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# Chinese Development Finance and the Erosion of U.S. Diplomatic Influence

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# Chinese Development Finance and the Erosion of U.S. Diplomatic Influence

**Abstract**

This paper asks whether Chinese development finance erodes U.S. soft power, defined as the ability to influence countries' positions on salient multilateral issues. We construct a novel country-year measure of U.S. diplomatic influence based on the gap between a country's ideal-point distance from the U.S. across all UN General Assembly votes and its distance on resolutions identified by the State Department as important and actively lobbied. Instrumenting Chinese finance with cyclical variation in China's production of construction inputs interacted with recipients' predetermined industrial structure, we find that a one-standard-deviation increase in Chinese finance lowers U.S. influence by 0.73 standard deviations. The effect is confined to U.S.-important votes, absent in an EU-based placebo, and weaker in countries hosting U.S. troops or with stronger trade and historical political ties to Washington. Alignment with China does not rise on average. Chinese finance thus appears to weaken U.S. leverage by expanding recipients' outside options rather than by drawing them toward Beijing. These findings suggest that Chinese finance primarily operates by expanding recipients' outside options and weakening U.S. diplomatic leverage, while longstanding security, economic, and political ties continue to anchor U.S. influence.

**Key Words:** U.S. Diplomatic Influence; Chinese Aid; China-U.S. Competition
**JEL Code:** F35; F59

## 1 Introduction

Following the collapse of the Berlin Wall and the conclusion of the Cold War, the United States emerged as an uncontested global hegemon (Fukuyama, 1989).[1] Three decades later, U.S. hegemony faces an apparent decline (Simon and Stevenson, 2015; Layne, 2018). Recent geopolitical developments have reshaped the international landscape, offering various explanations for the relative decline in US primacy.[2] The most significant among these developments is China's rise as a global economic and political powerhouse (Mingjiang, 2008; Economy, 2014; Shambaugh, 2015; Economy, 2018).

Beijing's geopolitical ambitions are crystallized in the Belt and Road Initiative (BRI), an expansive overseas financing campaign through which China has pledged to invest approximately $1.25 trillion worldwide by 2025.[3] The emergence of China as the main supplier of development finance marks a structural shift in the international political economy. Through loans, grants,

[1] As Fukuyama famously argued: *"What we may be witnessing is not just the end of the Cold War... but the end of history as such: that is, the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government."*

[2] Prominent examples include the rise of transnational terrorism, the 2008 global financial crisis, and the COVID-19 pandemic (Dalby, 2003; Nye Jr, 2010; Farrell and Newman, 2020).

[3] For scale, even after adjusting for inflation, the Marshall Plan represented roughly one-eighth of the projected scope of the BRI (Natsios, 2020).

and infrastructure financing, Beijing has become an important alternative to traditional Western donors, particularly in low- and middle-income countries. This development raises a central empirical question in international political economy: does access to Chinese finance weaken the ability of the United States to influence the foreign-policy behavior of recipient countries? In this paper, we empirically examine this question.

The political use of development assistance has long been the subject of scholarly investigation (Morgenthau, 1962; Alesina and Dollar, 2000; Kuziemko and Werker, 2006; Dreher et al., 2008). Through the provision of development funds, a donor state may directly influence the recipient's economic structure, making it increasingly interconnected with and potentially dependent on the country providing the funds. For decades, the U.S. maintained a virtual monopoly on the provision of international assistance, a position that allowed it to translate material resources into the ability to influence other countries without using military coercion, an ability that Joseph S. Nye 1990 defined as soft power.[4] Today, if Chinese finance provides countries with an outside option relative to U.S.-led economic and political arrangements, it may reduce Washington's ability to obtain cooperation on issues that it considers strategically important.

In Nye's original formulation, soft power derives from the attraction and appeal of a country's values, culture, and policies. In practice, however, contemporary empirical work often treats soft power more broadly as a state's ability to shape others' behavior without resorting to military force (McClory and Harvey, 2016; Cevik and Padilha, 2026). In this paper, we adopt this broader, operational definition and focus on a specific, observable manifestation: the extent to which U.S. diplomatic engagement and lobbying shift other countries' votes on salient UN General Assembly (UNGA) resolutions toward the U.S. position. Therefore, we capture non-military diplomatic leverage on multilateral decisions, which we interpret as one dimension of U.S. soft power. We build upon the Ideal Point Distance introduced by Bailey et al. (2017), which provides a dyadic, longitudinal measure of foreign-policy affinity based on the revealed preferences of UN General Assembly votes. A narrow distance may reflect either baseline diplomatic affinity or active co-optation. To isolate the latter, we exploit the U.S. State Department's annual designation of a subset of resolutions as *important*. That is, resolutions for which the U.S. engaged in explicit diplomatic lobbying, as documented in the *Voting Practices in the United Nations* reports to Congress. Under the assumption that U.S. diplomatic pressure is concentrated on these high-stakes resolutions, the divergence between a country's baseline voting preference and its specific behavior on *important* votes serves as a proxy for U.S. influence.

Our main contribution is twofold. First, we provide evidence on the causal effect of Chinese official finance on U.S. diplomatic leverage. Second, we document patterns consistent with an outside-option mechanism. That is, we claim that by expanding recipient countries' access to financing beyond U.S.-aligned sources, Chinese official finance may make cooperation with Washington less indispensable and reduce the leverage the United States can exert on issues salient to its foreign policy.

Establishing the first contribution requires addressing an important empirical challenge: the allocation of Chinese financing is endogenous. The provision of Chinese funds may be strategic, potentially anticipating changes in U.S. influence and in the geopolitical relevance of recipient countries. We address this problem using an instrumental-variable strategy that exploits supply-

[4] "These trends suggest a second, more attractive way of exercising power than traditional means. A state may achieve the outcomes it prefers in world politics because other states want to follow it or have agreed to a situation that produces such effects. In this sense, it is just as important to set the agenda and structure the situations in world politics as to get others to change in particular cases. This second aspect of power—which occurs when one country gets other countries to want what it wants—might be called co-optive or soft power in contrast with the hard or command power of ordering others to do what it wants."

side variation in China's capacity to finance overseas infrastructure. Following Dreher et al. (2021), we construct an index of cyclical fluctuations in China's production of cement, steel, glass, iron, and aluminum. In periods of excess production, Chinese authorities have stronger incentives to channel surplus capacity abroad through state-backed infrastructure finance (Dreher et al., 2021; Bluhm et al., 2025). We interact these China-specific production shocks with recipients' predetermined industrial structure, which captures their differential exposure to large-scale infrastructure projects. The resulting instrument predicts Chinese financing while, conditional on country and year fixed effects and observable controls, being plausibly unrelated to recipient countries' voting behavior except through its effect on Chinese finance. Results are similar when the production shocks are purged of global industrial growth and international input-price movements.

Once accounting for fixed and year effects, the OLS estimate of the association between Chinese development finance and U.S. soft power is statistically indistinguishable from zero. Our IV estimates, instead, show that Chinese financing significantly reduces U.S. influence on salient UNGA resolutions. The effect is economically large: a one-standard-deviation increase in Chinese financing reduces our measure of U.S. influence by approximately 0.73 standard deviations. Importantly, Chinese financing is not associated with greater overall distance from the United States across UNGA resolutions, nor with changes in alignment with EU countries. A randomization placebo test, which reassigns U.S.-important resolutions across country-years, likewise yields no comparable effect. Taken together, these findings suggest that Chinese financing does not induce a general shift away from Western positions; rather, its effects are concentrated on issues to which the United States reports having devoted diplomatic effort.

Our second contribution is to provide suggestive evidence that Chinese financing reduces U.S. influence over recipient countries through an outside-option mechanism. If this mechanism is at work, we would expect the effect of Chinese financing on U.S. influence to be weaker in countries where ties to the United States make cooperation with Washington valuable for reasons that Chinese finance cannot readily replace. A direct measure of the value recipient countries attach to cooperation with Washington—or, equivalently, the costs they would incur by forgoing it—is not observable. However, we can examine whether the effect varies with observable proxies for the strength of recipients' pre-existing ties to the United States.

We assess whether the effect of Chinese financing varies with recipients' pre-existing ties to the United States across political, economic, and security domains. To capture political ties, we use three complementary measures. First, we measure long-run political alignment as the average distance between each country's UN General Assembly ideal point and that of the United States before 2000. Countries historically closer to Washington may derive less marginal benefit from using Chinese finance to distance themselves from U.S. positions, either because their underlying preferences are already more aligned with those of the United States or because political proximity reflects deeper ties to Washington. Consistent with this expectation, we find that the effect of Chinese financing on U.S. influence is weaker among countries with greater pre-existing political alignment with the United States.

Second, we use historical diplomatic recognition of Taiwan as an inverse proxy for alignment with Beijing on an issue central to China's foreign policy. Countries that recognized Taiwan may have stronger political reasons to maintain distance from Beijing and, thus, may be less able to translate Chinese financing into a shift away from Washington. The results are consistent with this interpretation. That is, we document that the effect of Chinese financing on U.S. influence is weaker among countries that historically recognized Taiwan.

Third, drawing on O'Rourke (2018), we examine whether the effect of Chinese official finance varies with the history and outcomes of U.S. Cold War intervention attempts. The effect is weaker in countries where these attempts succeeded. This pattern is consistent with the outside-option

interpretation, as in countries where U.S. influence has proved more effective in shaping political outcomes, the costs to recipient governments of distancing themselves from Washington may be higher, making the alternative represented by Chinese finance less valuable.

For the economic channel, we measure recipients' trade dependence on the United States and China. As expected, the effect of Chinese finance on U.S. influence is weaker in countries more commercially dependent on the United States. This pattern is consistent with the outside-option interpretation: stronger U.S. trade ties raise the economic costs of distancing from Washington, reducing the value of Chinese finance as an alternative. By contrast, we find no statistically significant heterogeneity by trade ties with China.

Finally, we examine whether security ties condition the effect of Chinese finance, measuring them by the number of U.S. troops deployed per capita in each recipient country. The effect of Chinese finance on U.S. influence is weaker where the U.S. troop presence is greater. We interpret this pattern as consistent with the outside-option mechanism, since the costs of political realignment away from Washington may be higher when U.S. troops and military assets are physically present in the recipient country.

A distinct but closely related question is whether the erosion of U.S. influence is accompanied by a corresponding increase in Beijing's diplomatic influence. The two effects need not be strictly correlated. Chinese financing may weaken U.S. leverage simply by expanding recipient countries' outside options and allowing them to pursue more autonomous foreign policies, without necessarily inducing greater alignment with China. Alternatively, it may shift recipients' diplomatic alignment away from Washington and toward Beijing. Existing evidence is consistent with both possibilities: some studies find that Chinese development finance increases political alignment with or public support for China, whereas others find no improvement—and potentially a deterioration—in attitudes toward Beijing (Blair et al., 2022; Raess et al., 2022; Wellner et al., 2025).

Because China does not publicly disclose which UNGA resolutions it regards as strategically salient, an exact analog of our U.S. influence index is not directly observable. We therefore construct an indirect, China-oriented measure of diplomatic alignment. Specifically, we compare a country's distance from Beijing across all UNGA resolutions with its distance from Beijing on the subset of resolutions designated as important by the U.S. State Department. This approach rests on the assumption that U.S.-salient resolutions disproportionately include high-stakes issues on which American and Chinese interests diverge. The resulting indicator should therefore be interpreted cautiously as a proxy for relative alignment with Beijing on U.S.-salient resolutions, rather than as a direct measure of Chinese soft power.

We then re-estimate our IV specification using this proxy as the dependent variable. In the full sample, we find no statistically significant effect of Chinese development finance on this measure. However, the estimates point to meaningful temporal heterogeneity. Beginning in 2013, after Xi Jinping became General Secretary of the Chinese Communist Party, the estimated effect of Chinese financing on alignment with Beijing is positive and statistically significant. This result is consistent with the possibility of a strategic shift under Xi, whereby development finance increasingly became an instrument for strengthening Beijing's diplomatic influence. This pattern is consistent with the possibility that Chinese financing initially weakened U.S. leverage without systematically generating pro-China voting, while becoming more closely associated with Chinese diplomatic influence after Xi Jinping's rise to power. We interpret this evidence cautiously.

Further evidence of the efficacy of Chinese financing in shaping the strategic preferences of recipients is provided by the Taiwan question. According to the *One China* principle, Beijing actively opposes Taiwan's maintenance of formal diplomatic ties or its participation in intergovernmental organizations (O'Keefe, 2007; Rich, 2009). Using data from the Taiwanese Ministry of Foreign Affairs on official diplomatic recognition, we provide descriptive evidence through an event-study

framework centered on the moment a country formally severs ties with Taipei in favor of Beijing. Our results show that Chinese financing typically accelerates in the four years preceding a recognition switch, subsequently stabilizing once diplomatic realignment is achieved. These dynamics are consistent with the view that state-backed financing may help subsidize the political costs of switching diplomatic allegiances, and they complement our main IV evidence on UN voting by illustrating a related pattern on the Taiwan question. However, this event-study analysis is descriptive and based on a small number of cases and should therefore be interpreted as suggestive rather than causal.

### 1.1 Literature Review

This paper is related to several strands of literature. The first, and the closest to ours, is the growing body of work documenting China's emergence as a major provider of official finance and examining its political consequences for recipient countries (Dreher et al., 2019, 2021; Bai et al., 2022; Chung et al., 2023; Urdinez, 2024; Wellner et al., 2025). The channels through which these political effects operate are several. One concerns the possibility that Chinese development finance may be captured by local political actors or shape the political orientation of recipient countries(Dreher et al., 2019; Bai et al., 2022). For example, Bai et al. (2022) investigate whether Chinese-funded projects generate pro-authority attitudes in recipient regions and increase the affinity between recipient countries' values and those associated with China. Similarly, Dreher et al. (2019) examine whether Chinese aid is used to political capture leaders in recipient countries. They find that political leaders' birth regions receive substantially larger financial flows from China, particularly when incumbents face upcoming elections and electoral competition is strong. Another widely studied channel concerns the effects of Chinese development finance on public opinion toward China (Chung et al., 2023; Eichenauer et al., 2021; Urdinez, 2024; Wellner et al., 2025). Eichenauer et al. (2021) examine whether China's growing economic engagement affected citizens' perceptions of China in Latin American countries between 2002 and 2013. They find that China's economic engagement appears to polarize public opinion: larger shares of individuals develop either very positive or very negative attitudes toward China. Similarly, Wellner et al. (2025), using residents' opinions from the Gallup World Poll for 126 countries over the 2006–2017 period, find that Chinese development projects increase popular support for the Chinese government in recipient countries. Finally, Urdinez (2024), by assessing the impact of Chinese vaccine provision in six Latin American countries between 2020 and 2021, finds that Chinese vaccines improve public perceptions of China and enhance its reputation relative to that of the United States. Our paper is closely related to this literature, as we also examine whether Chinese development finance has political consequences. However, we focus primarily on its effects on the soft power of a competing donor, the United States. Moreover, as measure of soft power, we do not rely on public opinion, but we infer it from recipient countries' voting behavior in the United Nations General Assembly, by shifting towards state-level foreign-policy choices and diplomatic alignment, rather than bearing on individual attitudes toward a foreign country. These two dimensions need not coincide, as changes in public sentiment do not necessarily translate into corresponding changes in governments' international behavior.

Our use of UNGA voting to construct a measure of soft power connects our paper to a second strand of literature. In Nye's conception (1990), soft power is the ability of a country to "get other countries to want what it wants" through attraction and persuasion rather than coercion. However, there is no consensus on how to define and operationalize this concept (Rothman, 2011). A large body of work uses UNGA roll-call votes to infer countries' foreign-policy preferences and their degree of alignment with major powers. Early contributions rely on measures of voting similarity (Signorino and Ritter, 1999; Voeten, 2000), while more recent studies estimate ideal points that

vary over time and across issues (Bailey et al., 2017). These measures have been widely used to study alignment with the United States and other major powers and to assess how aid, trade, and security ties affect countries' voting behavior in the UNGA (e.g. Voeten, 2004; Dreher et al., 2018). Within this literature, the studies closest to ours are Pang and Wang (2018) and Xu et al. (2025), as both explicitly examine Sino-U.S. competition through UNGA voting. Pang and Wang (2018) investigate whether Chinese assistance weakens the ability of U.S. aid to secure favorable votes on resolutions considered important by Washington, finding that Chinese aid reduces the effectiveness of U.S. vote buying. Similarly, Xu et al. (2025) study the competing effects of Chinese and U.S. aid on African countries' voting alignment, documenting asymmetric cross-donor effects. Our analysis shares with these studies the objective of examining whether Chinese development finance weakens U.S. influence. However, our analysis differs in terms of the measurement of U.S. influence, identification strategy, and offers suggestive evidence of an outside-option mechanism behind the findings.

Finally, our paper is related to a third, broader strand of literature examining the political and strategic motivations underlying foreign aid. Although aid is often justified as a means of promoting growth and development in recipient countries (Rosenstein-Rodan, 1961; Burnside and Dollar, 2000; Easterly, 2009), a large literature shows that its allocation reflects donors' political and strategic interests at least as much as developmental considerations (Bauer, 1976; Lebovic, 2005). In an early contribution, Morgenthau (1962) conceptualizes aid as a key instrument of power politics, arguing that the United States uses economic assistance to pursue foreign-policy objectives that cannot be achieved through military or traditional diplomatic means alone. Empirical studies show that donors tend to provide more aid to former colonies and geopolitical allies (Alesina and Dollar, 2000), to important export markets and trading partners (Dudley and Montmarquette, 1976; Berthélemy, 2006; Dreher et al., 2015), and to countries that import goods in which the donor has a comparative advantage (Younas, 2008). Other studies emphasize the use of aid to influence behavior in international organizations: donors often reward countries that support them in the UN or hold temporary seats on the UN Security Council (Thacker, 1999; Calomiris, 2000; Kuziemko and Werker, 2006; Dreher et al., 2009). We build on this view of aid as an instrument of influence but focus on a cross-donor effect: whether Chinese official finance weakens the United States' ability to secure support on major multilateral issues.

# 2 Data and Empirical Strategy

In this section, we describe the main data we use for our analysis. Section 2.1 presents the data we use to construct our proxy of U.S. soft power and provides descriptive evidence to validate our measure. In Section 2.2, we present data on Chinese development finance.

## 2.1 U.S. Soft Power

We measure U.S. soft power using voting behavior at the United Nations General Assembly (UNGA). The UNGA record provides a consistent, long-term dataset of government positions across a broad spectrum of international issues. We build on the methodology developed by Bailey et al. (2017), which we review in the following section.

### 2.1.1 Ideal Point Distance

A standard approach in the literature to capture affinity in foreign policy preferences is to examine voting patterns at the UN General Assembly. However, simple agreement scores, defined as the

frequency with which two countries cast identical votes, are highly sensitive to variations in the General Assembly's agenda. For instance, two countries may exhibit a higher apparent affinity simply because the UNGA is voting on less contentious issues in a given year, rather than due to a genuine convergence of interests. The Bailey et al. (2017) framework addresses this bias by employing a dynamic ordinal spatial model rooted in Item Response Theory (IRT). In this setup, each country $i$ in year $t$ is characterized by a latent ideal point ($x_{it}$), representing its fundamental foreign policy orientation. For expositional simplicity, we describe the binary case in which a country either votes 'yes' or 'no' on resolution $j$. The probability that country $i$ in year $t$ votes 'yes' on resolution $j$ is:

$$Pr(y_{itj} = yes) = F(\beta_j x_{it} - \alpha_j)$$

where $F(\cdot)$ is a cumulative distribution function (typically the logistic cdf), $x_{it}$ is the latent foreign policy ideal point of country $i$ in year $t$, $\beta_j$ is the item discrimination parameter, and $\alpha_j$ is the item difficulty (location) parameter. These parameters, along with the latent ideal points $x_{it}$, are estimated simultaneously using a Bayesian Markov Chain Monte Carlo approach. This estimation strategy allows for the identification of the latent policy space even when the agenda changes, by using bridge resolutions, issues that recur over time, to ensure that the estimated ideal points are intertemporally comparable.

From the posterior estimates of $x_{it}$, it is possible to construct the Ideal Point Distance between country $i$ and $z$, defined as:

$$IPD_{i,z,t} = ||x_{it} - x_{zt}||$$

### 2.1.2 From Ideal Point Distance to Soft Power

A reduced distance in the latent policy space may reflect either high baseline policy affinity or the successful co-optation of one state by another. To isolate the latter for the case of U.S., we exploit the U.S. State Department's annual identification of UNGA resolutions that "*directly affected important United States interests'* and upon which U.S. diplomats *'lobbied extensively.*"[5] Throughout this paper, we refer to these as *important.*

As an illustrative example, in 2024, the State Department identified 29 important resolutions, 19 of which reached a vote in the General Assembly. These included one resolution on the Russia-Ukraine conflict, five on human rights abuses, four on development issues, and several others concerning arms and nuclear proliferation. More broadly, Table 1 provides the distribution of important votes by topic for the resolutions in our sample.[6]

[5]The italicized text is sourced from the U.S. State Department's *Voting Practices in the United Nations* report to Congress (2024).

[6]For the 2000–2017 period, our dataset provides disaggregated thematic information for a subset of 1,323 resolutions.

Table 1: Distribution of UNGA resolutions by topic and U.S. importance

| **Topic** | **Important** | Not **important** | **Total** |
|---|---|---|---|
| Relating to colonialism | 18 | 199 | 217 |
| Relating to arms control and disarmament | 29 | 308 | 337 |
| Relating to economic development | 39 | 109 | 148 |
| Relating to human rights | 116 | 278 | 394 |
| Relating to the Palestinian conflict | 56 | 249 | 305 |
| Relating to nuclear weapons and nuclear material | 24 | 213 | 237 |
| other | 20 | 148 | 168 |

**Notes:** This table reports the number of UN General Assembly resolutions classified by topic and whether they are deemed important by the U.S. State Department (i.e., resolutions on which the United States reports having lobbied other countries). For each topic, the table shows the count of important and non-important resolutions, as well as the total number of resolutions in that topic.

Assuming that U.S. diplomatic efforts are concentrated on these high-stakes resolutions, the divergence between a country's baseline preferences and its specific behavior on important votes serves as a proxy for U.S. ability to influence other countries. Specifically, for each country $i$ and year $t$, we define U.S. soft power as the difference between the IPD calculated over all UNGA votes and the IPD calculated exclusively over important votes:

$$\text{U.S. Soft Power}_{it} = \text{IPD}^{All}_{i,USA,t} - \text{IPD}^{I}_{i,USA,t} \tag{1}$$

Our measure of U.S. Soft Power in equation (1) captures a compliance gap. The first term, $IPD^{All}$, represents the baseline ideological distance from the United States. The second term, $IPD^{I}$, represents the distance when the U.S. actively exerts diplomatic pressure. A positive value implies that, under the heat of U.S. lobbying, a country "moves"its revealed preferences closer to Washington's position than it normally would. While negative values might appear counter-intuitive, they provide a rigorous stress-test for our hypothesis: they represent cases of 'diplomatic defiance', where a country explicitly opposes the U.S. precisely on the issues where Washington cares the most. In a robustness check, we truncate our measure of U.S. soft power to zero and confirm that our results are driven by the overall reduction in compliance, not by extreme outliers.

In Figure 1a, we plot the average IPD with the U.S. for each year starting from 1980, considering both important and all resolutions. Data about IPD for both important and all resolutions are sourced from Voeten et al. (2023). For almost the entire period, the IPD for important votes is below the trend of the IPD for all votes. In other words, the average country is more likely to exhibit preferences similar to those of the United States for votes on which the U.S. State Department has declared that it lobbied other countries.




(a) Average Ideal Point Distance with the United States Over Years

**Notes**: The figure shows the cross-country average, calculated for each year, of the ideal point distance between a country and the United States across all resolutions and important resolutions. Important resolutions are those on which the United States reports having lobbied other countries.

(b) U.S. Voting Distance and Soft Power Over Time



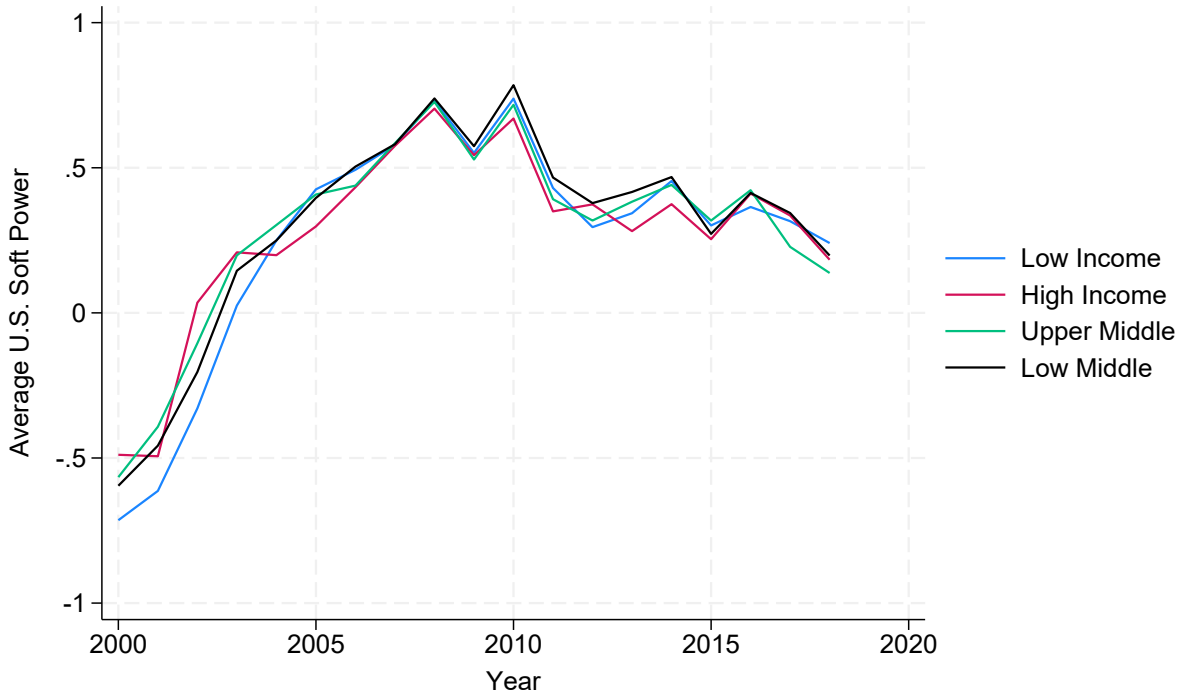

(c) Average U.S. Soft Power Over Years

**Notes**: This figure plots, for each year since 1980, the cross-country average of our measure of U.S. soft power, defined as the difference between the ideal point distance with the United States across all UNGA resolutions and the corresponding distance across important resolutions. Important resolutions are those on which the United States reports having lobbied other countries. Positive values indicate that countries' revealed preferences move relatively closer to those of the United States on resolutions on which the U.S. State Department reports having lobbied other countries.

Figure 1c plots, for each year since 1980, the cross-country average of our measure of U.S. soft power. Over our main sample period (2000 onward), the trajectory displays a reversed U-shape, with the declining segment starting around 2011. This timing roughly overlaps with the leadership transition that brought Xi Jinping to power and the subsequent launch of the Belt and Road Initiative, suggesting that as China's outside option became more substantial and institutionalized, the U.S. capacity to swing votes on salient issues began to erode systematically.

Figure 2 plots the cross-country average of our U.S. soft power measure by the World Bank income group over sample years. All series exhibit broadly similar time patterns, although U.S. soft power appears, on average, to be slightly higher for low-income countries. One possible interpretation is that low-income countries, being more dependent on external resources and security guaranties, are more responsive to U.S. lobbying efforts on salient issues, which translates into a stronger reduction in preference distances on important votes relative to non-important ones.

Figure 2: Average U.S. Soft Power Over Years by Income Class




**Notes**: This figure plots, for each year in the sample period, the average of our measure of U.S. soft power, defined as the difference between the IPD with the United States on all UNGA resolutions and on important resolutions (i.e., resolutions on which the United States reports having lobbied other countries), conditioning on countries' income class, defined in accordance with the World Bank categorization.

Figure 3 plots our measure of U.S. soft power in relation to China over time. The index is negative for most of the sample period, briefly turning positive around 2005 before declining again and becoming even more negative in later years. This pattern indicates that China is generally more distant from the U.S. position on important votes than across the entire UNGA agenda. The subsequent decline is consistent either with an erosion of U.S. leverage over Chinese voting behavior during the period in which China's international role expanded most rapidly or, alternatively, with a growing divergence between Chinese and American interests, as widely documented by political observers (Kissinger, 2012; Kim, 2019).

Figure 3: U.S. Soft Power Vis-à-Vis China Over Years




**Notes**: This figure plots, by year, our measure of U.S. soft power vis-à-vis China, defined as the difference between the IPD between China and the United States on all UNGA resolutions and on important resolutions (i.e., resolutions on which the United States reports having lobbied other countries). Positive values indicate that China's revealed preferences move relatively closer to those of the United States on resolutions the U.S. classifies as important.

A natural concern is whether (1) captures U.S. influence on salient issues, as intended, or instead reflects mechanical differences between subsets of votes, such as topic composition. Unfortunately, the limited number of important votes per year prevents us from estimating ideal points by topic within each year. However, Figure 4 shows that the share of resolutions related to human-rights, a category that represents about 30% of votes deemed important by the United States, does not show a clear trend over time. This suggests that variations in our measure of U.S. soft power are unlikely to be driven solely by shifts in resolution topics. Moreover, all our empirical specifications include year effects, which absorb any variation to the distribution of topics in a given year.

Figure 4: Share of Resolutions Related to Human Rights at the UN General Assembly Over Years

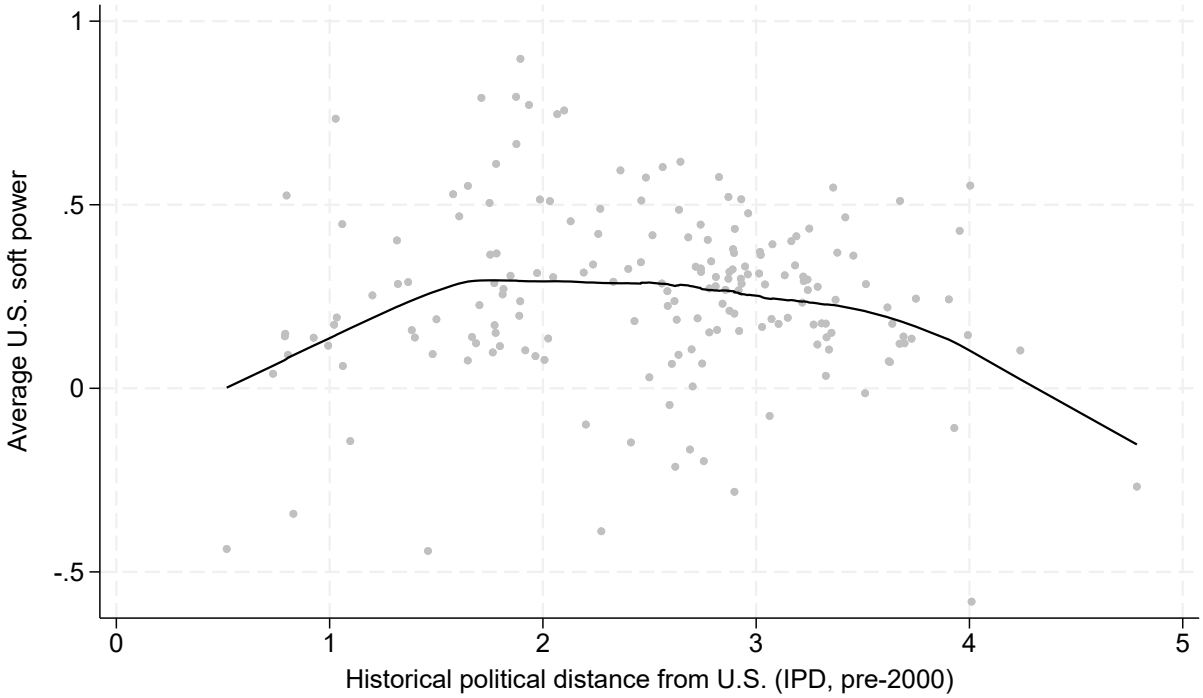



**Notes**: This figure plots, for each year in the sample period, the share of resolutions at the UN General Assembly related to human rights abuse.

If equation (1) captures the ability of U.S. lobbying to bring countries closer to the U.S. position on salient issues relative to their baseline alignment, the index should be largest where there is both scope for movement and potential U.S. influence. We therefore expect it to be relatively small for countries that have traditionally been either very close to or very distant from the United States, and larger at intermediate levels of historical political distance.

In Figure 5, we relate our soft power index to a measure of long-term political affinity with the United States. For each country, we compute the average ideal-point distance from the U.S. over the pre- 2000 period, which we interpret as a summary indicator of historical political distance: lower values correspond to countries that have traditionally been closer to the United States in UNGA voting, whereas higher values indicate countries that have been systematically more distant. Intuitively, if our index captures the scope of U.S. lobbying to move a country's revealed preferences on important votes, we should expect it to be relatively small for countries that are either already very close to or very far from the United States, and larger for countries at intermediate levels of historical distance, where there is more room for co-optation. The figure highlights a non-linear relationship: U.S. soft power tends to be higher for countries at intermediate levels of historical political distance, and closer to zero for countries that have been either very close to or very distant from the United States. This pattern is consistent with the interpretation of our index as measuring the extent to which U.S. lobbying can reduce preference distances on salient issues, rather than overall affinity per se.

Figure 5: U.S. Soft Power and Historical Political Distance From the United States




**Notes**: Each dot represents a country. The vertical axis reports the country-level average of our U.S. soft power index over 2000–2018, defined as the difference between the ideal-point distance (IPD) from the United States on all UNGA votes and on important votes. The horizontal axis reports the average ideal-point distance from the United States over the pre-2000 period, which we interpret as a measure of historical political distance. The solid line is a lowess fit.

## 2.2 Chinese International Aid

Data on Chinese state aid are sourced from Custer et al. (2023). The dataset includes 20,985 projects in 165 low- and middle-income countries, funded by loans and grants from Chinese official institutions. It spans 22 commitment years (2000-2021) and encompasses various sectors and types of financial and in-kind transfers.[7] Development, Commercial, Representational, Mixed, or Military.[8] We retain only projects with development intention, which represent about 77% of the total. Moreover, we exclude Covid-19 years from the sample. This leaves us with around 16,000 projects, of which almost 90% are categorized as ODA.[9]

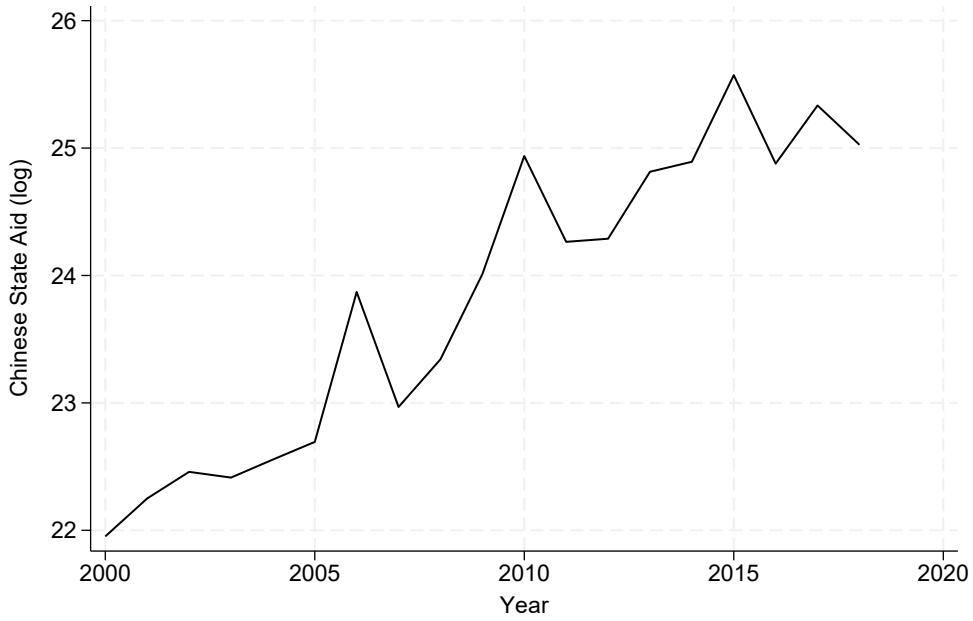
Figure 6 highlights the increasing Chinese financing over the years. From 2000 to 2019, on average, China's world financing growth was on average 11% per year.

[7]Projects are categorized as ODA if they meet three criteria: (i) The primary goal is to promote economic development and welfare in the recipient country, (ii) The project occurs in a country eligible for ODA based on its income level, and (iii) The supporting official commitment is concessional, such as grants, technical assistance, or loans with a grant element. Projects that do not meet all three criteria are classified as OOF. If insufficient information prevents reliable categorization as ODA or OOF, projects are labeled as Vague.

[8]Development projects focus on promoting economic development and welfare in the recipient country. Commercial projects aim to advance the commercial interests of the originating country, such as promoting exports of Chinese goods and services. Mixed projects have multiple purposes and cannot be solely identified as development, commercial, or representational. Military projects aim to advance the security interests of the originating country or strengthen the military capabilities of the recipient country.

[9]Throughout the article, we will consider the totality of the aid, and our baseline result holds also when we focus on ODA aid; the results are illustrated in Table A1 in the appendix.

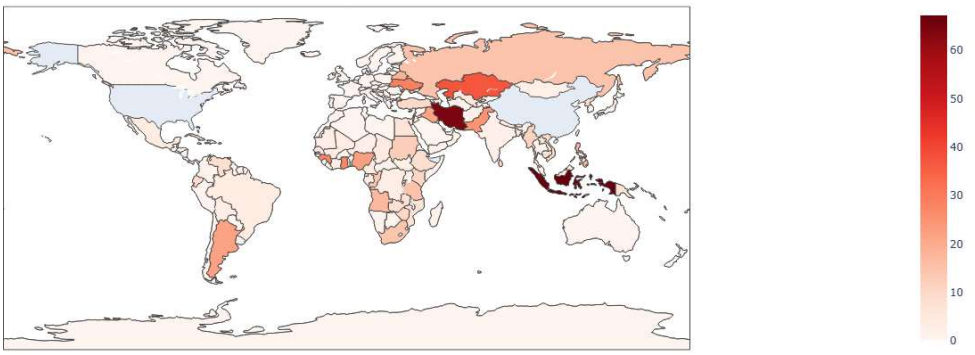
Figure 6: Amount of dollars (in log) committed by China over years




**Notes**: The figure shows the yearly amount of dollars, in a log scale, committed by China over the sample period.

To illustrate the cross-country distribution of Chinese financing, Figure 7 maps, for each recipient, the cumulative amount of Chinese official commitments over our sample period (in billions of U.S. dollars). Chinese official financing is geographically widespread, with broad coverage across sub-Saharan Africa. The largest cumulative commitments, however, appear concentrated in a smaller number of recipients in Central, Western, and Southeast Asia, while Argentina stands out as a major recipient in Latin America.

Figure 7: Cumulative Chinese Official Financing by Recipient Country




**Notes**: The figure shows, for each recipient country, the total amount of Chinese official commitments over the period 2000–2018, expressed in constant (year) U.S. dollars and reported in billions. Darker shades indicate higher cumulative commitments.

### 2.3 Estimates

In Table 2, we test the following model:

$$\text{U.S. Soft Power}_{i,t} = \beta \times \log(1 + \text{Chinese State Aid}_{i,t}) + \text{X}_{i,t} + \lambda_i + \eta_t + \varepsilon_{i,t} \quad (2)$$

where: (i) U.S. Soft Power$_{i,t}$ is our measure of the U.S. soft power in country $i$ at year $t$, computed as described by equation (1), (ii) Chinese State Aid$_{i,t}$ is the amount of USD dollars that China commits to spend in country $i$ at time $t$ (in log), and (iii) $X_{i,t}$ represents controls.[10]

Table 2: OLS Panel Regression

| | (1) U.S. Soft Power | (2) U.S. Soft Power | (3) U.S. Soft Power | (4) U.S. Soft Power |
|---|---|---|---|---|
| Chinese State Aid | 0.00771*** | 0.00732*** | -7.74e-05 | -0.000658 |
| | (0.00131) | (0.00123) | (0.000866) | (0.000854) |
| Real GDP PC | | 0.0711*** | | -0.106** |
| | | (0.0219) | | (0.0423) |
| Quality of Institutions | | 0.0548*** | | 0.0433*** |
| | | (0.0152) | | (0.0155) |
| Constant | 0.198*** | -0.260 | -0.728*** | 0.0979 |
| | (0.0247) | (0.185) | (0.0627) | (0.283) |
| Observations | 2,783 | 2,547 | 2,783 | 2,547 |
| Number of Country | 148 | 146 | 148 | 146 |
| Country FE | NO | NO | YES | YES |
| Year FE | NO | NO | YES | YES |

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

**Notes**: The table shows an OLS panel regression where the dependent variable is the U.S. soft power, defined as the difference between the IPD with the United States on all UNGA resolutions and on important resolutions (i.e., resolutions on which the United States reports having lobbied other countries). Chinese State Aid is the annual committed amounts of official financing (in constant U.S. dollars) from China to the recipient, expressed as log(1 + aid). Real GDP PC is log real GDP per capita, and Quality of Institutions is the first principal component of the five Worldwide Governance Indicators (rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality). Standard errors clustered at country level.

In pooled specifications without fixed effects (columns 1–2), Chinese aid is positively and significantly correlated with our measure of U.S. soft power: countries that receive more Chinese aid also tend to exhibit, on average, a higher degree of alignment with the United States on important votes. However, once we control for country fixed effects and year effects (columns 3–4), the coefficient on Chinese aid becomes small and statistically insignificant.

#### 2.3.1 Instrumental Variable

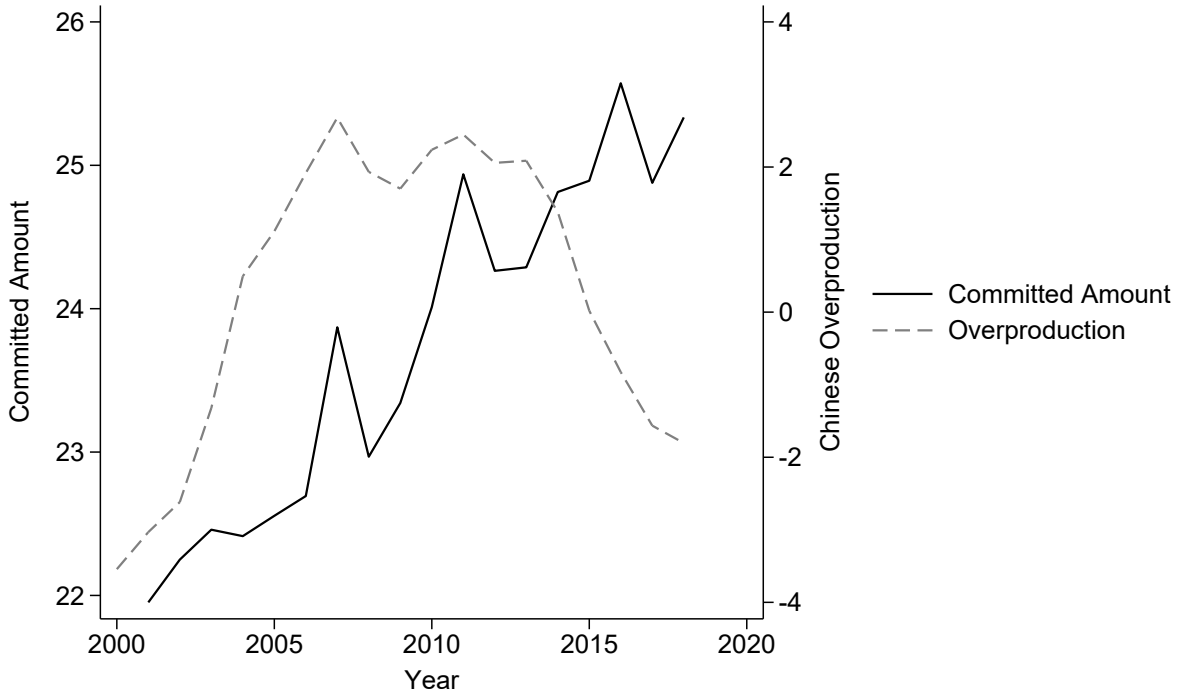
Estimating (2) is likely to yield biased results. Chinese aid may be allocated strategically, taking into account potential shifts in U.S. influence and the geopolitical importance of recipient countries. Consequently, OLS estimates are unlikely to identify a causal effect. Moreover, in pooled OLS Chinese aid is positively and significantly correlated with our measure of U.S. soft power, but this

[10]Following the common approach of the literature in international aid, we consider commitment rather than disbursement as the latter also captures the ability of the recipient country to absorb the investment flows.

correlation disappears once we control for country and year fixed effects. This suggests that cross-sectional differences and common time shocks, rather than within-country changes in aid, drive the correlation and reinforce the need for an identification strategy that addresses endogeneity. For these reasons, in this section we make use of an instrumental-variable approach.

As noted in Dreher et al. (2021), the Chinese government considers domestic materials such as steel and aluminum to be strategically essential commodities, leading to production levels that significantly exceed domestic demand. Consequently, during periods of high production of project-related inputs, an increase in Chinese government financing is expected for overseas infrastructure projects. This pattern is maintained in various sectors, as most projects involve physical construction and are highly dependent on imported Chinese construction materials (Bluhm et al., 2025; Dreher et al., 2021). Thus, China's surplus production of raw materials is likely a crucial factor that influences the general level of official Chinese funding. To investigate this, we collect data on the production of five raw materials (aluminum, cement, glass, iron, and steel) from the China National Bureau of Statistics. Following the methodology outlined by Dreher et al. (2021), we extract the principal component of the cyclical fluctuations within these datasets.[11] Figure 8 illustrates the principal component of the cyclical fluctuations in China's raw material production for the previous year, along with China's total annual commitment (in log) in international aid for the current year. The figure highlights a strong correlation between the two series.

Figure 8: Chinese Production as Predictor of Chinese Aid




**Notes**: This figure shows the time series of total Chinese financing (left $y-$axis) in a given year and Chinese production of industrial inputs (right $y-$axis) in the previous year.

Although the aggregate cyclical component of Chinese raw-material production captures the variation over time in the overall intensity of China's push for external infrastructure, it does not

[11] We derive the cyclical component by applying the Hodrick-Prescott filter to the data.

explain why some recipient countries receive more Chinese financing than others in a given year. To introduce cross-country heterogeneity in exposure to these production shocks, we interact the raw-material production cycle with a measure of each country's pre-existing level of industrial development.

Specifically, we use data on industrial value added to compute, for each recipient country, the share of value added generated by industry in a pre-determined base year (2000), and we construct our exposure term as one minus this share. This term can be interpreted as capturing how "underindustrialized"a country was at the beginning of the sample. From a theoretical point of view, both the more industrialized and less industrialized economies could attract Chinese project finance: more industrialized countries may offer better absorptive capacity and complementary infrastructure, while less industrialized countries may present a greater unmet demand for basic infrastructure. We therefore take an agnostic stance ex ante regarding the sign of the relationship between industrialization and Chinese aid, and simply use the interaction between the raw-material production cycle and this baseline measure to generate plausibly exogenous variation in Chinese financing across countries and over time.[12]

In accordance with the above discussion, the following model represents the first stage of our instrumental variable estimation.

$$\begin{aligned}\log(1+\text{China Aid}_{i,t}) = \beta \times \text{Chinese Production}_{t-1} \times (1-\text{Value Added Industry}_i) + \\ + X_{i,t} + \mu_i + \lambda_t + \varepsilon_{i,t}\end{aligned} \tag{3}$$

Where: (i) Chinese Production$_{t-1}$ is the aggregate cyclical component of Chinese raw-material production calculated as described above, and (ii) Value Added Industry$_i$ is the share of value added generated by industry in the recipient country $i$ in a pre-determined base year (2000).

Table 3 shows the results of our IV variable. The second stage reveals a negative and statistically significant relationship between Chinese State Aid and U.S. soft power. Quantitatively, the coefficient of $-0.03$ implies that a one standard deviation increase in Chinese aid (about 8.6 log points) reduces our soft power measure by roughly 0.29 points. This corresponds to about 73% of a standard deviation of U.S. soft power and exceeds the sample mean of the index, indicating an economically sizable effect.[13]

Note also that while the OLS showed a null or positive correlation, the IV reveals a significant negative effect. This discrepancy suggests that Chinese aid is often endogenously allocated to countries where U.S. influence is traditionally high; the very cases where China aims to contest Washington's primacy. By using our supply-side instrument, we purge the estimates of this strategic targeting, uncovering the underlying negative impact of Chinese commitments on U.S. soft power.

[12]To assess whether our exposure term generates differential trends in the outcome, we regress U.S. soft power on the interaction between pre-determined industrial value added and year dummies, controlling for country and year fixed effects, log real GDP per capita, and institutional quality. Appendix Figure 1 plots the year-specific marginal effect of baseline industrialization on U.S. soft power, along with 95 percent confidence intervals. The estimated marginal effects are small and never statistically different from zero, and confidence intervals always include zero, indicating that countries with different initial levels of industrialization do not exhibit systematically different trends in our dependent variable.

[13]Table A2 in the appendix reports the summary statistics of the main variables we use in our analysis.

Table 3: IV Regression

| | (First Stage) Chinese State Aid | (Second Stage) U.S. Soft Power |
|---|---|---|
| Instrument | 0.0288*** | |
| | (0.0075) | |
| Chinese State Aid | | -0.0306** |
| | | (0.0119) |
| Real GDP PC | -2.567 | -0.217** |
| | (2.219) | (0.110) |
| Quality of Institutions | -0.0070 | 0.0663** |
| | (0.448) | (0.0322) |
| Observations | 2,165 | 2,165 |
| Number of Country | 130 | 130 |
| Country FE | YES | YES |
| Year FE | YES | YES |
| Cragg-Donald Wald F statistic | 23.75 | |

Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

**Notes**: This table reports two-stage least squares estimates of the effect of Chinese aid on U.S. soft power. The dependent variable in the second stage is U.S. soft power, defined as the difference between the IPD with the United States on all UNGA resolutions and on important resolutions (i.e., resolutions on which the United States reports having lobbied other countries). The endogenous regressor is Chinese State Aid, defined as the annual committed amounts of official financing (in constant U.S. dollars) from China to the recipient expressed as $\log(1 + \text{aid})$. The instrument is the interaction between the cyclical component of Chinese raw-material production in the previous year (first principal component of aluminum, cement, glass, iron, and steel, extracted after HP-filtering) and a pre-determined measure of countries' industrial structure. Real GDP PC is log real GDP per capita, and Quality of Institutions is the first principal component of the five Worldwide Governance Indicators (rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality). All specifications include country and year fixed effects, and standard errors are clustered at the country level.

The main result is robust to controlling for variables that describe the bilateral relationship between the United States and the recipient. Specifically, in Table 4 we add, as additional covariates, the amount of U.S. aid to the recipient in the current year, the presence of U.S. troops in the country, the direct investment of the U.S. in the recipient and the share of the recipient's merchandise trade conducted with the United States, defined as the sum of exports to and imports from the United States divided by the country's total exports plus imports in a given year.

Table 4: IV Regression with U.S.–Recipient Bilateral Relationship

| | (First Stage) Chinese State Aid | (Second Stage) U.S. Soft Power |
|---|---|---|
| Instrument | 0.0335*** | |
| | (0.0093) | |
| Chinese State Aid | | -0.0274** |
| | | (0.0134) |
| Real GDP PC | -1.896 | -0.269* |
| | (2.598) | (0.147) |
| Quality of Institutions | 0.0739 | 0.0548 |
| | (0.6775) | (0.0392) |
| U.S. State Aid | 0.0647 | 0.00908* |
| | (0.079) | (0.00487) |
| Openness Towards U.S. | 0.782 | 0.127 |
| | (4.378) | (0.316) |
| U.S. FDI | 151189*** | 3,847 |
| | (42298.9) | (3,760) |
| U.S. Troops | -0.0545*** | 0.00209* |
| | (0.0126) | (0.00116) |
| Observations | 1,451 | 1,451 |
| Number of Country | 105 | 105 |
| Country FE | YES | YES |
| Year FE | YES | YES |
| Cragg-Donald Wald F statistic | 17.825 | |

Clustered standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

**Notes**: This table reports two-stage least squares estimates of the effect of Chinese aid on U.S. soft power. The dependent variable in the second stage is U.S. soft power, defined as the difference between the IPD with the United States on all UNGA resolutions and on important resolutions (i.e., resolutions on which the United States reports having lobbied other countries). The endogenous regressor is Chinese State Aid, defined as the annual committed amounts of official financing (in constant U.S. dollars) from China to the recipient expressed as $\log(1 + \text{aid})$. The instrument is the interaction between the cyclical component of Chinese raw-material production in the previous year (first principal component of aluminum, cement, glass, iron, and steel, extracted after HP-filtering) and a pre-determined measure of countries' industrial structure. Real GDP PC is log real GDP per capita. Quality of Institutions is the first principal component of the five Worldwide Governance Indicators (rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality). Openness Towards U.S. is the share of the recipient's merchandise trade conducted with the United States. U.S. FDI is the U.S. direct investment position in the recipient (in USD millions), and U.S. Troops measures the number of U.S. troops deployed in the recipient country. These variables are included as controls for the broader U.S.–recipient bilateral relationship. All specifications include country and year fixed effects, and standard errors are clustered at the country level.

In Table 5, we also control for the intensity of each country's trade integration with China. Including this variable as an additional control leaves our baseline IV estimates virtually unchanged, suggesting that the negative effect of Chinese aid on U.S. soft power is not simply capturing broader patterns of China–recipient trade integration.

Table 5: IV Regression Controlling for China–Recipient Trade Relationship

| | (First Stage) Chinese State Aid | (Second Stage) U.S. Soft Power |
|---|---|---|
| Instrument | 0.0289*** | |
| | (0.00751) | |
| Chinese State Aid | | -0.0308*** |
| | | (0.0119) |
| Real GDP PC | -2.540 | -0.223* |
| | (2.118) | (0.114) |
| Quality of Institutions | -0.0054 | 0.0660** |
| | (0.450) | (0.0321) |
| Openness Towards China | -0.3889 | 0.0790 |
| | (5.144) | (0.221) |
| Observations | 2,165 | 2,165 |
| Number of Country | 130 | 130 |
| Country FE | YES | YES |
| Year FE | YES | YES |
| Cragg-Donald Wald F statistic | 26.192 | |

Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

**Notes**: This table reports two-stage least squares estimates of the effect of Chinese aid on U.S. soft power. The dependent variable in the second stage is U.S. soft power, defined as the difference between the IPD with the United States on all UNGA resolutions and on important resolutions (i.e., resolutions on which the United States reports having lobbied other countries). The endogenous regressor is Chinese State Aid, defined as the annual committed amounts of official financing (in constant U.S. dollars) from China to the recipient expressed as $\log(1 + \text{aid})$. The instrument is the interaction between the cyclical component of Chinese raw-material production in the previous year (first principal component of aluminum, cement, glass, iron, and steel, extracted after HP-filtering) and a pre-determined measure of countries' industrial structure. Real GDP PC is log real GDP per capita. Quality of Institutions is the first principal component of the five Worldwide Governance Indicators (rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality). Openness Towards China is the share of the recipient's merchandise trade conducted with the China. All specifications include country and year fixed effects, and standard errors are clustered at the country level.

# 3 Heterogeneity and Outside Option Mechanism

It is possible to relate the evidence presented in the previous sections to a long-standing debate on how the distribution of power affects international politics. In a unipolar world, a single state enjoys a preponderance of power and faces no serious competitors. A high concentration of power can have desirable consequences: U.S. hegemony has arguably shaped international institutions and state behavior in ways that stabilized the global economy and fostered cooperation over much of the late twentieth century (Wohlforth, 1999; Ikenberry, 1999, 2018). At the same time, when power is highly concentrated, there are few effective constraints on the hegemon's ability to use its influence for its own purposes. In such settings, conflicts and imperial logics may emerge, in which the dominant state shapes the choices of subordinate countries (Monteiro, 2011; Chomsky and Robinson, 2025). From this perspective, the rise of an alternative pole should undermine the ability of the hegemon to influence other countries, for better or worse. The evidence we document in the previous section is consistent with this view.

In this section, we examine the conditions under which Chinese aid is more or less effective in eroding U.S. influence. To this end, we exploit heterogeneity along three complementary dimensions. First, we consider a political channel. The availability of an external option may allow

recipient countries whose political preferences diverge from those of the United States to act on that divergence without fearing U.S. economic retaliation. In this context, the economic autonomy afforded by Chinese aid is pursued as a means to political autonomy rather than as an end in itself. Second, we consider a commercial channel. Chinese aid may reshape recipients' economic structures and deepen their ties to the Chinese economy, thereby making continued political alignment with the United States comparatively less necessary or more costly to abandon. We do not test this sequence directly. Rather, we treat economic interdependence with China, alongside interdependence with the United States, as a proxy for whether this channel is plausibly at work. Third, we consider a security channel. A country's ability to act independently of the United States also depends on its military autonomy, since a security relationship with Washington may constrain political realignment regardless of economic ties.

We investigate the role of political ties using three complementary specifications. First, we use the average ideal-point distance from the United States during the pre-2000 period as a measure of long-run political alignment. The underlying idea is that countries historically closer to Washington in UN General Assembly voting are more firmly anchored to the United States and therefore less likely to translate Chinese resources into greater political distance from Washington. Second, we use historical diplomatic recognition of Taiwan as a complementary proxy for alignment with U.S.-aligned international positions, given the importance of China's One China principle. Third, we draw on data from (O'Rourke, 2018) to identify countries in which the United States attempted either to impose regime change or to support an incumbent leader during the Cold War. This measure captures the possibility that direct U.S. political intervention leaves a lasting imprint on a country's relationship with Washington, whether through persistent resentment or through heightened awareness of the United States' willingness to constrain its political autonomy.

For the commercial channel, we measure economic interdependence with the United States using the share of the recipient country's merchandise trade conducted with the United States. We also construct an analogous measure based on historical trade flows, capturing the recipient's average trade dependence on the United States over the pre-treatment period. The latter measure allows us to assess whether longstanding commercial ties, rather than contemporaneous trade patterns alone, condition the relationship between Chinese financing and U.S. influence. The underlying expectation is that greater integration with the U.S. economy raises the economic costs of political realignment away from Washington. We complement these measures with analogous indicators of the recipient's trade interdependence with China, both for contemporaneous and historical trade flows, to examine whether closer and more persistent commercial ties to the Chinese economy are associated with a stronger erosion of U.S. soft power.

Finally, for the security channel, we measure security ties using the presence of U.S. troops in the recipient country. A country's ability to act independently of the United States plausibly depends on its degree of military autonomy, since a sustained U.S. security presence may constrain political realignment regardless of the strength of economic ties.

To estimate heterogeneous effects while retaining our IV structure, we adopt a control-function approach in the spirit of Wooldridge (2015). In a first step, we regress Chinese aid on the instrument and all covariates and obtain the residuals. In a second step, we regress our soft power measure on Chinese aid, the heterogeneity variable and its interaction with Chinese aid, the same covariates and the first-stage residual. Under standard conditions, this procedure delivers consistent estimates of the interaction effect in the presence of an endogenous regressor.

### 3.1 Political Ties

A first dimension along which we explore heterogeneity is political ties with the United States. Long-run patterns of political alignment may shape both how much leverage the U.S. has over a given country and how easily Chinese resources can translate into influence. To measure historical political alignment, we compute each country's average ideal-point distance from the United States over the pre-2000 period. Lower values identify countries that traditionally voted closer to the United States in the UNGA, whereas higher values identify countries with a history of greater political distance. Because this measure is constructed using only the period preceding our estimation sample, it captures pre-existing political alignment and cannot itself be affected by the subsequent expansion of Chinese development finance.

In Table 6, we interact Chinese development finance with countries' average pre-2000 ideal-point distance from the United States. The interaction coefficient is negative, indicating that the adverse effect of Chinese finance on U.S. soft power becomes stronger as countries' historical distance from Washington increases. This pattern is consistent with the political outside-option channel outlined above. Chinese finance appears to be particularly effective where recipients' underlying foreign-policy preferences were already relatively distant from those of the United States, potentially allowing these countries to act on such preferences at a lower cost. Conversely, long-standing alignment with Washington may anchor recipient countries' foreign-policy choices and limit the extent to which Chinese resources can weaken U.S. influence.

Table 6: Heterogeneous effect of Chinese Aid by Historical Political Ties to the United States

| | (First Stage) Chinese State Aid | (Second Stage) U.S. Soft Power |
|---|---|---|
| Instrument | 0.0292*** | |
| | (0.00797) | |
| Chinese State Aid | | -0.0205* |
| | | (0.0124) |
| Chinese State Aid×Historical Political Ties | | -0.00258* |
| | | (0.00156) |
| Real GDP PC | -2.516 | -0.216** |
| | (2.319) | (0.108) |
| Quality of Institutions | -0.0845 | 0.0598* |
| | (0.469) | (0.0320) |
| Constant | 87.12*** | 4.423*** |
| | (4.419) | (1.028) |
| Observations | 2,119 | 2,119 |
| Number of Country | 127 | 127 |
| Country FE | YES | YES |
| Year FE | YES | YES |

Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

**Notes**: This table reports estimates of the effect of Chinese aid on U.S. soft power, allowing the effect to vary with historical political ties to the United States with a control-function approach (Wooldridge, 2015). Column (1) reports the first-stage regression of Chinese aid on the instrument and controls; column (2) reports the second-stage regression for U.S. soft power, defined as the difference between the IPD with the United States on all UNGA resolutions and on important resolutions (i.e., resolutions on which the United States reports having lobbied other countries). Historical Political Ties is the average ideal-point distance between the recipient and the United States over the pre-sample period, with higher values indicating countries that have been historically more distant from the U.S. in UNGA voting. The endogenous regressor is Chinese State Aid, defined as the annual committed amounts of official financing (in constant U.S. dollars) from China to the recipient expressed as $\log(1 + \text{aid})$. The instrument is the interaction between the cyclical component of Chinese raw-material production in the previous year (first principal component of aluminum, cement, glass, iron, and steel, extracted after HP-filtering) and a pre-determined measure of countries' industrial structure. Real GDP PC is log real GDP per capita, and Quality of Institutions is the first principal component of the five Worldwide Governance Indicators (rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality). All specifications include country and year fixed effects, and standard errors are clustered at the country level.

As a complementary proxy for political alignment, we exploit information on diplomatic recognition of Taiwan. Guided by its *One China* principle, the Chinese government opposes Taiwan from developing diplomatic relations with other countries, or any relations of a state-to-state nature, and opposes Taiwan from participating in the United Nations system and other intergovernmental international organizations (Rich, 2009). In this perspective, the fact that a recipient country does not have a diplomatic relationship with Taiwan can be interpreted as a support for the *One China* principle. We source data on the political recognition of Taiwan from the Ministry of Foreign Affairs of Taiwan. For each country-year observation, we create a dummy variable that takes the value of 1 if the country recognizes the government of Taiwan in that year, and 0 otherwise. We then consider the fraction of years prior to 2000 in which the country maintained official diplomatic relations with Taiwan.

In Table 7, we interact with the Chinese aid with the measure of recognition of Taiwan prior to 2000. Consistently with Table 6, estimates suggest that the negative effect of Chinese aid on U.S. soft power is attenuated in countries that historically recognized Taiwan.

Table 7: Heterogeneous Effect of Chinese Aid by Historical Recognition of Taiwan

| | (First Stage) Chinese State Aid | (Second Stage) U.S. Soft Power |
|---|---|---|
| Instrument | 0.0288*** | |
| | (0.00782) | |
| Chinese State | | -0.0320*** |
| | | (0.0114) |
| Chinese State Aid×Historical Taiwan Recognition | | 0.00732* |
| | | (0.00431) |
| Real GDP PC | -2.473 | -0.219** |
| | (2.306) | (0.106) |
| Quality of Institutions | -0.0538 | 0.0646** |
| | (0.466) | (0.0318) |
| Constant | 23.20 | 1.524* |
| | (18.26) | (0.871) |
| Observations | 2,149 | 2,149 |
| Number of Country | 129 | 129 |
| Country FE | YES | YES |
| Year FE | YES | YES |

Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

**Notes**: This table reports estimates of the effect of Chinese aid on U.S. soft power, allowing the effect to vary with historical recognition of Taiwan with a control-function approach (Wooldridge, 2015). Column (1) reports the first-stage regression of Chinese aid on the instrument and controls; column (2) reports the second-stage regression for U.S. soft power, defined as the difference between the IPD with the United States on all UNGA resolutions and on important resolutions (i.e., resolutions on which the United States reports having lobbied other countries). Historical Taiwan Recognition is the share of years prior to 2000 in which the recipient country maintained official diplomatic relations with Taiwan. The interaction term captures how the effect of Chinese aid varies with this measure of long-run alignment in the China–Taiwan dispute. The endogenous regressor is Chinese State Aid, defined as the annual committed amounts of official financing (in constant U.S. dollars) from China to the recipient expressed as $\log(1 + \text{aid})$. The instrument is the interaction between the cyclical component of Chinese raw-material production in the previous year (first principal component of aluminum, cement, glass, iron, and steel, extracted after HP-filtering) and a pre-determined measure of countries' industrial structure. Real GDP PC is log real GDP per capita, and Quality of Institutions is the first principal component of the five Worldwide Governance Indicators (rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality). All specifications include country and year fixed effects, and standard errors are clustered at the country level.

As a more direct proxy for historical U.S. political influence, we use data on U.S. operations in foreign countries during the Cold War aimed at either installing a new leader or supporting an incumbent (O'Rourke, 2018). A strand of the economics literature shows that U.S. political interventions during the Cold War generated lasting economic influence in the countries concerned (Berger et al., 2013), while the political science literature documents the frequency and consequences of U.S.-backed regime-change operations (Downes and O'Rourke, 2016; Ammons et al., 2026).

Unlike ideal-point distance and recognition of Taiwan, which capture voluntary alignment with U.S. positions, U.S.-backed foreign-imposed regime change identifies episodes of direct U.S. political interference in recipient countries' domestic institutions.

The expected direction of this heterogeneity is ambiguous. On the one hand, a history of direct U.S. intervention may generate lasting resentment or heighten awareness of Washington's willingness to constrain a country's political autonomy. This could make countries more receptive to the alternative represented by Chinese engagement, producing a pattern opposite to the anchoring effect identified for ideal-point distance and Taiwan recognition. On the other hand, when U.S. interventions installed or entrenched elites that remained politically influential, the same history of intervention may be associated with persistent alignment with Washington, thereby reinforcing

the anchoring pattern documented above.

To investigate these competing possibilities, we proceed in two steps. First, we interact Chinese development finance with the total number of years of U.S. attempts to induce regime change in the recipient country. Second, we introduce a triple interaction between Chinese development finance, total number of years of U.S. attempts, and an indicator for countries in the top decile of the distribution of the total number of years of successful U.S.-backed regime-change attempts.

In the first specification, the interaction between Chinese financing and the total number of years of U.S.-backed regime-change attempts is statistically indistinguishable from zero. This result is consistent with studies showing that, when U.S. interventions are pooled regardless of their outcome, their average association with subsequent political outcomes is null (Ammons et al., 2026). In the second specification, however, the triple interaction between Chinese financing, the number of years of U.S. attempts, and the indicator for the top decile of successful interventions is positive and statistically significant. This coefficient captures the difference in the marginal association between Chinese financing and intervention exposure for countries in the top decile of successful U.S.-backed regime-change attempts relative to other countries. We interpret this result as suggestive evidence that the historical political imprint of interventions aimed at installing or entrenching elites conditions recipients' responses to Chinese financing. More specifically, the positive triple interaction offsets part of the baseline association between Chinese financing and U.S. soft power, suggesting that Chinese financing has a comparatively weaker effect on the outcome in countries with particularly extensive exposure to successful U.S.-backed interventions. Because this measure captures a broader historical legacy rather than an exogenous individual intervention, we do not interpret the estimate as identifying the causal effect of any specific U.S. operation. Table 8 reports the results.

Table 8: Heterogeneous Effects of Chinese Aid by Historical Exposure to U.S. Regime-Change Attempts

| | (First Stage) Chinese State Aid | (Second Stage) U.S. Soft Power | (Second Stage) U.S. Soft Power |
|---|---|---|---|
| Instrument | 0.0289*** | | |
| | (0.00755) | | |
| Chinese State | | -0.0376** | -0.0358** |
| | | (0.0151) | (0.0146) |
| Chinese State×#Years of U.S. Attempts | | -5.09e-05 | -0.000697 |
| | | (0.000308) | (0.000575) |
| Chinese State×Successful | | | -0.00370 |
| | | | (0.00367) |
| Chinese State×#Years of U.S. Attempts×Successful | | | 0.00114* |
| | | | (0.000614) |
| Real GDP PC | -2.567 | -0.227 | -0.225 |
| | (2.220) | (0.153) | (0.153) |
| Quality of Institutions | -0.00709 | 0.119** | 0.121** |
| | (0.448) | (0.0477) | (0.0476) |
| Constant | 26.27 | 2.086 | 2.060 |
| | (17.41) | (1.298) | (1.298) |
| Observations | 1,090 | 1,090 | 1,090 |
| Number of Country | 66 | 66 | 66 |
| Country FE | YES | YES | YES |
| Year FE | YES | YES | YES |

Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

**Notes**: This table reports estimates of the heterogeneous effect of Chinese development finance on U.S. soft power according to recipients' historical exposure to U.S.-backed regime-change attempts. The estimation uses a control-function approach to account for the endogeneity of Chinese State Aid (Wooldridge, 2015). Column (1) reports the first-stage regression of Chinese State Aid on the instrument and the control variables. Columns (2) and (3) report second-stage estimates for U.S. soft power. U.S. soft power is measured using the difference between the recipient's ideal-point distance from the United States on all UN General Assembly resolutions and its ideal-point distance on important resolutions, defined as resolutions on which the United States reports having lobbied other countries. Higher values of the dependent variable indicate greater political distance from the United States. Chinese State Aid is the annual amount of official financing committed by Chinese state-owned entities to the recipient, expressed as $\log(1+\text{aid})$. The instrument is the interaction between the lagged cyclical component of Chinese raw-material production—measured as the first principal component of aluminum, cement, glass, iron, and steel production after HP filtering—and a predetermined measure of the recipient country's industrial structure. *# Years of U.S. Attempts* measures the duration of historical U.S.-backed regime-change attempts, based on O'Rourke (2018). *Successful* is an indicator equal to one for countries in the top decile of the distribution of successful U.S.-backed regime-change attempts and zero otherwise. In column (3), the coefficient on the interaction between Chinese State Aid and the number of years of U.S. attempts captures the association for the reference group, while the triple-interaction coefficient captures the difference in this association for countries classified as *Successful*. Real GDP PC is log real GDP per capita. Quality of Institutions is the first principal component of the five Worldwide Governance Indicators: rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality. All specifications include country and year fixed effects. Standard errors are clustered at the country level.

Taken together, the findings in this section are consistent with a polarization pattern: Chinese aid appears most effective at displacing U.S. influence in countries that were already ideologically distant from Washington or had a thinner history of alignment, rather than in converting staunch U.S. allies. The results on Taiwan recognition point in the same direction, suggesting that countries more aligned with the One China principle before 2000 are comparatively more resistant to the diplomatic realignment associated with Chinese development finance. In other words, Chinese finance need not transform recipients' underlying political preferences. It may reinforce an existing distance from Washington or, where a pre-existing political affinity with Beijing makes China a credible outside option, allow a more autonomous foreign-policy stance to emerge.

## 3.2 Commercial Ties

In this section, we examine whether economic interdependence between the United States and the recipient country shapes the effect of Chinese financing on U.S. soft power. We measure

economic interdependence using the recipient country's share of merchandise trade conducted with the United States. This is a contemporaneous measure, defined as the share of total merchandise trade accounted for by trade with the United States in a given year. Greater trade integration with the United States may reduce the effectiveness of Chinese financing in eroding U.S. soft power, as the economic costs of alienating Washington are likely to be greater for countries that are more commercially dependent on the United States.

In Table 9, we interact Chinese financing with the recipient country's contemporaneous share of merchandise trade conducted with the United States. The estimates indicate that the adverse effect of Chinese financing on U.S. soft power is strongest in countries that trade relatively less with the United States. This finding is consistent with the view that economic interdependence with Washington limits the erosion of U.S. soft power resulting from additional Chinese financing.

As a further check, in columns (3) and (4) we measure trade integration using a predetermined measure: the average trade flow between recipient country and U.S. over the period 1980–2000. This measure captures countries' longer-run trade orientation while being less likely to reflect contemporaneous developments associated with Chinese financing or changes in U.S. soft power. The results remain consistent with those obtained using the contemporaneous measure.

Table 9: Heterogeneous Effect of Chinese Aid by Trade Integration with the United States

| | (First Stage) Chinese State Aid | (Second Stage) U.S. Soft Power | (First Stage) Chinese State Aid | (Second Stage) U.S. Soft Power |
|---|---|---|---|---|
| Instrument | 0.0289*** | | 0.0279*** | |
| | (0.00781) | | (0.00783) | |
| Chinese State Aid | | -0.0317*** | | -0.0307** |
| | | (0.0113) | | (0.0119) |
| Openness Towards U.S. | -0.212 | 0.0417 | | |
| | (2.987) | (0.192) | | |
| Chinese State Aid×Openness Towards U.S. | | 0.0109* | | |
| | | (0.00654) | | |
| Chinese State Aid×Historical Trade with U.S. | | | | 0.208* |
| | | | | (0.111) |
| Real GDP PC | -2.561 | -0.219** | -2.309 | -0.217** |
| | (2.292) | (0.105) | (2.342) | (0.109) |
| Quality of Institutions | -0.00905 | 0.0695** | -0.0677 | 0.0672** |
| | (0.461) | (0.0316) | (0.474) | (0.0327) |
| Constant | 23.93 | 1.521* | 21.13 | 1.452 |
| | (18.14) | (0.865) | (18.87) | (0.908) |
| Observations | 2,165 | 2,165 | 2,132 | 2,132 |
| Number of Country | 130 | 130 | 128 | 128 |
| Country FE | YES | YES | YES | YES |
| Year FE | YES | YES | YES | YES |

Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

**Notes**: This table reports estimates of the effect of Chinese aid on U.S. soft power, allowing the effect to vary with bilateral trade integration between the United States and the recipient country with a control-function approach (Wooldridge, 2015). In Columns (I) and (II), we measure trade integration with the variable Openness Towards U.S., constructed as the annual share of the recipient's merchandise trade conducted with the United States, measured as exports to plus imports from the U.S. divided by total exports plus imports. In Columns (III) and (IV), we measure trade integration with the variable Historical Trade with U.S., constructed as the average trade flow between recipient country and U.S. over the period 1980–2000. The endogenous regressor is Chinese State Aid, defined as the annual committed amounts of official financing (in constant U.S. dollars) from China to the recipient expressed as log(1 + aid). The instrument is the interaction between the cyclical component of Chinese raw-material production in the previous year (first principal component of aluminum, cement, glass, iron, and steel, extracted after HP-filtering) and a pre-determined measure of countries' industrial structure. Real GDP PC is log real GDP per capita, and Quality of Institutions is the first principal component of the five Worldwide Governance Indicators (rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality). All specifications include country and year fixed effects, and standard errors are clustered at the country level.

As a complementary exercise, we examine whether economic integration with China affects the relationship between Chinese financing and U.S. soft power. We measure China-related economic integration using an approach analogous to that employed in Table 9. However, we find no systematic evidence that the effect of Chinese financing on U.S. soft power varies with the recipient country's trade integration with China. The estimates are reported in Table 10.

Table 10: Heterogeneous Effect of Chinese Aid by Trade Integration with China

| | (First Stage) Chinese State Aid | (Second Stage) U.S. Soft Power | (First Stage) Chinese State Aid | (Second Stage) U.S. Soft Power |
|---|---|---|---|---|
| Instrument | 0.0289*** | | 0.0279*** | |
| | (0.00775) | | (0.00783) | |
| Chinese State Aid | | -0.0296*** | | -0.0306** |
| | | (0.0113) | | (0.0119) |
| Openness Towards China | -0.389 | 0.262 | | |
| | (5.308) | (0.184) | | |
| Chinese State Aid×Openness Towards China | | -0.0137 | | |
| | | (0.0107) | | |
| Chinese State Aid×Historical Trade with China | | | | 0.420 |
| | | | | (1.520) |
| Real GDP PC | -2.541 | -0.221** | -2.277 | -0.228** |
| | (2.186) | (0.112) | (2.359) | (0.110) |
| Quality of Institutions | -0.00549 | 0.0672** | -0.0907 | 0.0739** |
| | (0.465) | (0.0312) | (0.495) | (0.0328) |
| Constant | 23.77 | 1.518* | 11.95 | 1.120 |
| | (17.28) | (0.921) | (22.04) | (1.014) |
| Observations | 2,165 | 2,165 | 2,117 | 2,117 |
| Number of Country | 130 | 130 | 127 | 127 |
| Country FE | YES | YES | YES | YES |
| Year FE | YES | YES | YES | YES |

Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

**Notes**: This table reports estimates of the effect of Chinese aid on U.S. soft power, allowing the effect to vary with bilateral trade integration between China and the recipient country with a control-function approach (Wooldridge, 2015). In Columns (I) and (II), we measure trade integration with the variable Openness Towards China, constructed as the annual share of the recipient's merchandise trade conducted with China, measured as exports to plus imports from China divided by total exports plus imports. In Columns (III) and (IV), we measure trade integration with the variable Historical Trade with China, constructed as the average trade flow between recipient country and China over the period 1980–2000. The endogenous regressor is Chinese State Aid, defined as the annual committed amounts of official financing (in constant U.S. dollars) from China to the recipient expressed as $\log(1 + \text{aid})$. The instrument is the interaction between the cyclical component of Chinese raw-material production in the previous year (first principal component of aluminum, cement, glass, iron, and steel, extracted after HP-filtering) and a pre-determined measure of countries' industrial structure. Real GDP PC is log real GDP per capita, and Quality of Institutions is the first principal component of the five Worldwide Governance Indicators (rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality). All specifications include country and year fixed effects, and standard errors are clustered at the country level.

### 3.3 Security Ties

A third dimension along which we explore heterogeneity is security ties with the U.S., proxied by the number of U.S. troops stationed in the recipient country. In contrast to the financial leverage of state aid, the deployment of military forces is a classic form of hard power: it embodies the ability to coerce or credibly threaten the use of force, rather than to persuade through material or ideational attraction. This view is in line with realist approaches to foreign policy, which emphasize military capabilities and coercive instruments as the main determinants of state influence (Mearsheimer, 2003).

The presence of US troops can play a dual role. On the one hand, the constraint faced by local governments is very different when U.S. troops are present. Regardless of how much Chinese financing a country receives, openly opposing U.S. foreign policy on highly salient issues could

be more costly if U.S. soldiers and military hardware are physically deployed on its territory. However, it might also generate resentment and anti–U.S. sentiment, potentially amplifying the political returns to Chinese engagement. These two forces need not be mutually exclusive, and our empirical strategy cannot separately identify them; the interaction term in Table 11 only captures their net effect. We interact Chinese aid with the per-capita number of U.S. troops deployed in the recipient country in a given year, our proxy for the intensity of U.S. security ties, and interpret the sign of the interaction as indicative of which force dominates on average.

The positive and significant interaction term is consistent with the first of these two possibilities: the physical presence of U.S. military personnel appears to act as a structural anchor for Washington's influence, dampening the erosive effect of Chinese financing on U.S. soft power.

This implies that hard power and soft power may be complementary: the credibility of U.S. diplomatic pressure is structurally reinforced by its security guarantees, making its soft power more resilient to external economic competition.

Table 11: Heterogeneous Effect of Chinese Aid by U.S. Security Ties

| | (First Stage) Chinese State Aid | (Second Stage) U.S. Soft Power |
|---|---|---|
| Instrument | 0.0332*** | |
| | (0.00809) | |
| Chinese State Aid | | -0.0206* |
| | | (0.0115) |
| U.S. Troops | -1.593*** | 0.0155 |
| | (0.319) | (0.0331) |
| Chinese State Aid×U.S. Troops | | 0.00743*** |
| | | (0.00107) |
| Real GDP PC | -2.713 | -0.180 |
| | (2.511) | (0.113) |
| Quality of Institutions | 0.0869 | 0.0717* |
| | (0.583) | (0.0372) |
| Constant | 25.32 | 1.157 |
| | (19.84) | (0.931) |
| Observations | 1,797 | 1,797 |
| Number of Country | 107 | 107 |
| Country FE | YES | YES |
| Year FE | YES | YES |

Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

**Notes**: This table reports estimates of the effect of Chinese aid on U.S. soft power, allowing the effect to vary with U.S. security ties with a control-function approach (Wooldridge, 2015). The dependent variable in the second stage is U.S. soft power, defined as the difference between the IPD with the United States on all UNGA resolutions and on important resolutions (i.e., resolutions on which the United States reports having lobbied other countries). The endogenous regressor is Chinese State Aid, defined as the annual committed amounts of official financing (in constant U.S. dollars) from China to the recipient expressed as $\log(1 + \text{aid})$. The instrument is the interaction between the cyclical component of Chinese raw-material production in the previous year (first principal component of aluminum, cement, glass, iron, and steel, extracted after HP-filtering) and a pre-determined measure of countries' industrial structure. U.S. Troops measures the number of U.S. troops deployed in the recipient country. Real GDP PC is log real GDP per capita, and Quality of Institutions is the first principal component of the five Worldwide Governance Indicators (rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality). All specifications include country and year fixed effects, and standard errors are clustered at the country level.

# 4 Robustness

Table 12 presents two robustness checks of our baseline result. In columns (I) and (II), we verify that our findings are not driven by the specific construction of our soft power index by using a truncated version of the measure, where negative values of U.S. Soft Power are set to zero. In columns (III) and (IV), we exclude the years most closely associated with the "war on terror" and the Iraq war (2000-2005), periods in which U.S. positions at the UN were relatively isolated. In both cases, the estimated effect of Chinese aid on U.S. soft is in line with our baseline estimates.

Table 12: Robustness: Alternative Soft Power Measure and Timing Restriction

| | Alternative soft power measure | | Timing restriction | |
|---|---|---|---|---|
| | (First Stage) | (Second Stage) | (First Stage) | (Second Stage) |
| | Chinese State Aid | U.S. Soft Power (truncated) | Chinese State Aid | U.S. Soft Power |
| Instrument | 0.0288*** | | 0.0276** | |
| | (0.0075) | | (0.012) | |
| Chinese State Aid | | -0.0193** | | -0.0396* |
| | | (0.0096) | | (0.0225) |
| Real GDP PC | -2.567 | -0.207** | -2.026 | -0.174 |
| | (2.219) | (0.0921) | (3.336) | (0.187) |
| Quality of Institutions | 0.0070 | 0.0591** | 0.0022 | 0.055 |
| | (0.4482) | (0.0253) | (0.665) | (0.042) |
| Observations | 2,165 | 2,165 | 1,679 | 1,679 |
| Number of Country | 130 | 130 | 130 | 130 |
| Country FE | YES | YES | YES | YES |
| Year FE | YES | YES | YES | YES |
| Cragg-Donald Wald F statistic | 26.188 | | 11.153 | |

Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

**Notes**: This table reports robustness checks of the baseline IV estimates. Columns (I)–(II) use an alternative measure of U.S. soft power in which negative values of U.S. Soft Power are truncated at zero. Columns (III)–(IV) restrict the sample by excluding years from 2000 to 2005, most closely associated with the "war on terror" and the Iraq war. In all specifications, the dependent variable in the second stage is U.S. soft power, defined as the truncated difference between the IPD with the United States on all UNGA resolutions and on important resolutions (i.e., resolutions on which the United States reports having lobbied other countries). The endogenous regressor is Chinese State Aid, defined as the annual committed amounts of official financing (in constant U.S. dollars) from China to the recipient expressed as log(1 + aid). The instrument is the interaction between the cyclical component of Chinese raw-material production in the previous year (first principal component of aluminum, cement, glass, iron, and steel, extracted after HP-filtering) and a pre-determined measure of countries' industrial structure. Real GDP PC is log real GDP per capita, and Quality of Institutions is the first principal component of the five Worldwide Governance Indicators (rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality). All regressions include country and year fixed effects, and standard errors are clustered at the country level.

Next, we examine whether our findings are driven by a few geopolitically prominent countries. In Table 13, we exclude countries that are members of or will join the BRICS group during our sample period (Brazil, India, Russia, and South Africa), as well as Iraq. The effect remains statistically significant. Our results are therefore not solely driven by China's interaction with other major emerging powers or with countries that have particularly contentious relations with the United States, but reflect a broader pattern in the developing world.

Table 13: Robustness: Excluding Geopolitically Prominent Countries

| | (First Stage) Chinese State Aid | (Second Stage) U.S. Soft Power |
|---|---|---|
| Instrument | 0.0236*** | |
| | (0.00726) | |
| Chinese State Aid | | -0.0288* |
| | | (0.0155) |
| Real GDP PC | -2.193 | -0.206* |
| | (2.239) | (0.113) |
| Quality of Institutions | -0.165 | 0.0651** |
| | (0.429) | (0.0330) |
| Observations | 2,066 | 2,066 |
| Number of Country | 124 | 124 |
| Country FE | YES | YES |
| Year FE | YES | YES |
| Cragg-Donald Wald F statistic | 17.332 | |

Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

**Notes**: This table reports robustness checks of the baseline IV estimates after excluding geopolitically prominent countries. The sample omits Brazil, India, Russia, and South Africa, (current or future BRICS members in our period), and Iraq. The dependent variable in the second stage is U.S. soft power, defined as the difference between the IPD with the United States on all UNGA resolutions and on important resolutions (i.e., resolutions on which the United States reports having lobbied other countries). The endogenous regressor is Chinese State Aid, defined as the annual committed amounts of official financing (in constant U.S. dollars) from China to the recipient expressed as $\log(1 + \text{aid})$. The instrument is the interaction between the cyclical component of Chinese raw-material production in the previous year (first principal component of aluminum, cement, glass, iron, and steel, extracted after HP-filtering) and a pre-determined measure of countries' industrial structure. Real GDP PC is log real GDP per capita, and Quality of Institutions denotes the first principal component of the five Worldwide Governance Indicators (rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality). All specifications include country and year fixed effects, and standard errors are clustered at the country level.

By contrast, in columns (I) and (II) of Table 14, when we use the ideal-point distance computed over all UNGA votes (ignoring the distinction between important and non–important resolutions) as the dependent variable, the Chinese aid is no longer significantly associated with the alignment of the voting. This pattern is consistent with our interpretation that the effect is concentrated on resolutions designated as important by the United States.

In columns (III) and (IV), we implement a placebo test based on the 15 countries that were members of the European Union at the beginning of our sample period. We construct an EU-based outcome in close analogy to our U.S. soft power measure, with one important difference: because there is no systematic information on which resolutions are considered important by the EU, we continue to use the set of resolutions classified as important by the U.S. State Department, but we measure alignment with the EU15 rather than with the United States. For each recipient-year, we take the difference between the ideal-point distance to the EU15 computed over all resolutions and the corresponding distance computed only over resolutions that are important for the United States. This design holds fixed the subset of salient resolutions and simply changes the reference actor from the United States to the EU15, allowing us to test whether Chinese aid is associated with a generic reorientation away from Western positions or specifically with a decline in U.S. influence. Consistent with the latter interpretation, Chinese aid is not significantly associated with this EU–based index.

An alternative way to test whether Chinese financing erodes the U.S. ability to influence other

Table 14: Robustness: Alternative Outcomes Based on all Resolutions and EU15 Alignment

| | All Resolutions | | Placebo Test | |
|---|---|---|---|---|
| | (First Stage) | (Second Stage) | (First Stage) | (Second Stage) |
| | Chinese State Aid | IPD (All Resolutions) | Chinese State Aid | EU15 Soft Power |
| Instrument | 0.0288*** | | 0.0288*** | |
| | (0.0075) | | (0.0075) | |
| Chinese State Aid | | -0.0185 | | -0.0108 |
| | | (0.0115) | | (0.0109) |
| Real GDP PC | -2.567 | 0.1918 | -2.567 | -0.127 |
| | (2.219) | (0.127) | (2.219) | (0.0958) |
| Quality of Institution | 0.007 | -0.058* | 0.007 | 0.0445 |
| | (0.448) | (0.0354) | (0.448) | (0.0273) |
| Observations | 2,165 | 2,165 | 2,165 | 2,165 |
| Number of Country | 130 | 130 | 130 | 130 |
| Country FE | YES | YES | YES | YES |
| Year FE | YES | YES | YES | YES |
| Cragg-Donald Wald F statistic | 26.188 | 26.188 | | |

Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

**Notes**: This table reports placebo tests for the baseline IV specification. Columns (I)–(II) use as dependent variable the ideal-point distance between the recipient country and the United States computed over all UNGA resolutions, ignoring the distinction between important and non-important votes. Columns (III)–(IV) use an EU15-based soft power index as the dependent variable, defined as the difference between the ideal-point distance to the EU15 computed over all resolutions and the corresponding distance computed only over resolutions that are important for the United States. In all columns, the endogenous regressor is Chinese State Aid, defined as the annual committed amounts of official financing (in constant U.S. dollars) from China to the recipient expressed as log(1+aid), and the instrument is the interaction between the cyclical component of Chinese raw-material production in the previous year (first principal component of aluminum, cement, glass, iron, and steel, extracted after HP-filtering) and a pre-determined measure of countries' industrial structure. Real GDP PC is log real GDP per capita, and Quality of Institution is the first principal component of the five Worldwide Governance Indicators (rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality). All regressions include country and year fixed effects, and standard errors are clustered at the country level.

countries is to ask whether alignment with the United States on important resolutions declines when China commits more funds to these countries, conditional on the countries' overall affinity with the United States. In Table 15, we estimate an alternative specification of our IV regression in which the dependent variable in the second stage is the ideal-point distance on important resolutions, and we include the distance on all resolutions as a control.

In this specification, the coefficient on Chinese financing captures whether, for a given level of baseline ideological proximity to the United States, higher Chinese aid is associated with additional divergence from the U.S. position precisely on the resolutions where Washington concentrates its lobbying efforts.

Table 15: Chinese Aid and Alignment on Important Resolutions Conditional on Overall Affinity

| | (First Stage) Chinese State Aid | (Second Stage) IPD (Important) |
|---|---|---|
| Instrument | 0.0285*** | |
| | (0.0075) | |
| Chinese State Aid | | 0.0302** |
| | | (0.0119) |
| Real GDP PC | -2.423 | 0.220** |
| | (2.221) | (0.110) |
| Quality of Institutions | -0.0424 | -0.0672** |
| | (0.461) | (0.0326) |
| IDP (All) | -0.601 | 0.985*** |
| | (0.617) | (0.0753) |
| Observations | 2,165 | 2,165 |
| Number of Country | 130 | 130 |
| Country FE | YES | YES |
| Year FE | YES | YES |
| Cragg-Donald Wald F statistic | 25.528 | |

Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

**Notes:** This table reports two-stage least squares estimates of the effect of Chinese aid on the ideal-point distance between the recipient country and the United States on important UNGA resolutions. The dependent variable in the second stage is the ideal-point distance between the recipient country and the United States on important UNGA resolutions. The endogenous regressor is Chinese State Aid, defined as the annual committed amounts of official financing (in constant U.S. dollars) from China to the recipient expressed as $\log(1 + \text{aid})$. The instrument is the interaction between the cyclical component of Chinese raw-material production in the previous year (first principal component of aluminum, cement, glass, iron, and steel, extracted after HP-filtering) and a pre-determined measure of countries' industrial structure. Real GDP PC is log real GDP per capita, and Quality of Institutions is the first principal component of the five Worldwide Governance Indicators (rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality). IDP (All) is the ideal-point distance between the recipient and the United States on all UNGA resolutions. All specifications include country and year fixed effects, and standard errors are clustered at the country level.

Quantitatively, the IV coefficient on Chinese aid in this specification is very close in absolute value to the baseline effect on our soft power index. Given that Chinese aid has no significant impact on the all-resolution distance, this symmetry is exactly what one would expect if Chinese financing operates by increasing the distance on important resolutions while leaving overall ideological proximity essentially unchanged.

A possible concern is that our baseline Chinese production index may still capture global demand and price cycles that could directly affect the voting behavior of the UN, for example, through their impact on growth and fiscal conditions. To address this issue, we construct an alternative

instrument in which we first regress our Chinese production index on the growth rate of world industrial production (Baumeister and Hamilton, 2019) and on the growth rate of the IMF industrial input price index, and take the residuals as a purged production shock. We then interact this residual series, lagged by one year, with the same pre-determined measure of the industrial structure of the countries to obtain a purged shift–share instrument. Both the first-stage and second-stage results are very similar to our baseline estimates: the purged instrument remains strongly correlated with Chinese aid, and the estimated effect of Chinese aid on U.S. soft power is virtually unchanged in magnitude and significance. This suggests that our main findings are not driven by global demand or commodity-price cycles, but rather by China-specific capacity shocks.

Table 16: Robustness: IV Estimates Using Purged Chinese Production Shock

| | (First Stage) Chinese State Aid | (Second Stage) U.S. Soft Power |
|---|---|---|
| Instrument | 0.0286*** | |
| | (0.0075) | |
| Chinese State Aid | | -0.0303*** |
| | | (0.0117) |
| Real GDP PC | -2.609 | -0.216** |
| | (2.205) | (0.109) |
| Quality of Institutions | 0.0125 | 0.0663** |
| | (0.447) | (0.0321) |
| Observations | 2,165 | 2,165 |
| Number of Country | 130 | 130 |
| Country FE | YES | YES |
| Year FE | YES | YES |
| Cragg-Donald Wald F statistic | 25.098 | |

Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

**Notes**: This table reports robustness checks of the baseline IV estimates using a purged version of the Chinese production shock. Column (1) reports the first-stage regression of Chinese State Aid, defined as the annual committed amount of official financing (in constant U.S. dollars) from China to the recipient expressed as $\log(1 + \text{aid})$, on the instrument and controls; column (2) reports the corresponding second-stage regression for U.S. soft power, defined as the difference between the IPD with the United States on all UNGA resolutions and on important resolutions (i.e., resolutions on which the United States reports having lobbied other countries). The instrument is constructed by first regressing the production index on the growth rate of world industrial production and on the growth rate of the IMF industrial inputs price index, taking the residuals as a purged production shock, and then interacting this residual series (lagged by one year) with a pre-determined measure of countries' industrial structure. Real GDP PC is log real GDP per capita, and Quality of Institutions is the first principal component of the five Worldwide Governance Indicators (rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality). All specifications include country and year fixed effects, and standard errors are clustered at the country level.

As an additional falsification exercise, we randomly reassign the "important"label across UN General Assembly resolutions while preserving the distribution of important resolutions across years and topics. The construction of the placebo measure requires information on the characteristics of individual resolutions that is available only for a subset of the observations used in the baseline analysis. As a result, the placebo exercise is conducted on a restricted sample that may differ from the one used for the baseline IV estimates reported in Table 3.

To ensure a meaningful comparison, columns (I)–(II) re-estimate the baseline IV specification on the same restricted sample used in the placebo exercise, while columns (III)–(IV) report the corresponding estimates obtained using the placebo measure. Accordingly, the baseline estimates reported in columns (I)–(II) may differ from those in Table 3 because they are based on a different

set of country–year observations. The comparison between the baseline and placebo estimates in Table 12 is therefore conducted within the same estimation sample.

Specifically, we proceed in three steps. First, within each year–topic cell, we randomly select the same number of resolutions as those classified as important by the U.S. State Department. Because some resolutions are assigned to multiple topics, we use a mutually exclusive topic classification, including a "mixed" category, so that each resolution belongs to exactly one cell. This procedure preserves the observed annual and topical distribution of important resolutions exactly, while randomizing their identities. Second, conditional on this randomized set of resolutions, we re-estimate the ideal-point model using only the placebo-important resolutions and construct the corresponding placebo ideal-point distances. Third, we define placebo U.S. soft power as the difference between the ideal-point distance calculated over all resolutions and the distance calculated over the randomized set of placebo-important resolutions, and re-estimate the IV specification using this outcome.

The results are presented in Table 17. In the second stage, Chinese aid has a negative and statistically significant effect on the actual U.S. soft-power measure, whereas its effect on the placebo measure is statistically insignificant. This comparison suggests that the estimated relationship is not driven by generic features of UNGA voting, by the sample restriction, or by the mechanical comparison of voting behavior across two subsets of resolutions. Rather, the effect appears to be specific to the resolutions identified as important by the U.S. State Department.

Table 17: Falsification Test Using Randomized Important Resolutions

| | Baseline | | Placebo Test | |
|---|---|---|---|---|
| | (First Stage) | (Second Stage) | (First Stage) | (Second Stage) |
| | Chinese State Aid | U.S. Soft Power | Chinese State Aid | U.S. Fake Soft Power |
| Instrument | 0.0324*** | | 0.0324*** | |
| | (0.009) | | (0.0075) | |
| Chinese State Aid | | -0.0261** | | -0.0185 |
| | | (0.0106) | | (0.0109) |
| Real GDP PC | -3.289 | 0.1965 | -3.289 | -0.2592** |
| | (2.147) | (0.1226) | (2.147) | (0.0958) |
| Quality of Institution | 0.566 | -0.0659** | 0.566 | 0.0435 |
| | (0.459) | (0.0298) | (0.459) | (0.0375) |
| Observations | 1,890 | 1,890 | 1,890 | 1,890 |
| Number of Country | 130 | 130 | 130 | 130 |
| Country FE | YES | YES | YES | YES |
| Year FE | YES | YES | YES | YES |
| Cragg-Donald Wald F statistic | 20.572 | | 20.572 | |

Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

*Notes:* This table reports two-stage least squares estimates for the baseline specification and the falsification exercise using the same restricted country–year sample. Columns (I)–(II) re-estimate the baseline IV specification on this restricted sample, while columns (III)–(IV) report the corresponding placebo estimates. The placebo measure of U.S. soft power is constructed using a randomly selected set of resolutions that preserves the number of U.S.-important resolutions within each year–topic cell. The endogenous regressor is Chinese State Aid, defined as the annual amount of official financing committed by China to the recipient country, measured in constant U.S. dollars and expressed as log(1 + aid). The instrument is the interaction between the lagged cyclical component of Chinese raw-material production—measured as the first principal component of aluminum, cement, glass, iron, and steel production after applying the Hodrick–Prescott filter–and a predetermined measure of countries' industrial structure. Real GDP PC denotes log real GDP per capita. Quality of Institutions is the first principal component of the five Worldwide Governance Indicators. All specifications include country and year fixed effects. Standard errors, clustered at the country level, are reported in parentheses.

We view this falsification test as reassuring on two fronts. First, it indicates that our main results are not driven by generic features of UNGA voting or by the mere fact that we compare voting behavior across subsets of resolutions. Second, it underscores that the effect we identify

is specific to the particular set of resolutions that the U.S. State Department itself designates as important, rather than to arbitrary subsets of the UNGA agenda.

# 5 Chinese Soft Power

During the Global Financial Crisis, the Chinese leadership began to view the United States as in decline and publicly discussed China's rise as a global political power (Economy, 2014). Beijing's intention to establish a Chinese sphere of influence had been articulated earlier by President Hu Jintao at the 17th Communist Party Congress in 2007 and was later reaffirmed by Xi Jinping, who declared in 2014: "We should increase China's soft power, design a compelling Chinese narrative, and better communicate the message of China to the world", after launching a series of reforms to reorganize the Party and increase China's international influence (Mingjiang, 2008; Fallon, 2015; Economy, 2018; Herr, 2019).

In Section 2.3, we provided evidence suggesting that Chinese financing weakened U.S. soft power in recipient countries. An obvious related question is whether the expansion of Chinese financing strengthens Beijing's soft power. Unfortunately, since we do not have information about resolutions that are important for China, we cannot construct a measure of Chinese soft power similar to what we did for the United States. However, we can provide some purely descriptive evidence that highlights a positive correlation between Chinese financing and Chinese soft power.

Under the premise that U.S. and Chinese interests are in conflict, we can consider resolutions that are important for the U.S. also important for China. Under this assumption, we can construct a measure of the soft power of China following the same logic as in equation (1). That is,

$$\text{China Soft Power}_{i,t} = \text{IPD(with China)}_{it}^{All} - \text{IPD(with China)}_{it}^{I} \tag{4}$$

where $\text{IPD(with China)}_{it}^{All}$ is the Ideal Point Distance in year $t$ between the Ideal Point Estimate of country $i$ and the Ideal Point Estimate of China for all resolutions, while $\text{IPD(with China)}_{it}^{I}$ is the same distance calculated over important resolutions, i.e., those on which the U.S. reports having lobbied other countries.

In Table 18, we replicate our baseline instrumental variable regression using China Soft Power as an outcome. Columns (1) and (2) show the results of the first and second stage, respectively. Estimates reveal a statistically insignificant association between Chinese state aid and soft power.

Table 18: Chinese Financing and China Soft Power

| | (First Stage) Chinese State Aid | (Second Stage) China Soft Power | (First Stage) Chinese State Aid | (Second Stage) China Soft Power |
|---|---|---|---|---|
| Instrument | 0.0289*** | | 0.0289*** | |
| | (0.00755) | | (0.00779) | |
| Chinese State Aid | | 0.0250 | | 0.0224 |
| | | (0.0203) | | (0.0202) |
| Chinese State Aid×Post Xi Jinping | | | | 0.00748* |
| | | | | (0.00424) |
| Real GDP PC | -2.567 | 0.273 | -2.567 | 0.261 |
| | (2.219) | (0.202) | (2.290) | (0.206) |
| Quality of Institutions | -0.00709 | -0.140** | -0.00709 | -0.146** |
| | (0.4482) | (0.0570) | (0.462) | (0.0570) |
| Constant | | | 23.98 | -2.633 |
| | (18.12) | | (18.12) | (1.694) |
| Observations | 2,165 | 2,165 | 2,165 | 2,165 |
| Number of Country | 130 | 130 | 130 | 130 |
| Country FE | YES | YES | YES | YES |
| Year FE | YES | YES | YES | YES |
| Cragg-Donald Wald F statistic | 26.188 | | | |

Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

**Notes**: This table reports two-stage least squares estimates of the effect of Chinese aid on China soft power. The dependent variable in the second stage is China soft power, defined as the difference between the IPD with the China on all UNGA resolutions and on important resolutions (i.e., resolutions on which the United States reports having lobbied other countries). The endogenous regressor is Chinese State Aid, defined as the annual committed amounts of official financing (in constant U.S. dollars) from China to the recipient expressed as $\log(1 + \text{aid})$. The instrument is the interaction between the cyclical component of Chinese raw-material production in the previous year (first principal component of aluminum, cement, glass, iron, and steel, extracted after HP-filtering) and a pre-determined measure of countries' industrial structure. Real GDP PC is log real GDP per capita. Quality of Institutions is the first principal component of the five Worldwide Governance Indicators (rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality). Post Xi Jinping is a dummy variable taking the value of 1 for years following the election of Xi Jinping as General Secretary of the Chinese Communist Party (2012), and 0 otherwise. All specifications include country and year fixed effects, and standard errors are clustered at the country level.

One possible explanation is that, during our sample period, U.S.–China political relations can be broadly divided into two phases. In the early years, there was a rapprochement process that began under the second Clinton administration. Subsequently, however, China and the United States entered a phase of growing political divergence, with a turning point that appeared to occur after Xi Jinping's election as General Secretary of the Chinese Communist Party in November 2012 (Kissinger, 2012; Kim, 2019; Caiazzo et al., 2026). Therefore, in columns (3) and (4), we interact Chinese financing with a dummy variable taking the value of 1 for the years following 2012. To estimate the interaction term while retaining our IV structure, we adopt a control-function approach in the spirit of Wooldridge (2015). In a first step, we regress Chinese aid on the instrument and all covariates and obtain the residuals. In a second step, we regress our soft power measure on Chinese aid, the heterogeneity variable and its interaction with Chinese aid, the same covariates and the first-stage residual. Under standard conditions, this procedure delivers consistent estimates of the interaction effect in the presence of an endogenous regressor.

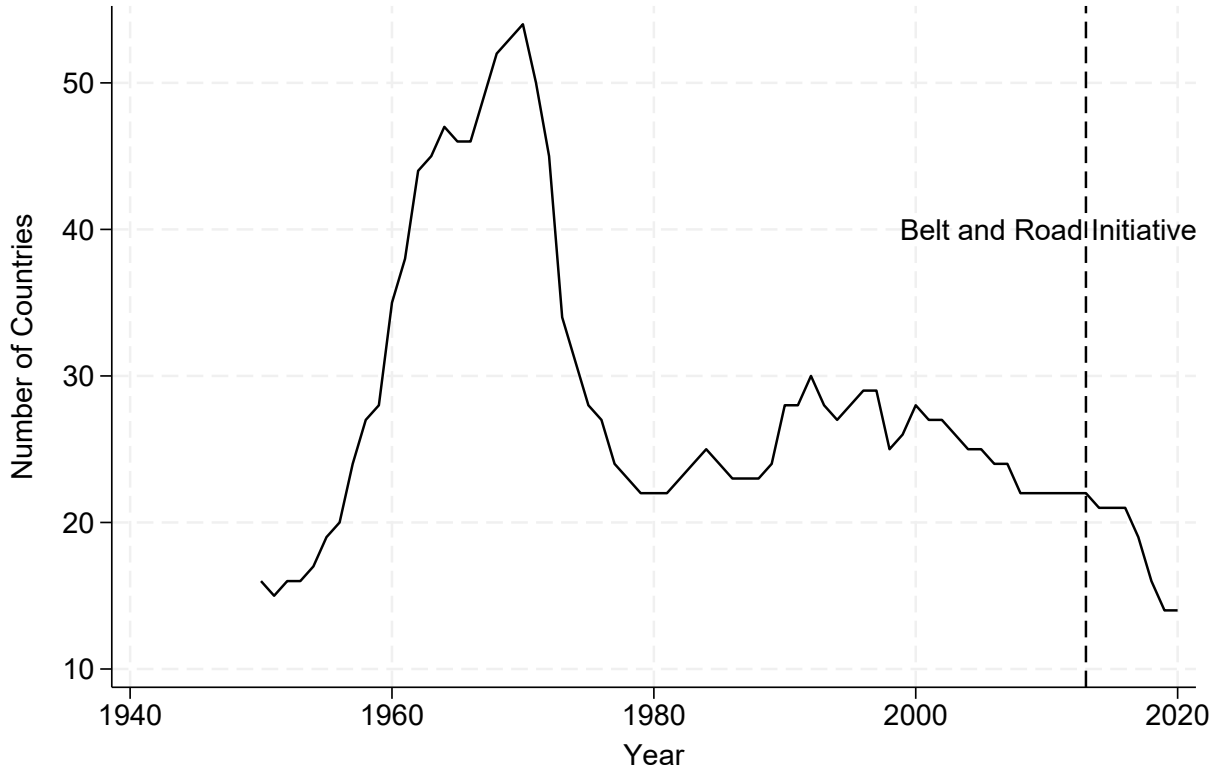
Our estimate for the interaction term is positive and statistically significant. Although this should be interpreted with caution, we view the results in Table 18 as indicative that, starting with Xi Jinping, when China's efforts to "*design a compelling Chinese narrative and better communicate the message of China to the world*" intensified, Beijing can lead countries to adopt voting positions closer to those of China on UN resolutions where US interests, and plausibly those of China are also at stake.

Another piece of evidence on the effectiveness of Chinese financing in shaping the preferences

of recipient countries comes from the Taiwan question. Under the principle of *One China*, the Chinese government insists that there is only one China and that Taiwan is an inalienable part of it. Consequently, Beijing strongly opposes any form of official state-to-state relationship between Taiwan and other countries and resists Taiwan's participation in the United Nations system and other intergovernmental organizations. The diplomatic recognition of Taipei versus Beijing therefore has a high symbolic and strategic value, and changes in recognition status are widely interpreted as clear signals of alignment with China's political priorities.

Figure 9 shows the number of countries that maintain official diplomatic relations with Taiwan between 1950 and 2020. From the early 1970s onward, the series exhibit a marked downward trend, consistent with a gradual erosion of Taipei's international recognition and a corresponding consolidation of Beijing's position as one China. This negative trend closely overlaps with China's rapid economic rise and growing international engagement, suggesting that Beijing has become increasingly successful in aligning itself with one of its core foreign policy priorities as its material weight in the global economy has expanded.

Figure 9: Countries Recognizing the Government of Taiwan



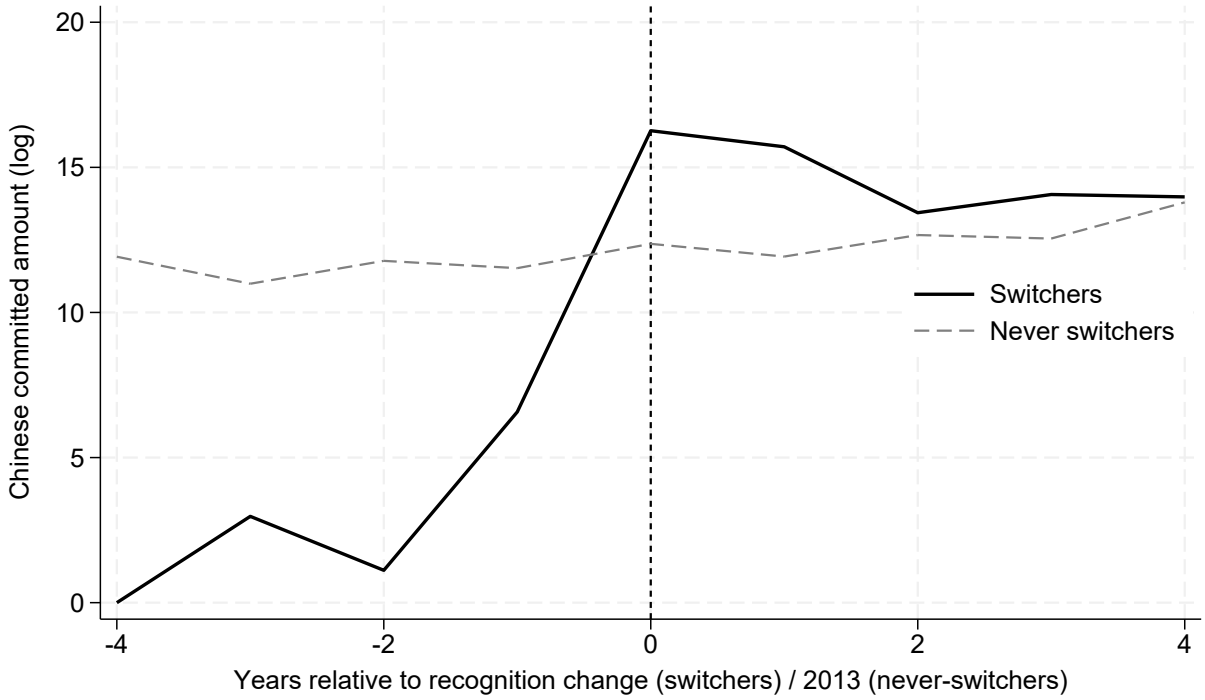

**Notes**: This figure shows the time series of the number of countries worldwide that recognizes the government of Taiwan. Data are sourced from The Ministry of Foreign Affairs of Taiwan.

The aggregate decline in the number of countries recognizing Taipei is suggestive but does not reveal how Chinese financing co-moves with concrete political decisions. To explore this dimension descriptively, we next examine the behavior of Chinese official financing around changes in diplomatic recognition. Specifically, we focus on countries that, during our sample period, cease to recognize the government in Taipei, and we track the evolution of Chinese aid before and after the

year of the switch.[14]

Figure 10 compares the evolution of Chinese financing around recognition switches (switchers) with that for countries that never switch, normalized around a fictitious event year. While purely descriptive, the figure shows that Chinese aid for switchers tends to rise in the years leading up to the recognition change and stabilizes thereafter, whereas financing to never-switchers displays a much flatter profile over the same relative window.

Figure 10: Chinese Official Financing Around Diplomatic Switches




**Notes**: The figure plots average Chinese official financing in a window of four years before and after changes in diplomatic recognition of Taiwan. "Switchers" are countries that, during our sample period, move from recognizing Taipei to recognizing Beijing; for these countries, event time 0 is the year of the switch. "Never switchers" are countries that do not change their recognition status; for them, event time is normalized around a fictitious reference year (2013) and serves only as a comparison profile. The figure is purely descriptive and does not identify a causal effect of Chinese financing on recognition decisions.

Taken together, the pieces of descriptive evidence we presented in this section are all consistent with the view that China's expansion of official finance has been accompanied by a gradual realignment of the recipient countries with Beijing's preferences on issues that are central to its foreign policy agenda.

# 6 Conclusion

This paper examines whether Chinese official finance affects the ability of the United States to influence recipient countries' positions on salient multilateral issues. Using an instrumental-variable strategy based on cyclical variation in China's production of construction-related inputs inter-

[14]In our sample period, 15 countries switch recognition and they do exactly once. Fourteen of them cease to recognize Taiwan, while one country (St. Lucia) moves from non-recognition to recognition. Table A3 in the appendix documents the characteristics of these countries and the timing of their recognition switches.

acted with recipients' predetermined industrial structure, we find that Chinese finance reduces our measure of U.S. diplomatic influence. The estimated effect is economically large: a one-standard-deviation increase in Chinese finance lowers the index by approximately 0.73 standard deviations.

Several findings indicate that this effect is specific to U.S.-salient issues rather than evidence of a general shift away from the United States or the West. Chinese finance is not significantly associated with recipients' overall distance from the United States across UN General Assembly votes, nor with an analogous EU-based measure. The effect is also absent when the set of U.S.-important resolutions is replaced with a randomized set. Together, these results suggest that Chinese finance weakens U.S. leverage most clearly on the issues on which Washington reports investing diplomatic effort.

The heterogeneous effects are consistent with, but do not directly establish, an outside-option mechanism. The estimated effect is weaker in countries with stronger historical political ties to Washington, greater trade integration with the United States, or a U.S. troop presence. This pattern suggests that access to Chinese official finance may give recipient governments greater room to resist U.S. preferences when their established economic, political, and security ties to the United States are less constraining. In this sense, Chinese finance may weaken U.S. diplomatic leverage not by necessarily drawing recipients toward Beijing, but by making cooperation with Washington less indispensable.

Our evidence does not, however, show that the erosion of U.S. influence is matched by a general increase in Chinese influence. We find no statistically significant average effect of Chinese finance on our indirect measure of alignment with Beijing, although estimates for the post-2012 period are suggestive of a stronger association. Descriptive evidence on diplomatic recognition of Taiwan likewise shows that Chinese financing tends to rise in the years preceding recognition switches, but the small number of cases and the non-experimental design preclude a causal interpretation. These findings point to possible forms of Chinese influence that merit further investigation, rather than establishing a general realignment toward China.

More broadly, our results show how the emergence of an alternative source of official finance can affect a hegemon's ability to translate diplomatic preferences into support in multilateral settings. The relevant alternative need not replace U.S. assistance dollar for dollar, nor does it necessarily produce alignment with the alternative provider. It may instead reduce the costs recipients face when they choose not to follow Washington on salient issues.

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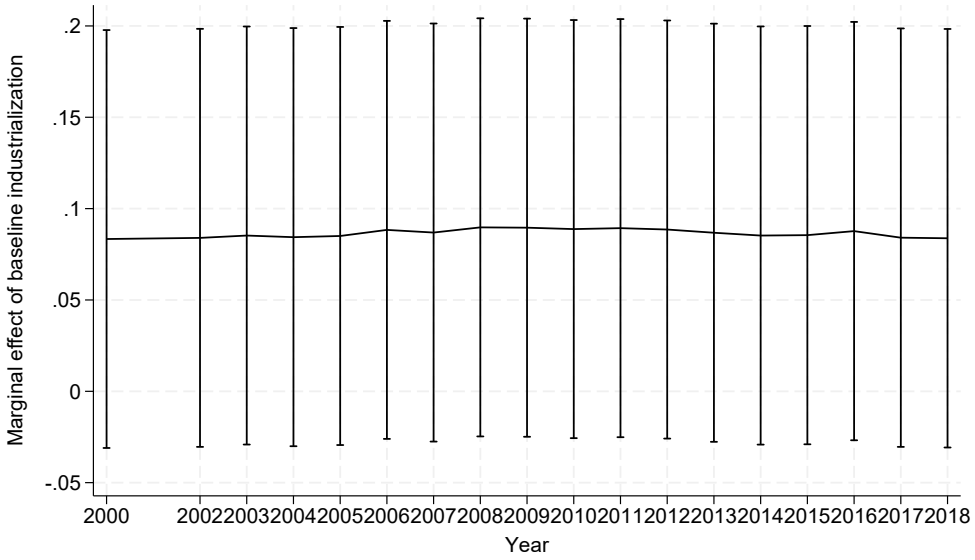
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# A Appendix

## Figures

Figure 1: Effect of 2000 industrial VA share on U.S. soft power, by year




Marginal effect of baseline industrialization on U.S. soft power over time. The figure reports the year-specific marginal effect of the 2000 industrial value–added share on our measure of U.S. soft power, estimated from a panel regression with country and year fixed effects and controls for log real GDP per capita and institutional quality. Point estimates and 95% confidence intervals are shown.

# Tables

Table A1: Oda Aid

| | (First Stage) Chinese State Aid (ODA) | (Second Stage) U.S. Soft Power |
|---|---|---|
| Instrument | 0.0212*** | |
| | (0.00642) | |
| Chinese State Aid (ODA) | | -0.0416** |
| | | (0.0193) |
| Real GDP PC | -2.501 | -0.242* |
| | (1.902) | (0.129) |
| Quality of Institutions | 0.538 | 0.0889** |
| | (0.410) | (0.0382) |
| Observations | 2,165 | 2,165 |
| Number of Country | 130 | 130 |
| Country FE | YES | YES |
| Cragg-Donald Wald F statistic | 16.629 | |

Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

**Notes**: This table reports two-stage least squares estimates of the effect of Chinese aid on U.S. soft power. The dependent variable in the second stage is U.S. soft power, defined as the difference between the IPD with the United States on all UNGA resolutions and on important resolutions (i.e., resolutions on which the United States reports having lobbied other countries). The endogenous regressor is Chinese State Aid, defined as the annual committed amounts of ODA (in constant U.S. dollars) from China to the recipient expressed as log(1 + aid). The instrument is the interaction between the cyclical component of Chinese raw-material production in the previous year (first principal component of aluminum, cement, glass, iron, and steel, extracted after HP-filtering) and a pre-determined measure of countries' industrial structure. Real GDP PC is log real GDP per capita, and Quality of Institutions is the first principal component of the five Worldwide Governance Indicators (rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality). All specifications include country and year fixed effects, and standard errors are clustered at the country level.

Table A2: Descriptive Statistics

| | N | Mean | Std. dev. | Min | Max |
|---|---|---|---|---|---|
| U.S. Soft Power | 2174 | .3797372 | .3987598 | -1.557066 | 1.741738 |
| Chinese State Aid | 2174 | 11.67797 | 8.370578 | 0 | 24.83809 |
| U.S. State Aid | 2174 | 15.16001 | 6.073871 | 0 | 23.36345 |
| Real GDP PC | 2174 | 8.030016 | 1.098369 | 5.613609 | 10.56474 |
| Quality of Institutions | 2174 | -.7343308 | 1.453603 | -4.313812 | 3.190005 |
| Openness Towards U.S. | 2174 | .1170841 | .1422923 | .0005795 | .7865509 |
| Openness Towards China | 2174 | .1059484 | .10059 | 0 | .6762149 |
| U.S. Troops | 1804 | .0337317 | .3495239 | 0 | 7.623843 |
| Historical Taiwan Recognition | 2157 | .2016389 | .3051611 | 0 | 1 |
| Historical Political Ties | 2127 | 2.705738 | .6626716 | .7349577 | 4.238604 |
| U.S. FDI | 1639 | .0039624 | .0115128 | -.000249 | .104388 |
| Historical Trade with China | 2125 | 132760.4 | 448557.9 | .039 | 4296849 |
| Historical Trade with U.S. | 2140 | 1180802 | 4438212 | 11.50911 | 4.65e+07 |

**Notes**: This table reports summary statistics for the main variables used in the analysis over the 2000–2018 sample. U.S. Soft Power is defined as the difference between the IPD with the United States on all UNGA resolutions and on important resolutions (i.e., resolutions on which the United States reports having lobbied other countries). Chinese State Aid and U.S. State Aid are the annual committed amounts of official financing (in constant U.S. dollars) from China and the United States to the recipient, expressed as $\log(1 + \text{aid})$. Real GDP PC is log real GDP per capita. Quality of Institutions is the first principal component of the five Worldwide Governance Indicators (rule of law, control of corruption, government effectiveness, voice and accountability, and regulatory quality). Openness Towards U.S. is the share of the recipient's merchandise trade conducted with the United States. Openness Towards China is the share of the recipient's merchandise trade conducted with China. U.S. Troops is the number of U.S. troops per capita stationed in the recipient country. Historical Taiwan Recognition is the share of pre-2000 years in which the country recognized Taiwan. Historical Political Ties is the average pre-sample ideal-point distance from the United States. U.S. FDI is the U.S. direct investment position in the recipient (in millions of dollars).

Table A3: Countries Switching from Recognition to Non-Recognition of Taiwan, 2000–2019

| Country | Region | Year of switch |
|---|---|---|
| Burkina Faso | Sub-Saharan Africa | 2018 |
| Costa Rica | Latin America and the Caribbean | 2008 |
| Dominica | Latin America and the Caribbean | 2004 |
| Dominican Republic | Latin America and the Caribbean | 2018 |
| Gambia | Sub-Saharan Africa | 2014 |
| Grenada | Latin America and the Caribbean | 2005 |
| Kiribati | Micronesia | 2019 |
| Liberia | Sub-Saharan Africa | 2004 |
| North Macedonia | Southern Europe | 2000 |
| Malawi | Sub-Saharan Africa | 2008 |
| Senegal | Sub-Saharan Africa | 2006 |
| El Salvador | Latin America and the Caribbean | 2018 |
| Sao Tome and Principe | Sub-Saharan Africa | 2017 |
| Chad | Sub-Saharan Africa | 2007 |