International Coercion, Debt Diplomacy, and Land Transactions

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China: A global loan shark?

How China Got Sri Lanka to Cough Up a Port

The New York Times
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.

<table>
<thead>
<tr>
<th>Buyers</th>
<th>Sellers</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>Mozambique</td>
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<td>UAE</td>
<td>Sudan</td>
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<td>Qatar</td>
<td>Argentina</td>
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<td>Vietnam</td>
<td>Cambodia</td>
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<td>Norway</td>
<td>Ukraine</td>
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<td>Finland</td>
<td>Brazil</td>
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<td>Malaysia</td>
<td>Laos</td>
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<tr>
<td>Saudi Arabia</td>
<td>Myanmar</td>
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<tr>
<td>United Kingdom</td>
<td>Zambia</td>
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<tr>
<td>Korea, Rep.</td>
<td>Indonesia</td>
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Our Starting Point

- Under what conditions do debtor governments give away assets such as land?
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- Several policy options
  - Austerity and repayment (Kenya in 2017)
  - Default (Zambia in 2018)
  - Debt Relief (Cambodia in 2010)
  - Assets/Land (Sri Lanka in 2015)
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- 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 govt’s 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 govt’s obtain Debt Relief?**
  - Only if creditors have an interest in debtor (Copelovitch, 2010; Bouvet, Brady, and King, 2013)

- **When do govt’s 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*. 
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
   - Finance: Wants gov’t to meet repayment obligations to remain integrated in global economy
   - 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

<table>
<thead>
<tr>
<th></th>
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<th>Labor</th>
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<tbody>
<tr>
<td>Austerity</td>
<td>Support</td>
<td>Oppose</td>
</tr>
<tr>
<td>Debt relief</td>
<td>Support</td>
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Method

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

\[
\text{Austerity}_i = \beta_1 \text{Debt Relief}_i + \beta_2 \text{Default}_i + \beta_3 \text{Land Deal}_i \\
+ \beta_4 \text{Political Strength Finance}_i + \beta_5 \text{Political Strength Labor}_i \\
+ \beta_6 \text{GDP p.c.}_i + \beta_7 \text{Democracy}_i + \beta_9 \text{Economic Integration}_i + \epsilon
\]

\[
\text{Debt Relief}_i = \beta_{10} \text{Austerity}_i + \beta_{11} \text{Default}_i + \beta_{12} \text{Land Deal}_i \\
+ \beta_{13} \text{Political Strength Finance}_i + \beta_{14} \text{Political Strength Labor}_i \\
+ \beta_{15} \text{GDP p.c.}_i + \beta_{16} \text{Democracy}_i + \beta_{17} \text{Ideological Alignment}_i + \epsilon
\]

\[
\text{Default}_i = \beta_{18} \text{Austerity}_i + \beta_{19} \text{Debt Relief}_i + \beta_{20} \text{Land Deal}_i \\
+ \beta_{21} \text{Political Strength Finance}_i + \beta_{22} \text{Political Strength Labor}_i \\
+ \beta_{23} \text{GDP p.c.}_i + \beta_{24} \text{Democracy}_i + \beta_{25} \text{Elections}_i + \epsilon
\]

\[
\text{Land Deals}_i = \beta_{26} \text{Austerity}_i + \beta_{27} \text{Debt Relief}_i + \beta_{28} \text{Default}_i \\
+ \beta_{29} \text{Political Strength Finance}_i + \beta_{30} \text{Political Strength Labor}_i \\
+ \beta_{31} \text{GDP p.c.}_i + \beta_{32} \text{Democracy}_i + \beta_{33} \text{Ideology of Gov't}_i + \epsilon
\]
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?

Chinese-backed investment projects
- Doraleh multi-purpose port
- Railroad to Ethiopia

Djibouti City
Population: 475,000

Gulf of Aden

Chinese military base

Chabelly airfield
Used by the U.S. for drone deployments

Camp Lemonnier
4,000 U.S. troops stationed here.