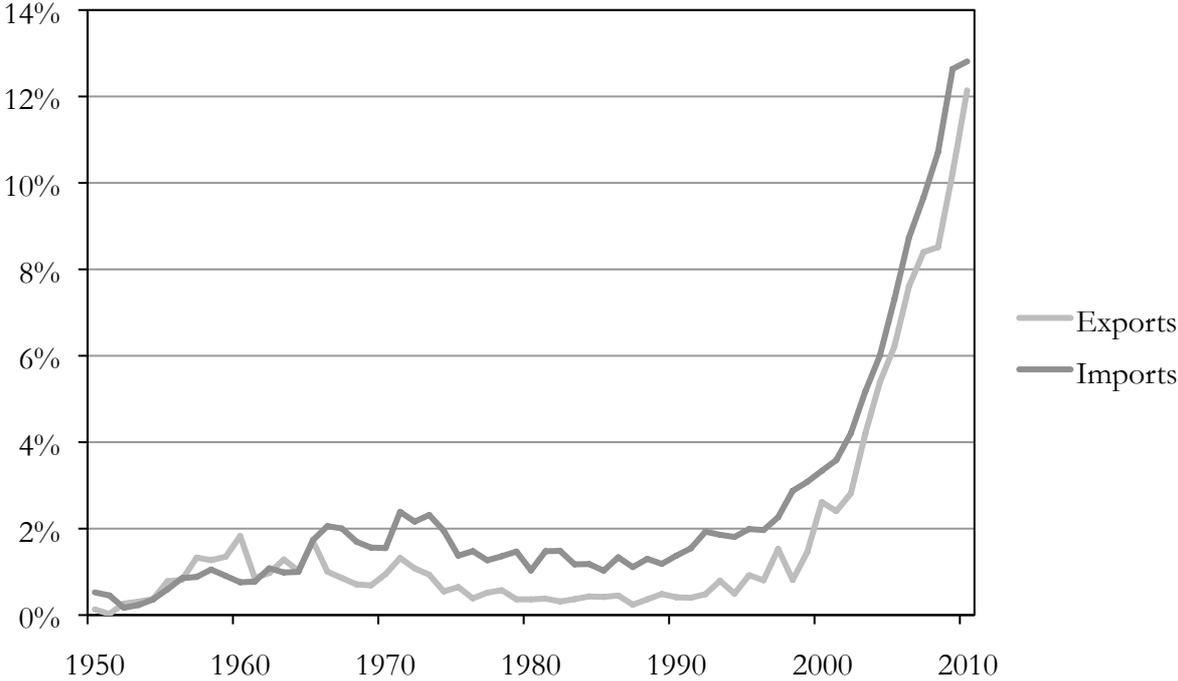


FIGURE 1 China’s Share in Africa’s Total Trade, 1950-2010

Source: Calculations based on data from IMF (2011).

In the 2000s, the relationships between China and the countries in Africa has matured, and more and more come to resemble other bilateral relationships in that the number of exchanges has increased beyond the control of the governments in either China or Africa. Indeed, between 1995 and 2010 total trade between China and Africa grew from 2 billion US dollars in current prices to 120 billion. As can be seen from Figure 1 this has entailed a significant increase in China’s share of Africa’s total trade. Chinese authorities have however been attempting to retain control over the general development of Sino-African relations. One strategy that has been launched by the government for this purpose is the Forum on China-Africa Cooperation (FOCAC) – enormous triennial conferences where China’s national and local governments and private companies meet their African counterparts (Brown and Zhang 2009). Four FOCAC meetings have been held to

date: two ministerial conferences in Beijing in 2000, and in Addis Ababa in 2003; followed by a summit in Beijing in 2006; and most recently another ministerial conference in Sharam el-Sheikh in 2009. Each conference has agreed ambitious action plans covering political, economical, cultural and scientific areas of cooperation, which have then been subject to a series of follow-up meetings before the next conference (see for example FOCAC 2009). During each conference, China has also announced far-reaching development cooperation commitments – in 2009 it included 10 billion USD in concessional loans, a continued removal of tariffs that would result in 95 percent of goods from the least developed countries trading tariff free, constructing 100 small-scale clean energy power plants, and offering training for 20 000 African professionals (Wen 2009).

In 2006 China published its first official “Africa Policy” (Ministry of Foreign Affairs of the People's Republic of China 2006). As such, the text draws heavily on the five principles for peaceful coexistence introduced in 1954, the four principles on Chinese economic cooperation presented in 1982 as well as the declarations from the first two FOCAC meetings. The policy is far reaching – covering trade, investment, development cooperation, political relations, science, technology, and culture – and includes commitments that would have to be executed by both public and private bodies. Interestingly, democracy, the rule of law and human rights are mentioned in the policy, but the first two only as principles that should govern inter-state relations and the latter simply as an area where China will coordinate its position with Africa before multilateral negotiations (e.g. at the UN).

3.5 Why Trade with China Differs from Trade with the West

The trade between China and Africa, as well as domestic Chinese institutions, have several distinct features that may set Sino-African trade apart from trade between Africa and the West in terms of intuitional change. As an initial observation, in the 2010 Freedom House Index, out of the 53 African countries included, only five received worse scores than China, whereas one performed better than the worst country in the Western group (Freedom House 2011). As for the 2004 International Country Risk Guide, out of 37 African countries included, seven received a worse score than China, but none performed better than the worst Western country (Political Risk Services 2005).² The waste majority of African countries thus perform better in the FHI and

² See the next chapter for a list of the 16 countries that are included in the Western group, as well as for details on how the FHI and ICRG indices are specified.

ICRG than China, but worse than the West. Clearly, the effects of socialization and harmonisation with China or the West must be very different.

Further to this, there are at least three more specific reasons why trading with China may have different effects from trading with the West. Based loosely on the structure in section 2.2 these arguments are outlined here. First, it is commonly noted that in order to compensate for poor institutions, entrepreneurs in China rely on social networks, known under the term *guanxi*, to lower the costs of transacting. Xin and Pearce (1996) note:

In China, *guanxi* usually does not carry negative connotations, whereas allowing something to be decided by open competition instead of by using connections may be considered stupid and disloyal.

Trusting in relations for security is obviously different from relying on rights and courts. Recent studies have found that Chinese migrants tend to continue to rely on *guanxi* and ethnic Chinese networks when conducting business in their new countries. They further tend to conduct a large portion of their trade with their old homeland (Loong and Primecz 2011, and Rauch and Trindade 2002). Loong and Primecz (2011) suggest, with a reference to the comprehensive study by Ong and Nonini (1997), that Chinese migrants use networks to “dodge, avoid, elude and circle around the regulation and assets of a variety of countries”. To the extent that trade with China is related to the presence of migrants, trade may thus lead to the establishment of a parallel set of institutions that undermines the established order.

Second, Chinese and Western companies are bound by very different rules when they engage in foreign trade. Starting from the Foreign Corrupt Practices Act (FCPA), which was adopted in the US in 1977, and continuing through the OECD Anti-Bribery Convention of 1997, Western governments, international organisations and civil society have established, what Sandholtz and Gray (2003) calls, an “international anticorruption regime” in the West. Brautigam (2009, 295), who on other occasions takes a relatively permissive stance on Chinese activities in Africa, states that: “From China we see mixed messages on the issue of corruption overseas, leading to the conclusion that it will be some time before these practices are even made illegal, a necessary first step.” However, Brautigam (2009, 296) also points out that change may soon be coming, since the Chinese Communist Party has made an indicative commitment in a political programme on anti-corruption to introduce legislation prohibiting foreign bribery before 2012. Without pre-

judging the outcome of this legislation, it is clear that during the period covered by this study, Chinese and Western companies were operating under comparatively different constraints.

Finally, the most contested point, many authors suggest that China has an unhealthy hunger for African natural resources. As part of an introduction on the relationship between China and Africa Rotberg (2008, 1) writes “[China] ravenously seeks raw materials [...] Whatever primary resources are buried beneath the soils of sub-Saharan Africa, China needs them to feed its massive industrial surge”. Goldstein *et al* (2006, 53) make a connection between China’s demand for natural resources and deteriorating institutional quality in Africa, but do not detail whether China has a different impact than other countries. While these claims are often made in passing and sometimes without sufficient evidence, not least in the media, and other authors such as Brautigam (2009, 277-281) dispute the claim that China is behaving differently from other actors in need of natural resources, there is a grain of truth to this narrative. It is clear that in some countries in Africa, China has gone beyond what Western governments consider appropriate in order to gain access to natural resources. Sudan is a case in point, where Chinese companies are the key actors in the oil industry and the Chinese government has been unbecomingly slow in reacting to the desperate political and humanitarian situation (Brautigam 2009, 281-284, and Askouri 2007). Zimbabwe is another, albeit less evident, example that is often quoted (see for example Karumbidza 2007 and Taylor 2006, 106-126). In countries where Western entrepreneurs would not necessarily otherwise be active, Chinese companies may thus cause institutional decay by making natural resource rents accessible to the government.

In conclusion, during the period considered by this study, Chinese and Western entrepreneurs have been bound by different legal and normative constraints, and have been behaving differently, when trading with Africa. Trade with Sudan and Zimbabwe may also point to a tendency for Western and Chinese entrepreneurs to chose different partners in Africa. In line with the social conflict view and the theories presented in the previous chapter, it could thus be expected that the institutions in African countries are affected in different ways depending on the extent of trade between that country and China or the West respectively.

4 Results

In line with the theory presented above, this chapter examines the hypothesis that institutions in African countries have been affected in different manners by trade with China and by trade with the West. As was seen in the previous section, the current forms of cooperation between China and Africa, including on trade, aid as well as political and military issues, did not emerge until after the end of the Cultural Revolution and the beginning of domestic reforms in China; this chapter will therefore focus on the period after 1978. To test the hypothesis, this chapter uses a cross-country Ordinary Least Squares (OLS) regression analysis. Although a panel data study may appear the best choice for exploring the issues at hand, the relatively slow changing nature of institutions, combined with the limitations in data, have prompted this choice of method.

Due to restrictions in data – in particular the lack of disaggregated trade statistics – Botswana, Eritrea, Lesotho, Namibia and Swaziland are not included in any of the regressions below. In view of the fact that these five countries represented only one percent of the population and two percents of the GDP of Africa in 2010, this omission is not likely to have a great impact on the results. Furthermore, given the geographical, political and institutional diversity of this group, there is no reason to expect that the lack of data represents a systematic bias. Furthermore, the recent addition of South Sudan, as well as the disputed territories of Western Sahara and Somaliland, will be considered as part of the countries from which they have or are attempting to secede. The full sample thus includes 48 African countries, but due to variations in the availability of data from year to year the highest number of observations reached in any one regression is 42.

For the purposes of this chapter, the West will be defined as the EU-15 countries and the United States. While admittedly arbitrary, this delineation includes a group of countries that constitute the core of Western political and economical life. Their memberships in a cluster of regional and international organisations – including the European Union, the Organisation for Economic Cooperation and Development, the general Agreement of Tariffs and Trade, later the World trade Organisation, the Paris Club and various others – provide for a fairly homogenous set of policies on trade, aid and other forms of international cooperation. Furthermore, this definition includes all former European colonial powers that in some cases maintain close relationships

with their former dependencies. It is important to note that this group represents a significantly larger share than China of Africa's total trade. For example, at the turn of the millennium, 57 percent of Africa's total trade was directed towards the West, and only three percent to China.

The following sections will describe the dependent and independent variables in greater detail. Thereafter follows a presentation of the core specification for the regression analysis and the control variables that are used. The section then concludes by introducing and reviewing the findings.

4.1 Dependent Variables

As a measurement of institutional change, this chapter uses the total change in value from the start till the end of a period in the two indices issued by Freedom House (FHI) and three components in the International Country Risk Guide (ICRG). The first two dependent variables are compiled by Freedom House and issued yearly (see for example Freedom House 2010). The two indices are titled "Political Rights" and "Civil Liberties", both make use of a discrete scale from one to seven where one is awarded to the "most free" countries. For the purposes of this study, the scales have been reversed so that the indices range from zero to six, where the countries receiving a six are the most free. This has been done to improve clarity – lower numbers now represent worse institutions. The dependent variables, measuring change in the indices, thus have a potential range from minus six to six. A great advantage of the Freedom House Index is that it contains data for all countries in the sample for the full period under consideration. Data from the Freedom House Index is available from 1972 till 2010.

The political rights index largely reflects the structure of political institutions, notably aspects such as freedom of association, public corruption and electoral competition. The civil liberties index includes fundamental rights such as freedom of speech, but importantly also the quality of economical institutions such as property rights and labour market regulation. Significantly, for a study that focuses on institutional change, the FHI is based on a methodology where last year's ratings are used as a benchmark for current evaluations, and changes in scoring must be motivated by observable changes (Freedom House 2010).

The second set of dependent variables come from the International Country Risk Guide – a vast set of data, primarily compiled to provide companies with information about political risk in foreign markets. The ICRG provides information and forecasts on everything from

socioeconomic conditions and regime stability, to inflation and public debt. In this study, three components are used that together correspond well to North's (1990, 3) definition of institutions as the "rules of the game" in both politics and economics. The three are: "Democratic Accountability" which is rated on a continuous scale from zero to six; "Bureaucratic Quality" rated on a continuous scale from zero to four; and "Corruption" rated on a continuous scale from zero to six. In this case, the dependent variables, measuring change in these indices, thus have potential ranges from minus six to six, and minus four to four, respectively. Data from the ICRG is available for a smaller set of countries, from 25 to 38, with the selection of countries varying slightly from year to year. The data is available from 1984 till 2004 (Political Risk Services 2005).

In brief, the democratic accountability variable measures how responsive a country's government is to the opinions and needs of its population. The bureaucratic quality variable measures how independent the bureaucracy is from political influence and if it is able to provide services continuously in periods when the government is in the process of being replaced. The corruption variable focuses on the relationship between businessmen and politicians, and in particular the occurrence of "patronage, nepotism, job reservations, favor-for-favors, [and] secret party funding" (Political Risk Services 2011).

The ICRG is not based on the same kind of year-to-year benchmark comparison as the FHI. Instead, each variable that is included in the dataset is re-evaluated for every year based on underlying features. This method increases the risk that data is based on subjective assessments, and may change with the person performing the evaluation. This difference in methodology is however not surprising, since the ICRG is compiled to provide forecasts for private companies, whereas the FHI is produced for advocacy purposes primarily.

Table three presents the correlation between all dependent and independent variables for the period from 1990 till 2000. Interestingly, while the two indices produced by Freedom House are closely correlated (0,80), the three measurements from the ICRG display only low (0,26 and 0,05) or negative (-0,17) correlation. This implies that the results may vary subject to which index is used as the dependant variable. Simply put, the study's hypothesis may find varying levels of support depending on which index is used. While this is all in good order, it is also interesting to investigate whether effects of trade can be identified at an aggregated level. For this reason, in addition the two FHI indices will be combined into one variable, and the three ICRG indices into another. The resulting dependant variables will logically have potential ranges from minus twelve

to twelve, and minus sixteen to sixteen, respectively. While it may be feasible to take one step further up the ladder of aggregation and combine all five indices into one, such an approach implies an unacceptably large risk of creating an unbalanced index, where some aspects of institutions are counted twice and others only once or not at all, and where different effects cancel each other out.

4.2 Independent variables

To measure relative trade between China, Africa and the West, this study makes use of data from the International Monetary Fund's (IMF) Direction of Trade Statistics (DOTS) database (IMF 2011). Imports from and exports to Africa from China and the West respectively, are added and then related to each country's total trade with the world. While the DOTS lacks entries for some countries – notably Botswana, Eritrea, Lesotho, Namibia and Swaziland, as was pointed out above – it has the advantage of providing consistent data for most other countries over long periods. For the majority of countries in Africa, data is available from 1975 till 2010.

The trade shares only carry information on the relative size of trade, but in order to examine the effects on institutions outlined above, it can also be useful to include a measurement of total trade. A country that trades little in general but a lot with one partner, could probably be expected to be more influenced by that partner than a country that trades a lot and has several, equally important, main partners. In order to consider this aspect, the regressions will be based on two different specifications. Half of the regressions will have the trade shares enter the regression in parallel with a variable measuring trade openness – henceforth called specification I. The other half will instead have trade shares that are interacted with the trade openness variable – hereafter specification II. Trade openness is measured as the value of a country's total trade divided by its total GDP.

Specification I

INSTITUTIONAL CHANGE
 = *TRADE CHINA*
 + *TRADE WEST*
 + *OPENNESS*
 + *CONTROL VARIABLES*

Specification II

INSTITUTIONAL CHANGE
 = *TRADE CHINA * OPENNESS*
 + *TRADE WEST * OPENNESS*
 + *CONTROL VARIABLES*

In order to avoid some of the problems posed by the endogenous nature of the relationship between trade and institutions, the independent variables will always enter the regressions with lags. As was stated above, considering that institutions often change very slowly, short lags might not be sufficient to completely rule out endogeneity. At the same time, by going too far back in time, relevant effects may become indistinguishable from the disturbances of day-to-day events. Seeking to strike a compromise between these two factors, the regressions below will use the value of the trade variables at the start of each period under consideration.

4.3 Control Variables

Unlike studies that use institutional quality as the dependent variable, this study will not include variables that control for historical factors such as legal or colonial origin and religion. Such aspects are largely invariant over time and can therefore be expected to have a very limited effect on the institutional change that occurs today. The fact that a country was colonised by France or Great Britain 150 years ago should not be requiring continued institutional readjustments today. As Brautigam and Knack (2004) point out, it is on the other hand unlikely that institutions have fully adapted to more recent phenomena – for example, in the case of this study, the recent increase in trade between China and Africa.

Initial Institutional Quality

On a bounded scale, countries that start out with very good or very poor values have limited room for respectively improvement or deterioration. Once at the bottom, countries can only do better, and from the top they can only fall back down. In order to control for this, the regressions will include the initial institutional quality as control variable.

Size and Growth of the Economy

The discussion on the relationship between the size of countries and institutional quality has so far proven inconclusive. For example, Srinivasan (1986) points to two counteracting mechanisms. First, he contends that the vested interests may be fewer, and social cohesion greater, in small countries. On the other hand, he argues that there are economies of scale in providing institutions. As an example he point out that all countries, regardless of their size, require roughly the same number of government departments and services. The first argument suggests that small countries have better and more stable institutions, while larger countries are susceptible to social conflict that leads to instability and weaker institutions. The second arguments proposes

the opposite, that larger countries are more stable and have better institutions, since they have a better mix of needs and resources. The first argument thus beckons the inclusion of a measurement of country size whereas the second a measurement of growth. For this reason, initial GDP per capita as well as GDP growth and population growth will be included as control variables. Data for these variables comes from the World Development Indicators (World Bank 2011). They are available for all countries and all years under consideration.

Political Violence

Revolutions, coups, wars or other forms of violence that affect a society are in essence exogenous to the normal process of institutional change. Certainly, social conflict may turn hostile, but in essence violence is a very blunt tool for institutional change since it, in and of itself, reduces confidence and restricts the free flow of information. Therefore, a measure representing the fraction of years in a period that a country has experienced any form of political violence – defined as ethnic or revolutionary wars, genocide, adverse regime change or the assassination of political figures – will be used as a control variable. Data for this variable comes from the Political Instability Task Force’s State Failure Problem Set (Marshall *et al* 2010). It is available for all countries and for all periods under consideration.

Natural Resources

The literature on natural resources presented above suggests that the inflow of natural resource rents can cause institutions to decay. Furthermore, it is important to distinguish between the effects of natural resource trade in general, and natural resource trade between China or the West and Africa. For this reasons, the fraction of natural resource rents in GDP at the start of each period will be included as a control variable. Data for this variable comes from the World Development Indicators (World Bank 2011). It is available for the majority of countries and years under consideration.

4.4 Main Results

Following the approach of Brautigam and Knack (2004) this section will present the results both of regressions covering the whole period of interest – or in the case of the ICRG, the parts of that period for which data is available – and of a series of regressions covering shorter periods of time. Brautigam and Knack (2004) consider a related but different subject – the effect of aid on institutions – but it is all the same appropriate to transfer their approach to this study for at least

three reasons. First, the Chinese share in Africa's total trade begun to grow beyond just a few percent very recently. The effects that this study seeks to identify may thus have become visible only in the most recent years. Second, the trade patterns and policies of both China and the West have evolved significantly over the past three decades. Using trade shares and lagged control variables from 1978 overlooks all of these changes. Third, the quality and availability of data has improved over time. Thus, when analysing shorter periods, more and better data successively becomes available, potentially improving the quality of results.

Tables four to seventeen in the appendix present the complete regression results. For each dependent variable – the two FHI indices, the three ICRG indices and the two aggregates – a regression covering the full sample period is followed by further regressions focusing on shorter periods. For ease of comparison, decade-long periods are consistently used. This means that the FHI regressions consider changes in the following periods: 1980-1990, 1990-2000, and 2000-2010. For the ICRG variables the following periods are used: 1984-1994, and 1994-2004. In addition, to further facilitate comparison between the two sets of variables an additional period is added for the ICRG: 1990-2000. Even numbered tables present results using specification I, and odd numbered tables specification II.

The regressions that use the Freedom House variables and cover the full period from 1978 till 2010 provide for few conclusions as regards the impact of trade with China or the West (regressions 1, 5, 9 and 13). The relevant estimates are far from being significant, and sometimes change both size and sign depending on the specification, for both political rights and civil liberties. This result is also carried through to the regressions that use the aggregate of the two variables (regressions 41 and 45). While this result may mar any ambition of finding a lucid and coherent theory on trade and institutions, it is not surprising. While the regressions in question manage to explain a large portion of the changes in institutional quality, and many of the control variables are highly significant, the period is simply too long for an initial value to be able to explain the subsequent events. The insignificance of the control variable for initial natural resource rents reaffirms this line of reasoning. Furthermore, as will be seen in the following regressions, trade has often had a dissimilar impact in different periods, implying that any change, which is later reversed, is overlooked in an analysis that only considers the initial and final institutional quality.

When considering the decade-long regressions for political right and civil liberties, an interesting pattern emerges. While not all estimates are significant at ordinary significance levels, diverging

patterns for each decade are apparent. It would appear that trade with China had a more positive effect on institutions than trade with the West in the 1980s (regressions 2, 6, 10 and 14). In the 1990s this trend was reversed and China had a more negative impact than the West (regressions 3, 7, 11 and 15). For the 2000s no clear tendency stands out and the estimates are far from significant (regressions 4, 8, 12 and 16). This pattern is also confirmed by the regressions using the aggregate of the two FHI variables (regressions 42, 43, 44, 46, 47 and 48). It is interesting to link this development with the domestic situation in China during the three decades. In broad terms, the 1980s marks a period when the PRC focused on its domestic development and interacted with Africa only to the extent that there were opportunities for mutual development. Following Tiananmen, in the 1990s, China again became interested in the politics of Africa, but also in the continent's natural resources. The third generation leaders continued to pursue economic reform, including by launching the Going Global Strategy, but at the same time corruption grew in China. In the 2000s a new generation of leaders took over the helm. Like in the 1980s their key priority was domestic development, but what is more, the relationship between China and Africa had grown far beyond the control of government. It would follow that trade with China has had a negative impact on African institutions in periods when the PRC has actively sought political support from African governments, but a positive impact when emphasis has been placed on mutual cooperation. What is more, the domestic institutions in China, in particular the increasing occurrence of corruption, could be interpreted as having an impact on developments in Africa.

The results for the 1990s in the regressions using the three variables from the ICRG however speak against drawing any far-reaching conclusions from the FHI regressions. In these regressions the results from one specification are generally reversed in the other and none of the estimators are significant at the usual significance levels (regressions 20, 24, 28, 32, 36, 40, 52 and 56). The possible exception is the regressions on corruption, where China is found to have a more negative effect than the West, albeit the results are still not significant (regressions 36 and 40). This said, in the regressions covering the periods 1984-1994 and 1994-2004 a pattern similar to that in the FHI regressions emerges. The results tend to point to China having a similar or more positive effect than the West in the first period, and a more negative effect in the second period. It must however be pointed out that even if this trend is distinguishable in most of the ICRG regressions, and in the regressions that aggregate all three variables, the estimates do not reach ordinary significance levels (regressions 18, 19, 22, 23, 26, 27, 30, 31, 34, 35, 38, 39, 50, 51, 54 and 55).

Another relevant feature, following from the arguments above regarding the correlation among the ICRG variables, are the quite divergent results among the ICRG regressions that consider the full period 1984-1994. For democratic accountability, the estimate for China is large and positive and for the West small and negative under both specifications. In neither case are the estimates significant. For bureaucratic quality, both China and the West have a negative effect, but the coefficient for China is much larger. Here the results are significant under specification I only. For corruption, no clear trends can be discerned. While in-depth interpretations of the size of coefficients can be dubious due to the large differences in the relative trade shares of China and the West, points to the fact that the impact of trade is not uniform across institutions but must be studied in detail.

Two final observations that fall outside the main scope of this study: First, an interesting, albeit disconcerting, observation is that the explanatory power of the model used in the regressions, is decreasing over the decades, when the FHI variables are used. *Nota bene*, this trend cannot be observed for the ICRG regressions. Are some aspects of institutional change being driven, to a greater and greater extent, by factors that are not modelled here? Is Freedom House slowly changing its assessments of institutions? Perhaps the trend is due to the fact that the influence of China and the West are no longer distinguishable, as the regressions from the 2000s would suggest. This study does not provide for a conclusive discussion of the subject.

Second, a brief comment on the control variables is warranted. In most regressions the control variables behave as expected, usually displaying the expected sign and many times having a significant impact. On the rare occasion they do however change sign from period to period or from one specification to the other in a manner that suggests that the regressions may be lacking some element or are not perfectly specified.

4.5 The Quality of the Results

The analysis above contains two built-in robustness checks. First, the use of five different measurements of institutional quality, drawn from two different sources, tests whether any results are contingent upon the definition of the dependent variable. Second, the two versions of the trade shares variables test whether any results are contingent upon the specification of the regressions. In the present case, the tentative results that emerge are sometimes contingent on the specification of the regression, and sometimes vary according to which dependent variable is

used. This points to three potential weaknesses of any results – either they are based on poor data, or the regressions are inaccurately specified, or the underlying theory is wrong.

First, the availability and quality of data. Due to limitations in the availability of information, many of the regressions consider only roughly half of the countries in Africa. It is questionable whether the selection of countries can be seen as randomised or whether it in itself reflects the quality of institutions. It is possible that some countries are not included in the datasets because they have so poor institutions that they are not capable of compiling and reporting even the most basic statistics. Additionally, for the ICRG in particular, the availability of data may be driven by the demand for information from the PRS' customers.

Furthermore, as was pointed out in the first chapter of this study, many of the institutional changes that are brought about by trade may be of a nature that is not well reflected in the broad measures produced by Freedom House and PRS. The establishment of institutional structures at a sub-national level, in a specific region – such as an export-processing zone – or for a small group of entrepreneurs – for example networks of Chinese entrepreneurs – might not be reflected at all. Furthermore, as will be discussed further below, it is almost impossible to measure some abstract concepts, such as the presence of Sandholtz and Gray's (2003) "international anticorruption movement".

Second, the specification of the regressions. As suggested in chapter two, research on institutional change has yet to produce conclusive results. A limited understanding of the underlying mechanisms by necessity constrains the ability to accurately specify regressions. While omitted variable bias is a serious concern, including variables without sufficient theoretical support makes for results that are difficult to interpret. By including a set of control variables that are legion in studies of institutional change, this study will, if nothing else, not be worse of in terms of specification than other studies. Furthermore, by contributing to the research on institutional change, this study is a building block in the construction of a complete theory.

Third, the underlying theory. While errors in data and specification pose serious problems in any regression analysis, any failing to find clear results must first and foremost be seen as a failure of theory. The arguments outlined in chapters two and three can be criticised on several grounds. Like the data on institutions, the theory largely fails to take into account large abstract trends in society. By focusing on the immediate incentives and actions of entrepreneurs, the theory may overlook relevant aspects of what Douglass North (1990, 22-23) terms ideology. For example,

perhaps the global movement against corruption (Sandholtz and Gray 2003) is making it more difficult for entrepreneurs to adopt the institutions that would provide them with the most benefits. Furthermore, the discussion in chapter three may overestimate the Chinese influence in comparison to the West. Since more than half of Africa's trade still goes to the West, comparing with China might simply not be meaningful.

On very a different note, the results presented in this section are very robust to changes in data source and specification of the control variables. To save space, alternative regressions with data from other sources on GDP, population, political violence, and resource rents, are not included in this study. The results for those regressions is however essentially identical to the results presented here.

5 Conclusions

The literature on China in Africa has often been vague and inconclusive, but the results of this study may provide for structuring the debate around more concrete topics of research. While this study is susceptible to all three weaknesses discussed in the preceding section, it does allow for some tentative conclusions to be drawn. The results provide some support to the hypothesis that institutions in African countries have been affected in different manners by trade with China and by trade with the West. As was outlined above, in some periods, some institutions saw diverging effects from trade with the two. By extension, this conclusion also provides support for the broader hypothesis that it does matter whom a country trades with.

The notion that the effects of trade on foreign partners are contingent upon domestic institutions and policies was outlined above. If the result that trade with China produced positive changes in the 1980s, but the opposite in the 1990s, can be confirmed by future studies, the question of why this is so must be addressed in further detail. The connections to changes in leadership and the degree of domestic corruption in China have already been pointed to, but they need to be explored further. How did the incentives of the Chinese entrepreneurs who engage in foreign trade change from the 1980s, through the 1990s, up until the present time? How does worsening corruption at home translate into a decay of foreign institutions? In this regard the notions from chapter three that Chinese foreign traders are bound by different constraints than their Western colleagues, and bring with them institutions that they had been using at home, remain valid.

Looking ahead, this study provides for several potential areas for further research. First, for the most recent years, sufficient data is available to conduct a panel-data study of the influence of China in Africa. Such an approach may allow for better modelling of the fact that China's share of trade is rapidly increasing from a very low level, while the long established primacy of the West is slowly being diminished. Second, in order to test the robustness of the results outlined above, an instrument variable approach may be feasible. This would however require that the driving forces behind Chinese trade be further explored, in order to enable the construction of

efficient instruments. Third, when quantitative studies encounter difficulties, qualitative work may clear the way. The literature on China in Africa is over-flowing with anecdotes, but actual case studies based on systematic interviews and fieldwork are very rare.

In conclusion, this study contributes to the debate on China in Africa by illustrating that the reality is far more complex than what parts of the more polemic literature would suggest. While trade with China might have had a negative impact during some periods and on some parts of the institutional structures in Africa, no doomsday scenario is warranted. In fact, Chinese trade has also had some positive effects. Furthermore, this study contributes to the development of theory on institutional change, both by “fleshing out” the social conflict view through connecting it to the literature on trade and institutions, and by suggesting avenues for future research.

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Annexes

Variable	Description	Source
FHPR	Change in the political rights index	Freedom House 2011
FHCL	Change in the civil liberties index	Freedom House 2011
FHIN	Aggregated change in FHPR and FHCL	Freedom House 2011
FHPI	Initial value of political rights index	Freedom House 2011
FHCI	Initial value of civil liberties index	Freedom House 2011
FHII	Initial value of the aggregated political rights and civil liberties indices	Freedom House 2011
ICDA	Change in the democratic accountability index	Political Risk Services 2005
ICBQ	Change in the bureaucratic quality index	Political Risk Services 2005
ICCO	Change in the corruption index	Political Risk Services 2005
ICRG	Aggregated change in ICDA, ICBQ and ICCO	Political Risk Services 2005
ICDI	Initial value of democratic accountability index	Political Risk Services 2005
ICBI	Initial value of bureaucratic quality index	Political Risk Services 2005
ICCI	Initial value of corruption index	Political Risk Services 2005
ICRI	Initial value of the aggregated democratic accountability, bureaucratic quality and corruption indices	Political Risk Services 2005
CHIN	China's initial share in the total trade of each African country	IMF 2011
WEST	The West's initial share in the total trade of each African country	IMF 2011
OPEN	Initial total trade compared to GDP	IMF 2011
GDPI	Natural logarithm of initial GDP in current US Dollars	World Bank 2011
GDPG	Average annual growth of GDP in 2000 US dollars	World Bank 2011
POPG	Average annual population growth	World Bank 2011
VIOL	Percentage of years in the period during which acts of political violence occurred	Marshall <i>et al</i> 2010
RENT	Initial percentage of natural resource rents in GDP	World Bank 2011

TABLE 1 Variables

Variable	Observations	Mean	Stan. Dev.	Min	Max
FHPR19902000	52	0,9808	1,8629	-5,00	4,00
FHCL19902000	52	0,5962	1,2088	-3,00	3,00
FHIN19902000	52	1,5769	2,9262	-8,00	7,00
FHPI1990	52	1,4423	1,4061	0,00	6,00
FHCI1990	52	1,9423	1,2897	0,00	5,00
FHII1990	52	3,3846	2,6133	0,00	11,00
ICDA19902000	37	0,2601	1,6413	-2,67	3,42
ICBQ19902000	37	-0,4347	1,0782	-2,83	2,00
ICCO19902000	37	-0,6757	1,1905	-3,00	2,50
ICRG19902000	37	-0,8502	2,6499	-5,46	5,92
ICDI1990	37	2,4392	1,2219	0,58	5,00
ICBI1990	37	1,6284	1,1018	0,00	4,00
ICCI1990	37	2,9595	1,1070	0,00	14,00
ICRI1990	37	7,0270	2,8059	0,58	14,00
CHIN1990	47	0,0144	0,0166	0,00	0,08
WEST1990	47	0,6024	0,3758	0,38	0,85
OPEN1990	45	0,4701	0,2464	0,11	1,27
GDPI1990	49	6,1924	0,9811	4,86	8,64
GDPG19902000	49	0,0290	0,0345	-0,06	0,20
POPG19902000	53	0,0243	0,0073	0,00	0,04
VIOL19902000	53	0,2830	0,3652	0,00	1,00
RENT1990	50	10,0304	11,9018	0,1731	47,4228

TABLE 2 Descriptive Statistics for the Year 1990 and the Period 1990-2000 Respectively

	FHPR 19902000	FHCL 19902000	FHIN 19902000	FHPI 1990	FHCI 1990	FHII 1990	ICDA 19902000	ICBQ 19902000
FHPR 19902000	1,00							
FHCL 19902000	0,80	1,00						
FHIN 19902000	0,97	0,92	1,00					
FHPI 1990	-0,60	-0,66	-0,66	1,00				
FHCI 1990	-0,44	-0,71	-0,57	0,85	1,00			
FHII 1990	-0,54	-0,72	-0,64	0,96	0,96	1,00		
ICDA 19902000	0,53	0,53	0,55	-0,25	-0,30	-0,29	1,00	
ICBQ 19902000	-0,09	0,02	-0,05	-0,04	-0,02	-0,03	0,26	1,00
ICCO 19902000	-0,22	-0,18	-0,22	0,19	0,09	0,14	-0,17	0,05
ICRG 19902000	0,23	0,30	0,27	-0,11	-0,18	-0,15	0,75	0,69
ICDI 1990	-0,42	-0,46	-0,46	0,47	0,49	0,50	-0,71	-0,22
ICBI 1990	-0,17	-0,22	-0,20	0,29	0,29	0,30	-0,46	-0,77
ICCI 1990	0,24	0,17	0,22	0,04	0,12	0,09	0,08	0,07
ICRI 1990	-0,19	-0,26	-0,23	0,38	0,42	0,41	-0,52	-0,41
CHIN 1990	-0,34	-0,31	-0,34	0,27	0,10	0,19	0,01	0,10
WEST 1990	-0,28	-0,12	-0,23	0,14	-0,04	0,05	-0,33	-0,29
OPEN 1990	-0,35	-0,30	-0,35	0,50	0,44	0,50	-0,26	0,29
GDPI 1990	-0,58	-0,42	-0,54	0,44	0,34	0,41	-0,52	-0,20
GDPG 19902000	0,11	0,08	0,11	0,02	0,09	0,06	0,26	0,43
POPG 19902000	-0,09	0,01	-0,05	0,05	-0,05	0,00	0,42	0,06
VIOL 19902000	-0,10	-0,13	-0,12	-0,15	-0,23	-0,20	-0,16	0,10
RENT 1990	-0,15	0,15	-0,03	0,02	-0,15	-0,07	-0,10	-0,09

TABLE 3A Correlation Matrix

	ICCO 19902000	ICRG 19902000	ICDI 1990	ICBI 1990	ICCI 1990	ICRI 1990	CHIN 1990	WEST 1990
FHPR 19902000								
FHCL 19902000								
FHIN 19902000								
FHPI 1990								
FHCI 1990								
FHII 1990								
ICDA 19902000								
ICBQ 19902000								
ICCO 19902000	1,00							
ICRG 19902000	0,33	1,00						
ICDI 1990	-0,11	-0,65	1,00					
ICBI 1990	-0,26	-0,80	0,53	1,00				
ICCI 1990	-0,63	-0,18	0,31	0,19	1,00			
ICRI 1990	-0,41	-0,73	0,85	0,77	0,63	1,00		
CHIN 1990	0,08	0,09	-0,03	-0,26	-0,21	-0,21	1,00	
WEST 1990	0,13	-0,32	0,04	0,37	-0,10	0,14	-0,28	1,00
OPEN 1990	0,33	-0,03	0,21	0,08	-0,01	0,14	0,29	0,14
GDPI 1990	0,11	-0,41	0,48	0,52	-0,07	0,43	-0,28	0,51
GDPG 19902000	-0,47	0,19	0,02	-0,20	0,53	0,13	-0,01	-0,40
POPG 19902000	-0,27	0,21	-0,15	-0,15	0,09	-0,10	0,32	-0,17
VIOL 19902000	0,21	0,03	-0,07	-0,22	-0,34	-0,27	0,14	0,11
RENT 1990	0,21	-0,02	-0,10	-0,10	-0,25	-0,10	-0,20	0,67

TABLE 3B Correlation Matrix

	OPEN 1990	GDPI 1990	GDPG 19902000	POPG 19902000	VIOL 19902000	RENT 1990
FHPR						
19902000						
FHCL						
19902000						
FHIN						
19902000						
FHPI						
1990						
FHCI						
1990						
FHII						
1990						
ICDA						
19902000						
ICBQ						
19902000						
ICCO						
19902000						
ICRG						
19902000						
ICDI						
1990						
ICBI						
1990						
ICCI						
1990						
ICRI						
1990						
CHIN						
1990						
WEST						
1990						
OPEN						
1990	1,00					
GDPI						
1990	0,21	1,00				
GDPG						
19902000	-0,05	-0,08	1,00			
POPG						
19902000	-0,03	-0,27	0,26	1,00		
VIOL						
19902000	-0,32	-0,02	-0,17	-0,14	1,00	
RENT						
1990	0,17	0,44	-0,22	-0,07	0,07	1,00

TABLE 3C Correlation Matrix

Regression	1	2	3	4
Dependent variable	FHPR	FHPR	FHPR	FHPR
Period	1978-2010	1980-1990	1990-2000	2000-2010
Number of observations	29	28	42	43
CHIN	8,1345 (0,663)	15,2500** (0,018)	-28,7666 (0,158)	-2,3569 (0,579)
WEST	0,6003 (0,847)	2,0376 (0,221)	-2,3771 (0,321)	-9,5999 (0,428)
OPEN	2,4878 (0,198)	-0,2326 (0,781)	-0,7687 (0,586)	0,9057 (0,300)
CHIN * OPEN				
WEST * OPEN				
FHPI	-0,8547*** (0,004)	-0,6852*** (0,000)	-0,2978 (0,316)	-0,3444*** (0,003)
GDPI	-1,1101* (0,058)	1,0230*** (0,002)	-0,7428* (0,099)	-0,0632 (0,832)
GDPG	-12,8807 (0,662)	12,1282** (0,054)	1,7442 (0,833)	7,7722 (0,316)
POPG	-114,7841 (0,119)	-36,2698 (0,117)	-36,7410 (0,385)	-5,4938 (0,887)
VIOL	-2,7257 (0,130)	-1,3078 (0,112)	-1,4706* (0,096)	-0,5606 (0,478)
RENT	-0,0038 (0,932)	-0,0281* (0,086)	0,0004 (0,988)	-0,1877 (0,192)
Constant	11,1065** (0,037)	-5,4554*** (0,008)	9,2805*** (0,003)	1,3920 (0,564)
R-square	0,5793	0,7534	0,4149	0,2745
Adjusted R-square	0,3800	0,6301	0,2503	0,0767

TABLE 4 Regressions Using Political Rights (FHI) as the Dependent Variable

Values in parenthesis are p-statistics (***) $p < 0,01$ (**) $p < 0,05$ (*) $p < 0,10$).

Regression	5	6	7	8
Dependent variable	FHPR	FHPR	FHPR	FHPR
Period	1978-2010	1280-1990	1990-2000	2000-2010
Number of observations	29	28	42	43
CHIN				
WEST				
OPEN				
CHIN * OPEN	3,4175 (0,914)	30,2178*** (0,001)	-51,5762** (0,031)	1,0431 (0,846)
WEST * OPEN	3,1422 (0,242)	-1,4549 (0,204)	0,6798 (0,781)	0,2824 (0,829)
FHPI	-0,8467*** (0,004)	-0,8554*** (0,000)	-0,0753 (0,810)	-0,3284*** (0,005)
GDPI	-1,1287** (0,050)	1,2372*** (0,000)	-1,010** (0,029)	-0,1934 (0,493)
GDPG	-8,4247 (0,762)	10,6210* (0,056)	0,7715 (0,922)	3,8735 (0,594)
POPG	-109,5311 (0,136)	-51,5944** (0,016)	-17,0202 (0,690)	-9,0238 (0,815)
VIOL	-2,7756* (0,093)	-1,4009** (0,047)	-1,4723* (0,067)	-0,9742 (0,170)
RENT	-0,0066 (0,881)	-0,0271* (0,062)	-0,0152 (0,570)	-0,0149 (0,288)
Constant	11,6807** (0,015)	-4,3972*** (0,006)	8,2406*** (0,003)	2,2734 (0,329)
R-square	0,5681	0,8018	0,4520	0,2447
Adjusted R-square	0,3953	0,7184	0,3191	0,0670

TABLE 5 Regressions Using Political Rights (FHI) as the Dependent Variable

Values in parenthesis are p-statistics (***) $p < 0,01$ (**) $p < 0,05$ (*) $p < 0,10$).

Regression	9	10	11	12
Dependent variable	FHCL	FHCL	FHCL	FHCL
Period	1978-2010	1980-1990	1990-2000	2000-2010
Number of observations	29	28	42	43
CHIN	1,1627 (0,925)	14,5844** (0,032)	-9,0031 (0,430)	-1,5106 (0,606)
WEST	0,3082 (0,888)	1,7037 (0,332)	0,0600 (0,966)	-0,0735 (0,928)
OPEN	0,5107 (0,713)	-0,4170 (0,632)	-0,9454 (0,261)	0,3945 (0,501)
CHIN * OPEN				
WEST * OPEN				
FHCI	-0,7676*** (0,001)	-0,7065*** (0,004)	-0,4485** (0,010)	-0,1284 (0,266)
GDPI	-0,6625* (0,082)	0,9766*** (0,005)	-0,3302 (0,195)	0,0336 (0,868)
GDPG	-4,1744 (0,842)	11,7448* (0,093)	1,3853 (0,781)	9,0575* (0,086)
POPG	-80,6842 (0,112)	-25,0246 (0,308)	-23,9609 (0,340)	21,1801 (0,417)
VIOL	-3,2943** (0,012)	-2,0457** (0,024)	-1,4094** (0,010)	-0,3824 (0,477)
RENT	0,0035 (0,904)	-0,0375** (0,046)	0,0112 (0,506)	-0,0188* (0,052)
Constant	8,7323** (0,021)	-4,4635** (0,032)	4,7814*** (0,005)	-0,4568 (0,779)
R-square	0,6919	0,6374	0,4898	0,2696
Adjusted R-square	0,5459	0,4562	0,3463	0,0704

TABLE 6 Regressions Using Civil Liberties (FHI) as the Dependent Variable

Values in parenthesis are p-statistics (***) $p < 0,01$ (**) $p < 0,05$ (*) $p < 0,10$).

Regression	13	14	15	16
Dependent variable	FHCL	FHCL	FHCL	FHCL
Period	1978-2010	1980-1990	1990-2000	2000-2010
Number of observations	29	28	42	43
CHIN				
WEST				
OPEN				
CHIN * OPEN	-12,0794 (0,543)	25,5305** (0,012)	-19,0419 (0,157)	-1,8110 (0,610)
WEST * OPEN	1,3458 (0,484)	-1,5602 (0,234)	-0,2813 (0,852)	0,7875 (0,359)
FHCI	-0,7703*** (0,001)	-0,8847*** (0,000)	-0,3890** (0,032)	-0,1264 (0,257)
GDPI	-0,6948* (0,056)	1,1505*** (0,001)	-0,3828 (0,139)	-0,0247 (0,894)
GDPG	0,2866 (0,988)	11,1229* (0,093)	0,2870 (0,953)	7,8596 (0,105)
POPG	-73,3966 (0,134)	-42,4690* (0,082)	-16,2635 (0,532)	21,5177 (0,399)
VIOL	-3,2370*** (0,006)	-2,1503** (0,010)	-1,3097** (0,011)	-0,5485 (0,253)
RENT	-0,0019 (0,947)	-0,0376** (0,035)	0,0109 (0,511)	-0,0180* (0,051)
Constant	8,8026*** (0,007)	-3,2808* (0,053)	4,4837*** (0,005)	-0,0887 (0,954)
R-square	0,6989	0,6627	0,4960	0,2759
Adjusted R-square	0,5785	0,5206	0,3738	0,1055

TABLE 7 Regressions Using Civil Liberties (FHI) as the Dependent Variable

Values in parenthesis are p-statistics (***) $p < 0,01$ (**) $p < 0,05$ (*) $p < 0,10$).

Regression	17	18	19	20
Dependent variable	ICDA	ICDA	ICDA	ICDA
Period	1984-2004	1984-1994	1994-2004	1990-2000
Number of observations	20	20	31	31
CHIN	10,2778 (0,781)	-5,6137 (0,837)	-11,5684 (0,338)	-9,0979 (0,479)
WEST	-1,8961 (0,682)	-4,2331 (0,245)	-0,6495 (0,736)	-2,9901 (0,179)
OPEN	-0,0178 (0,993)	0,9547 (0,574)	-0,2414 (0,816)	-0,7412 (0,503)
CHIN * OPEN				
WEST * OPEN				
ICDI	-1,3465** (0,011)	-0,8923** (0,021)	-0,8125*** (0,007)	-0,8673*** (0,000)
GDPI	0,3110 (0,503)	0,5670 (0,103)	0,0388 (0,928)	-0,1022 (0,755)
GDPG	25,6300 (0,103)	-0,9543 (0,905)	9,6937 (0,351)	5,6023 (0,520)
POPG	10,2464 (0,878)	12,4139 (0,760)	41,0385 (0,430)	59,4084* (0,070)
VIOL	-0,5084 (0,642)	-0,4111 (0,664)	-0,6493 (0,307)	-0,6399 (0,285)
RENT	-0,0063 (0,868)	0,0076 (0,794)	-0,0192 (0,368)	0,0096 (0,655)
Constant	2,0673 (0,632)	1,0324 (0,703)	2,2208 (0,442)	3,6595* (0,081)
R-square	0,6262	0,5682	0,5087	0,7253
Adjusted R-square	0,2897	0,1795	0,2982	0,6075

TABLE 8 Regressions Using Democratic Accountability (ICRG) as the Dependent Variable

Values in parenthesis are p-statistics (***) $p < 0,01$ ** $p < 0,05$ * $p < 0,10$).

Note: Values for the year 2000 were not available; values for that year are based on an average between 1999 and 2001.

Regression	21	22	23	24
Dependent variable	ICDA	ICDA	ICDA	ICDA
Period	1984-2004	1984-1994	1994-2004	1990-2000
Number of observations	20	20	31	31
CHIN				
WEST				
OPEN				
CHIN * OPEN	46,0261 (0,429)	62,6927 (0,185)	-14,6343 (0,208)	3,6887 (0,807)
WEST * OPEN	-1,3452 (0,630)	-0,8789 (0,716)	-0,1067 (0,951)	-2,9715 (0,189)
ICDI	-1,3159*** (0,004)	-0,7316** (0,026)	-0,8166*** (0,004)	-0,8793*** (0,000)
GDPI	0,2761 (0,515)	0,4735 (0,138)	8,6764 (0,386)	-0,1085 (0,743)
GDPG	28,3103* (0,053)	4,4301 (0,511)	44,1369 (0,374)	9,4580 (0,244)
POPG	-0,2494 (0,997)	-9,1055 (0,802)	44,1369 (0,374)	43,5648 (0,198)
VIOL	-0,6392 (0,495)	-0,7223 (0,409)	-0,7792 (0,174)	-0,9179 (0,106)
RENT	-0,0093 (0,771)	-0,0055 (0,821)	-0,0204 (0,351)	0,0070 (0,737)
Constant	1,5898 (0,658)	-0,2665 (0,904)	1,9412 (0,469)	2,6676 (0,169)
R-square	0,6233	0,5448	0,5203	0,7140
Adjusted R-square	0,3494	0,2137	0,3459	0,6100

TABLE 9 Regressions Using Democratic Accountability (ICRG) as the Dependent Variable

Values in parenthesis are p-statistics (***) $p < 0,01$ (**) $p < 0,05$ (*) $p < 0,10$).

Note: Values for the year 2000 were not available; values for that year are based on an average between 1999 and 2001.

Regression	25	26	27	28
Dependent variable	ICBQ	ICBQ	ICBQ	ICBQ
Period	1984-2004	1984-1994	1994-2004	1990-2000
Number of observations	20	20	31	31
CHIN	-45,0272** (0,023)	-10,2433 (0,611)	-6,9083 (0,353)	-4,8595 (0,586)
WEST	-4,8155** (0,029)	-3,6774 (0,142)	-0,3867 (0,745)	0,5258 (0,735)
OPEN	-1,0238 (0,282)	-1,9499 (0,149)	0,1123 (0,861)	0,5016 (0,512)
CHIN * OPEN				
WEST * OPEN				
ICBI	-1,1822*** (0,001)	-0,2944 (0,316)	-0,8017*** (0,000)	-0,9851*** (0,000)
GDPI	0,5814* (0,081)	0,0264 (0,936)	0,1325 (0,609)	0,3003 (0,173)
GDPG	7,8389 (0,268)	-2,7402 (0,640)	9,0583 (0,165)	12,7418** (0,048)
POPG	-29,6374 (0,362)	13,5103 (0,657)	-32,0379 (0,286)	-7,3240 (0,738)
VIOL	0,0334 (0,954)	-0,4790 (0,494)	-0,0665 (0,867)	-0,0271 (0,949)
RENT	0,0056 (0,778)	0,0503** (0,048)	-0,0078 (0,596)	-0,0099 (0,509)
Constant	2,2894 (0,287)	3,3179 (0,144)	0,9751 (0,588)	-1,0966 (0,445)
R-square	0,8663	0,6409	0,6230	0,7285
Adjusted R-square	0,7459	0,3178	0,4615	0,6121

TABLE 10 Regressions Using Bureaucratic Quality (ICRG) as the Dependent Variable

Values in parenthesis are p-statistics (***) $p < 0,01$ (**) $p < 0,05$ (*) $p < 0,10$).

Regression	29	30	31	32
Dependent variable	ICBQ	ICBQ	ICBQ	ICBQ
Period	1984-2004	1984-1994	1994-2004	1990-2000
Number of observations	20	20	31	31
CHIN				
WEST				
OPEN				
CHIN * OPEN	-43,7038 (0,228)	-5,4562 (0,884)	-6,9391 (0,329)	5,3787 (0,583)
WEST * OPEN	-1,6270 (0,325)	-2,4962 (0,233)	0,2272 (0,837)	-0,0648 (0,965)
ICBI	-1,0875*** (0,002)	-0,3017 (0,308)	-0,8006*** (0,000)	-0,9546*** (0,000)
GDPI	0,3942 (0,275)	-0,0597 (0,856)	0,0842 (0,710)	0,3349 (0,123)
GDPG	12,3981 (0,122)	1,7429 (0,735)	8,3949 (0,189)	12,6408** (0,036)
POPG	-43,5275 (0,254)	0,2474 (0,993)	-32,7523 (0,256)	-17,0162 (0,453)
VIOL	-0,3370 (0,606)	-0,5625 (0,446)	-0,1684 (0,648)	-0,1432 (0,712)
RENT	-0,0087 (0,705)	0,0356 (0,161)	-0,0084 (0,552)	-0,0032 (0,823)
Constant	0,6162 (0,795)	1,8425 (0,387)	1,0584 (0,519)	-0,6974 (0,597)
R-square	0,7906	0,5366	0,6234	0,7253
Adjusted R-square	0,6384	0,1996	0,4865	0,6254

TABLE 11 Regressions Using Bureaucratic Quality (ICRG) as the Dependent Variable

Values in parenthesis are p-statistics (***) $p < 0,01$ (**) $p < 0,05$ (*) $p < 0,10$).

Regression	33	34	35	36
Dependent variable	ICCO	ICCO	ICCO	ICCO
Period	1984-2004	1984-1994	1994-2004	1990-2000
Number of observations	20	20	31	31
CHIN	3,3815 (0,880)	3,5686 (0,905)	-3,3051 (0,673)	-10,5426 (0,275)
WEST	2,1038 (0,410)	-1,8785 (0,596)	2,7349** (0,043)	-0,9145 (0,590)
OPEN	1,8484 (0,154)	-1,0532 (0,574)	0,4865 (0,461)	2,0761** (0,016)
CHIN * OPEN				
WEST * OPEN				
ICCI	-1,3113*** (0,001)	-0,6481 (0,112)	-0,7952*** (0,000)	-0,5557** (0,012)
GDPI	0,1003 (0,718)	0,1838 (0,602)	-0,0635 (0,795)	-0,0713 (0,727)
GDPG	14,6657 (0,114)	8,3980 (0,323)	3,7826 (0,595)	-6,4349 (0,403)
POPG	1,8301 (0,942)	-32,7821 (0,434)	46,3944 (0,132)	-15,9687 (0,493)
VIOL	-0,7005 (0,290)	-0,5518 (0,576)	-0,2441 (0,556)	0,4662 (0,307)
RENT	-0,0528 (0,029)	-0,0136 (0,640)	-0,0306** (0,035)	0,0011 (0,946)
Constant	0,0007 (1,000)	3,5772 (0,207)	-0,8044 (0,655)	1,5469 (0,313)
R-square	0,7913	0,5104	0,6809	0,5951
Adjusted R-square	0,6035	0,0697	0,5442	0,4216

TABLE 12 Regressions Using Corruption (ICRG) as the Dependent Variable

Values in parenthesis are p-statistics (***) $p < 0,01$ (**) $p < 0,05$ (*) $p < 0,10$).

Regression	37	38	39	40
Dependent variable	ICCO	ICCO	ICCO	ICCO
Period	1984-2004	1984-1994	1994-2004	1990-2000
Number of observations	20	20	31	31
CHIN				
WEST				
OPEN				
CHIN * OPEN	7,6705 (0,830)	46,2348 (0,321)	-8,4158 (0,285)	-1,1576 (0,915)
WEST * OPEN	2,5864 (0,153)	-3,0560 (0,233)	1,8738 (0,129)	2,6460 (0,123)
ICCI	-1,3040*** (0,000)	-0,5230 (0,116)	-0,8679*** (0,000)	-0,5880*** (0,005)
GDPI	0,1426 (0,583)	0,1453 (0,627)	0,1108 (0,613)	-0,1111 (0,582)
GDPG	12,9806 (0,136)	9,1510 (0,186)	4,1636 (0,568)	-3,4115 (0,624)
POPG	10,8599 (0,772)	-38,3668 (0,287)	49,7205 (0,117)	-22,3959 (0,373)
VIOL	-0,6367 (0,309)	-0,4011 (0,654)	-0,1624 (0,696)	0,1928 (0,655)
RENT	-0,0472** (0,045)	-0,0047 (0,861)	-0,0320** (0,045)	-0,0085 (0,589)
Constant	0,8614 (0,683)	2,0663 (0,234)	-0,4961 (0,780)	1,6631 (0,279)
R-square	0,7763	0,5506	0,6382	0,5501
Adjusted R-square	0,6136	0,2238	0,5066	0,3864

TABLE 13 Regressions Using Corruption (ICRG) as the Dependent Variable

Values in parenthesis are p-statistics (***) $p < 0,01$ (**) $p < 0,05$ (*) $p < 0,10$).

Regression	41	42	43	44
Dependent variable	FHIN	FHIN	FHIN	FHIN
Period	1978-2010	1980-1990	1990-2000	2000-2010
Number of observations	29	28	42	43
CHIN	9,2348 (0,756)	29,2501** (0,016)	-38,0411 (0,205)	-3,3913 (0,582)
WEST	0,9962 (0,845)	3,8208 (0,216)	-2,1623 (0,546)	-1,0934 (0,529)
OPEN	3,0325 (0,346)	-0,7714 (0,619)	-1,7670 (0,410)	1,1741 (0,349)
CHIN * OPEN				
WEST * OPEN				
FHII	-0,8101*** (0,003)	-0,6569*** (0,001)	-0,3372 (0,143)	-0,2031** (0,048)
GDPI	-1,7823* (0,056)	1,9507*** (0,002)	-1,1203* (0,097)	-0,0336 (0,937)
GDPG	-16,9250 (0,731)	22,8340* (0,058)	3,7265 (0,768)	15,7479 (0,159)
POPG	-192,7545 (0,105)	-60,6689 (0,156)	-60,5515 (0,345)	15,1268 (0,785)
VIOL	-5,9956** (0,045)	-3,4006** (0,031)	-2,8253** (0,038)	-0,8534 (0,455)
RENT	0,0005 (0,994)	-0,0621* (0,052)	0,0137 (0,751)	-0,0332 (0,109)
Constant	19,7429** (0,025)	-9,7511** (0,010)	14,0638*** (0,002)	0,9012 (0,795)
R-square	0,6256	0,7218	0,4396	0,2299
Adjusted R-square	0,4483	0,5827	0,2820	0,0199

TABLE 14 Regressions Using Aggregated FHI Data as the Dependent Variable

Values in parenthesis are p-statistics (***) $p < 0,01$ (**) $p < 0,05$ (*) $p < 0,10$).

Regression	45	46	47	48
Dependent variable	FHIN	FHIN	FHIN	FHIN
Period	1978-2010	1980-1990	1990-2000	2000-2010
Number of observations	29	28	42	43
CHIN				
WEST				
OPEN				
CHIN * OPEN	-9,6684 (0,844)	55,0352*** (0,002)	-75,8001** (0,033)	0,1458 (0,985)
WEST * OPEN	4,5705 (0,303)	-3,0292 (0,171)	0,7230 (0,846)	0,8156 (0,662)
FHII	-0,8055*** (0,002)	-0,8527*** (0,000)	-0,1542 (0,524)	-0,1913* (0,060)
GDPI	-1,8343** (0,042)	2,3661*** (0,000)	-1,503** (0,029)	-0,2121 (0,598)
GDPG	-8,0897 (0,859)	21,3283* (0,052)	1,5640 (0,896)	10,8566 (0,296)
POPG	-180,2553 (0,122)	-93,3187** (0,024)	-28,9462 (0,654)	11,8950 (0,829)
VIOL	-5,9931** (0,028)	-3,5696** (0,011)	-2,6138** (0,036)	-1,3807 (0,180)
RENT	-0,0079 (0,910)	-0,0633** (0,031)	-0,0008 (0,984)	-0,0291 (0,146)
Constant	20,4499*** (0,009)	-7,6187** (0,011)	12,7840*** (0,002)	2,0319 (0,540)
R-square	0,6235	0,7600	0,4783	0,2089
Adjusted R-square	0,4729	0,6589	0,3518	0,0228

TABLE 15 Regressions Using Aggregated FHI Data as the Dependent Variable

Values in parenthesis are p-statistics (***) $p < 0,01$ (**) $p < 0,05$ (*) $p < 0,10$).

Regression	49	50	51	52
Dependent variable	ICRG	ICRG	ICRG	ICRG
Period	1984-2004	1984-1994	1994-2004	1990-2000
Number of observations	20	20	31	31
CHIN	-17,9091 (0,793)	-7,9565 (0,873)	-24,7103 (0,239)	-25,7812 (0,202)
WEST	-3,1632 (0,683)	-8,5597 (0,166)	1,4927 (0,640)	-3,1640 (0,359)
OPEN	0,4476 (0,897)	-2,0270 (0,503)	0,3686 (0,825)	1,8791 (0,273)
CHIN * OPEN				
WEST * OPEN				
ICRI	-1,1492** (0,010)	-0,5785* (0,061)	-0,8877*** (0,001)	-0,7737*** (0,000)
GDPI	0,8602 (0,372)	0,9162 (0,180)	0,2684 (0,723)	-0,1137 (0,809)
GDPG	46,0529* (0,093)	4,1274 (0,757)	22,8314 (0,174)	18,0927 (0,190)
POPG	-13,5204 (0,906)	-4,1392 (0,951)	63,9478 (0,431)	34,1589 (0,485)
VIOL	-1,0965 (0,571)	-1,6487 (0,303)	-1,1136 (0,314)	-0,1815 (0,846)
RENT	-0,0547 (0,387)	0,0251 (0,588)	-0,0615* (0,098)	0,0037 (0,915)
Constant	-0,0547 (0,613)	6,0052 (0,180)	2,0755 (0,653)	5,3530* (0,091)
R-square	0,6542	0,5470	0,5632	0,6821
Adjusted R-square	0,3429	0,1393	0,3760	0,5458

TABLE 16 Regressions Using Aggregated ICRG Data as the Dependent Variable

Values in parenthesis are p-statistics (** p<0,01 ** p<0,05 * p<0,10).

Note: Values for the year 2000 are not available for the variable Democratic Accountability; values for that year are based on an average between 1999 and 2001.

Regression	53	54	55	56
Dependent variable	ICRG	ICRG	ICRG	ICRG
Period	1984-2004	1984-1994	1994-2004	1990-2000
Number of observations	20	20	31	31
CHIN				
WEST				
OPEN				
CHIN * OPEN	20,5174 (0,840)	103,4929 (0,192)	-32,3180 (0,103)	5,5287 (0,808)
WEST * OPEN	-0,6532 (0,890)	-6,4510 (0,137)	2,0774 (0,466)	-0,0919 (0,979)
ICRI	-1,0705*** (0,004)	-0,4253* (0,083)	-0,9053*** (0,001)	-0,7838*** (0,000)
GDPI	0,6948 (0,405)	0,5932 (0,299)	0,3474 (0,587)	-0,0950 (0,846)
GDPG	48,6049* (0,056)	12,4758 (0,280)	20,1580 (0,211)	23,8973* (0,073)
POPG	-22,8862 (0,831)	-41,3874 (0,493)	71,6054 (0,351)	4,0512 (0,938)
VIOL	-1,2502 (0,488)	-1,6510 (0,279)	-1,2696 (0,224)	-0,8501 (0,352)
RENT	-0,0585 (0,329)	0,0201 (0,649)	-0,0647* (0,091)	-0,0023 (0,945)
Constant	2,5351 (0,677)	3,2289 (0,380)	1,9991 (0,635)	4,7406 (0,121)
R-square	0,6494	0,5283	0,5724	0,6462
Adjusted R-square	0,3945	0,1852	0,4170	0,5175

TABLE 17 Regressions Using Aggregated ICRG Data as the Dependent Variable

Values in parenthesis are p-statistics (***) $p < 0,01$ ** $p < 0,05$ * $p < 0,10$).

Note: Values for the year 2000 are not available for the variable Democratic Accountability; values for that year are based on an average between 1999 and 2001.