

Politics and Bilateral Lending

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Money and Political Influence

- Creditor Governments use bilateral loans to gain influence
- Historically: Japan
 - “The creditor status can be seen to have given Japan a certain amount of ‘relational power,’ [. . .] the power of *A* to get *B* to do something that they would not otherwise do.”
Eric Helleiner (1989)
- Today: China
 - “Great power competitors, namely China and Russia, are rapidly expanding their financial and political influence across Africa. They are deliberately and aggressively targeting the region to gain a competitive advantage over the United States.”
John R. Bolton (2018)

Research Question

- Research Question
 - What are the political dynamics in government-to-government lending as creditors seek political influence?
 - Our Starting Point
 - Creditors strategically respond to the loans that prospective borrowers receive from other governments.
 - Loans from creditor A shape the likelihood of loans from creditor B.
 - This endogeneity is not merely a statistical nuisance, but reflects the political strategies for power and influence.
- How to model these dynamics?

Existing Work

- Aid volume provided by a particular donor depends on the volume of aid given by others.

(Ronald B Davies, 2013; De Matteis, 2018; Powell and Bobba, 2007)

- Causal mechanism? Export competition

- If countries export to the same developing country, higher likelihood that both are active donors to recipient country.

(Fuchs, Nunnenkamp, and Öhler, 2014)

- If countries export to the same developing country, the aid volume by *A* responds to the aid volume provided by *B*.

(Barthel et al., 2014)

Our Starting Point

- Trade competition?
 - Aid-for-exports assumes that private actors will overcome collective action problem to lobby for aid.
- Competition for political influence!
 - “The predatory practices pursued by China and Russia stunt economic growth in Africa; threaten the financial independence of African nations; interfere with U.S. military operations; and pose a significant threat to U.S. national security interests.”
John R. Bolton (Dec. 13, 2018)

» What's our theory?

Creditors favor strategically important debtors

Argument

- Creditors favor debtors that are strategically important
 - However, strategic value is notoriously difficult to assess.
 - Observable factors: Geographic location, natural resources, military alliances, foreign policy similarity, etc.
 - What about unobservable factors?
- The perceived strategic value of a particular recipient depends on the evaluations of other creditors.

Creditors favor strategically important debtors

Plausible?

- Angola

“Angola has reached new loan agreements with China—and there is more than just China. Angola has negotiated with other nations since 2004, including \$580 million from Brazil, \$400 million euros from Portugal, and \$100 million euros from Germany. [. . .] Angola’s rising reputation as borrowers helped fuel international lenders’ interest.”

(US Embassy in Angola)

Creditors favor strategically important debtors

Hypothesis 1

- A large number of incoming loans suggests that many other governments view this recipient as strategically valuable.
- H1** The greater the attention received by competing creditors, the greater the perceived strategic value of that recipient, the greater the probability of a bilateral loan

Creditors favor strategically important debtors

Hypothesis 1

- A large number of incoming loans suggests that many other governments view this recipient as strategically valuable.
- H1** The greater the attention received by competing creditors, the greater the perceived strategic value of that recipient, the greater the probability of a bilateral loan
- Yet, identity of these competitor creditors likely matters (though not clear in which direction . . .)

Competition Among Creditors

Hypothesis 2

- Option 1: Engaging the Competitor
 - After \$1.3 billion loan from China to India, Japanese lawmakers argued that their country “must find a way to cooperate with India” and explicitly considered the possibility that loans “could be used in the effort to turn India into a counterweight to China.”
(US Embassy in Japan)

H2 If a creditor observes their enemies making loans to a recipient, then bilateral loans more likely

Competition Among Creditors

Hypothesis 3

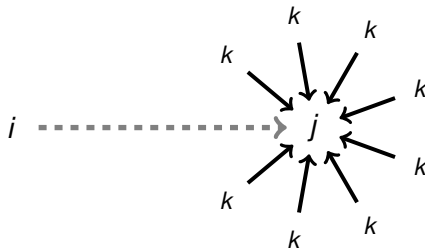
- Option 2: Differentiation from the Competitor
 - “We will ensure that U.S. taxpayer dollars for aid are used efficiently and effectively. The United States will no longer provide indiscriminate assistance across the entire continent, without focus or prioritization.”
(John R. Bolton)
 - “The United States could not, nor should, match China at every step. Instead, just as Beijing was exploiting its strengths, so should Washington.”
(Ivo Daalder, former U.S. ambassador to NATO.)

H3 If a creditor observes their friends making loans to a recipient, then bilateral loans more likely

Operationalization H1

» In-degree centrality

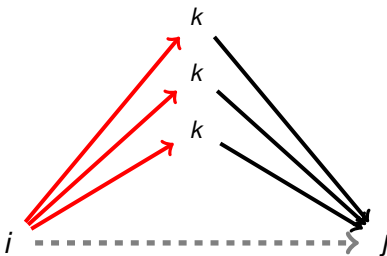
H1 The larger the number of k 's providing loans to j , the more strategically important j



Operationalization H2 and H3

» Covariate Closure

- H2** If i observed a loan by k to j , and if i and k are enemies, the more likely that i will also lend to j
- H3** If i observed a loan by k to j , and if i and k are friends, the more likely that i will also lend to j



Control Variables

Economics

- Imports and Exports
- GDP lender and recipient
- Debt stock
- Credit rating
- Oil reserves
- Debt, banking, and currency crises
- Current account surplus

Politics

- Alliances
- Ideological affinity
- Former colony
- Defense Agreement
- Polity IV differences
- Distance

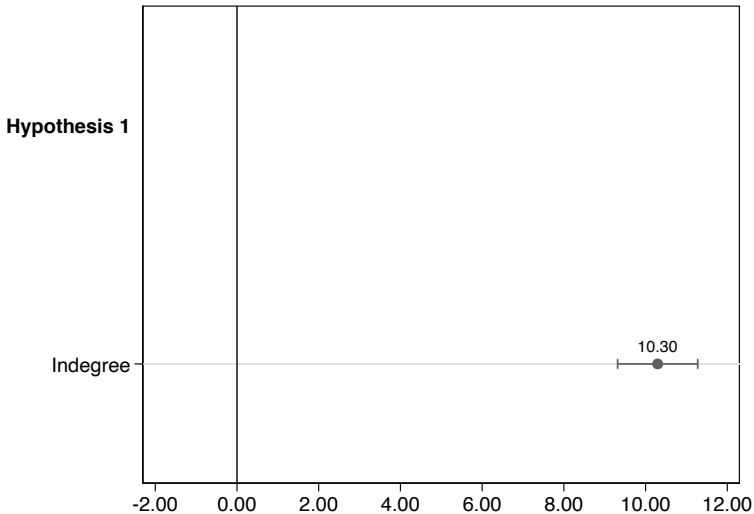
Other sources

- Private (borrow)
- Multilateral (borrow)
- Multilateral (lend)

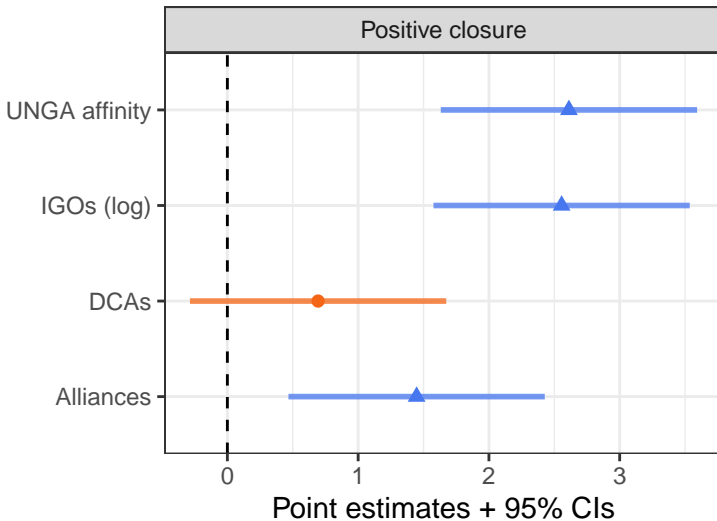
Other Network

- Outdegree
- Reciprocity
- Transitivity

H1: Findings



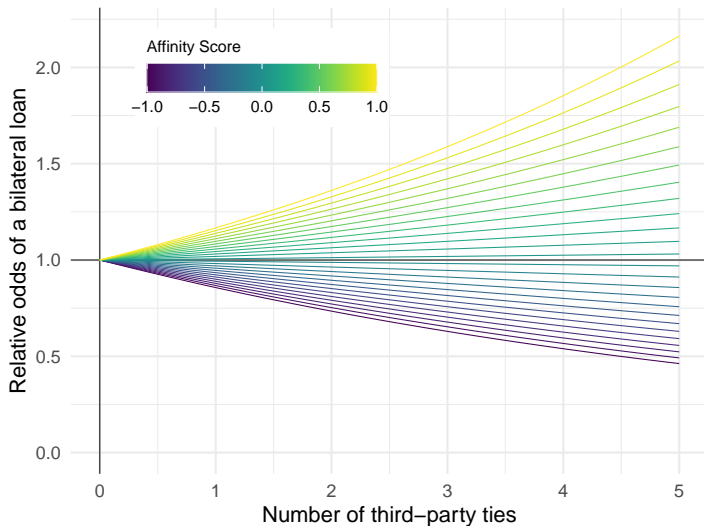
H2 and H3: Findings



Interpretation of Findings

Odds of loan if Allies lend

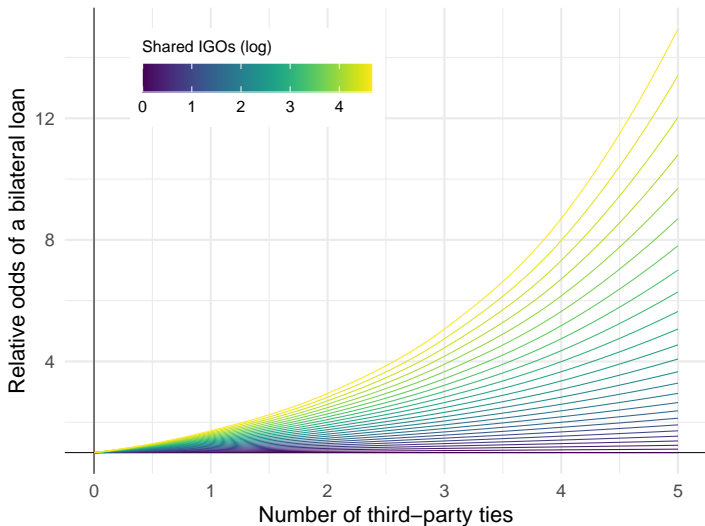
Effect of closure in UNGA Affinity



Interpretation of Findings

Odds of loan if Allies lend

Effect of closure in shared IGO memberships



Motivation
○○

Literature
○○

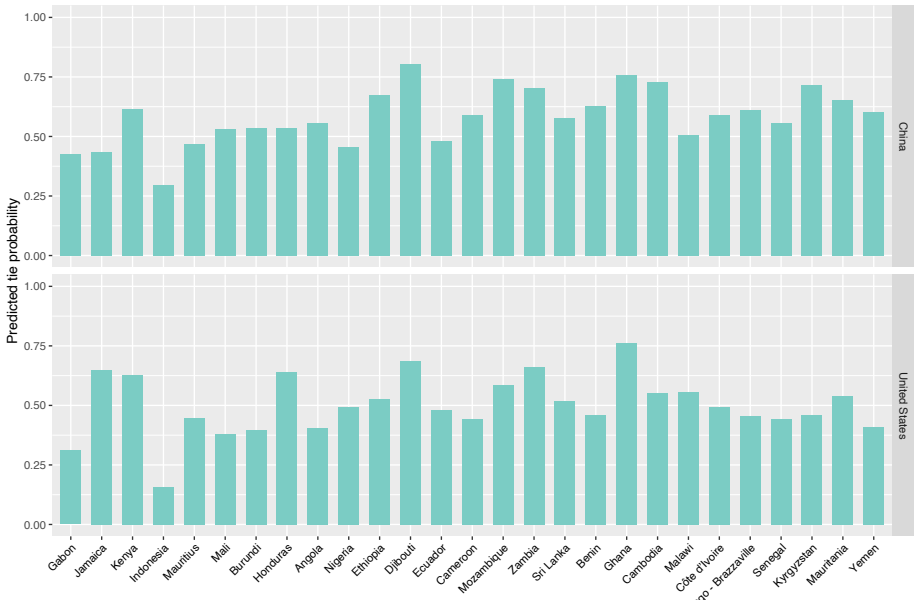
Theory
○○○○○

Research Design
○○○

Findings
○○○○●○○

Conclusion
○○

Out-of-sample predictions: Dyadic Model



Motivation
○○

Literature
○○

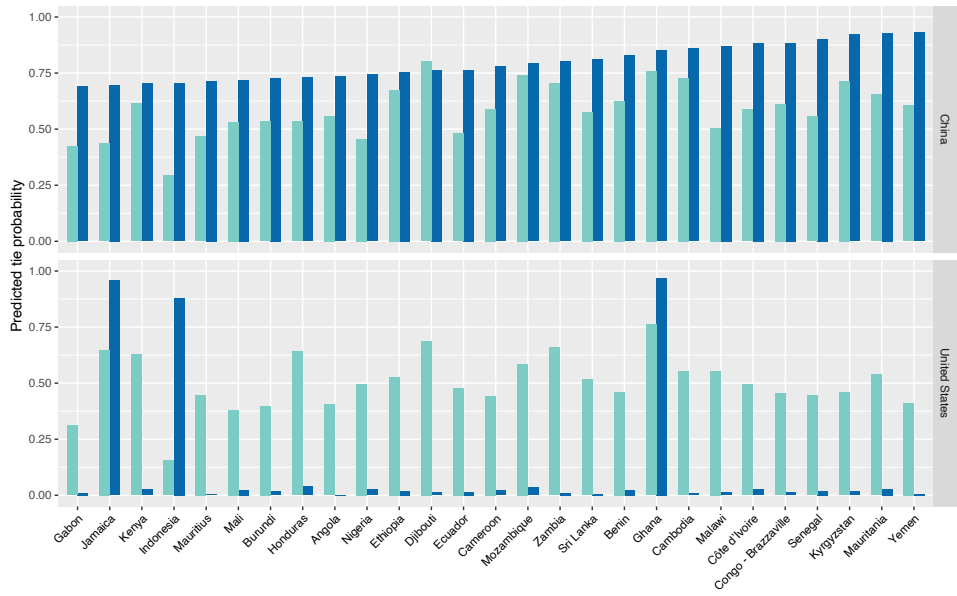
Theory
○○○○○

Research Design
○○○

Findings
○○○○○●

Conclusion
○○

Out-of-sample predictions: Network Model



Conclusion

- Politics in government-to-government lending
 - Search for influence in strategically important countries depends on evaluations by other governments
 - But it depends on who these creditors are: Differentiation instead of engagement.
- Significance
 - Empirically, superior predictive qualities
 - Normatively, implications for geo-politics

Politics, not Economics

