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EconNewsletter

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JANUARY 15 – JANUARY 19, 2024 **NEWSLETTER 2024-2**

SEMINAR CALENDAR

Quantitative Economics

Geert Dhaene, KU Leuven: Tuesday January 16
Approximate Functional Differencing 12:15–13:30
R. 0079 (VMP 5)

Hamburg Lectures in Law and Economics

Christoph Trebesch, IfW Kiel: Wednesday January 17
How China Lends (2.0) – A Fresh look into 300 Debt Contracts with Foreign Governments 18:15–19:45
R. 1083a (VMP 5)

This seminar is held in a hybrid format. To register for **Online participation** via Zoom please send an email to larapazer@gmail.com. You will then receive an Email with the access link prior to the lecture.

PhD Seminar

Christina Maaß, Hamburg University: Thursday January 18
Overestimated Labor Force Potential in Germany 12:15–13:00
R. 0079 (VMP 5)

ABSTRACTS

Quantitative Economics
Geert Dhaene, KU Leuven:
Approximate Functional Differencing

Abstract:
Inference on common parameters in panel data models with individual-specific fixed effects is a classic example of Neyman and Scott's (1948) incidental parameter problem (IPP). One solution to this IPP is functional differencing (Bonhomme 2012), which works when the number of time periods T is fixed (and may be small), but this solution is not applicable to all panel data models of interest. Another solution, which applies to a larger class of models, is "large-T" bias correction (pioneered by Hahn and Kuersteiner 2002 and Hahn and Newey 2004), but this is only guaranteed to work well when T is sufficiently large. This paper provides a unified approach that connects those two seemingly disparate solutions to the IPP. In doing so, we provide an approximate version of functional differencing, that is, an approximate solution to the IPP that is applicable to a large class of panel data models even when T is relatively small.

Hamburg Lectures in Law and Economics
Christoph Trebesch, IfW Kiel:
How China Lends (2.0) – A Fresh look into 300 Debt Contracts with Foreign Governments

Abstract:
China is the world's largest official creditor, but we lack basic facts about the terms and conditions of its lending. Very few contracts between Chinese lenders and their government borrowers have ever been published or studied. This paper updates our previous 2021 analysis of the legal terms of China's foreign lending. We collect and analyze 300 contracts between Chinese state-owned entities and government borrowers in 24 developing countries in Africa, Asia, Eastern Europe, Latin America, and Oceania, and compare them with those of other bilateral, multilateral, and commercial creditors. Three main insights emerge. First, the Chinese contracts contain unusual confidentiality clauses that bar borrowers from revealing the terms or even the existence of the debt. Second, Chinese lenders seek advantage over other creditors, using collateral arrangements such as lender-controlled revenue accounts and promises to keep the debt out of collective restructuring ("no Paris Club" clauses). Third, cancellation, acceleration, and stabilization clauses in Chinese contracts potentially allow the lenders to influence debtors' domestic and foreign policies. Even if these terms were unenforceable in court, the mix of confidentiality, seniority, and policy influence could limit the sovereign debtor's crisis management options and complicate debt renegotiation. Overall, the contracts

use creative design to manage credit risks and overcome enforcement hurdles, presenting China as a muscular and commercially-savvy lender to the developing world.

PhD Seminar
Christina Maaß, Hamburg University:
Overestimated Labor Force Potential in Germany

Abstract:
With economists suggesting to increase labor market participation to counter demographic changes and skills shortage contrary to recently increased awareness of work-life balance, the question arises as to how much previously unexploited labor supply can actually be activated and pushed into full-time positions. Especially, it is difficult to grasp the intentions of underemployed individuals possibly willing to increase their weekly working hours and inactive individuals possibly willing to move back into employment. In this paper, we present empirical evidence based on sound theoretical analysis for lower labor force potential in Germany than previously assumed. We demonstrate changes in labor supply behavior over time by exploring respones to the EU labor force survey and the German microcensus. The analysis is further developed with novel data on implicit motives as observed from Google Trends. We identify the overestimation to be substantial and realistically assume a limited potential to face the upcoming challenges by activating the unexploited workforce.

The next EconNewsletter will be published **on Monday, January 22, 2024.**

Editorial deadline: **Friday, January 19, 2024.**

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