Too much of a good thing? China, the IMF, and Sovereign Debt Crises

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IPES 2021
October 22, 2021

Motivation: China, the IMF, and Sovereign Debt Crises

International organizations:

- Power shifts and international organizations (Lipscy 2018, Pratt 2021, Bunte et al. 2021)
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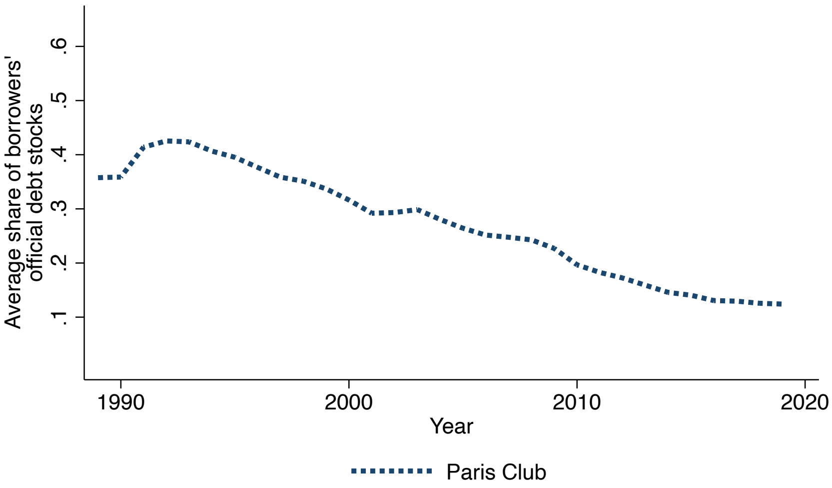
Sovereign debt:

- Rising lenders in official debt, especially China (Bunte 2019, Dreher et al. 2018, 2020, Brautigam & Hwang 2020)
- What does greater diversity of official lenders mean in a debt crisis?

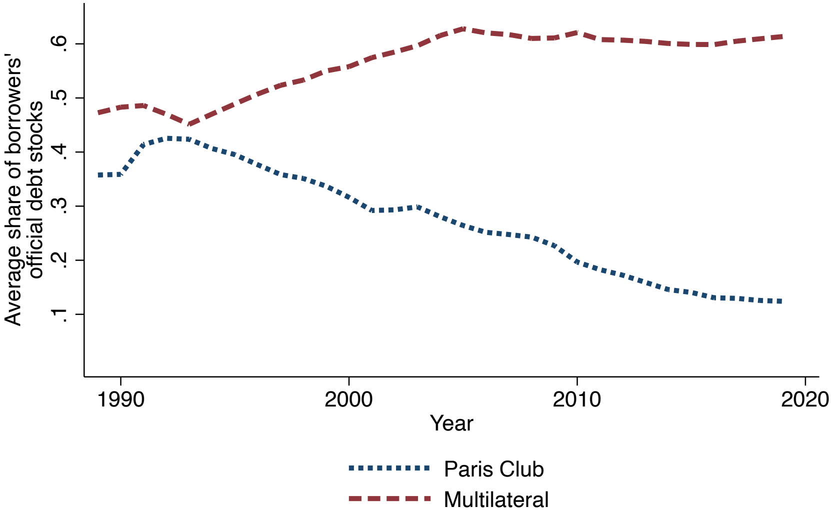
Research question

Do larger quantities of debt owed to China impede the IMF's work when a country faces a debt crisis?

Diversity among official creditors



Diversity among official creditors



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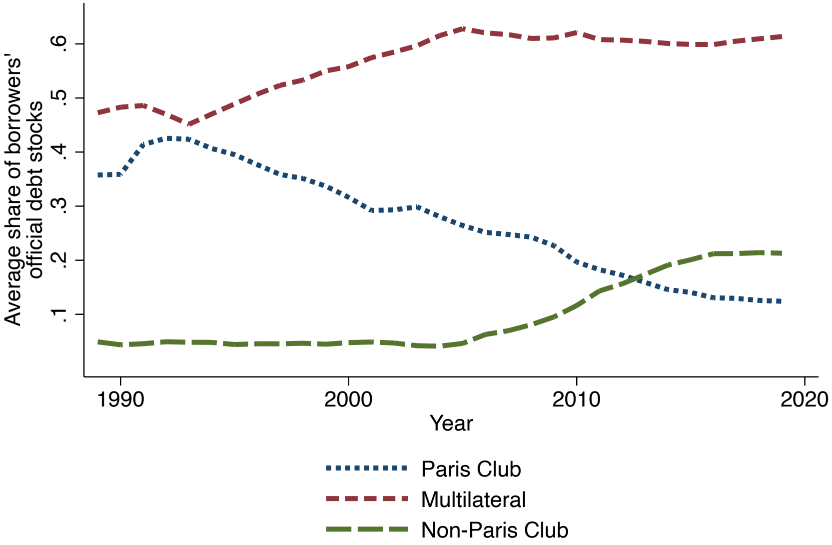

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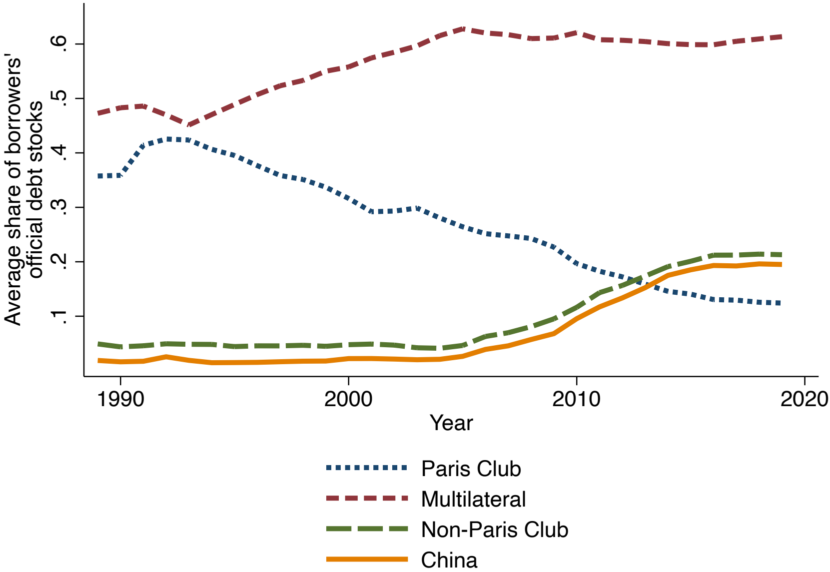

Chinese debt stocks: Effects on the IMF's work

When the IMF prepares a loan, it

- Prepares a debt sustainability analysis (DSA)
- Coordinates with official creditors (Paris Club), if relief needed
- Agrees loan, if projections indicate return to debt sustainability

Chinese debt stocks: Effects on the IMF's work

China's approach to debt crises can impede IMF work

1. Preference for confidentiality on terms of loan and relief (Acker et al. 2020; Gelpern et al. 2021)
2. Preference for bilateral crisis resolution (Acker et al. 2021; Bon & Cheng 2020)

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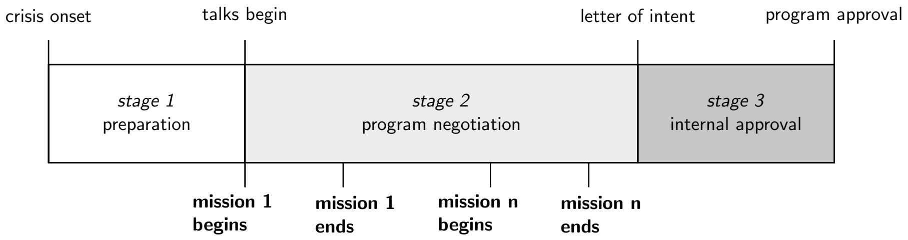
Borrowing countries with higher stocks of debt owed to China will experience more protracted negotiations with the IMF during a debt crisis

Our data: Measuring difficulty in IMF negotiations



Adapted from McDowell (2017)

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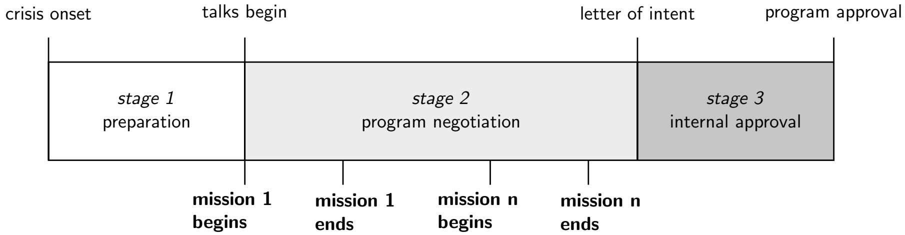

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- From archives: program request documents for IMF programs 2000-2018
- Record dates of IMF missions

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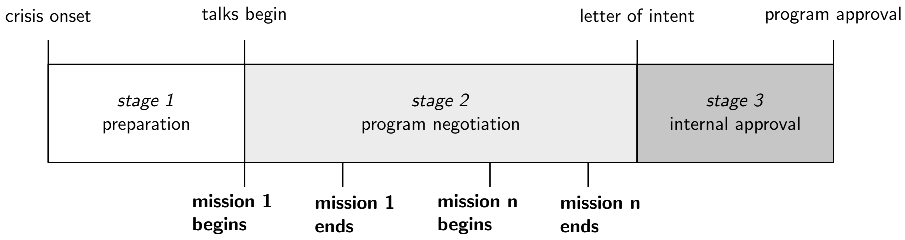
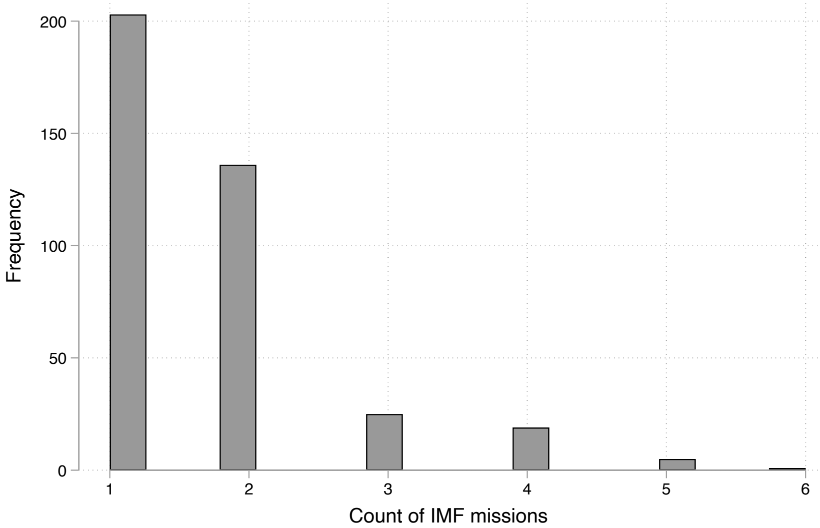


Adapted from McDowell (2017)

- From archives: program request documents for IMF programs 2000-2018
- Record dates of IMF missions
- For each program:
  - # of missions
  - Days from from first mission to approval
  - Days from first mission to last mission
  - Days from letter of intent to approval

Number of negotiation missions per program, 2000-2018



Data and estimation

- Program-level analysis of IMF programs 2000-2018
- Chinese Debt Stocks (% borrower country's GDP) (World Bank IDS)
  - Excludes borrowing and lending by private actors
  - *Chinese Debt Stocks x Default* (0,1)(CRAG)

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- Controls: G5 ODA, G5 Bank Exposure, G5 UNGA Agreement, UNSC Temporary Member, Liberal Democracy, IMF Quota, Debt Service, Short-term Debt, Speculative Attack, GDP, Population
  - Measured in the year negotiations begin
- Negative binomial and Cox proportional hazards model
  - Year time trend and clustered standard errors (by country)

Number of IMF missions

	(1)	(2)	(3)
Default=1 $\times$ Chinese debt (% of GDP)		6.464^{**}	6.870^{**}
		(2.004)	(2.623)
Chinese debt (% of GDP)	1.813	-3.535^{**}	-3.741
	(1.597)	(1.291)	(2.274)
Default=1	-0.00335	-0.167	-0.128
	(0.140)	(0.139)	(0.164)
Time trend	✓	✓	✓
Controls			✓
Observations	209	209	188

Robust standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Controls: GDP, population, democracy, G5 ODA, G5 bank exposure, G5 UNGA distance, UNSC member, public debt, short-term debt

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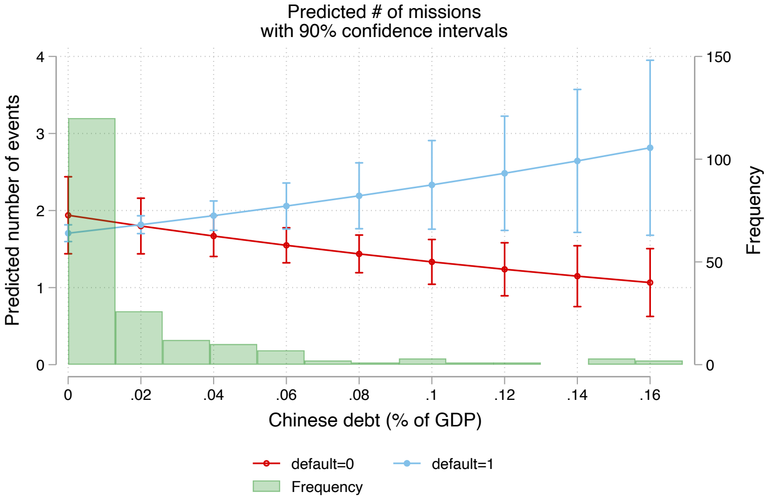

Phases of IMF Program Preparation

	(1) First to BA	(2) Btw. Missions	(3) LOI to BA
Default=1 × Chinese debt (% of GDP)	4.034	-0.112	14.66***
	(20.98)	(17.17)	(3.955)
Chinese debt (% of GDP)	-7.309	-0.108	-10.14**
	(20.99)	(17.11)	(3.600)
Default=1	-0.199	-0.0472	-1.031**
Time trend	✓	✓	✓
Controls	✓	✓	✓
Observations	169	169	186

Robust standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Controls: GDP, population, democracy, G5 ODA, G5 bank exposure, G5 UNGA distance, UNSC member, public debt, short-term debt

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- Next steps: Non-transparent lending, hold-out creditor, or borrower strength?
- Implications: Fragmenting of the regime for official debt?

Thank you - Comments welcome!

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