Current Research

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General Statement

My research interests are in the political economy of international issues including, but not limited to, international finance and investment. Substantively, my research explores how domestic political institutions shape actors' incentives to act in cooperation with others at the international level. In particular, my research seeks to advance our understanding of how institutions mitigate or exacerbate such problems as the lack of credibility, incomplete information, and strategic uncertainty in relations with international creditors and investors. Methodologically, my research embraces the spirit of EITM (Empirical Implications of Theoretical Models) in the sense that I pursue both deductive rigor in deriving theoretical expectations and creativity in designing methods best suited to test the empirical implications against real-life data.

Dissertation

In my dissertation, *The Political Economy of Sovereign Debt: Domestic Politics, Strategic Choices, and Suboptimal Outcomes*, I explore the political dimension of developing countries' foreign debt problems, one of the key issues in international political economy. I address the issue by examining three sovereign debt problems which have been salient over the past few decades: sovereign default, confidence crisis, and overborrowing. From the political economy perspective, I highlight the interplay between domestic politics and strategic actions at the international level and, using game-theoretic models, seek to explain why such suboptimal outcomes as defaults on debt, sudden stops of debt rollover, and excessive debt accumulation arise. To test empirical implications of the models, I make innovative use of various methods tools from modeling strategic selection, to measuring unobservable latent traits such as transparency, and to utilizing quantile regression techniques to explore behaviors at the tails of a distribution.

In Chapter 1, I examine the political determinants of sovereign default. I argue that sovereign default involves an intertemporal tradeoff between an immediate consumption boost and a future tax increase. Since a poorer voter internalizes less of the future cost of default, as the median is poorer, the majority's demand for default increases. Therefore, greater income inequality implies a higher default risk. I then present a signaling game that models strategic selection that a sovereign must go through to get to the default decision node. I show that sovereign default is most likely to *actually* occur when the level of income inequality is *intermediate*. The intuition is that sovereign default occurs when risky sovereigns successfully induce creditors to provide a loan, but the most risky ones are among those least able to do so. Empirical analysis of the incidence of sovereign default as well as of the frequency of no access to credit markets provides strong support for the claim. The manuscript has been invited to Revise and Resubmit at *The Journal of Politics*.

Chapter 2 of the dissertation, drawing upon a recent development in models of self-fulfilling currency attacks, explores the impacts of political institutions on the likelihood of a sudden stop of loan rollover. It shows that more democratic governments are more transparent, and the more accurate public information that they provide about the economy helps reduce individual creditors' uncertainty about each others' beliefs. Therefore, unless the economy is expected to be very bad, more democratic countries are less likely to suffer a sudden stop of bond inflows. When the expected economic situation is dismal, however, being more transparent, democracy can have a detrimental effect, worsening the probability of a confidence crisis. To test the model's predictions, I measure transparency scores from missingness in 51 economic indicators in the World Bank's *World Development Indicators* using a Bayesian Item

Response Theory (IRT) model in which each indicator's missing or non-missing status is statistically modeled as a manifestation of the underlying, latent trait of a country, i.e., data transparency. The manuscript is currently under review at *The American Journal of Political Science*.

In the third chapter, I seek to resolve incongruence between theoretical models and empirical tests on foreign debt accumulation. While theory suggests that electoral accountability and checks and balances constrain democratic leaders from borrowing too much of foreign debt at the expense of future consumption, empirical evidence is few and far between. Another line of theory emphasizes time horizon as an important, underlying factor in explaining variations in the level of foreign debt, a factor that accounts for unobserved heterogeneity within regime types and might explain why empirical support for the regime-type hypothesis is so weak. I use quantile regressions to capture cross-regime-type differences among those with similar, unexplained levels of foreign debt. I find that overborrowing democracies, or democracies borrowing more than expected due to such factors as short time horizon, accumulate significantly less debt than overborrowing autocracies, suggesting that regime type matters most with regard to the difference in heavy, rather than average, indebtedness. I presented the chapter's preliminary findings as a poster with emphasis on methodological issues at the 2008 Summer Conference of the Society for Political Methodology. Currently I am writing the draft and plan to finalize it during this fall semester.

Other Ongoing Research Projects

Besides my dissertation research, I have also launched four smaller projects. First, in a working paper, "Are Democracies Less Risky Borrowers? Testing Democratic Constraints vs. Populist Hypotheses," I extended the first chapter of the dissertation and revisited the democratic advantage argument in the context of international credit markets. In line with my findings in the dissertation, in a sample of developing countries over the past three decades, I found, first, that the more democratic, the more likely that they have access to credit markets, and second, that most democratic ones do not default and least democratic ones cannot default due to their limited access to credit. The results suggest that democratic institutions enhance the government creditworthiness in the eyes of foreign creditors. I am currently revising the draft for submission to a journal.

Second, in an attempt to apply the theoretical framework developed in the dissertation, I am extending my interest in international political economy to the area of international laws and institutions. Specifically, I am currently analyzing to what extent and under what conditions bilateral investment treaties (BITs) facilitate foreign direct investment (FDI) flows to signatory countries. Unlike the existing studies, I propose a signaling-game model in which strategic interactions under incomplete information between capital-seeking developing countries and foreign investors are explicitly considered. I show that signing a bilateral investment treaty does not necessarily increase FDI inflows to the treaty-signing country. Rather, it depends on the country's observable characteristics from which investors can infer its type. I found from preliminary data analysis that BITs' positive effects on FDI inflows are conditional on the host countries' political risk indices such as the International Country Risk Guides (ICRG) Political Risk Index.

Third, I have launched a project investigating the ways in which domestic political institutions of foreign aid recipient countries mediate aid's effects on FDI inflows. I argue that foreign aid is instrumental in attracting FDI with different reasons and with different dynamics across regime types. In democracy, aid can help induce greater FDI inflows over the long run as it finances infrastructure projects whose benefits to foreign capital are realized over time. In autocracy, aid can be used to finance preferential monetary inducements offered to MNCs, which implies an instantaneous increase in FDI inflows upon the new arrival of aid inflows. Hence I claim that foreign aid has a long-term positive effect on FDI only in democracy but not in autocracy while it has a short-term positive effect on FDI only in autocracy but not in democracy. I test this hypothesis using error correction models (ECMs) which allow one to assess separately a regressor's short- and long-term effects on the dependent variable. Preliminary results show that the short- and long-term effects of aid on FDI differ diametrically across regime types as stated.

Fourth, in extending my interest in measuring latent variables using Bayesian IRT models, I have launched a joint project with Kiyoung Chang, one of my colleagues at UNC, in which we develop a method for measuring a pair of countries' latent affinity using the United Nations General Assembly roll call voting. We depart from the conventional roll call voting analysis by setting up a model in which dyads are the unit of analysis, and an agreement or disagreement on each voting item is modeled as a manifestation of the pair's latent preferences alignment. We envision the resulting pair-wise affinity score as an alternative measure to the widely-used S-score that, unlike ours, does not account for item-by-item unobserved heterogeneity.