BOOK REVIEW: 'RAISE THE DEBT: HOW DEVELOPING COUNTRIES CHOOSE THEIR CREDITOR' BY JONAS BUNTE

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From the US-China trade war to growing grievances regarding the International Monetary Fund (IMF) and the World Bank (WB), issues of international lending and donor politics have dominated headlines in recent years. Developing countries and emerging market economies (EMEs) have regularly needed to take out loans to finance developmental projects and deal with balance of payment issues/trade deficits. Historically, countries have had the option to either sell treasuries to private investors or approach States (typically Western Nations) for bilateral lending. If a developing country preferred a multilateral approach, their primary option was the IMF, whose loans came attached with their own set of conditions. Recently, however, the surge of new lenders/economic coalitions such as BRICS (Brazil, Russia, India, China and South Africa) or the Chinese-led Asian Investment and Infrastructure Bank (AIIB) has created additional options for international lending. The question then arises: what determines which creditor a developing nation finally enters a lending arrangement with?

In his book *Raise the Debt: How Developing Countries Choose Their Creditor*,[1] Jonas Bunte attempts to answer this question. He divides the main options available to debtor countries into four categories. These four options include private creditors and investors, bilateral Western donors (whom he groups together as members of the Developmental Assistance Committee), International Financial Institutions (IFIs) like the IMF or WB, and finally, the relatively

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[1] Jonas B. Bunte, *Raise the Debt: How Developing Countries Choose Their Creditors* (New York: OUP, 2019; online edn, Oxford Academic, 21 February 2019), https://doi.org/10.1093/oso/9780190866167.001.0001.

new donor group that has emerged in the form of BRICS. According to Bunte's thesis, developing countries pick their creditors based on the demands of their dominant societal interest group. In other words, politicians will pick creditors based on the preferences of the social coalitions which exert the greatest influence over a country's domestic politics, be it through electoral capacity, financial capability or other means.

To justify this claim, Bunte first establishes why it is important to consider debtor countries as 'active' recipients who genuinely weigh the choice of approaching one creditor against the other. Given that debtor countries now have such distinct options, with each type of creditor having different terms and investment interests, Bunte considers it amiss to assume that only creditor willingness to give a loan, or 'supply-side' considerations, are important. Rather, he uses a variety of case studies and evidence collected from first-hand research in Peru, Ecuador, and Colombia to show how even countries with seemingly similar economies can have divergent preferences in terms of the creditors they approach. For example, Peru shows a preference for DAC donors, Colombia for private creditors and Ecuador for BRICS. This exemplifies how the pros and cons weighed by the debtor country, or 'demand-side' considerations, are also at play.

Bunte then goes on to expand upon which societal groups in particular impact this decision-making process. He identifies three main coalitions: Labour (i.e., the workforce), Industry (i.e., owners of fixed assets such as manufacturing plants) and Finance (i.e., owner of mobile assets and financial capital for investment). Bunte further expands how, in developing countries, two of these groups may hold more power than the third, which results in an alliance or 'coalition' between these groups so that their joint preferences motivate which creditor a debtor country chooses. In the context of this book, the term 'coalition' does not necessarily mean a formal alliance between two societal groups or joint negotiations with the government. Rather, each of the three groups has individual preferences which consist of both overlap and divergences. What is unique to each debtor country is which two groups exert more influence than the third and therefore, what 'coalition' forms the dominant interest group. Bunte argues that the benefits to a government of catering to this coalition's preferences outweigh the losses from displeasing the third group, and so those preferences dictate debtor choice.

Continuing the systematic fashion he has adopted throughout the book, Bunte goes on to name each of the three potential interest group configurations in Chapter 2 and explains why each group prefers a particular creditor. In countries where Labour and Industry make up the more dominant societal interest groups, Bunte classifies this as the presence of a Capital Coalition. In such economies, the interests of capital owners (either fixed capital like factories/plants or mobile capital in the form of monetary assets) are pitted against the interests of the labour force, with the interest of the Capital Coalition prevailing. Countries with a Capital Coalition will prefer lending from IFIs. The Industry sector remains ambivalent to IFI donations, while Finance benefits greatly from IMF conditionality to lower inflation and liberalise the market. They exhibit an even stronger preference for private creditors as selling treasuries puts more money in circulation for Industry while also linking government debt to the wellbeing of the domestic financial sector. Countries where the combined interests of workers and manufacturers, that is the Industry and Labour sector, outweigh Finance represent a Corporatist Coalition. In such States, BRICS loans are the most preferred option as they are often provided for developmental projects. Hence, they provide Industry with subcontracting opportunities and Labour with more employment options. Finally, the last and least common coalition type is a Consumer Coalition. This is where the joint preferences of Labour and Finance together are expressed most strongly over issues, such as inflation, which affect consumers (i.e. labour) who are also the customers of the domestic Finance Industry. This coalition exhibits a strong preference for Western DAC loans. Labour prefers DAC assistance as they often invest in humanitarian needs, while Finance benefits from the 'good-governance' or anti-corruption policies associated with them.

Through this detailed division of societal interest groups and a thorough explanation of the economic rationale behind their divergent preferences, Bunte provides a very pragmatic answer as to why developing countries show variation in their borrowing portfolios. However, the merits of this book do not just lie in its unique thesis. Rather, Bunte's thesis leaves room for debate and revision in the modern political atmosphere. Bunte realises this burden, and the true prowess of this book lies in the methodology he uses, both in terms of research and presentation, in order to make his arguments both persuasive and understandable. In particular, this review will highlight: the notable contribution the book makes in the field of political economy, its reader-friendly expansion and use of economic rationale and finally, the emphasis Bunte places on both qualitative and quantitative evidence.

Bunte's work fully embraces how debtor choice is a decision bound by both the economic preferences of interest groups and political developments in an increasingly interlinked world. Therefore, the book stands as an exemplary work in the discipline of political economy. From a political lens, the book highlights the potential consequences of the rise of BRICS and their distinct lending policies right from the first chapter. For example, he has mentioned how while Western loans have often been attached to conditions of upholding democratic values, BRICS and, in particular, Russo-Chinese donations have gone to countries where democracy may be weaker. Hence, the rise of BRICS may reduce the incentive developing countries have to increase their democratic capacity for loan eligibility. Similarly, the author shows awareness about how the strength of democracy and electoral accountability in each State is a statistically significant factor when accounting for why developing countries would choose a particular creditor. He addresses this by sorting countries according to their democratic score rating and picking countries with similar democratic scores for his case studies. This ensures that domestic coalitions can wield similar influence over government policy and hence variations in borrowing portfolios are due to differing dominant coalitions.

At the same time, Bunte takes care to not just explain economic concepts associated with interest group preferences but also to cater to alternative explanations based on economic thinking. For example, he addresses potential supply-side explanations right from Chapter 1. According to supply-side or creditor-focused theories, a developing country will only receive a loan from a lender that is willing to lend to it. These theories suggest that the primary matter is that of creditor choice, and creditors prefer certain types of debtors, such as democratic countries or those rich in natural resources.

However, Bunte compels the reader to question the logic behind considering all debtors as passive recipients. He does not outright deny supply-side economic considerations and even accepts that some governments may have more choices available than others. That being said, similar governments make different decisions hence there must be demand-side factors at play. Bunte also relies on economic thinking to tackle some counterarguments to his thesis. Some may argue that debtor countries could simply use different creditors for different tasks based on their expertise without paying attention to the dominant interest group. However, here Bunte expands upon the economic concept of 'fungibility', where a fund is delegated to a recipient for one sector, and so the recipient decreases its own funding in that sector. Due to varying degrees of fungibility as per the creditor, debtor countries retain a degree of flexibility and so do not necessarily link their choice with creditor expertise.

Another quality of *Raise the Debt* that shines through its research is the simultaneous use of both quantitative and qualitative evidence. While it is a given that a book studying borrowing portfolios will rely heavily on quantitative evidence and figures which reflect amounts borrowed, Bunte makes great effort to display data in an understandable manner. The discrete group of four creditor classes and three coalition configurations prevent any graphs or data displays from being too complicated for the reader. In addition, the book uses multiple methods of presentation, including bar charts, histograms, and dot-and-whisker plots, with the author choosing the graph type that would most clearly display the data. Bunte also mentions significant statistics explicitly in the text. For example, in the first chapter, he highlights how only '1.8% of borrowers obtained loans from all four types of creditors.' This helps establish how there definitely are divergences in borrowing patterns, and countries exhibit a statistically significant preference for one creditor over the other.

What the book does more uniquely, however, is complementing its quantitative findings with qualitative, first-hand research through interviews. This sets the findings presented in *Raise the Debt* apart by giving the qualitative evidence an almost ethnographic value. He goes to great lengths to explain his methodology of case study selection and interview conduct in Chapter 3 while expanding on his findings in the preceding chapters. The author personally conducted interviews with local bankers, factory owners and labour union representatives (hence representatives of each societal interest group) in his chosen case study countries of Peru, Colombia and Ecuador. Furthermore, he also interviewed all other stakeholders involved in borrowing decisions in order to add to the validity of his claim. He interviewed politicians and local elites in order to see how receptive they truly were to the interests of societal groups. He also interviewed creditors from all four categories. This ensured that his qualitative work also included supply-side perspectives and was not demand-side biased. Bunte demonstrates a great degree of transparency regarding the potential obstacles he faced in conducting the interviews and then ensuring their credibility for his research. He obtained affiliations at local universities in Peru, Colombia, and Ecuador to help put institutional weight behind his research and interview requests. In interviewing elites, he was aware of points raised by other scholars such as Welch on how political/business elites are trained in persuasion so their interviews may create false impressions of causality in research. He combats this by using the 'competitive' interview approach inspired by Delaney's work and interviewing elites from all sectors in order to 'triangulate' his information. Seeing the author take such care greatly adds to the ethos of Bunte's work in the reader's mind.

The above merits are what truly stand out from reading *Raise the Debt*, there are some areas where the scholarly argument feels somewhat weaker or leaves more to be desired.

While Bunte does go to great degrees to substantiate his thesis with evidence, when one generalizes his thesis to all developing countries, there are some cases where the reader may feel that his assumptions are too strong. Firstly, Bunte's findings rely on the assumptions that governments will be most responsive to, and so will gain the most electoral benefit by catering to, the preferences of two out of three societal interest groups. This does not account for a country where one sector, for example, a resource-abundant industrial sector in which several politicians have personal ties, dominates both of the other societal interest groups. In such situations, if a government chooses to borrow from BRICS, this may simply be in response to Industry preferences, and it could be inappropriate to use this as evidence for the strength of the Labour sector as well. Secondly, Bunte has considered the military a part of the Industry sector. However, in several developing countries, the military plays a direct or indirect role in politics to varying degrees. Treating the preferences of the military as akin to the domestic industry at large can greatly underestimate the role of a country's army in its foreign policy and so international lending decisions.

There are also some nuances regarding international lending decisions that the book remains silent on. The first is the notion of regionality. Although the book's case studies are based in one region of Latin America, this region is far from China, which remains the main donor force of the BRICS coalition. This compels the reader to question whether Bunte's thesis can apply equally well to countries in South or South East Asia where either country has very strong economic ties with China (like Pakistan) or has economic conflict with China (like the Philippines over the South China Sea). Whether or not proximity to regional donors decreases the influence of the preference of the dominant coalition is a question that could be explored further.

Secondly, while Bunte's display of the preferred donors of each societal interest group is backed with ethnographic evidence, the book does not explicitly answer whether these preferences are static or could change over time based on new experiences with a previously preferred donor. For example, while Labour prefers BRICS loans due to new employment opportunities, there have also been several cases of mistreatment of workers in MNCs set up by countries like China in less developed economies, particularly in the African region. Would such cases then change Labour preferences? Here, a case study of societal preferences across a given time period rather than one point in time may be useful.

While some points, such as the one mentioned above, are not addressed in *Raise the Debt*, these all are minor shortcomings in an overall extensive and well-argued piece of work. Bunte does not shy away from addressing alternative explanations but rather explores them in detail in Chapter 10 of the book to see where they fit into his theory. In terms of alternative economic explanations, most prominently supply-side considerations, Bunte makes it clear that his work does not take a hardline stance of dismissing supply-side considerations and the willingness of a creditor to extend a loan to a particular country. Rather, he logically asserts that the heart of an economic decision lies at the intersection of both supply and demand side preferences. In terms of demand-side explanations, Bunte uses alternative ideas to show how his own thesis remains the most robust. For example, if the primary demand-side consideration were that of loan prices (maturity time, interest rate, grant ratio) or creditor expertise (in terms of investment projects), then countries with similar income classes or developmental needs would need to pick the same creditors. However, variations in borrowing portfolios are present in both such classes, hence showing why Bunte's theory of borrowing decisions being based on dominant interest groups holds weight.

In conclusion, *Raise the Debt* by Jonas Bunte is an impeccable contribution to the field of political economy, which shines due to its reader-friendly explanations of economic rationale, awareness of ever-changing geopolitical considerations and use of both quantitative and qualitative evidence. It combines general supply-side explanations of borrowing portfolios which are based on lender willingness, with a credible demand-side explanation that seems to more accurately account for why countries with similar GDP and developmental needs may still choose different creditors.

In my opinion, what makes Bunte's work particularly potent now is that it provides a useful lens through which to predict what countries will look favourably upon the ascendancy of BRICS and China in particular. The global geopolitical landscape has changed greatly in the past 3 years. On the one hand, the onset of COVID-19 has left developing countries in even more dire need of assistance and loans. On the other hand, incidents such as Russia's invasion of Ukraine have made financial links with countries like Russia a political statement and hence much more costly to make. The factors may pull countries towards BRICS creditors or push them away respectively. Hence, I believe Bunte's theory which follows how domestic preferences shape international institutional decisions, should be complemented by similar research on how shifts in foreign relation preferences could increase or decrease the impact of domestic coalitions. Using the ethnographic style that Bunte has adopted in his research, these efforts could provide invaluable insight into how foreign lending will affect the international political and economic landscape in the 2020s.