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## **Deception, risk, and evasion: the politics of sovereign debt in emerging markets**

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## 5 Concluding remarks

This dissertation has investigated how governments, international financial institutions, and citizens interact to influence sovereign debt policy in emerging economies. I explore the unexpected tactics these actors use to secure material benefits, such as hiding debts or concealing assets from austerity policies, and how these actions impact debt stability and crisis. Additionally, I assess how the efforts of international financial institutions (IFIs) to maintain global debt stability can inadvertently impact borrowing governments and their populations, threatening global stability in the process.

This work offers new insights into sovereign debt politics in low-income countries. I argue that current models of sovereign debt politics underestimate the agency of these governments and their citizens, leading to a poor understanding of the causes and consequences of debt crises in the Global South. By focusing on the motivations of debt actors in developing states, this work offers new tools to understand and prevent debt crises.

Chapter 2 examined how governments in the Global South strategically manipulate sovereign debt reporting, particularly regarding Chinese loans, to circumvent constraints imposed by IFIs. The study finds that as debt-to-GDP ratios approach critical debt sustainability thresholds set by the World Bank, governments increase their concealment of Chinese loans. However, this pattern changes when an IMF loan program is in place, as these programs subject national accounts to heightened scrutiny, leading to more accurate debt reporting. This provides evidence that governments intentionally manipulate debt records for strategic gain. Further tests confirm that these effects are not driven by alternative explanations such as unintentional misreporting, bureaucratic inefficiency, or Chinese government influence. Governments use hidden debt as a tool of financial statecraft, balancing fiscal space with the risk of discovery and punishment by IFIs. This behavior has significant implications for IPE research, as it undermines the credibility of IFIs, distorts

global credit assessments, and poses risks to financial stability.

Chapter 3 explored how the IMF adjusts its lending behavior based on its own risk exposure rather than solely on the economic conditions of borrowing governments. I find that when the IMF's loan portfolio includes a higher proportion of high-risk borrowers, the organization responds by imposing stricter policy conditions on new loans. This approach serves to protect the IMF from potential defaults by ensuring borrowers undertake fiscal and structural reforms that increase the likelihood of repayment. The study supports this argument through empirical analysis of 589 IMF loan programs from 1985 to 2015, using an original index of IMF risk exposure based on sovereign credit ratings. The findings reveal that when the IMF is exposed to higher risk, new loans feature more extensive conditionality, including increased policy conditions and broader economic interventions. This suggests that borrowers in distress, particularly low-income states in the Global South, may be shut out of emergency financing because of systemic factors beyond their control.

Chapter 4 investigated how economic crises and austerity policies influence taxpayer behavior, particularly the willingness to report income and pay taxes. The study finds that the threat of an economic crisis increases tax evasion, as individuals seek to shield their income from perceived instability. However, austerity measures—despite their short-term financial burdens—have the opposite effect, leading to increased tax compliance. The research suggests that citizens are more willing to endure tax hikes and spending cuts if they believe these measures will prevent greater economic hardship. Additionally, the effect of austerity on tax compliance is conditional on public confidence in the government's ability to manage economic policy. Those who believe the government can successfully implement austerity are more likely to comply with tax obligations, whereas skeptics continue evading taxes, expecting an inevitable crisis. This offers a new mechanism through which unpopular, ineffective governments will struggle with successful fiscal consolidation.

## Limitations and future research

These works faced several limitations, some of which are specific to the context in which I tested my hypotheses, and others that plague the study of sovereign debt politics more generally. The study of hidden phenomena, such as unreported debts in Chapter 2 and tax evasion in Chapter 4, is naturally challenged by measurement validity. My research relies on estimates of hidden debt using data from the AidData Global Chinese Official Finance database, which, while extensive, may not capture all hidden loans. Similarly, data on illicit financial flows is likely to be under reported. Researchers may be able to uncover the most obvious cases of offshore wealth and confidential sovereign loans, but it is likely that the most expertly concealed financial transactions remain unobserved by official records and researchers alike. This threatens to bias my findings on the role of transparency in the global economy if I am only able to observe the “least hidden” hidden flows.

Future work should contribute new methods to systematically track inconsistencies in official statistics, and to integrate disparate sources on illicit financial flows from citizens and corporations. Horn et al. (2023), Zucman (2021), and Wellner et al. (2025) have recently employed techniques from investigative journalism to improve measurement of hidden financial flows. These innovative approaches would be of immense value to expanding measures of transparency and secrecy in government finance.

Another interesting avenue for future research could further explore the role of private creditors in debt concealment, investigate the specific mechanisms through which China influences borrowing nations’ transparency, and assess whether similar debt-hiding strategies are used in middle- and high-income countries. Moreover, examining how hidden debt affects the risk of financial crises and stability global credit markets would offer valuable insight for debt practitioners as well as IPE scholars.

Despite efforts to identify causal effects across all three empirical studies, confounding remains a concern. In Chapter 3, global economic trends may still confound individual

loan conditions, as broader financial instability could simultaneously influence both IMF risk exposure and loan terms. Similarly in Chapter 4, the state of the global or domestic economy is likely to confound the effect of austerity on individual tax attitudes and behavior. Here, a survey experiment attempts to resolve this identification issue, but in observational work, future research could address these limitations by incorporating real-world tax records or longitudinal studies tracking tax compliance over time.

Interesting questions remain as to the role of a political mandate in shaping developing countries' debt policies. Chapter 4 suggests that ineffective governments may face more reactionary tax evasion after introducing austerity. Does it then follow that unpopular governments cannot effectively consolidate, and are more likely to default on their debts? Previous work has connected popularity to the success of IMF loans (Shim, 2022); future research could incorporate this into a system-level analysis of the Fund's behavior. Perhaps unpopular governments are more likely to be rejected by the IMF when the Fund prioritizes its own balance sheet. Finally, government popularity has interesting implications for the strategic use of transparency. This dissertation investigated how governments conceal liabilities from IFIs, but research should investigate when and why governments hide debts from a civilian audience.