Deception, risk, and evasion: the politics of sovereign debt in emerging markets
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1 Introduction

Sovereign finances across the Global South are at an inflection point. Around the globe, debts accumulated during the depths of the COVID-19 pandemic are coming due while high inflation persists and is exacerbated by ongoing conflicts in Ukraine and the Middle East. While high-income countries are insulated by monetary sovereignty and deep access to credit markets, low-income developing states are highly vulnerable to global shocks. A record of seven governments[1] defaulted on their external debt obligations in 2020, more than in any single year since the second world war (Parker, 2023). Debt crises regularly spill into political instability and unrest. Massive protests erupted in Kenya in June 2024 after the government's extension of an International Monetary Fund (IMF) emergency loan program; after protesters stormed the Parliament building, a violent response from security forces left at least 39 dead (Guardian, 2024). In 2022, Sri Lanka's unsustainable debt burden triggered the worst economic crisis the country had seen since independence, resulting in government default, massive violent protests, and the forced resignation of Prime Minister Mahinda Rajapaksa (Athukorala, 2024).

These recent and ongoing debt crises reveal the gaps in our understanding of debt politics in the Global South. A rich literature investigates governments' strategic choices to repay creditors or default on debt obligations.[2] However, these works revolve around high-income democracies, where robust fiscal capacity, private market access, and strategic influence over international financial institutions are a given. In the absence of these conditions, what shapes debt policy?

Low-income governments certainly face a different set of choices than the leaders of powerful and financially-connected states when facing debt distress. As a result, research within international political economy (IPE) has often seen developing states as passive

[1] Ecuador, Argentina, Lebanon, Zambia, Suriname, Sri Lanka, Chad

[2] See reviews by Bolton et al. (2023) and Frieden (2016)

players in global markets. Low- and middle-income governments across Latin America, sub-Saharan Africa, and Southeast Asia are shut out of decision-making among the Paris Club of creditor nations, with limited direct influence over credit issued by the World Bank or International Monetary Fund (IMF) (Lombardi and Woods, 2008). Low reserves, the lack of a credit rating, and absence from sovereign bond markets limit options for responsible borrowing (Rogoff, 2022; Gelos et al., 2011). Hampered by a small tax base and the threat of capital flight, few governments can use austerity as a means to repay creditors (Ball and Feltenstein, 2001). Further, citizens across the Global South are often assumed to have low understanding of global financial systems and domestic fiscal politics (Vasilopoulou and Talving, 2020), perhaps indicating that their preferences are not a constraint on debt policy and can be ignored.

I argue that this is not the case and study these governments and their citizens as causal actors with strategic interests in debt outcomes. I investigate the unexpected strategies that they employ to pursue material gains, like cheaper access to credit and reprieve from painful tax increases. I further examine how the work of international financial institutions (IFIs) like the IMF and World Bank to ensure global debt stability can have unintended consequences for borrowing governments and their citizens.

My dissertation makes new contributions to the study of sovereign finances by investigating how governments borrow, from whom, and how these decisions affect domestic outcomes. While previous work takes for granted the supremacy of major creditors and financial institutions in emerging economies, I argue that developing governments and their citizens have agency in global markets and use tools like deception to maximize their fiscal space. These strategies can influence the risk of domestic and global economic crises, which may become more prevalent as the Global South faces growing and unsustainable debt burdens.

Across three empirical essays, this dissertation examines how governments and citizens make strategic decisions around public debt, and how these decisions affect geopolitical relationships, economic stability, and political behavior. Each essay engages with a specific research question, but all three offer answers to broader questions about strategy and incentives in sovereign finances:

1. How do low-income governments gain leverage against powerful creditors?
2. Do international financial institutions help or harm global economic stability?
3. What are the unintended consequences of fiscal consolidation?

Sovereign debt politics in the Global South

A growing literature within the IPE field examines the causes and consequences of debt policies in emerging markets. These works apply theoretical and methodological innovations to the study of public debt in advanced economies to understand if and how the politics of sovereign debt differ across the Global South. In particular, recent scholarship has focused on the perspectives of three actors: borrowing governments, international financial institutions, and citizens in developing countries.

Financial statecraft and transparency

At the level of government behavior, two new avenues for research offer interesting tools to understand how developing governments act in global credit markets. First, recent work has pushed to use theories of financial statecraft to explain government incentives and behavior across the Global South. Armijo and Katada (2015) conceptualize financial statecraft as a government's intentional use of credit, investment, or currency for economic or political gain. They chart the use of this concept through three decades of scholarship to explain creditor states' behavior, but note that these are rarely the tools of small, weak, debtor states. In the past few years, however, IPE research has begun to recognize the conditions under which debtor states can and do engage in financial statecraft. In a groundbreaking book on creditor choice, Bunte (2019) focuses on the agency of low-income debtors to choose and refuse loans from various sources for domestic political and foreign policy reasons. Cormier (2021) and Cormier (2023) demonstrate how governments across the Global South make debt policy choices for ideological reasons, while Zeitz (2022) reveals when developing governments are constrained by market forces, and when they are not.

Second, there is a growing focus on transparency (or lack thereof) to explain the onset of past economic crises, and help predict and prevent crises of the future. Research from within the disciplines of political science, economics, and beyond has revealed that no one knows exactly how much governments owe to their creditors. Impactful work by Horn et al. (2021), Horn et al. (2023), and Gelpern et al. (2022) has demonstrated this specifically in relation to Chinese official credit, which is often concealed from international financial institutions and other credit market actors. Malik et al. (2021) discuss the phenomenon of hidden debt across the market more generally, and show that even official monitors of international credit like the IMF, World Bank, and Bank of International Settlement (BIS) have incomplete records of debt burdens. As more work is done to uncover discrepancies in official loan transactions and create more credible records of government debt, questions still remain as to why debts are hidden, and how this opacity can impact the global economy.

These two developments in the IPE literature offer an interesting avenue for the study of debt politics in the Global South. Where low-income governments are unable to leverage tools of debt policy (private market access, austerity), they may instead use transparency as a tool of financial statecraft. Lack of fiscal transparency, whether accidental or weaponized, is hardly a phenomenon limited to the Global South (Reinhart (2010) highlights many cases of hidden debts across the United States and Europe). However, strategic use of transparency and deception may help explain how low-income governments operate in global markets, as well as present an under-studied risk for debt crisis among the world's most heavily-indebted states.

The role of international financial institutions

While international financial institutions play an important role throughout the global credit market, their influence is particularly important to the debt strategies of developing countries. Without access to affordable private credit, emerging markets are heavily reliant on concessional credit from institutional creditors like the World Bank. Low-income states are more likely than advanced economies to turn to the IMF in times of crisis for an emergency loan. A robust literature examines when developing countries can and cannot access IFI resources (Przeworski and Vreeland, 2000; Lang, 2021; Barro and Lee, 2005), and how this access alters government incentives for responsible borrowing and policymaking (Dreher, 2004; Eichengreen, 2000; Lipscy and Lee, 2019).

However, these works have often removed IFI strategy from the equation, essentially assuming that developing countries could access financial resources if they ticked off a set of economic and political criteria. The characteristics of borrowing governments (economic fundamentals, political alignment, quality of governance, etc) have primarily been used to explain IFI intervention (Vreeland, 2003; Bauer et al., 2012; Nelson and Wallace, 2017). An implication here is that governments are responsible for failure to access to World Bank and IMF funds, and so responsible for cycles of debt distress and economic crisis.

More recent work has focused on the interests of IFIs to explain when borrowers in distress can access emergency finance, and when they are left to twist in the wind. This draws on well-established principal-agent theories of IO behavior that argue institutions like the IMF have intrinsic preferences for their own survival (Vaubel, 1996; Hawkins et al., 2006). If IFIs prioritize their own growth and influence then the stability of borrowing states may fall by the wayside. Lang (2021) shows that the IMF excludes new and higher-risk borrowers when the Fund's own liquidity is limited, implying that the smallest and most fragile states may be denied emergency financing for reasons that have nothing to do with their risk profile. Similarly, Reinhart and Trebesch (2016) show that the Fund prefers to lend to a "regular clientele" of borrowing countries when facing higher systemic risk, indicating that new borrowers are more likely to be excluded during times of crisis.

Other scholars have asked whether the IMF is still a lender of last resort at all, and if developing states can reliably expect a bailout in times of crisis. Kaplan and Shim (2024) advance a theory of the IMF as a "cyclical partial lender of last resort" where the Fund alternates between prioritizing its own self-interest and global stability. This implies that there are good times and bad times to turn to IFIs. Essentially, even when a government strives to be the "perfect customer" for IFI resources, it may still be denied service. By examining on IFI incentives, more can be learned about the constraints facing borrowing governments, and what limitations are placed on their agency in global markets.

The citizen constraint

Sovereign debt, along with public finances more generally, has long been considered "quiet politics" (Culpepper, 2010). The complexity of debt transactions, long time horizons between policy action and economic consequences, and political efforts to keep debt policy out of the public eye all complicate the relationship between citizen preferences and sovereign debt policy. While a rich, decades-deep literature investigates the determinants of citizen preferences for trade[3], only recently has academic interest grown in explaining fiscal preferences.

This is, in part, a sign of the times: we are entering a fresh global wave of austerity, on the back of economic turmoil and skyrocketing debt burdens during the COVID-19 pandemic, and with the global financial crisis still a recent memory. Sovereign debt has certainly not been "quiet politics" for the past fifteen years. There is growing academic and policy

[3] See Mansfield and Mutz (2009) and Hainmueller and Hiscox (2006).

interest in how citizens conceptualize sovereign debt, what determines their preferences for fiscal policy, and how debt politics can have knock-on consequences for a host of outcomes from vote choice to violent unrest. As Bansak et al. (2021) describe, this discussion hinges on two key questions, both of which are the subject of ongoing debate among economists and political scientists.

First, can austerity be effective? That is, can governments climb out of a balance-of-payments hole through tax increases and spending cuts, collecting enough resources to repay creditors, and rejoin global markets and successfully foster economic growth. Economists and political scientists continue to debate the efficacy of austerity and the conditions that will lead to its success or failure (Sommer, 2020; Walter, 2016).

Second, do citizens approve of fiscal consolidation? A substantial camp of researchers argue that austerity is economically painful and deeply unpopular among key voting groups, and that citizens generally sanction leaders for consolidation policy (Ardanaz et al., 2020; Matsaganis and Leventi, 2014; Ponticelli and Voth, 2020; Talving, 2017). Yet, recent work has called this into question, providing evidence that citizens may support austerity and reward politicians for its introduction, as they value fiscal conservatism and the stability promised by balanced budgets (Bansak et al., 2021; Carreri and Martinez, 2022). Still other work suggests citizens care little about the introduction of austerity, perhaps relegating it once more to "quiet politics" (Alesina et al., 2012; Arias and Stasavage, 2019).

To answer these questions, further work is needed to examine the consequences of austerity for citizens beyond vote choice, and to expand the focus of these debates to the Global South. So far, work on citizen perceptions of austerity has focused primarily on the ballot box. While this speaks directly to the electoral constraint facing leaders, it says little about how consolidation can alter other outcomes like tax compliance and capital flight, both of which are of crucial importance to economic stability among low-income countries. Little is understood about the efficacy or popularity of austerity in developing states, in part for the erroneous assumption that poor countries do not engage in fiscal consolidation. Developing governments can and do pursue austerity, but struggle with weak fiscal capacity. Incorporating this citizen perspective is crucial for ultimately understanding when governments in the Global South choose to consolidate, and when they choose to default on their debts.

Contribution

Through this dissertation I study how key choices in sovereign debt policy–access to emergency finance, requests for debt relief, choice of creditors, fiscal consolidation–can have unintended consequences for states' position in the international order, future economic prospects, and domestic stability. This work focuses on the politics of sovereign debt across the Global South, and shifts focus from the supremacy of powerful creditors and international financial institutions to governments and publics in heavily-indebted, resource-poor countries. This work contributes to a growing literature within the field of IPE that focuses on the interests and power of low-income states and their citizens, including Bunte (2019), Kaplan (2021), and Zeitz (2021) among others.

The dissertation proceeds in three empirical articles, each of which investigates the interests of actors at one level of the international system in the politics of sovereign debt: governments, international organizations, and citizens.

Chapter 2 investigates how governments can strategically use sovereign debt transparency (or lack thereof) to extract gains from major creditors. The study finds that many African governments strategically hide loans from the World Bank and the IMF to avoid penalties associated with surpassing debt sustainability thresholds. Using newly available data, I exploit the fact that half of official loans from the Chinese government and its proxies to sub-Saharan African governments are missing from official sovereign debt records. The paper argues that this concealment allows governments to continue borrowing without triggering IFI restrictions or credit downgrades. However, when under IMF surveillance—such as during a loan program that increases scrutiny of national accounts—governments report their debt more accurately to minimize the risk of being caught. The study employs a rigorous empirical approach, including an instrumental variables strategy to address endogeneity in IMF program assignment. The findings suggest that governments use hidden debt as a tool of financial statecraft, manipulating IFI oversight to maximize fiscal space while avoiding punishment for excessive debt accumulation. This work highlights the unintended consequences of IFI interventions and calls into question the mandates of the IMF and World Bank to preserve stability and promote financial cooperation, as strict debt limits may encourage governments to obscure their true liabilities.

Chapter 3 shifts focus to the motivations of IFIs in allocating crisis funds, and the implications of these motivations for borrowing governments in distress. I take a system-level view of the IMF's lending strategy and examine how the Fund adjusts its behavior in response to its own financial risk exposure. A central puzzle in the study of sovereign financial flows is uneven access to emergency assistance; despite commitments by lenders of last resort to bail out governments in dire balance-of-payments crises, some are offered assistance while others are left to descend into economic turmoil. Traditionally, variations in IMF loan access and stringency have been attributed to borrower characteristics, but here I argue that the IMF adjusts its lending policy to preserve its own survival, independent of the risks and needs of governments in distress. The paper introduces a new index measuring the IMF's risk exposure based on the creditworthiness of its global loan portfolio. I find that when a greater share of the IMF's outstanding loans is held by high-risk borrowers, the institution imposes stricter policy conditions on new loan recipients. This tightening of conditionality includes increasing the number and scope of policy conditions, effectively allowing the IMF to protect its financial stability. The IMF's risk-mitigating behavior is especially pronounced when its precautionary balances are low or when more time has passed since the last quota increase. By analyzing 589 IMF loans between 1985 and 2015, the paper provides empirical evidence that the IMF behaves similarly to a commercial bank, prioritizing its own financial security over purely stabilizing the global economy. These findings have broad implications for understanding IMF lending decisions, showing that external factors—beyond a borrower's control—can influence loan conditions.

Chapter 4 turns to the role of citizen preferences and political behavior in shaping debt outcomes and fiscal stability. I argue that when governments implement fiscal consolidation to avoid a sovereign debt crisis, citizens may evade taxes either to shield themselves from economic hardship or as a form of political protest against austerity. The research combines macroeconomic data, cross-national surveys, and a survey experiment in Brazil to examine the relationship between austerity and tax evasion. The macro-level analysis finds that the introduction of austerity policy packages leads to increased tax evasion, with higher value-added tax (VAT) evasion and increased capital outflows to tax havens. These results suggest that just as governments seek to increase revenues, fiscal retrenchment paradoxically pushes taxable resources underground. At the individual level, survey data from Europe and Latin America indicate that austerity reduces tax morale—citizens become more willing to justify tax evasion. A survey experiment fielded in Brazil further reveals that while an impending debt crisis increases tax evasion, the announcement of austerity policies can partially reverse this effect. However, this compliance boost depends on whether individuals trust the government to manage the economy effectively. Those confident in government policy are more likely to pay taxes, whereas skeptics continue to evade. This research highlights an underexplored consequence of austerity: its potential to undermine fiscal stability by incentivizing tax evasion.

Finally, in Chapter 5 I discuss the main contributions of this dissertation to the field of IPE, and the implications of these works for sovereign debt policy and crisis resolution. I review the empirical findings of each chapter and their limitations, which highlight interesting avenues for future research.