

China Lending and the Political Economy of Leader Survival

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Motivation

- **Question**

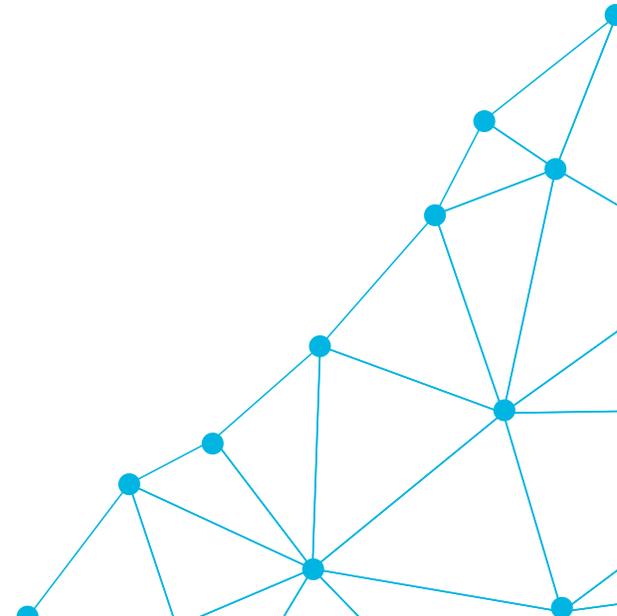
- What are the political consequences of China loans?

- >>> Do these political consequences differ for borrowers of conventional loans?

- **Key findings**

- Chinese loans lengthen governments' tenure in office

- >>> most pronounced at higher levels of corruption



Literature

- **Sovereign debt and leader survival**

- Evidence on the political importance of international financial resources to leaders' political survival (Yuichi Kono and Montinola, 2009; Licht, 2010; Tomz and Wright, 2013; DiGiuseppe and Shea, 2016)

- **China loans**

- Substantial analysis of the increasing importance of China loans (Hernandez, 2017; Zeitz, 2021; Broz, Zhang, and Wang, 2020; Cormier and Manger, 2021; Watkins, 2021; Dreher et al., 2022/23)

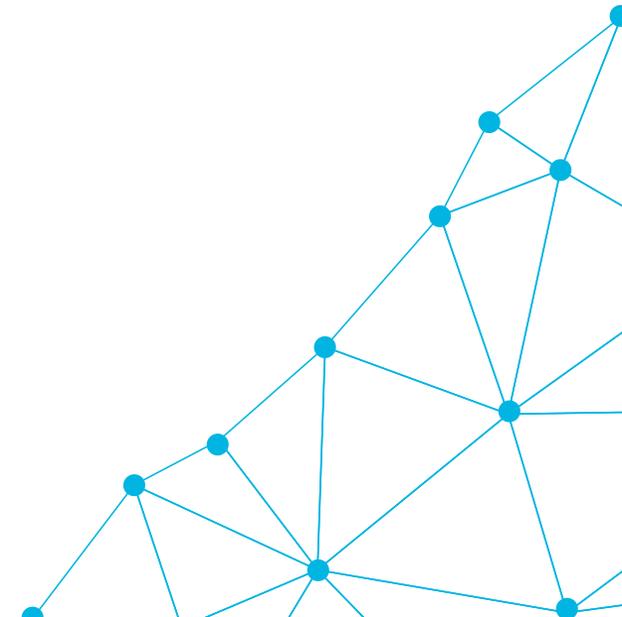
- **Motivating question**

- How do China loans impact leader survival in recipient countries?



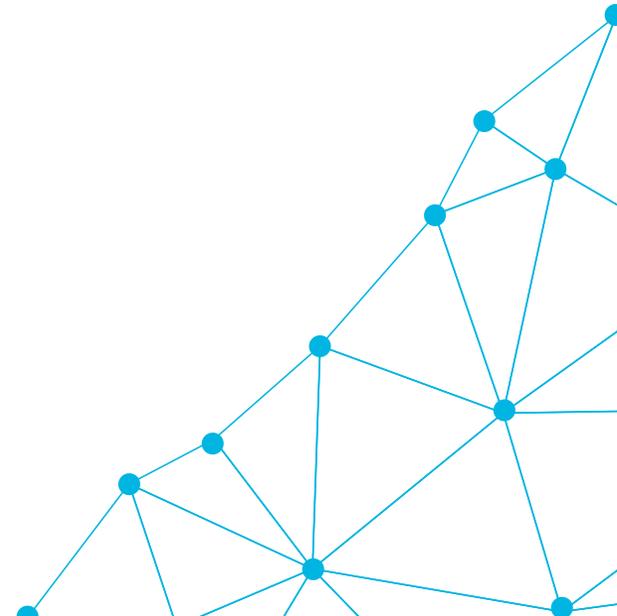
Theoretical considerations

- Chinese loans have distinct advantages for governments
 - Electoral gains
 - *Loans provide access to funding **vital** infrastructure projects and free up fiscal space.*
 - Paying-off elites
 - *Lack of transparency allows for built-in kickback schemes (e.g., Angola, Ecuador, Zambia).*
 - Underexplored channels of influence
 - *Loan schemes within the Digital BRI and campaign contributions*



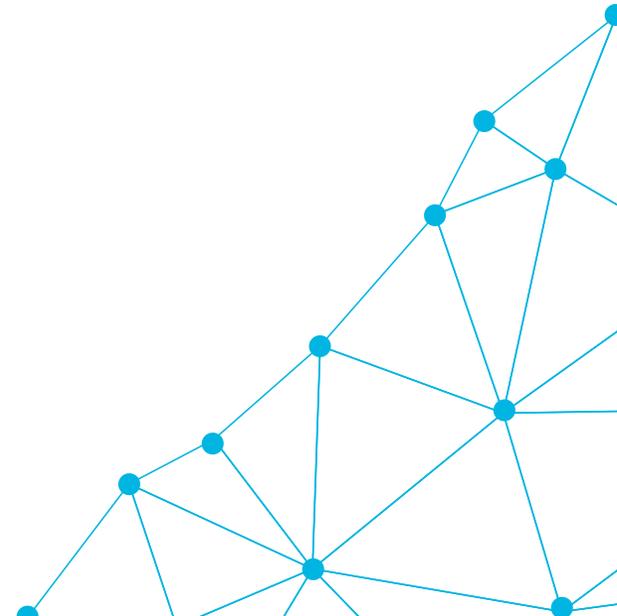
Hypothesis

- H1: China loans lengthen governments' tenure in office
- H2: This effect is more pronounced at higher levels of corruption.



Empirical Analysis

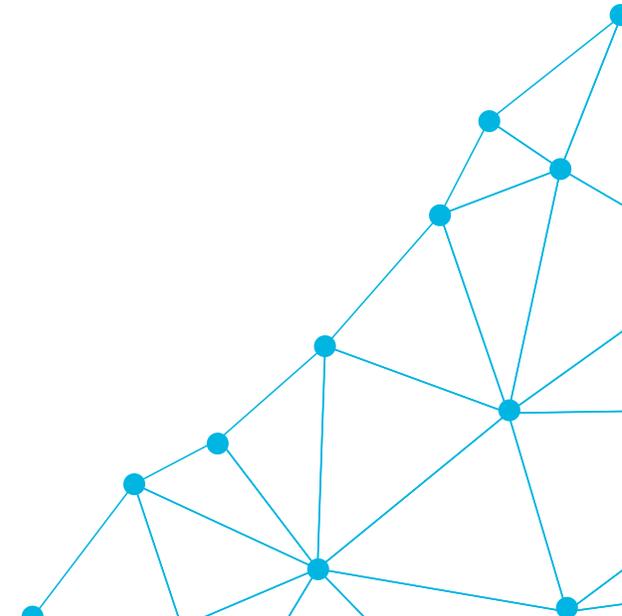
1. Baseline model
2. Mechanisms and robustness checks



Empirical Analysis

$$h(t) = h_{0t} \exp(\beta_1 \text{ChinaLoans} + \beta_X X)$$

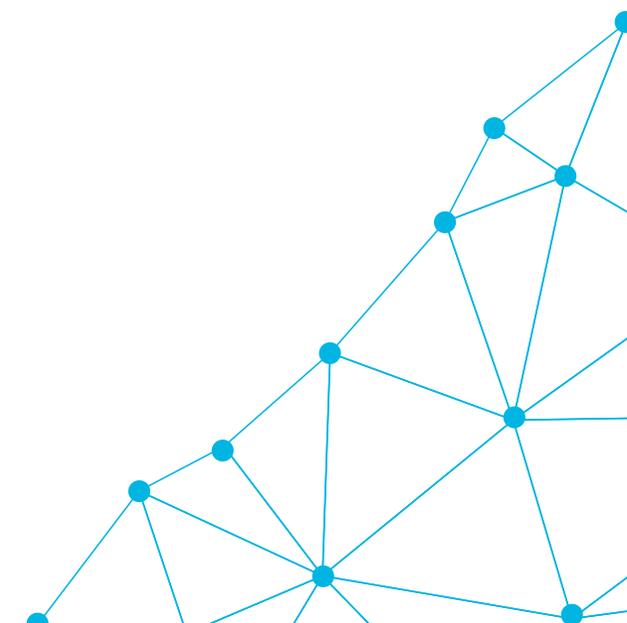
- **h(t)** captures the hazard of a “leader” leaving office
- **Leader tenure** [Archigos dataset (Goemans et al., 2009)]
- **China Loans** [Horn, Reinhart, and Trebesch (2020)]
- **X** captures a vector of control variables
 - *Regime type, GDP per capita, Resource rents, Civil conflict, Debt/GDP (log)*



Results – Baseline model

	Cox Survival Models		Discrete Duration	IV Models	
	(1)	(2)	(3)	(4)	(5)
log China Debt	-0.201*		-0.120*	-0.153*	
	(0.087)		(0.043)	(0.060)	
New China Projects		-0.062*			-0.030*
		(0.018)			(0.013)
Polyarchy	1.177*	1.215*	0.600*	0.584*	0.625*
	(0.384)	(0.401)	(0.210)	(0.203)	(0.204)
Growth	-3.123*	-2.858*	-1.835*	-1.835*	-1.717*
	(0.722)	(0.691)	(0.482)	(0.514)	(0.500)
Log GDP per cap	-0.096	-0.133*	-0.028	-0.032	-0.043
	(0.065)	(0.064)	(0.036)	(0.036)	(0.038)
Resource Rents	-0.007	-0.006	-0.004	-0.004	-0.004
	(0.009)	(0.009)	(0.004)	(0.004)	(0.004)
Civil Conflict	0.094	0.127	0.042	0.037	0.076
	(0.194)	(0.203)	(0.108)	(0.093)	(0.094)
log Debt/GDP	0.058	0.049	0.058	0.054	0.055
	(0.092)	(0.093)	(0.050)	(0.053)	(0.053)
First Stage I: Instrument China loans and projects					
Reserves × Pr(Loan)				0.345*	1.616*
				(0.030)	(0.108)
LL	-1458.04	-1454.66	-808.46	-1899.09	-5951.96
N	2081	2085	2083	2083	2087

* $p < 0.05$; Standard errors clustered on countries reported in parentheses. Models 1 - 2 are Cox survival models; coefficients are reported. Model 3 is a discrete duration model with time trends (not shown) Models 4 and 5 are discrete duration IV probit models with time trends (not shown). First-stages of the IV models include year and country fixed effects, along with controls (not shown, full models in appendix).



Results – Corruption model

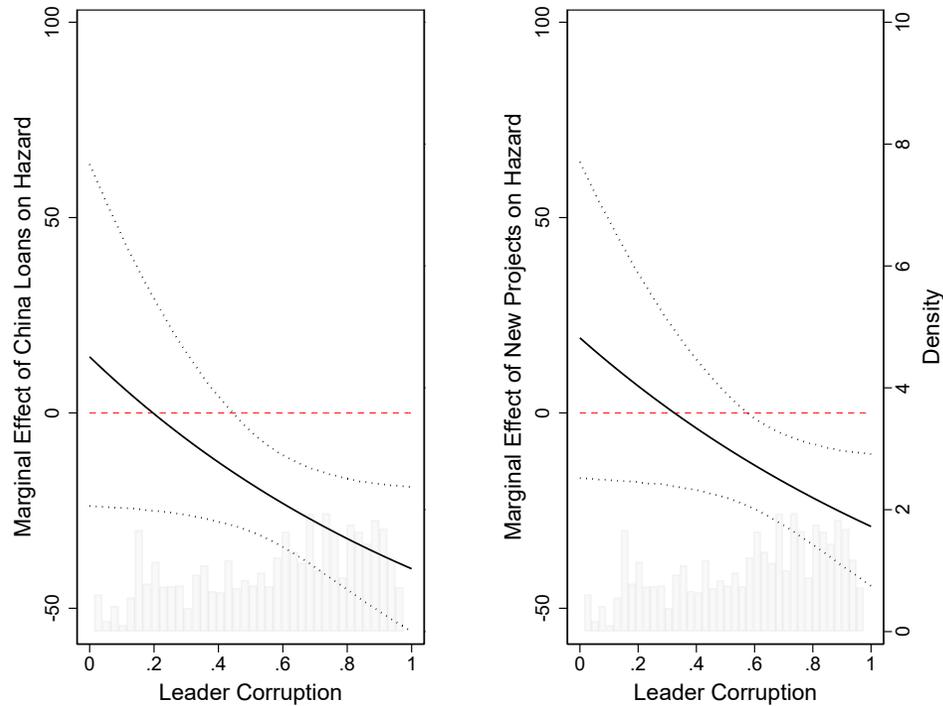
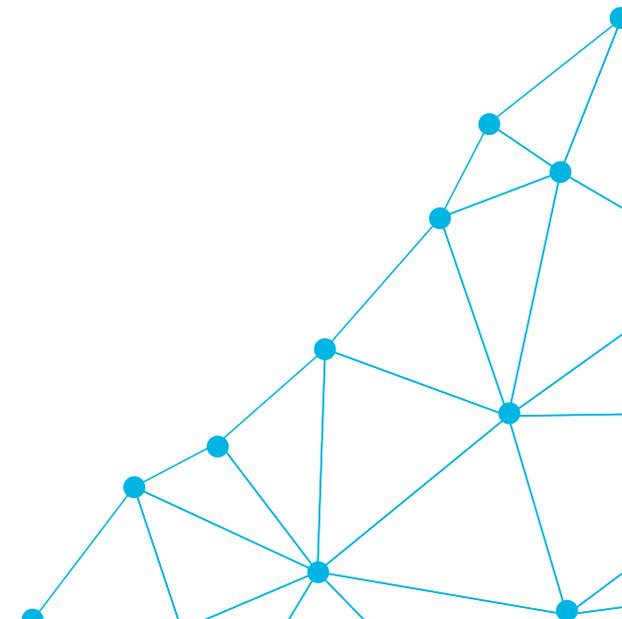


Figure 2: Marginal Effects of China Loans on Leader Survival Conditional on Corruption

Note: Percent change in the hazard of leader failure resulting from a one standard deviation logged unit change in China lending (left panel) and one standard deviation change in new China projects (right panel) conditional on corruption, holding controls at mean value. The dotted lines represent the 95% confidence intervals around the simulated estimates (solid line), resulting from 10,000 draws of betas and the variance-covariance matrix. Density plot of corruption in background.



Robustness checks

- Results remain intact when accounting for
 - Variation in key variables (e.g., varying measures of China loans)
 - Different modeling approaches (e.g., Discrete duration models)
 - Other sources of international finance

- Additional interesting findings
 - China loans are associated with a greater likelihood of election victory
 - Corrupt governments siphon money into offshore financial sinks (i.e., political payoffs)
 - The documented effects hold for democracies and autocracies alike



Concluding Thoughts

- Main insights
 - Chinese loans lengthen a government's tenure
 - This effect is more pronounced at higher levels of corruption
 - These fortunes reverse once governments have to turn to the IMF
- Main Implications
 - Future research is needed to understand the precise mechanisms better!



Thank you!

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