

International Coercion, Debt Diplomacy, and Land Transactions

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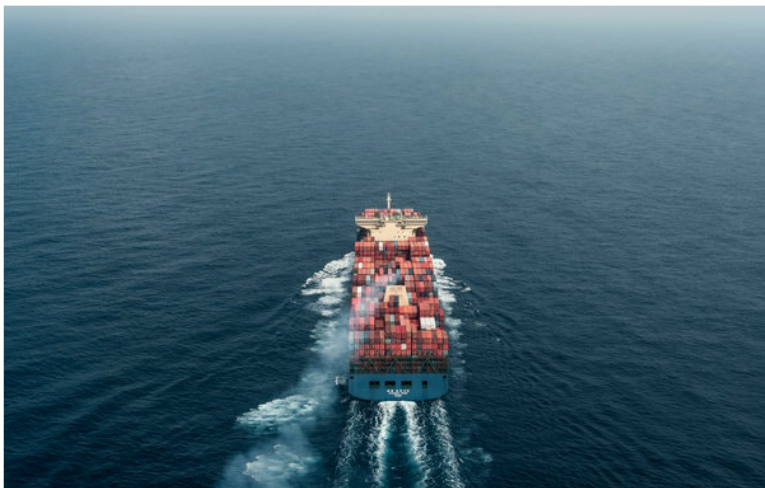
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China: A global loan shark?

The New York Times

How China Got Sri Lanka to Cough Up a Port



China: A global loan shark?



It's not only China

- We collected data on about 240 cases of debtor governments selling land to creditor governments.

Buyers		Sellers	
China	33	Mozambique	9
UAE	12	Sudan	9
Qatar	10	Argentina	8
Vietnam	9	Cambodia	7
Norway	7	Ukraine	7
Finland	6	Brazil	6
Malaysia	6	Laos	6
Saudi Arabia	5	Myanmar	6
United Kingdom	5	Zambia	5
Korea, Rep.	4	Indonesia	4

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 - Default (Zambia in 2018)
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 - Assets/Land (Sri Lanka in 2015)

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 - Assets/Land (Sri Lanka in 2015)
 - Interdependence!
 - Sri Lanka:
Hand over Hambantota port in return for debt reduction
 - Kenya:
Implement austerity to prevent handing over Mombasa Port
- ⇒ What explains different debt management strategies by developing countries?

Existing Work

- When do govts implement Austerity?
 - Regime type: (Schultz and Weingast, 2003) and veto players (Stasavage, 2003; Saiegh, 2009)
 - Government ideology (Drazen, 2005; Vreeland, 2003; Ramcharan, 2003).
- When do govts obtain Debt Relief?
 - Only if creditors have an interest in debtor (Copelovitch, 2010; Bouvet, Brady, and King, 2013)
- When do govts Default?
 - Distributional consequences favorable to electorate (Stasavage, 2015; Ballard-Rosa, 2016; Andrade and Chhaochharia, 2018; Kohlscheen, 2010; Curtis, Jupille, and Leblang, 2015)
- What about assets/land?
 - Some work on “land grabs” by China (Cotula, 2009; Millar, 2015)

Existing Work

- Shortcomings
 - Assets/Land not considered as a repayment option
 - Options analyzed separately, interdependency ignored
- Our approach
 - Since governments *simultaneously* decide among these options, and since these options are *interdependent*, we must analyze governments' choice among the four possible policies *jointly*.

Theoretical Framework

- Politicians will implement the debt management strategy preferred by the strongest interest group
1. Start with Office-motivated politicians
 2. Identify relevant interest groups and their characteristics
 3. Derive groups' preferences across the four policy options of austerity, debt relief, default, and asset transactions
 4. Examine which interest groups politicians listen to

Relevant Groups

- Elites (Finance)
 - Income is generated from returns on investments.
 - Prefers continued integration with the global economy.
- Masses (Labor)
 - Income is primarily wages as well as government spending
 - Prefers continuation of welfare state and social programs.
Populist ideas of sovereignty important.

Preferences of Groups over Policy Options

A) Austerity and repayment

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- Labor: Wants gov't to continue public employment, welfare state, etc.

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B) Default

- ...

C) Debt Relief

- ...

D) Land Deals

- Finance: In favor because avoids default and represents new investment
- Labor: Issues of “selling sovereignty” in context of national identity and populism

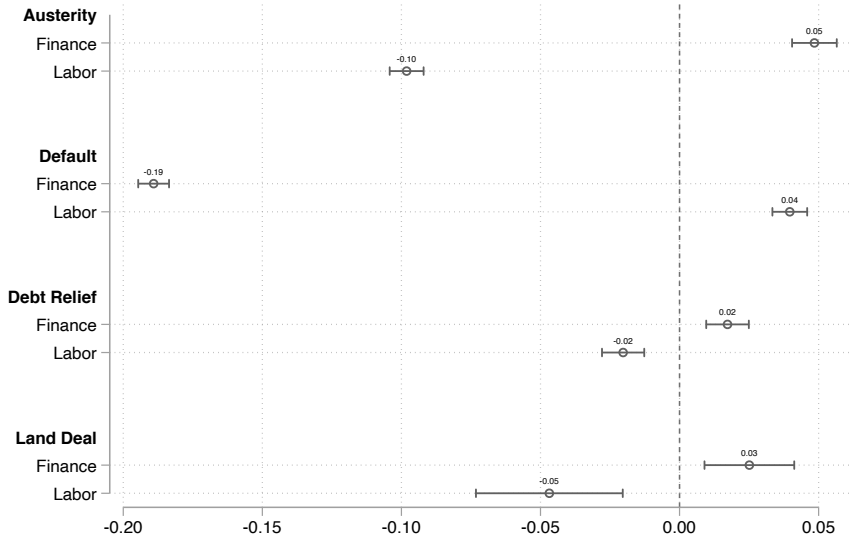
Hypotheses

	Finance	Labor
Austerity	Support	Oppose
Debt relief	Support	Support
Default	Oppose	Support
Land Deal	Support	Oppose

Method

- Challenge: Must estimate interdependency and simultaneity.
 - Nonrecursive structural simultaneous equations model
 - Four (Binary) DVs: Austerity, Debt Relief, Default, Land Deal

$$\begin{aligned}
 \text{Austerity}_i &= \beta_1 \text{ Debt Relief}_i + \beta_2 \text{ Default}_i + \beta_3 \text{ Land Deal}_i \\
 &\quad + \beta_4 \text{ Political Strength Finance}_i + \beta_5 \text{ Political Strength Labor}_i \\
 &\quad + \beta_6 \text{ GDP p.c.}_i + \beta_7 \text{ Democracy}_i + \beta_9 \text{ Economic Integration}_i + \epsilon \\
 \text{Debt Relief}_i &= \beta_{10} \text{ Austerity}_i + \beta_{11} \text{ Default}_i + \beta_{12} \text{ Land Deal}_i \\
 &\quad + \beta_{13} \text{ Political Strength Finance}_i + \beta_{14} \text{ Political Strength Labor}_i \\
 &\quad + \beta_{15} \text{ GDP p.c.}_i + \beta_{16} \text{ Democracy}_i + \beta_{17} \text{ Ideological Alignment}_i + \epsilon \\
 \text{Default}_i &= \beta_{18} \text{ Austerity}_i + \beta_{19} \text{ Debt Relief}_i + \beta_{20} \text{ Land Deal}_i \\
 &\quad + \beta_{21} \text{ Political Strength Finance}_i + \beta_{22} \text{ Political Strength Labor}_i \\
 &\quad + \beta_{23} \text{ GDP p.c.}_i + \beta_{24} \text{ Democracy}_i + \beta_{25} \text{ Elections}_i + \epsilon \\
 \text{Land Deals}_i &= \beta_{26} \text{ Austerity}_i + \beta_{27} \text{ Debt Relief}_i + \beta_{28} \text{ Default}_i \\
 &\quad + \beta_{29} \text{ Political Strength Finance}_i + \beta_{30} \text{ Political Strength Labor}_i \\
 &\quad + \beta_{31} \text{ GDP p.c.}_i + \beta_{32} \text{ Democracy}_i + \beta_{33} \text{ Ideology of Gov't}_i + \epsilon
 \end{aligned}$$



Conclusion

- Findings
 - Governments respond to interest groups when choosing debt management strategy
 - Assets such as land are an important repayment option
- Contributions
 - Analyze multiple debt management options simultaneously
 - Model interdependencies among policy options
 - New data on land deals

Importance?

