Between Good Faith and Defiance:

A Political Economy of Sovereign Debt in Latin America

by

Alfredo Hernandez Sanchez

Submitted to

Central European University

Doctoral School of Political Science, Public Policy and International Relations

In partial fulfilment of the requirements for the degree of

Doctor of Philosophy

Supervisor: Professor Julius Horvath

Budapest, Hungary

2020

“We think in generalities, but we live in detail.”

— Alfred North Whitehead

Science and Philosophy

Abstract

What makes sovereign borrowers honor their debts to private foreign creditors? Why do private markets continue to lend to borrowers that have burned them in the past? The literature in economics suggests that there is a reputation mechanism in play, borrowers service their credit obligations because not doing so would limit their access to funds in the future. Though it is recognized that defaults occur and that domestic and international factors may play a role in these decisions, these potential influences have rarely been analyzed systematically and debtors tend to be characterized as a homogeneous and static group.

During financial crises, countries that cannot issue hard currencies are highly dependent on outside creditors as without continued funding their economies would collapse. During good times, rhetorical instruments either in support or defiance of global markets can be deployed by governments to serve a political agenda. However, this rarely translates into action, particularly so in the realm of finance. Countries usually service their commitments if they can and shy away from rattling markets without necessity. Why they stray from this well-trodden path in the few instances when they do is an issue this work would like to address.

This thesis explores two atypical cases. The first is that of Mexico which, under Vicente Fox in 2002, spearheaded efforts to disseminate the use of Collective Action Clauses (CACs) in emerging market sovereign bonds; reducing the momentum of a proposal for the creation of a formal mechanism to restructure sovereign debt. The second is Ecuador, which defaulted on its obligations to private creditors in 2008 and justified it by questioning the legitimacy of that debt rather than claiming an incapacity to pay. In both cases, bold moves regarding

global private credit markets were taken without discernible economic or external pressure to do so. I argue that, in the rare instances in which domestic and international politics allow countries that are traditionally rule-takers to break that role, the way in which global financial markets are framed – as promise or peril – shapes their policies towards sovereign borrowing and restructuring.

Table of Contents

List of Tables

List of Figures

Chapter 1

Introduction

"Words are witnesses which often speak louder than documents."

Eric Hobsbawm

ALONGSIDE rivers, mountains and resources, human history has been steered by battles over words. It would be impossible to calculate how many conflicts have been sparked or fueled by contentions over definitions and concepts which exist solely in our minds. Many of the words that are central to our current discussions about politics and the economy emerged during what Eric Hobsbawm (1996) [103] calls the *Age of Revolution*. Terms like *capitalism*, *conservative*, and *liberal* gained their contemporary meaning and became widespread between 1789 and 1848. Though they originated from the great transformations happening in Western Europe at the time, these terms – along with several others like them – reached the entire world by the start of the 20th century.

The history of the 1900s cannot be explained without considering the impact of abstract notions like *communism* and *capitalism*. Words have a unique power to move humanity, without them there can be no politics. They are not, however, alone in the realm of symbols. Flags, monuments, songs and even money evoke similar sentiments, yet they reinforce something that was previously named. An anthem is just a song if there is no word for *nation*. Thus, words have the power to unite people that may never meet. Yet they also have an immense power to divide.

Like other symbols, concepts embodied in words keep a record of the lessons of the past. Budapest's liberty square – Szabadság tér – was built on the site where Lajos Batthyány was executed in 1849. However, the square hosts reminders not just of turmoil of the 1800s, but also of the following century. A large monument to the Soviet Red Army's defeat of Nazi Germany stands prominently in the center of the square to commemorate the liberation of the city. Less prominent – but by no means less symbolic – is a statue to Ronald Reagan; who is depicted confidently making his way from the Hungarian Parliament building to the US embassy right in front of the Soviet monument. Despite the different time periods and political connotations that these monuments, alongside the square itself, represent; there is an underlying theme: *liberty*. Though, liberty has been one of the central political goals of modernity, the debate on how to achieve it and on what threatens it the most is far from settled. This debate is not circumscribed to politics.

Economic freedom and its enemies have been as relevant to modern debates about society as political liberty. But who are those enemies? The free-riders that absorb society's scarce resources without contributing anything in return? Powerful groups that coordinate to extract these resources by force or fraud? More importantly, how can economic freedom best be preserved or regained if lost? The world of the 21st century would be in many was unrecognizable to someone from the 18th, however, many of the discussions and fault lines in the contemporary international political-economy would not.

Just like the *Age of Revolution* gave us many of the conceptual and technological innovations we use today, the late 20th century saw immense transformations in human capabilities and lexicons. Prominent among such new terms is *globalization*. The concept embodies not just the great technological and economic changes of the past 30 years, but also a distinct geopolitical reality. Though it did not bring about Fukuyama's (1992) *End of History* [71], the 21st century has seen the decline of conflicts across old ideological fault lines. It is globalization insofar as it exists within a truly global economy.

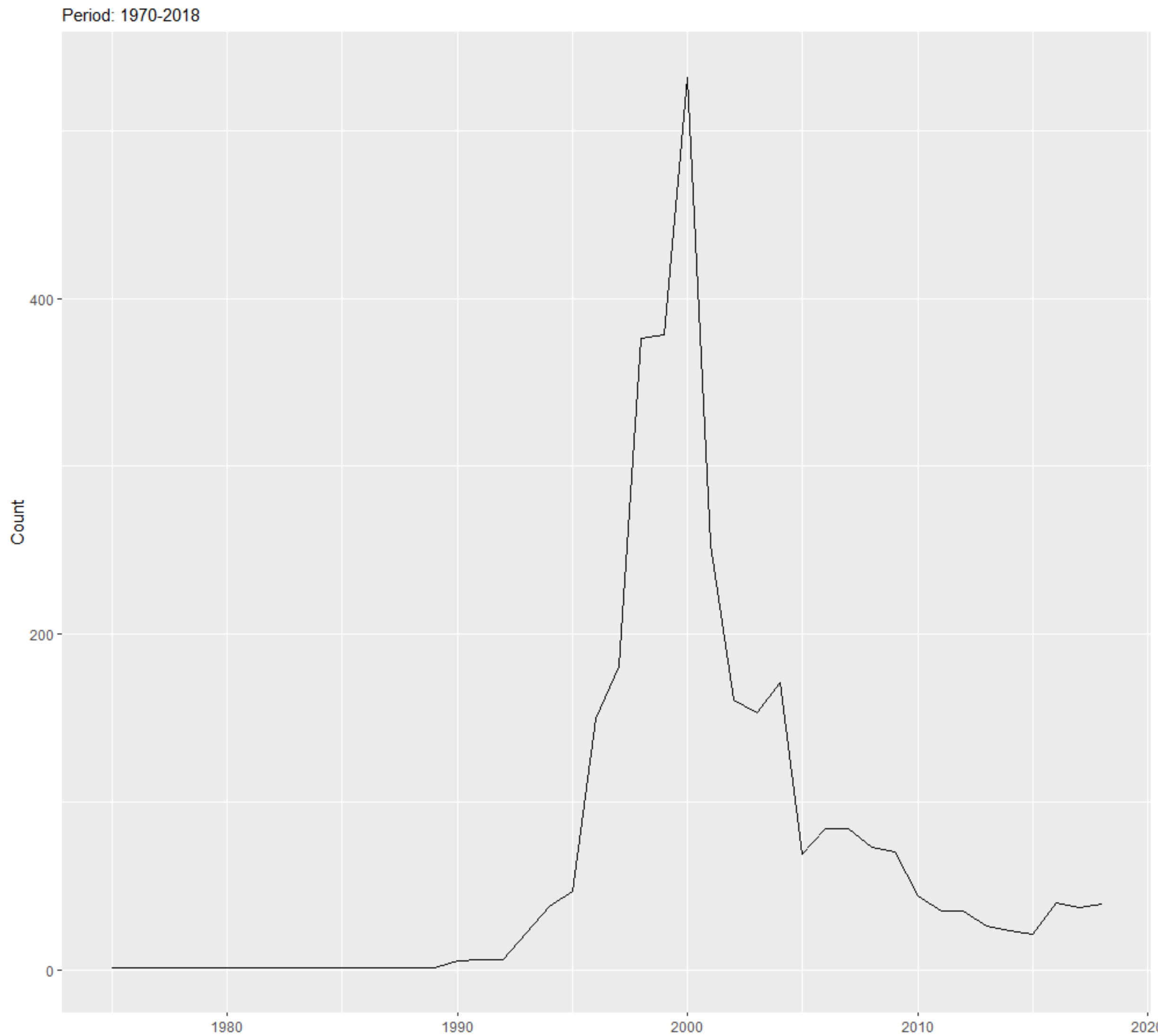
Yet *globalization* is not free of debates regarding its definition or its effects on society. On one hand, "[t]he popular press cannot decide on balance whether [it] has a liberating or a pernicious effect on society" [77, p. xiii]. On the other, its definition has remained nebulous, despite its widespread use. This is not surprising, as the scope of globalization includes social, political and technological aspects. However, as Randall Germain (2000) puts it: globalization "has often been defined almost purely in financial terms and explored with respect to its impact on markets or states." [77, p. xiii] These contentions notwithstanding, the term has become commonplace in academic, journalistic and political discourse.

Figure 1.1 shows the shifts in the use of the term *globalization* in United Nations speeches since 1970. It rose dramatically in popularity after the collapse of the soviet sphere and peaked right at the turn of the millennium. A Google N-Grams[1] search shows a similar trend, with books containing the term increasing during the later 1980s, peaking in 2005 and declining shortly thereafter. It was among the words that best bore witness to the great transformations of the last decade of the 20th century. Though the phenomenon of globalization has been acknowledged as a multidimensional process, studies within International Political Economy (IPE) have concentrated on its economic and financial aspects. This includes monetary policies, cross-border financial flows as well as private and public debt crises.

Though decreasingly the focus of the attention of scholars and global leaders, debates on globalization have fallen across familiar – and perhaps perennial – lines. Among the main criticisms to globalization, was the allegation that it transformed nation-states – or

[1] Google N-Grams is a digitized collection of a wide array of books in machine-readable format – a corpus. It hosts the text of over one million volumes going back to the 1800s [79].

Figure 1.1: Mentions of *globalization* in UN speeches



Note: This was calculated from the United Nations General Debate Corpus collected by Slava, Baturo, et. al. (2017) [10]. It sums all mentions of the term globalization in general debate speeches by year 1970-2018.

welfare-industrial states – into *competition*-states. Its critics claimed that it was changing the global political playing field "from 'domestic' processes operating *within* relatively autonomous hierarchically organized structures called states, [to] transnational processes operating *across* states." [33, p. 118]. At the crux of this debate is the desirability of market-solutions over discretionary political authority.

Throughout this thesis, I explore how a similar debate has shaped the evolution of the market of sovereign debt during the age of globalization, specifically from the perspective of Latin American countries.

Studies on sovereign debt – not only in IPE but also in economics and legal studies [81,87,155,161,186] – often refer to a seminal theoretical and empirical puzzle: *what makes sovereign borrowers honor their debts to private foreign creditors*? Furthermore, why do private financiers continue to lend to borrowers that have burned them in the past? Among the many answers to these questions is the suggestion that there is a reputation mechanism in play, borrowers service their credit obligations because not doing so would limit their access to funds in the future [179]. Other perspectives argue that there is an alignment of interests between local elites and global market actors [15, 182]. The answers to these questions fall in line with broader debates in International Political Economy (IPE) on the nature of the contemporary system of international economic organization: one that is made of incentives to the benefit of most, or one that is underpinned by coercion to the benefit of a few.

Though a common theme in academic debates, the salience of the international financial architecture ebbs and flows in the political arena. Likewise, there are different challenges in this sphere for developed and developing countries. During *hard times*, developing countries are highly dependent on outside creditors. Often, the tone of their leaders becomes more negative, denouncing a system that has placed them in dire straits. Yet, even during *good times*, negative rhetoric against global financial markets can be adopted by governments in order to advance their political agendas. However, this rarely translates into action. Small and emerging-market economies usually service their commitments if they can and shy away from rattling markets without necessity [195]. Why they stray from this well-trodden path in the few instances when they do remains relatively unexplored.

Countries that cannot issue reserve currencies but are not burdened by financial turmoil rarely take an active stance towards global credit markets [97]; being mostly content with their role of rule-takers and avoiding unnecessary risks. Developing countries tend to be *reactive* rather than *proactive* in this sphere. Relatively easy access to external credit generally fosters a behavior of compliance in emerging markets, which need access to hard currencies to service past debts and settle trade transactions. Studying the rare instances in which they behave proactively can provide insight into the factors that keep sovereign debt markets functional.

In this thesis, I argue that economic ideas are a key element of such displays of agency by emerging market actors. Though this association is self-evident in domestic policies – left-leaning government officials are expected to actively pursue more re-distributive economic policies – it is not entirely clear if they have any meaningful effect in the foreign economic policies of developing countries; and especially so in the case of international finance. Even when there are tensions between the existing international economic order and the outlook of the leaders of developing nations, the latter are rarely in a position to act according to their views. The case of Yanis Varoufakis' tenure as the Greek minister of finance is particularly illustrative. Though appointed by a far-left government in Athens and having relatively revisionist economic ideas, he was unable to successfully renegotiate his country's debt with European and Institutional external creditors on better terms [201].

Prevalent asymmetries in power – ideational, economic and military – between the developed and developing worlds lend credence to the perception that the economic ideas of emerging market actors are irrelevant when it comes to the evolution of global financial architecture. After all, why would they matter in a game dominated by either a) more powerful or b) better managed economies? From the discontents of the global south regarding the original Bretton Woods [182, 202] system to their complaints about the Basel accords for banking regulation standards [120, 207], the way in which their voices go unheard has been amply documented by scholars of International Political Economy. This is not to imply that there is not a rich, and growing literature on the role of ideas in finance – particularly of *neoliberalism* [17, 46, 131] – simply that such accounts tend to focus on advanced economies and how the notions of their leaders shape the world.

1.1 Justification

In *Politics in Hard Times*, Peter Gourevitch (1986) argues that great crises open the door for great transformations. According to the author, economic policy during *hard times* follows a fundamentally different logic than during *good times*. In times of crisis, pre-existing coalitions shift with the economic landscape and new opportunities for change arise [80, p. 21]. This view is summarized in Gourevitch's adage: *policy requires politics*. However, for developing countries experiencing external debt crisis, the transformation comes not usually from domestic politics, but rather from external conditionality. In such cases, policies determine politics.

Before the collapse of the Soviet Union, countries of the developing world had – at least in principle – the option of exiting the US-led system of international economic and financial governance. Among the exit options was turning to communism, but also to some form of non-alignment. This was the original meaning of the *Third World*, though is nowadays a short-hand for underdevelopment. However, with the collapse of the USSR and the economic, material and ideological convergence of the 1990s, the world became increasingly unipolar and interconnected [78]. Figure 1.2 shows this trend: after 1991, average *de jure* globalization around the world increased dramatically.[2]

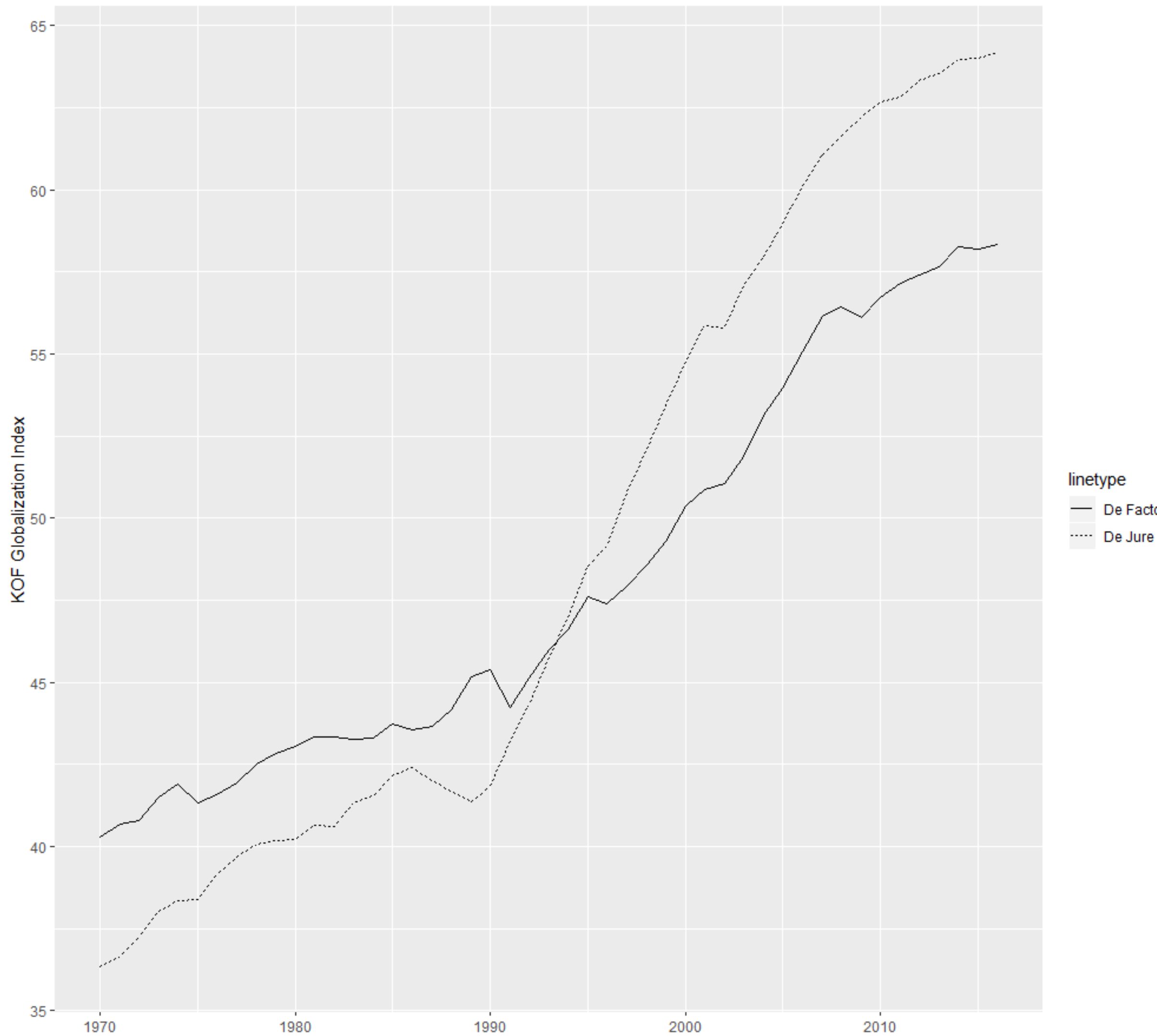
Nowadays, members of the international community do not have a clear *exit* option. Countries may decide not to take part in a set of treaties or to move towards economic autarchy, but they can never really leave the globalized world. This is not to say that they are without options. In Albert O. Hirschman's (1970) [101] terms, they can voice their concerns – decrying the injustices of the economic system at every opportunity – or show loyalty by adhering to the rules of the game as best they can. Nevertheless, this seldom transcends rhetoric. This is especially true for weaker and smaller nations, as their capacity to rely exclusively on their own resources to satisfy the needs of their citizens and to ensure their territorial integrity is limited when contrasted with that of world powers. Without a favorable context, their only actionable options are degrees of compliance. Given such asymmetries, they are more likely to be *reactive* than *proactive*.

This reality supports the generalized perception that individual countries in the developing world have no real agency when it comes to global economic and financial governance. The only avenue they are perceived to have at their disposal is collective action [134, 135], with all its pitfalls and historical examples of failure. Without a strong coalition behind them, individual governments of these nations can speak out against the international economic and financial architecture but are largely constrained in their action. In practice, the normal state of affairs is compliance at the margins with meaningful changes coming from the center(s) of the global economy.

This bias is reflected in studies on sovereign debt in the developing world in general, and Latin America in particular. Santiso (2003) [174] uses Hirschman's framework of *exit*,

[2] The KOF index is a weighted index which considers actual cross-border flows of goods, services and capital [*de facto*] alongside changes in regulations and the signing of treaties [*de jure*].

Figure 1.2: KOF Globalization Index



The KOF Globalization Index [90] is a composite index that measures country globalization in three dimensions: a) economic (33.3), b) political (33.3) and c) social (33.3). The 2018 version of this index makes a distinction between *de facto* and *de jure* globalization. *De facto* globalization includes actual cross-border flows of goods, services, people and information. *De jure* globalization, by contrast, tallies international trade agreements, membership in International Organizations, access to global information and political indicators such as civil liberties. As show in this figure, though both dimensions of globalization have a clear upward trend, agreements have outpaced flows since the 1990s.

voice and *loyalty* to analyze the behavior of creditors towards emerging market sovereign debtors. The assessment criteria are the policies that creditors use to analyze the potential borrower's repayment capacity. They can *exit* the market by refusing to transfer funds, *voice* their dissatisfaction by increasing the cost of credit, or alternately, they can maintain their *loyalty*. In the case of the latter, emerging-market economies (EMEs) compete among themselves not just to attract foreign creditors but also to keep them. He describes a confidence game in which rating agencies, government officials, international organizations, the media and private creditors all play a role in assessing the creditworthiness of EMEs and capital is allocated accordingly. Though this is a valuable contribution to the study of debt in Latin America, it – like much of the literature on the subject – places its focus on how creditors view the developing world and overlook the way in which EME leaders behave towards global finance. The underlying assumption is that they are simply *reacting* to a dynamic largely driven by the supply-side agents of global credit markets.

In all of the cases over-viewed in Santiso's (2003) [174] book, as well as in similar studies on emerging market debt [57, 89, 123, 187], the main strategic imperative that developing nations face is either avoiding crisis, contagion or getting the best possible terms once already in distress. This approach is understandable as most developments in the field of sovereign debt restructuring occur in a setting of financial turmoil. Nevertheless, no guidelines are provided to study the – admittedly rare – instances when nations at the margins act without a crisis pushing them forward but with their hands tied.

Despite such occasions being rare, they are not unimportant. From a theoretical perspective, atypical case studies can help shed light on the theoretical limits of a well-established body of literature as "an anomaly sometimes can suggest new hypotheses that also account for cases previously thought accounted" [149, p. 166]. In the case of emerging market debt – and its Latin American idiosyncrasies – the questions of why sovereigns re-pay in the first place, and why creditors continue lending despite a long history of defaults, cannot be answered fully by solely focusing on cases where the agency of the developing world is set aside.

1.2 Agency at the Margins

According to Hirschman (1970), the schism between *exit* and *voice* reflects "that between economics and politics" [101, p. 15]. Unlike the neat and relatively anonymous *exit* option that customers facing firms have, voice is messier insofar as it can range "from faint grumbling to violent protest" [101, p. 16]. These two options thus represent two opposing forces in society: one that favors market mechanisms [exit] and another that favors political ones [voice]. Hirschman advocated for a middle ground between the two[3], yet recognized that "both laissez-faire and interventionist doctrines have looked at market and nonmarket forces in a strictly Manichaean way, it being understood that the laissez-faire advocate's forces of good are the interventionist's forces of evil and vice versa" [101, p. 19].

This divide is evident in the case of money and finance. In the *Ascent of Money*, Niall Ferguson (2008) defined money as "the crystallized relationship between debtor and creditor" [66, p. 341] and concluded that economies which combined financial innovations with property-owning democracy historically "performed better over the long run than those that did not" [66, p. 341]. Though the history of finance is full of cases of fraud, unfairness and even revolt: "it is not the fault of the mirror if it reflects our blemishes as clearly as our beauty" [66, p. 358].

By contrast, for David Graeber (2011), financial relationships have played a very different role in history. He concludes that "the struggle between rich and poor has largely taken the form of conflicts between creditors and debtor" [83, p. 8]. The former having

[3] His aim is to "to demonstrate to political scientists the usefulness of economic concepts *and* to e*conomists the usefulness of political concepts* [his emphasis]" [101, p. 19]

historically used debt to justify their power over and dispossession of the latter. By Graeber's account, the last 5,000 years have been mostly marked by revolts and revolutions inspired by the anger of debtors over their subjugation. Ferguson (2008) also recognizes that "[t]hroughout the history of Western civilization, there has been a recurrent hostility to finance and financiers" [66, p. 2]. However, the explanations of the two authors for such discontent are quite different.[4] These opposing takes on human history reflect two mutually exclusive *narratives of finance*, one that highlights its *promises* and another which warns about its *perils*.

In *Finance and the Good Society*, Robert Shiller (2012) [177] discusses the promise that a democratic finance capitalism holds for a free and prosperous society. This comes from its potential to include all people and to spread information equitably and efficiently. Thus, "[t]ruly democratic finance can enable one to escape outcast status." [177, p. 232]. Once more, the social-economic asymmetries created by the contemporary financial system are not obviated in Shiller's argument; they are rather placed into a broader perspective: "part of the reason successful societies develop power elites is that they need leadership that has the power to get things done." [177, p. 231] Such hierarchies are therefore understood as perennial elements of complex societies, manageable, but not eradicable without doing away with society itself. The financial system, with its *de facto* hierarchies notwithstanding, is in this view a potential avenue for prosperity.[5]

This longstanding tension between market and political options reflects Schumpeter's observation in his *History of Economy Analysis*, that "any satisfactory theory of the money supply implies a theory of the economic process in its entirety". Theories on money and

[4]Ferguson claims that anti-financier sentiments in the West have a threefold explanation: a) debtors outnumber creditors, b) crises occur regularly enough to "to make finance appear to be a cause of poverty rather than prosperity" [66, p. 2] and c) financial services have historically been provided by ethnic minorities

[5]A view clearly not shared by Varoufakis (2017) in his account of the Greek sovereign debt crisis drama [201].

finance *also* reflect very different visions on politics and the role that power and political discretion *should* play in society. Yet, the debate goes beyond the strictly objective and rational. Hierarchies evoke an emotional response. As Shiller (2012) puts it: “partly it is the presumption, the arrogance, that accompanies economic power that rankles” [177, p. 233]. If the abilities of mankind are normally distributed, then why are political and economic capabilities concentrated in a select few? Furthermore, how uneven *should* the capacities of individuals be in a *good* society?

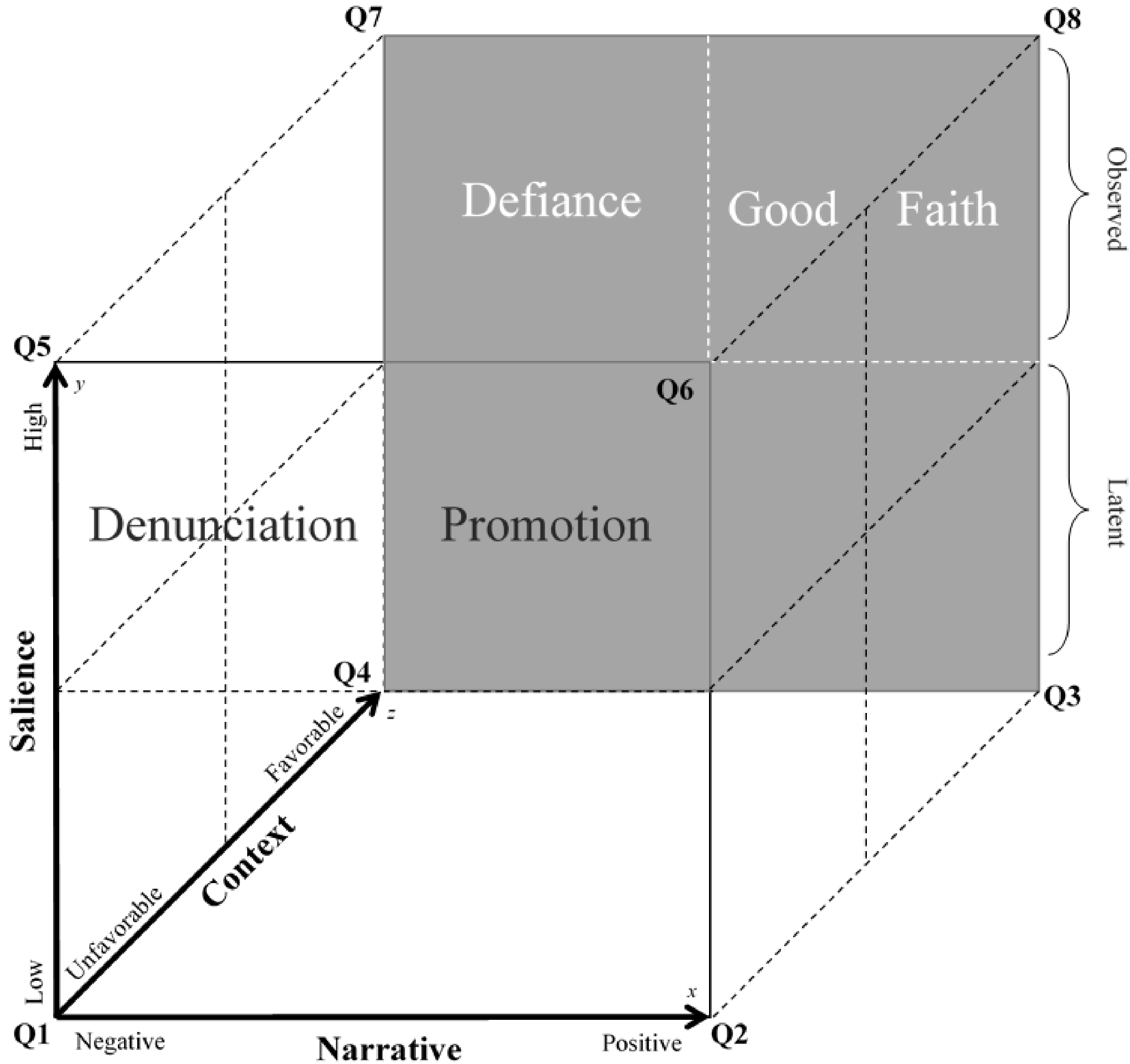
In contrast to the narrow world of an optimizing and atomized *homo economicus*, this thesis rests on a different assumption about human behavior: *that ideas drive actions – economic, political or otherwise –; though they do not always do so in the same amount.* As former Federal Reserve Governor Fredric Mishkin points out “the financial system [is] the brain of the economy” [66, p. 342]. The market, just like the human brain, efficiently spreads information and guides activity. However, humans have the capacity to reflect on the information they receive, and process the same stimuli in very different ways.

1.2.1 Analytic Framework

Figure 1.3 outlines the analytic framework used in this thesis to study the attitudes of world leaders towards the international financial system and their impact on policy outcomes. Here, world leaders are understood as the heads of State and/or government of countries that are recognized by the international community. The international financial system[6] is understood as the set of explicit and implicit norms which govern and shape cross-border flows of capital. The framework has three axes: a) the X axis indicates the *narrative* through which the the agent in question makes sense of the international financial

[6] I use this term along with *international financial architecture* and *international organization of credit* [76] indistinctly. The term *rules-based* system is used within it normative concept: the preference of market solutions and support for the current system.

Figure 1.3: Analytic Framework



The three-dimensional framework has six faces and two additional dimensions. The outcomes of interest in the Figure 1.3 are policies (the actionable dimension) and speech patterns (the rhetorical dimension). The back face of Figure 1.3 — delimited by Q3, Q4, Q7, Q8 — shows the different options that world leaders face when dealing with international economic regimes during *good times*, that is, when their context is deemed favorable. This depicts the actionable dimension, the main assumption being that agency cannot be observed during *hard times*. Purposeful action – proactive – only becomes an option when the prospect or reality of an economic crisis does not force the hands of key government officials. This is especially true for the developing world, which is more constrained in its behavior due to the fact that it cannot print reserve currencies and must acquire them from beyond their borders.

architecture;[7] b) the Y axis represents the *salience* of the issue, which oscillates between high and low[8]; finally c) the Z axis corresponds to the *context* in which the leader operates over time, which is characterized as favorable or unfavorable.

A favorable context does not automatically lead to policy actions: leaders are assumed to act only on issues that they deem important and to otherwise follow established norms.[9] The Y axis in the front face of figure 1.3 (Q3, Q4, Q7, Q8) indicates the salience of the issue. The bottom along its Y axis – low salience – assumes that there will simply be compliance. Though some form of agency may occur when an issue is relatively unimportant, this occurs in a latent dimension of politics. By their very nature, low-salience issues are not often discussed and thus make it more difficult to infer the narratives and ideas that may motivate agents. In this thesis, I only focus on displays of agency on the world stage, though without disregarding what may occur behind its curtains.

When an issue is politically salient enough it merits a leader's attention and discourse, thus making it possible to also infer their perception on it by analyzing her speech patterns.[10] The X axis in figure 1.3 shows two *narratives* of finance – either as a promise or peril. A leader in a position of strength and facing a highly salient financial system is expected to act in *defiance* of the established norms if she holds the view that global markets operate under a *zero*-sum logic that does not benefit her political interests. Conversely, were she to hold the opposite view of markets, then the expectation is that she would act in *good faith* towards the established norms.

[7] As a *zero*-sum or *positive*-sum game

[8] The assumption here is that low-salience issues are rarely talked about and acted up, thus constituting a latent dimension

[9] Salience is assumed a prerequisite to break with policy inertia, as without pressure domestic pressure there is little incentive to act and to assume any form of additional costs in terms of risk. In the case of sovereign debt, such risks would be reflected in higher borrowing premiums not just for defaulters, but even for innovators in new financial instruments. This is particularly important for countries with less robust financial systems.

[10] See figure A.1 in the appendix for the outcomes matrix fixing high salience.

The specificity of developing countries lies not in differences of salience or narratives, but capabilities. Emerging market economies are more often in financial dire straits, thus in unfavorable economic contexts. Furthermore, their ability to influence the *international* agenda is limited. Thus, their foreign economic policies tend to be mostly reactive during *hard* times and compliant during *good* times. Nevertheless, their discourse can – and often does – reflect either their discontent with the system, or their support of its principles and practices.[11] Here I focus on when such narratives influence policies.

I argue that a combination of high issue salience and a favorable context allow leaders to behave *proactively* rather than merely *reactively*. These are preconditions for agency. Once met, then issue-narratives guide policy outcomes. All of these conditions are dynamic and complex, thus broadly defined in this thesis. Furthermore, it considers a specific issue-area – international finance – and specific international system: a relatively uni-polar world and a globalized economy. Furthermore, it is one where market-mechanism solutions and free capital flows have been the norm. Thus a negative perception of the system – and the political desire to *defy* it – stems in part from a rejection of this way of social-economic organization. Conversely, preference for such solutions and skepticism over the extensive use of political authority in economic life result in a political desire to strengthen and improve the system: to act in *good faith*.

1.2.2 Methodology

As in the case of *globalization*, it is possible to trace the salience of certain concepts and make inferences about their political significance and context over time. This has been partly enabled by the explosion of text data in machine-readable formats. In turn, this new

[11] Figure 1.3 classifies speeches against the international financial order as *denunciation* and in favor as *promotion*. These patterns can be observed and measured from textual data and are assumed to accompany policy agendas of *defiance* and *good faith* respectively.

data availability has been accompanied by a wide array of methods to process and analyze it, tools adapted from machine-learning and other such fields by computational social scientists. In their *Manifesto of computational social science*, Conte, Gilbert *et. al.* (2012) point out that the "availability of unprecedented amounts of data about human interactions in different social spheres or environments opens the possibility of using those data to leverage knowledge about social behaviour beyond research on the scale of tens of people" [41, p. 343] Computational tools such as agent-based modeling have allowed researches to validate and improve models on emergent social, political and economic phenomena.

I rely on similar models to analyze large sets of text data on political speeches. However, rather than to develop a predictive model of political behavior, my goal is to analyze narratives of international finance in a systematic and reproducible way. The expected contribution of this study is to open not just a theoretical debate but also a methodological one on how to study narratives themselves, along with their impact on policy outcomes. This is applicable not just for the *narrative* axis depicted in Figure 1.3, but also for *salience*. I employ Quantitative Text Analysis (QTA) methods [86, 106, 115] to measure the polarity, frequency and similarities of discourse on sovereign debt by world leaders. Though political speeches are limited datasets when compared to social media or similar outputs, the methodological and theoretical insights that studies like this offer can help design more robust studies based on larger sets of text, as well as offer guidelines for validation through controlled experiments and focus groups.

In parallel to text analytics, I also rely on conventional methods for assessing the *context* dimension. As depicted in Figure 1.3 one of the key preconditions for proactivity is a favorable context. Though many factors – among them the subjective assessment of the leader – determine what a favorable context is, a clear indicator of it the capacity of a country to access the currencies it needs to service its external debts. This illustrates one of the differences between countries in the developing and developed worlds. The latter can issue debt in their currencies, whereas the former typically cannot. Notably, the two cases considered in Chapters 6 and 7 – Mexico (MEX) in 2002, and Ecuador (ECU) in 2008 – occurred at times that were economically favorable based on markedly higher export ratios and lower debt ratios than in their recent past.[12] Furthermore, in both cases political outsiders were put in place and enjoyed relatively high levels of political popularity at the start of their terms. This thesis explores these two rare instances when developing world governments enjoying favorable economic and political contexts proactively pushed their agendas: one guided by *good faith* towards the global financial architecture, and the other by *defiance*.

The first is that of Mexico which, under Vicente Fox in 2002, spearheaded efforts to disseminate the use of Collective Action Clauses (CACs) in emerging market sovereign bonds; muting the debate over a proposal for the creation of a formal multilateral mechanism to restructure sovereign debt at the IMF. The second is Ecuador, which defaulted on its obligations to private creditors in 2008, justifying this by questioning the legitimacy of that debt rather than claiming an incapacity to pay. In both cases, bold moves regarding global private credit markets were taken without discernible domestic and external economic or political pressure to do so. It is important to note that these two cases are assumed to be comparable insofar as they are both atypical. Despite having numerous cultural and political (i.e. presidential systems) similarities, their economic and financial structures are on opposite ends of the spectrum that encompasses emerging markets. Additionally, Fox and Correa came from opposing political and socio-economic backgrounds. With the former being a wealthy businessman and the latter a leftist college professor.

[12] Though not a categorical indicator of financial well-being, the central government debt to GDP and exports to GDP ratios give some indication of how a country is positioned to continue the service of its debts. This narrows down the range of countries with favorable contexts to less than those that are merely not experiencing a financial crisis. Figure A.2 in the appendix shows the trends in exports and external debt for countries in Latin America.

Both Correa and Fox talked extensively about international finance and in expected ways, relying on negative and positive narratives of global financial markets respectively. Additionally, the issue was highly salient during both their tenures, both domestically and internationally. The case studies suggest that the default in Ecuador and the adoption of collective action clauses in Mexico were an example of agency rather than just a reaction to outside pressure.[13] In both cases, the governments were in a position of strength due to the domestic political capital with which Fox and Correa begun their tenures as well as the relative macroeconomic stability they inherited upon taking office. Thus, I argue that the difference in outcomes was a result of their opposing political and economic visions. These case studies are particularly relevant as they indicate how developing world governments act in the rare occasions when they can do so as more than mere *rule-takers*.

1.3 Structure

The thesis is organized into eight chapters. Chapter 2 introduces the basic elements of quantitative text analysis (QTA) and their use in IPE. Furthermore, it outlines the two *narratives* on the international political-economy as either a net positive or a tool of domination and their Latin American specificities. It describes the spectrum between an idealized *laissez-faire* option and a full command economy and how this dichotomy has guided debates on the nature of debt. Subsequently, it summarizes debates on the contemporary international system as either a manifestation of hegemony or interdependence. Chapter 3 overviews the debt crises in Latin America since 1970. It shows the patterns of default in the region, as well as the differences in terms of credit afforded to the nations of the

[13] The existence of pressure from the outside is the counter-factual argument of the case studies, evidence of it would suggest that the two actions were not an example of agency, but merely one of compliance. Thus, it is necessary to analyze not just the speeches of both leaders but also their context.

region over time. In addition, it considers the political factors that have been associated with favorable macroeconomic *contexts* and terms of credit in the region.

In Chapter 4, I examine global initiatives to resolve unsustainable debt levels. These have oscillated between two options for debt restructuring: a statutory approach (a debt arbitration court) and a market-based option (contractual technology). Proposals for a statutory mechanism have faced stark opposition and have faded away in favor of *ad hoc* options. I argue that debates surrounding such initiatives fall within the narratives outlined in Chapter 2. In Chapter 5, I use QTA models to measure the salience of international finance and changes in its polarity in United Nations General Assembly (UNGA) speeches. I find an increase in both salience and negativity surrounding the international financial architecture in the aftermath of debt crises. Similarly, I find patterns of speech that are specific to Latin American leaders, namely those that are critical of the US-led international system.

Chapter 6 considers Mexico's issuance of collective action clauses in debt instruments for the first time in the New York market under the government of Vicente Fox. Chapter 7 describes the background of Ecuador's External Debt Auditing Commission during the government of Rafael Correa. Both cases are studied within the analytic framework depicted in Figure 1.3 and depicted against the counter-factual argument that both these policy choices were taken as a reaction to outside pressure rather than a proactive stance by their respective governments.

In the final chapter, I discuss the impact that narratives of debt and sovereignty have on systemic transformation and resilience. Since their independence, financial relationships between the United States and Latin America have been a testing ground for the former's policies towards the rest of the world. It is therefore no surprise that so many initiatives to reshape the international financial system have arisen in Latin America. As the international financial system transitions into an increasingly multi-polar one, widely held notions that the current system is a *zero*-sum game can lead to its unraveling. Words have power. The narratives here considered matter to leaders *because* they matter to those they govern. Few stories are more compelling than those about fairness.

Chapter 2

Narratives of Power and Finance

> "Facts divorced from theory or visions are mere isolated curiosities."
>
> — Thomas Sowell

In *Animal Spirits*, Schiller and Ackerlof (2009) [4, p. 51] argue that stories are an integral part of economic life. The authors assert that "the human mind is built to think in terms of narratives, of sequences of events with an internal logic and dynamic that appear as a unified whole. [...] Great leaders [they argue] are first and foremost creators of [such] stories". In their framework, politicians typically weave and promote stories in order to advance their agendas and organize human activity. Economic activity is thus driven largely by the spread of *viral* stories that shape widespread expectations. Instead of relying solely on individual calculations, economic actions such as the decision to invest in or sell a particular class of assets are influenced by the popular notions embodied in narratives. To illustrate, the authors state that "[confidence] is not just the emotional state of an individual [rather] [i]t is a view of other people's confidence, and of other people's perceptions of other people's confidence". [4, p. 5] In turn, these models of thought not only shape actions but also preserve the motivations of the past.

A decade afterwards, Shiller (2019) [178] expanded on this point by advocating for the emergence of a new field of research he dubbed *Narrative Economics*. Its purpose being to study *economic narratives* which he defines as "contagious stor[ies] that [have] the potential to change how people make economic decisions" [178, p. 3]. Methodologically, this research agenda draws from several disciplines ranging from psychology to epidemiology and computer science.[1] *Narrative Economics* relies on the theoretical insights of the humanities and social sciences and on the technical advancements of natural and computational sciences, particularly in the field of natural language processing. The book outlines seven propositions and uses them "as a framework to look at historically important economic narratives, to identify what we can learn from economic narratives and their consequences in the real world" [178, p. 103].[2]

In this thesis, I build upon these insights to outline the elements of a *Narrative* International Political Economy (IPE). However, I focus on how narratives about the global economy and the international system affect policy making and political strategies rather than on the dynamics of contagion or the effects of narratives on collective economic behavior. As stated in Chapter 1, one of the central assumptions of the argument presented in this thesis is that speech patterns are a reliable indicator of a speaker's preferences, values and assumptions.[3] Thus, the coherent world views of world leaders – their narratives of the global political-economy[4] – can be inferred by studying their use of language. Thus,

[1]Shiller [178, p. 12] dedicates an entire chapter to the concept of *consilience*: meaning "the unity of knowledge among the different academic disciplines, especially between the sciences and the humanities".

[2]The seven principles advanced by Shiller (2019) are: "1. Epidemics can be fast or slow, big or small. [...] 2. Important economic narratives may comprise a very small percentage of popular talk. [...] 3. Narrative constellations have more impact than any one narrative. [...] 4. The economic impact of narratives may change through time. [...] 5. Truth is not enough to stop false narratives. [...] 6. Contagion of economic narratives build on opportunities for repetition. [...] 7. Economic narratives thrive on human interest, identity, and patriotism." Throughout this thesis, I rely and expand upon these principles.

[3]In other words, that there is a low tolerance level for systematic cognitive dissonance even among politicians.

[4]From this point on, I use "IPE" to refer to the field and "global political-economy" to refer to its object of study

narrative IPE seeks to measure such speech patterns regarding the international economic system in broad terms. In this Chapter, I argue that there are two opposing narratives of international finance, one which sees the existing *rules-based* system as fair overall – indeed as based on rules – , and another one which deems it extractive in nature. I focus specifically on how these opposing narratives have developed in Latin America and the political and economic strategies that regional leaders have derived from them.

2.1 Computational Text Analysis and Narratives

As Gourevitch [80] remarks *policies require politics*; in turn, politics requires organization. Whether organized behavior is emergent or designed, it requires some form communication among the agents: a common language. Computational Text Analysis (CTA) relies on recent advances in Natural Language Processing to allow researchers to measure word patterns in collections of machine-readable text, or *corpora*. The ever increasing availability of text-as-data further fueled the development of new computational tools for analyzing it. In a review of the use of CTA in Political Science, Grimmer and Stewart (2013) [86] outline four principles for the effective use of these methods: a) all models are wrong, but some are useful; b) they amplify – not replace -– human analysis; c) there is no best method; and d) it is imperative to find ways to validate a model's outputs.

Given the complexity of natural language, CTA models to date cannot provide a comprehensive account of the way a text was produced. However, the simplifying assumptions and the conceptual definitions made by researchers can help us make inferences from large *corpora*. The selection of the most suitable CTA model[5] depends not only on the familiarity of the researcher with the documents in a *corpus*, but also on the task at hand. As

[5]These can go from placing political discourse on an ideological spectrum (scaling) to tracing the proportion of a document allocated to a predefined category (topic-modeling) , among many others.

Unver (2019) puts it: "both the corpus and search terms need to be grounded in theory, in order to avoid concept stretching" [199, p. 6]. Thus, CTA applications in social sciences should draw on the substantive knowledge of the researcher, who must in turn justify the selection of methods and parameters.

CTA methods have been amply used in fields closely related to IPE such as International Economics, International Relations and Political Science – this is discussed at length in Chapter 5 section 5.1. However, they are seldom used in IPE studies. This is a missed opportunity for the field, since CTA methods have the potential not only to enrich the arguments and models of IPE scholars, but to organize the rhetoric itself.[6]

2.1.1 Narrative Elements: *Keywords* and *Bigrams*

In *Narrative Economics*, Shiller (2019) [178] makes use of a basic form of CTA: keyword analysis. He uses Google *N-Grams* and *ProQuest* News and Newspapers to count the frequency of relevant economic terms and debates over time.

Throughout this thesis, I study the use of language by world leaders at the United Nations General Assembly (UNGA). These speeches were selected since the UN General Debate sessions afford word leaders an annual forum in which they can speak relatively freely about the issues that they consider most important in world politics. They offer a unique opportunity to make inferences about the narratives that they may hold – but definitely express – about the global political-economy.

The data used in this and the following chapters comes from the United Nations General Debate Corpus, a compilation of UNGA speeches by world leaders at the annual general debate sessions made available in machine-readable format by Slava, Baturo & Dasandi

[6]Section A.0.1 in the appendix illustrates this point by classifying the vectorized texts of abstracts of articles on sovereign debt from three leading IPE journals representing the so-called *transatlantic* divide within the field –discussed in section 2.3. For a critical overview of the divide itself see Higgott and Watson (2008 [100].

(2017) [10]. It includes all speeches between 1970 and 2018 consisting of 8,093 separate documents; each containing one speech per-country per-year in a text file. These files were concatenated into a dataset – the *corpus* – where each speech is an observation. In addition, country-level metadata – the *docvars* – are included, such as region, World Bank income group, and year.[7]

Though the speeches themselves are the observations, the most common unit of analysis in CTA are words. These are extracted from the unprocessed text and placed into databases – typically sparse matrices – as *tokens*.[8] Given the noisy nature of text-as-data, the first step after tokenization in most CTA studies is pre-processing. This includes several steps such as removing commonly used words such as prepositions – the *stopwords* –, removing punctuation and numbers, and even stemming words by removing their suffixes. Typically after this procedure, the tokenized texts are run through a range of text models[9] and visualized as graphs.

In this section I observe the most common terms used by world leaders in the UNGA speeches. The use of certain words carry profound connotations and symbolic weight. Their presence or absence can provide clues regarding the outlook that a speaker may have on a particular issue. Simple word frequencies allow us glimpse at the items that capture significant attention over not just over time but also across regions.[10] Unsurprisingly, terms like *united* and *nations* are placed at the top of the list with more than 100,000 mentions. Other common terms associated with the international agenda can be observed as well: concepts like *south* and *rights* make the top list.

[7]Additional metadata from other sources are included from the panel dataset described in Chapter 3.

[8]Nevertheless; sentences, paragraphs and even sections of texts such book chapters can be tokenized.

[9]These models are expanded on in Chapter 5 and in the appendices

[10]Table A.1 in the appendix shows the regions and income groups defined by the World Bank. The country and regional classifications used by all other sources used in this study have been homogenized to fit ISO Alpha-3 codes.

However, many of the most important concepts in international politics are expressed as pairs of words. For example, *united* with *nations* and *international* with *organization*. Such co-occurrences can be observed by identifying the main *bigrams* within the *corpus*. Figure 2.1 shows the top-term co-occurrences in a network. As expected, we can find *human rights* and *peaceful solution* among the most frequent bigrams. It is a useful way to get a sense of the main themes that are likely to be discussed throughout the speeches.

Though most speeches in the corpus have the same number of words (on average 715) – see Figure A.3 in the appendices – regions with more members (such as East Asia) will have higher total word counts than smaller ones (such as North America). In addition, terms that are employed in nearly every speech or in virtually non are of limited significance. For example, though in all speeches the two most commonly used terms are *united* and *nations*, this does not provide us with any meaningful information about which terms or clusters of terms are most salient for UNGA speakers. The same is true for terms used only once or twice throughout the entire corpus. To circumvent these issues its is necessary to normalize the data.

The TF-IDF metric addresses the issues of length disparities and frequent/infrequent term irrelevance by combining two scores: Term Frequency (TF) - Inverse Document Frequency (IDF).

Where *freq*(t, d) is the sum of instances of term t in a document d, TF(t, d) is the proportion of term t in the total number of terms in document d:

$$TF(t,d) = \frac{freq(t,d)}{\sum_i^n freq(t_i,d)}$$

And, where N is the number of documents and *count*(t) is the number of documents

Figure 2.1: Top Bigrams Network

Note: The top bigrams were selected by removing the co-occurrence if one of the words was a *stopword*. Figure 2.1 displays the bigrams that appear over 700 times in the corpus. It is a weighted, directed network with a Fruchterman-Reingold layout. It was built using the R packages *igraph* [47] & *ggraph* [124].

in which a term t is present:

$$IDF(t) = log(\frac{N}{count(t)})$$

The TF-IDF score of a term in a document is defined as: $TF.IDF(t,d) = TF(t,d) \times IDF(t)$. This penalizes terms that appear in all documents in a corpus, so as to highlight terms that are more relevant. The higher the TF-IDF score, the more important the term for a particular document, thus allowing us to better quantify what a text is about.

Though there is little variation in the most frequent terms when grouped by region, there are some concepts and concerns that are specific to each part of the world. There are distinct patterns which can be observed through the TF-IDF scores grouped by region. Though mostly they refer to the names of countries in the region, top TF-IDF terms like *imperialist* in Europe and Central Asia, *freedom* in North America and *caricom* in Latin America, give insight into particular geographic concerns and common concepts.[11] Similarly, TF-IDF word and bigram scores can help us identify relevant key-terms across groups and time, as well as similarity scores among documents in a corpus.

Nevertheless, a term's frequency is not the only metric of its relevance. It is therefore important to combine computational textual analysis with theoretical knowledge in order to draw meaningful conclusions from speech data. A relevant example of this is the concept of *neoliberalism*. *Neoliberalism* in all of its configurations can be found only 47 times throughout the UNGA corpus; however, it has become ubiquitous in the media, academia and even domestic politics throughout the world. By contrast, throughout the corpus it is disproportionately used by representatives of Latin America, more specifically those from Cuba, Venezuela, and Bolivia. In fact, there are only 3 countries from outside the region that have made use of the term: Equatorial Guinea (2008), Mongolia (2010) and Greece

[11] This was calculated using the R package *TidyText* [**?**], removing all *stopwords*.

(2015).[12] In isolation, this does not provide much information about the content of the *corpus*, but it suggests that there are some ideological lines that can be identified through further scrutiny.

2.2 Narratives of Finance

The ubiquity of *neoliberalism* in academia and beyond notwithstanding, Boas and Gan-Morse (2009) [18] find that not only is there no widely accepted definition, but there have been few scholarly debates aimed at realizing one. This has led to distinct uses of the term across ideological lines and too broad a scope in its employment. In a review of 148 articles on *neoliberalism* published in the top comparative politics, development, and Latin American studies journals between 1990 and 2004, Boas and Gan-Morse (2009) did not find a single article focused on the definition and usage of *neoliberalism* [18][p. 138].

The lack of a well delineated definition of the concept has lead scholars to "associate *neoliberalism* with multiple underlying concepts, including a set of policies, a development model, an ideology, and an academic paradigm". [18][p. 140] There is, however, a clear pattern in its usage in scholarly output that highlights ideological divisions: "it is used frequently by those who are critical of free markets, but rarely by those who view marketization more positively" [18][p. 140]. In turn, this pejorative connotation has led free-market advocates to avoid using the terms so as to not be associated with a radical form of market fundamentalism. Evidence of this is that "virtually no oneself-identifies as a *neoliberal*" [18][p. 140] but rather associate others with the term.

As the use of this term suggests, economic concepts are deeply intertwined with political narratives, and ultimately built upon narratives of human nature and notions of *fairness*. In the UNGA speeches corpus, *neoliberalism* is used almost exclusively by speakers who have

[12] This was found using the function 'Keyword in Context' in the *Quanteda* package for R. [11]

notoriously negative views of the international financial system and readily categorize it as unfair. Though often not explicitly acknowledged, there is a strong normative dimension to stories about the distribution of resources in society. The use of public authority, specifically regarding its promises and perils, marks the cross-roads for both such economic and political narratives. On one hand lies skepticism over the capacity of public authority to allocate the resources of society effectively and concern over its penchant for despotism. On the other, there is concern over a natural tendency of concentration of power in a small subgroup of society and belief in the exercise of power to counter such trend.

I argue that there are thus two mutually exclusive narratives of international finance: a *zero-sum* and a *positive-sum* one. The first one assumes that the international financial architecture is extractive in nature, where the established rules serve the purpose of maintaining global monetary and financial hierarchies: a core and a periphery. The second one rests on the assumption that the rules of the game serve to ensure the efficient global allocation of capital based on the best information available. For the former, the system is unbalanced in favor of creditors, and there is thus the need to fundamentally change the rules to favor debtors. For the latter, the rules of the game balance the rights of debtors and creditors alike, periodical unbalances should then be corrected by improving monitoring and enforcement mechanisms rather than by a complete overhaul.

Both opposing financial narratives coexist in the political arena, as well as in broader academic debates on the functioning of the international financial system. They combine elements of political and economic ideology, but their complex interrelations can be reduced to a spectrum of preferences regarding the ideal role of political authority in the allocation of resources in society. At the extremes of this spectrum lie a fully centralized economy and a completely unregulated market.[13]

[13]This distinction is applicable to most sets of economic interactions, but in this thesis, I focus only on those that pertain to the international monetary system and debtor-creditor relationships.

2.2.1 A Positive Sum View

For Milton Friedman (1951), the advent of *neoliberalism* derived from the acknowledgement of the limitations of pure *laissez-faire*. He understood the rise of *collectivist beliefs* as "an understandable reaction to a basic error in 19th century individualist philosophy" [?]. Is objective was to update the classical liberal prescription of *laissez-faire* for with the preservation of a competitive order. The role of government should thus expand – from the ideal of *laissez-faire* – to the active promotion of competition, monetary stability and the proscription of monopolies. Thus, textquotecitizens would be protected against the state by the existence of a free private market; and against one another [?].

From a similar intellectual vein, F. A. Hayek acknowledged that the right of coinage and the enforcement of legal tender have been quintessential elements of sovereignty, though not "for the general good but simply as an essential element of governmental power." [93, p. 29] He further lamented that since governments have acquired such power the "without qualifications, have incessantly and everywhere abused their trust to defraud the people" [93][p. 30]. Given such poor track record, why has this prerogative of sovereigns to control money persisted? Hayek argues that this is solely attributed the *myth* that is a necessity. In a famous adage, he asserted that "history is largely inflation engineered by government" [93, p. 53]. Rather than directly conferring value onto money, governments only do so indirectly by forcing those under its jurisdiction to accept whatever object it wishes as a way to settle debts in place of what was originally contracted.

Even in a world of de-nationalized money, private banks issuing currency would be subject to pressures from political pressures. This fact makes competition across national borders paramount. "To obviate the suspicion of serving the political interests of the country in which they were established, it would clearly be important that banks with headquarters in different countries should compete with one another" [93, p. 124] Thus, for Hayek, capital controls of any sort are as much an impediment to personal freedom as they are to the functioning of the international economy; they would lead to "the complete delivery of the individual to the tyranny of the State, the final suppression of all means of escape – not merely for the rich but for everybody" [93, p. 126].

Like Hayek, Friedman believed that free-riding and the perils of discretionary resource allocation by government among individuals were the bane of a free society.[14]

Friedman and Hayek's fear of expropriation by repudiation along with the benefits – not just economic but also political – of international competition and freedom of cross-border capital flows echoed in the positive-sum narratives of the international political-economy of the 1990s and early 2000s. In the monetarist narrative of the economy, the most pernicious consequence of inflation is the effect that it has on creditor-debtor relationships, as well as on the standards of living of fixed-income earners.[15]

This concern over *expropriation by repudiation* at the domestic level is mirrored in debates on international finance. Whereas private debtors can be forced to pay or relinquish assets in case of insolvency in a national legal system, governments not subject to higher courts of law have a choice whether or to not fulfill their debt contracts, be it to foreign or domestic creditors. After all; "debt is a contract, in which the borrower accepts some money and agrees to pay it back. If the borrower fails to repay, the creditor acquires certain rights and powers vis-a-vis his assets. Except for some possible reputational concerns, those rights are the main reason that borrowers ever repay loans" [179, p. 85]. The peculiarity

[14]It is important to note that Friedman [, p.110] held a less radical view on the perils of government intervention than Hayek; for the former government action is appropriate in cases where "strictly voluntary exchange is either exceedingly costly or practically impossible", particularly in the case of market imperfections, such as public monopolies. Such distinctions not withstanding, distrust on government power – especially in monetary affairs – and competition as an effective means to curb it are central elements to both as well as other like-minded thinkers.

[15]Hayek acknowledges this risk, yet considers that the most harmful effect of inflation of society is "misdirecting the use of resources and drawing labour and other factors of production (especially the investment of capital) into which uses remain profitable so long as inflation accelerates". [93][p. 82]

of the sovereign debt market is that, in the absence of collateral, creditors cannot seize the assets of the debtor as it is protected by its sovereignty.[16]

In this *sticks and carrots* logic creditor rights are the stick and continued access to markets are the carrot. Some empirical evidence supports this perspective. A study conducted by La Porta et. al. (1997) [119] suggest that in countries where shareholder and creditor rights are more protected, debt and equity markets are broader and deeper. This has been taken as an argument against decreasing creditor rights in order to make the market for sovereign debt more efficient [26, 179]. The assumption is that there is an asymmetry of power that favors sovereign debtors, which in turn must be corrected by increasing the rights of creditors. This has been taken to the point in which the very existence of a sovereign debt market is questioned [152]: after all, "why on earth do foreign creditors ever trust countries to repay their debt anyway, especially when they have been burned so regularly in the past?" [161, p. 52].

The effectiveness of the reputational mechanism is itself a controversial issue; in a seminal paper Bulow and Rogoff (1989) conclude that "lending to small countries must be supported by the direct sanctions available to creditors, and cannot be supported by a country's *reputation for repayment*." [26, p. 43]. Similarly, if a country "can borrow fresh funds without repaying old debt, it has no incentive to pay creditors anything and, in fact, has every reason to remain in *sovereign bankruptcy* forever." [179, p. 88]. This line of thought leads to a policy paradox: how to reduce the burden of default on debtor countries – and therefore increasing their capacity to fulfill their obligations – without hindering the rights of creditors.

The arrangements for managing international debt crises from the point of view of the creditors have been widely studied. Provisions for international debt rescheduling have

[16]There are limited exceptions to this, as governments can agree to put up some form of collateral in order to improve their terms of credit.

been "aimed directly at overcoming deficiencies in cooperation among creditors" [125, p.220]. Though there has been emphasis on the role of domestic politics in adjustment policies in debtor countries [112], little attention has been given to their collective action constraints in voicing their collective interests in the management of international debt.

Lipson (1986) describes the emergence of institutional frameworks for the management of international debt as "a response to coordination failures among private creditors and [thus] limited by the extent of those failures" [125, p.240]. The cohesiveness of creditors is dependent not only on coordination of interests but also on the support of International Organizations. However; despite the protests of debtors, rescheduling negotiations have remained informal. Attempts to have these proceedings supervised by a multilateral organization of debtors have met with stark opposition on behalf of creditors. As Lipson puts it: "[Paris Club] donors have resisted such demands on the plausible grounds that more elaborate institutionalization would encourage more applications for debt relief, might be controlled by debtors, and could shift the terms of bargaining" [125, p. 221]. Thus, the radical restructuring or even outright repudiation of sovereign debt is deemed unlikely as the elites of developing countries are concerned with access to global capital markets. They play by the rules of the game in hopes that creditors resume spontaneous lending and the expectation of recovery plays a role in the terms of refinancing [111].

The absence of an enforcement mechanism and the prevalent informational asymmetries (mostly attributed to be detrimental to the interests of the creditors) that plague international debt markets ensure that these can only function on a reputation-based logic in which sovereign debt obligations can and must always be fulfilled in full to secure access to funds in the future. Conventional macroeconomic wisdom indicates that without such a mechanism, then debt would be too risky as it is not cost-effective for creditors to collect [99] as it is the legal prerogative of the borrower to unilaterally cancel the debt.

This illustrates why creditors have been reluctant to grant more bargaining power to sovereign debtors, to whom they are in disadvantage according to economic theory. Nonetheless, there are gains to be made from creating a formalized mechanism for restructuring sovereign debt as failure to coordinate rescheduling can precipitate a financial crisis and reduce the ability (or willingness) of the sovereign to pay. As Aggarwal (1996) puts it: debt problems can be "exacerbated by unwise lending, uninformed borrowers, and the misdirection of funds to private coffers where they would not be used to stimulate the economies of debtor countries." [2, p. 1]. Failing to act in a timely fashion can have detrimental effects over the long run as spill overs in debtor countries can hinder their ability to repay their loans.

Regardless, private creditors have been reluctant to alter the *status quo* despite the potential gains in terms of stability. Under the current paradigm of moral hazard, the burden of acting counter-cyclically is deemed the sole responsibility of the sovereign debtor. This means that, though creditors can be expected to lend pro-cyclically and still maintain the moral high-ground as they are seemingly at a disadvantage due to informational asymmetries and enforcement problems, sovereign debtors are expected to exercise self-restraint during periods of easy borrowing and are deemed the sole culprits for living beyond their means. Hence, the cost of compliance with the prevalent normative framework, informal as it may be, is significantly lower for creditors than it is for debtors. Alas, this creates risks for global financial stability as it encourages reckless lending, or at the very least does nothing to discourage it.

The core premise of this view can be summed up in the notion that creditors are inherently at a disadvantage due to information asymmetries. Debtors have more information about their willingness and capacity to repay. Furthermore, creditors are seen as historically more vulnerable to forcible expropriation by the arbitrary use of authority, either on claims on the sovereign or its political allies.

2.2.2 A Zero Sum View

Friedman and Hayek's understanding of *neoliberalism* as the protection of the individual through competition lies in stark contrast to the one espoused by supporters of a greater exercise of public authority in economic activities. This opposing view asserts that creditors have historically held the higher ground, coordinating to effectively secure their interest and consolidate an oligarchy. This perspective places public authority in a more benign role. Rather than expropriation by means of power, the main risk in this narrative is a tendency towards dispossession by accumulation that is accentuated by the lack of public constraints on wealth accumulation through exploitative means.

In "And forgive them their debts..." Hudson (2019) argues that "the modern concept of economic liberty has stood the original meaning of liberty on its head. Today's pro-creditor *market principle* favoring financial claims by holding that all debts must be paid, reverses the archaic sanctity of releasing indentured debt pledges and property from debt bondage. The ideal of linear progress, in the form of irreversible debt and property transfers, has replaced the Bronze Age tradition of cyclical renewal." [105, p. 7] According to Hudson, the real danger to society comes not from the systematic abuse of public authority over the economy, but rather from the tendency of debts to outpace society's capacity for growth output and the resulting subordination that ensues once debts that can't be paid are enforced. Rather than highlighting the risks that the failings of individuals with power pose to society, this view brings systemic concerns about power itself to the forefront.

In direct contrast to Hayek's view that the history of mankind is one of inflation and government abuse; Hudson claims that "[i]n all epochs a basic maxim applies: Debts that can't be paid won't be paid. What always is at issue is just how they won't be paid. If they are not written down, they will become a lever for creditors to pry away property and income from debtors – in practice, from the economy and community at large." [93,

p. xxiv] There is thus a perpetual conflict between these two groups: “throughout history, a constant political dynamic has been maneuvering by creditors to overthrow royal power capable of enforcing debt amnesties and reversing foreclosures on homes and subsistence land.” [93, p. xii].[17]

According to Hudson (2009), neoclassical economics – a part of his understanding of *neoliberalism* as a broader agenda – differs from classical economics as the latter proposed the taxing of unearned income (economic rent) rather than of labor and real investment whereas the former advocates for the opposite. Neoclassical economics thus asserts that no income is unearned, and that so-called rent is the product of risk-taking. Taxing it would thus bring the economy to a halt. In turn, the export-led growth and convergence doctrines served to perpetuate a global economic system that finances the failure to diversify in the *periphery*. In his view, all economies are planned, the central question of political economy is who does the planning and which planning principles are effective or not. The goal of economic analysis is thus to find a balance between where the public and private sectors provide mutually check and balance one another.

The neoclassical narrative on foreign investment asserts that when profits begin to fall in industrialize nations, investors go abroad in search of new opportunities in less developed countries. All countries would thus grow more capital-intensive over time. By contrast, Hudson (2009) argues that industrial powers since the 19th century have adopted a strategy of ensuring an oversupply of raw materials in the global market in order to prevent resource abundant nations to sell their produce at monopoly prices. By creating a world market

[17] In Hudson’s (2019) [105] reading of a new ruler came to power in the ancient, the first thing he would do was cancel all personal debts to bring balance by removing the disrupting dynamic of obligations growing faster that the economy’s capacity to meet them. Debt in the ancient world was not mostly the product of loans, but rather of tax arrears and past obligations refinanced in one way or another. In turn, most debt was held by the palace, making it easier for the ruler to forgive them. Strict debt enforcement siphons resources out of the productive economy and into the hands of creditors, as debts at compound interest outgrow real output. This leads to stagnation. The tensions that drive history are not those between social classes (as Marx believed) but rather those between debtors and creditors.

for commodities, the leading nations "denied less developed countries the ability to utilize the special advantages resulting from their favorable raw material exports". [104, p. 235] This free-trade dynamic "helped ensure that former colonies would provide the industrial center with raw materials at the same relatively low price that local industrialist had to pay" [104, p. 236]. This was accomplished by directed foreign investment in agriculture, land, mineral resources and transportation infrastructure rather than on complex exports and innovation.

Global financial relations are, according to this narrative of the international political-economy, an instrument which cements global economic hierarchies by transferring wealth from the developing world – the *periphery* – to the developed one – the *core*.In the contemporary financial architecture this is attributed to *financialization*, which is defined as the process by which income is siphoned away from consumption into interest payments and banking fees. At the global level, creditor-investor countries – the global monetary and financial core – sell a development package to the periphery and when the latter is unable to repay, they mortgage their resources and impose austerity by cutting back on public services. Elements of this economic narrative can be found not only in Keynesian inspired scholars like Hudson, but also in Marxist traditions.[18]

[18]The idea of acquiring money for its own sake is central to Marx's view on the matter: the presence of money in the economy creates a gap between purchase and sale. Thus, Marx's theory of credit is premised on the view that as individual firms get larger, they lack the money that is necessary to keep things moving on their own. They need credit. Financial capitalists (or banks), who specialize in mediating between productive capitalists with idle money balances and those who need those balances, meet this demand. "Gold and silver are acceptable by law only because they are acceptable in practice; and they are acceptable in practice because the present organization of production needs a universal medium of exchange." [**?**, p. 63]. It is the hoarding of money which creates the need for credit in order to supplement it as a means of circulation. As credit money deviates further from real money, it devolves into fictitious capital. Later, Schumpeter and Keynes criticized Marx for equating money with gold itself.More contemporary Marxist takes on money assert that, by themselves, tight or sound monetary policies cannot prevent overproduction. Only in a hypothetical system in which production is organized in such a way that credit is rendered unnecessary could a credit crisis be avoided. But this system would be tantamount to returning to barter. Capitalism needs a credit system just as much as it requires money. And it is impossible to abolish either without abolishing the capitalist system itself.

The level of power which creditors hold over debtors is a key element in both Marxist as well as structural-realist traditions of International Political Economy.[19] Soederberg (2005) offers a class-based analysis of international financial flows. Neoclassical Macroeconomic theory contends that the liberalization of the capital account increases the efficiency of domestic capital markets all while allowing institutional investors to reap high returns on their assets. The mechanism of arbitrage implies that if capital is scarce in A then surplus from B will go to A, a win-win scenario for both the source and target of credit. Soederberg, criticizes this stance on the grounds that it overlooks the asymmetry of power between creditors and debtors in the international credit market. In her words, "beneath their seemingly neutral, quantifiable and objective meaning, financial risks are historically specific social constructs that are used to discipline debtors through their real virtuality and through the material threat of withholding desperately needed funds to impoverished states of the South" [182, p. 940]. In her framework, the confidence of investors is understood as a social construct that must be reproduced and is characterized by fragility. Creditor countries – or rather financial corporations headquartered in their jurisdictions – hold power over debtor countries as they are the ones that determine the conditions that need to be achieved in order for would-be sovereign debtors to be considered creditworthy and thus access global capital markets on favorable terms.

The criticisms of the neoclassical economic narrative can also be found in other academic disciplines – such as history and anthropology – and share similar elements of contention regarding the asymmetries of power between creditors and debtors. Dyson (2014) [53] ex-

[19] It is widely acknowledged, however, the way in which it has been exercised in international debt markets has changed throughout history. At the turn of the 19th century, the explosive growth in sovereign debt occurred in the context of aegis of free trade and the British Empire's economic and political dominance, all of which changed by the time the role of main global creditor went to the United States [68]. Furthermore, There have been significant epochal transformations in the case of the rules that govern relationships between sovereign debtors and there creditors [2] where the acceptable methods of enforcement have gone from gun-boats to courtrooms.

plores the politicization of the discourse on sovereign debt for the case of Europe. Moral ambiguity in public debates constraints political action on sovereign debt and is influenced by the characterization of debtor countries as morally inferior to their creditors. Traces of this can be found in the language used to describe creditor-debtor relationships: "esoteric technical vocabulary and efforts to construct inclusive processes of debate and negotiation cannot hide the extent to which the idea of sovereign creditworthiness is a world of identities and symbolism, to which powerful, historically grounded, and often idiosyncratic feelings are attached." [54] The politics of creditor debtor relations are exacerbated by this moralizing language of *saints* and *sinners* in which "moral ambiguity – and the absence of easy political solutions –originates from the problem of balancing the claims of creditors to superior virtue and uniqueness with those of debtors for recognition and honor." [54]

This line of argumentation is consistent with anthropological approaches to debt relations and their embeddedness in societal conceptions of morality. An anthropological view on money claims that it is individual and collective memory, a way of keeping track of what humans owe to each other across space and time. According to Graeber (2009) [83], all human interactions are based on exchange; thus, all morality is based on the principle of reciprocity. Exchange happens between equals. Debts occur as incomplete exchanges among nominal equals. They can also be quantified (through money), impersonal and transferable. Among true equals, debts can be renegotiated in the face of catastrophes or unforeseen circumstances.

Graeber [83] argues that Western powers have created a global economy in which regulatory frameworks are in place to protect the interests of creditors, the main one of them being the IMF, which acts as gatekeeper to global credit markets. The strict enforcement of contracts through austerity demand and conditional refinancing of external debts thus lend credence to the notion that, not only are debtors not in an advantageous potion in relation to creditors, but that such assumed hierarchy is placed on its head.[20] This is not to say that that international finance is inherently a zero-sum game, but rather than in its contemporary configuration the enforcement of creditor rights creates de facto and self-perpetuating global economic hierarchies that contrast with the alleged nominal juridical equality of nations. Given this unbalanced state of affairs, it is necessary to create debtor coalitions to even out the playing field.[21]

These contributions see the use of public authority in financial matters as more of a promise than a peril. They portray – through different methodological and theoretical lenses – the main risk of finance as one of *accumulation by dispossession*, in direct contrast with the positive-sum's concern over *expropriation by repudiation*.[22] This can be partly explained by the different assumptions that they hold regarding the levelness of the playing field between debtors and creditors, and thus present different notions of how it can be corrected and what role the public authority *should* play.

The zero-sum and positive-sum views paint opposing roads to serfdom. For the latter, inflation and the unconstrained deployment of public authority in the allocation of society's resources imperils the fabric of society. The central political question for each of these narratives is who should be reined in: the sovereign who seeks to expropriate the wealth of society – if indirectly by way of repudiation –, or a financial oligarchy which tends to concentrate this wealth through dispossession lest public authority becomes involved in the

[20]Graeber [83] recalls the example of 2002, when Argentina defaulted on its debts, then the largest sovereign default on record. However, by then the IMF had already lured Buenos Aires into austerity programs, thus leaving little to cut back on and eroding creditor influence in the country. This led debtor countries to begin to question the IMF's policies and to distance themselves from the institution. The IMF entered a state of limbo after the 2002 argentine crisis and did not bounce back until the 2008 global financial crisis, when it was brought in by the ECB to help manage the Greek crisis.

[21]Like Hudson, Graeber [83]identifies a longstanding historical tension between creditors and debtors. He argues that there are two broad periods in the economic history of mankind, one characterized by credit money and another by physical money. In credit-money periods, regulatory frameworks emerge to protect debtors from abuses by creditors.

[22]These two concepts along with the policy options they imply are expanded on in section 4.1.1.

renegotiation of debts and distribution. History offers a wealth of examples of the excesses of both world views. Such economic narratives are thus resemblant of popular models of the economy, they are always false when held up to the standard of the *correspondence* take on truth, yet useful as ways of organizing human activity due to their in-built *coherence*.

Given the current structure of the international financial architecture, defenders of the *status quo* assume a world economy that operates as a positive-sum game, one in which gains are available for all participants, asymmetrically distributed as they may be. Thus, the best course of action is deemed to be one that works with the *status quo* in *Good Faith*. Conversely, detractors of the current system assert that it rather operates as a zero-sum game, in which the gains of the haves come at the expense of the have-nots. This understanding of the prevailing rules as fundamentally *unfair* calls for a strategy of *Defiance*.

2.3 Narratives of International Politics

The economic narratives outlined in the previous section portray diametrically opposed notions about the legitimacy of power. In the positive-sum view, competition and enforcement as efficient ways of preserve individual freedom legitimize the existence of power, one which must be limited to a narrowly defined scope. In the zero-sum view, the legitimizing element of power is redistribution and renegotiation through enforcement as a way of curbing a natural tendency towards inequality and preserving social stability. For both, *fairness* is quintessential, though the means to achieve it are quite different.

This division between economic narratives and their respective takes on power mirror narratives on international politics. International economic inequality as well as the substantial asymmetries in State capacities have led to several debates about the international system and its structure. Though the asymmetries of the international economy and financial system are readily observable and widely acknowledged, explanations for their existence differ. In turn, the economic narratives mentioned in the previous subsection intermix with idiosyncratic regional and political concerns. In the case of Latin America, the shared colonial experience as well as linguistic and socio-cultural similarities have produced similar economic and political narratives. Central to these is the question of why the region has remained relatively underdeveloped to Anglo America, as well as the to broader Western world.

If the Scylla and Charybdis of Economics are inflation and unemployment, declines of sovereignty and prosperity occupy a similar position in politics, international or otherwise. There is consensus among International Relations scholars that the system exists in a state of anarchy, where recognized nations are understood to enjoy a degree of sovereignty and where outright coercion is nominally verboten. There are, nevertheless, clear hierarchies within and exceptions to this anarchic state. Like in the case of finance, narratives about the international political-economy offer mutually exclusive explanations about the nature of order and power in global politics, as well as strategic blueprints of how to effectively deal with them to achieve the perennial political aspirations of sovereignty and development.

2.3.1 Transatlantic Divide

In *International Political Economy (IPE): an Intellectual History*, Benjamin Cohen [39] identifies the *Really Big Question* of the field: systemic transformation.[23] The way in which this central issue has been approached marks the main divide between two traditions in the field: a so-called American versus a British School. The former has concentrated on what Cox [45] has dubbed *problem-solving*, whereas the latter has typically adopted a more

[23]This is an equally important question for students of international organization in the broader sense, as March and Olsen [134, p. 943] put it, we seek to understand "how and when international political order are created, maintained, changed and abandoned". Questions such as: how does order develop from anarchy, why does it fall apart, and why does it change? All fall into the scope.

critical approach. These epistemological and methodological distinctions have resulted in two separate strands of IPE that rarely interplay with one another.

The gap between traditions in IPE has been a great hurdle to its advancement [100], with one side attempting a formalization of rational behavior [2] and the other looking to history for structural continuities [76]. The debate on institutions in IPE has centered around the nature and effects of *international regimes*.[24] This concept has been a useful analytical tool as it facilitates the study of the effects of institutions in international economic outcomes without when there are no formal International Organizations at play [154]. More recently, research on international regimes has shifted from if and why they exist towards whether and how they impact government behavior in the international arena. In turn, this has been accompanied by a shift methodological focus towards the identification of the mechanisms that connect these institutions to states and ultimately policy outcomes [36]. The cleavages in narratives of financed outlined in section 2.2 echo these epistemological rifts in the field of International Political Economy.

In the wider American strand of IPE, international regimes are ultimately considered to emerge from voluntary agreements among actors of equal legal standing: "[they] cannot be relevant for zero-sum situations in which states act to maximize the difference between utilities and those of others." [116, p. 192]. Thus, the concept is employed with the built in notion of a variable-sum strategic setting. By contrast, from the British side of the transatlantic debate; the chief line of criticism to the concept of international regimes states that it neglects historical evidence, over-emphasizing the value of agreements by placing

[24] Krasner defines international regimes "as principles, norms, rules and decision-making procedures around which actor expectations converge in a given issue-area." [116, p. 185]. According to this definition, principles and norms are the basic defining characteristics of a regime, whereas changes in rules and decision-making procedures happen within them. By contrast, Ruggie [171] argues that international regimes are the glue that holds the system together, though in the context of an inter-subjective framework of meaning. This is particularly important as it entails that, though international regimes are intertwined with the idea of juridical equality, there is room for differences in the meanings attached by the agents involved in their formulation.

them in a vacuum. Susan Strange (1982) suggests that so-called international regimes are merely epiphenomena of underlying power structures [185]. Cohen (2008) highlights this clash, stating that in "[c]onventional analysis [the American School] tends to have a normative bias, assuming that once created, organizations will be a force for good in the world—facilitating cooperation, spreading norms, and promoting the rule of law. But that rose- tinted view is sadly unrealistic, ignoring corrupting influences that could beset an organization from either the outside or the inside." [39, p. 113][25]

Studies of sovereign debt in the American School of IPE have for the most part centered on the role of creditors and the obstacles they face when seeking to advance their interests [?]. This literature assumes that, whereas in the domestic credit market creditor (and debtor) rights are clearly defined, sovereign debt repayment is largely contingent on the debtor government's willingness to repay since the enforcement of contracts at the international level is limited. Unlike private firms or individuals, countries do not default on their loans out of lack of resources, but rather as a result of a "complex cost benefit calculus involving political and social considerations" [161, p. 50] in addition to economic and financial rationale.

There is, however, a strand of literature in which has studied the role of ideological structures and their influence in global debt markets. As the balance of power shifts in the international arena, either within the group of creditors or vis. a vis. debtors, global norms ebb and flow accordingly. Lienau (2014) [123] identifies two views of the State which have effects in the international debt arena: a *statist* theory of sovereignty and a *non-statist* theory, the former leading to support of debt continuity and the latter allowing for discontinuity. Creditor cohesion regarding their risk interpretations affects the degree

[25]Since the concept of *international regime* is charged with assumptions on the nature of international relations, I will refer to the norms and principles of that guide cross-border financial relations in general and sovereign debt restructuring in particular with the more neutral concept of *international financial architecture*.

to which *non-statist* paradigms in sovereign debt markets become prevalent. If creditors perceive themselves to be part of the same group centered on a consolidated interpretation of risk, then the *statist* interpretation is dominant. Thus creditor uniformity is a factor that (negatively) influences the degree to which the norms of the sovereign debt market are held contestable. Though she does not that there is a direct causal link between the ideational framework and a given outcome, "the way in which we think and speak about debt continuity acts as a kind of global soft law, shaping expectations of appropriate action for borrowers and lenders alike and structuring key moments in debt relations today" [123, p. 7]. The norm of sovereign debt continuity is therefore not deemed to be neutral or historically uniform but rather contingent on an accompanying concept of sovereignty.

2.3.2 Dependency and Interdependence

The Dependency School of thought is the first distinctly Latin American economic school of thought.[26] Its proponents assert that underdevelopment and development are two sides of the same one, and that the international division of labor is structuring in a self-reinforcing dynamic that produces a wealthy core and an impoverished periphery.[27] Along with colleagues from the Economic Commission for Latin America (CEPAL for its acronym in Spanish), Prebisch (1986) [159] asserted that the theories of modernization and develop-

[26]Its tenets were heavily influenced by the economic nationalism of Friedrich List, which advocated for greater – if temporary – government intervention in foreign trade and industrial policy in order to catch up with the established industrial centers of the time.

[27]Empirical research on global financial and economic networks support the assumption of a core-periphery structure, though strictly in the topological sense of Network Science. This is, the existence of a highly interconnected core subgroup and a sparsely interconnected periphery. In a study on cross-border bank flows by Minoiu & Reyes (2013) [139] conclude that prior to crisis, new sets of nodes rise through the ranks of connectivity only to be replaced after a crash, yet the topology of a spare periphery and tightly interconnected core remains. Similarly, Oatley *et. al.* (2013) [148] propose a network model of the international financial system using the logic of complex adaptive systems to single out potential positive feedbacks and self-sustaining structures, they conclude that the topology of global finance is not flat but hierarchical, more specifically a core-periphery structure.

ment that were prevalent in the developed *core* were inapplicable to the economies of the *periphery*. These conceptual distinctions between center and periphery have had a substantial impact in economic thinking and political discourse in Latin America ever since. Nevertheless, these approaches focused on the spatially or temporally determined attributes; that is, in terms of similarities and dissimilarities rather than on strictly structural layouts themselves [14, 51, 203].

The spread of Communism in the later half of the 20th century fueled discontent against the US-led order throughout Latin America.[28] This inspired socialist regimes with strong anti-US dispositions such as Castro's Cuba and Chavez's Venezuela. Though there are several and important differences between these – and other like-minded – administrations that range from geopolitical clout to resource wealth, they share the notion that the United States behaves as an imperial power in the region.

By contrast, in *Power and Interdependence*, Keohane and Nye (2011) [113] identify an opposing rhetoric of international politics: that of *interdependence*. In an interdependent world, the fates and fortunes of States are inexorably bound together. This view of global politics allows for different, thought occasionally overlapping, spheres such as economic, military or environmental. The concept also possesses political and normative connotations.

> Political leaders often use interdependence rhetoric to portray interdependence as a natural necessity, as a fact to which policy (and domestic interest groups) must adjust, rather than as a situation partially created by policy itself. They usually argue that conflicts of interest are reduced by interdependence, and that cooperation alone holds the answer to world problems. [...] [It] has become part of the new rhetoric, to be used against both economic nationalism at home and assertive challenges abroad. [113, p. 6-7]

Keohane and Nye (2011) claim that "it would be a mistake to envisage contemporary

[28] Though most Latin American economies of the 1960s and 1970s had implemented some type of Import Substitution Industrialization scheme, not all held explicitly pro-USSR views. Throughout the 1960s and 70s, many of these countries joined the non-aligned movement in an effort to balance out both the US and the USSR.

networks of globalism simply in terms of a hub and spokes of an American empire that creates dependency for smaller countries" [113, p. 253] The authors identify three main problems with the *hubs and spokes metaphor*[29] of dependency scholars: a) that view of global asymmetries only captures certain spheres of the international system – most notably the military; b) that it "may mislead us about an apparent absence of reciprocity in sensitivity and vulnerability" [113, p. 253] and c) and that it dismisses connections among lower ranked nodes in the system.

The use of *dependency* and *interdependence* – as in the case of *neoliberalism* in section 2.1.1 – reflects different understandings about the structure of the international system. As such, using the concept of *interdependence* when discussing international relations implies that the speaker views the international system as a *positve* sum game, cooperative in essence even if the gains are not symmetrically distributed among nations. Conversely, a speaker using the term *dependency*, at least in modern times, is likely to hold a *zero*-sum view of the world; likely one in which her or his group is losing out.

These differences in narratives about international politics also lead to different strategic blueprints when dealing with the system. On one hand, the *dependency* narrative prescribes South-South cooperation in order to increase the bargaining power of the disadvantaged periphery. Since development and underdevelopment are two sides of the same coin, the advancements of one group must come in detriment of the other. Conversely, the narrative of *interdependence* advocates for close North-South cooperation. The systemic assumption being that advanced economies are so as a product of efficiency and that gains for all are to be made through engagement: a positive-sum view through and through.

[29] The choice of terms is meant to supplant the theoretical connotations of core and periphery for the strictly topological terms of hubs and spokes. Thus highlighting actual interconnections but distancing themselves from normative assessments of the system itself

2.4 Conflicting Visions in IPE

In one of the seven principles of Narrative Economics, Shiller (2019) warns that: "While general knowledge steadily advances in many respects, we do not necessarily see a steady progression in the knowledge that often importantly affects economic behavior." [178, p. 95-6] Facts are, alas, not always sufficient to suppress the spread of erroneous narratives. Similarly, facts can falsify the core tenets of visions – and thus the narratives and theories that emanate from them – , yet not prove them true.

Thomas Sowell (2006) argues that there are two main conflicting visions of human nature, which in turn shape our understanding of society.[30]

For Sowell, "[t]he effects of visions do not depend upon their being articulated, or even on decision-makers' being aware of them". Rather, visions determine which facts are to be afforded attention, what options are available and which consequences are to be expected. They fill in the immense gaps in a given individual's knowledge and "are all, to some extent, simplistic – though that is a term usually reserved for other people's visions, not our own" [184, p. 13]. Like the narratives outlined in this chapter, Sowell's visions appear as mutually exclusive worldviews that in turn shape human behavior, collective or otherwise.

The fault lines between these visions, especially in regards to the nature and ideal role of power in public life echo through political, journalistic and even academic debates. In IPE, this can be found in the *transatlantic* disciplinary divide. Rather than a distinction

[30]According to the *constrained* vision, human nature is inherently wicked. No man can thus be trusted with power, social processes that limit these inherent evils are the best trade-off. There are, alas, no solutions to this perennial fact of human existence. Conversely, in the *unconstrained* vision, the evils of mankind are understood to be the product of bad or corrupt traditions and institutions. Man can overcome evil, and some are more likely than others to do so. This select group or individuals can embody the *general will* to emancipate mankind from its own limitations. The former resonates with Hobbes' observation that, absent a Leviathan, life is *nasty brutish and short*. Conversely, he latter finds – as Rousseau did – that *man is born free, but everywhere is in chains.*

between *scientific* heterodoxy and orthodoxy, each of the two schools of IPE "has become a site of thoughtful commentary on questions of the relations between politics and economics globally." [144, p. 394]. In contrast to it's source disciplines – (International) Economics, Political Science and International Relations –, IPE is less emphatic on systematic (formal) theory building and data collection and analysis. On both sides of the *transatlantic* debate, not only is "the relative emphasis on social scientific analysis is smaller, but [...], even when such analysis is presented, it generally appears not as part of a programme [sic] of such analysis but, rather, as part of a broader rhetorical strategy" [144, p. 403]. Debates within IPE have a strong normative dimension, and are seldom reducible to the the formalization characteristics of cognate disciplines. The emphasis on discourse, as well as in sweeping concepts such as *interdependence*, *globalization* and *core-periphery* thus make IPE a fertile intellectual ground for the use of text-analytic tools and the systematic study of narratives themselves.

As Shiller [178] points out, one of the main challenges of Narrative Economics, and largely of all social science research agendas with similar aims, is the relatively limited diffusion of the wide array of methods available to analyze unstructured text. This situation is rapidly changing, as new research in computational social sciences is closing the methodological gap among disciplines (see section 2.1 for examples in IPE).

In this chapter, I relied on simple quantitative text analysis methods to find the frequency of relevant terms associated with narratives about the international political-economy. In Chapter 5, this is taken a step further by drawing on more sophisticated text-analytic methods to classify these narratives and to trace their salience and changes through time and across different groups of speakers. Furthermore, it addresses the indispensable issue of validation by contrasting the use of language with widely accepted proxies for policy preferences such as UN role-call votes.

In Chapter 1, I argue that – given the set of conditions identified in section 1.2 – narratives on the international political-economy influence the choice of strategies the world leaders make to promote economic development and preserve their sovereignty. Nevertheless, achieving these goals is less costly for some governments than others. In the following chapter, I outline how Latin American countries have fared in the contemporary monetary and financial architecture, as well as the differences between them and changes in their economic and financial capabilities.

Chapter 3

Manias, Crashes and Fallouts

> "The financial structure is a cause of both the adaptability and the instability of capitalism."
>
> — Hyman Minsky

In *Austerity*, Alesina, Favero and Giavazzi (2019) begin by affirming that "[i]f governments followed adequate fiscal policies most of the time, we would almost never need austerity" [5, p. 1]. Ideally, countries would run fiscal deficits during *hard* times in order to cope with downturns and disasters and fiscal surpluses during *good* times.[1]

On the economic side, the authors reach the conclusion that "[g]overnments should implement austerity policies when their potential cost is lowest." [5, p. 2] Yet, countries do not cut back on spending during booms. Rather, they tend to increase debt levels during economic good times to the point where they cannot be offset by increases in growth. This leads to debt crises once growth rates decline. Though reductions in government spending are occasionally required due to unexpected shocks, "[these] are fortunately rare,

[1] Alesina *et. al.* (2019) [5] state that there are two types of austerity: a) one based on tax increases and b) another based on spending cuts. They find that the latter increases debt to GDP ratios whereas the former succeeds in bringing them down. They argue that this distinction occurs because spending cuts – especially on entitlements – have more lasting effects on deficits that tax increases.

so austerity is almost always the result of poor foresight and overspending" [5, p. 2]. However, debates on the merits of and need for austerity are rife with ideological overtones and take a harsh and unproductive tone.

On the political side, Alesina *et. al.* (2019) [5] challenge the notion that voters *always* punish incumbents that implement tax hikes or cut spending. "Many governments that have implemented tight fiscal policies and reduced deficits have been reelected, and the other way around, fiscally careless governments were punished by the voters." The authors acknowledge that "[i]t is possible that governments that are strong and popular for some other reason are reelected despite having implemented austerity policies" [5, p. 175]. However, measuring the strength of a government or the charisma of it leader presents several difficulties. They attempt to address this issue by considering key political variables as proxies for strength: margins of majority, ideological change in election years, coalitions and transitions.[2]

In this Chapter, I examine both the economic and political *strengths* of Latin American countries since 1970. I study the flows of external credit to the region and how their economies and political systems have adapted to sudden changes in them.

3.1 The Evolution of the International Monetary System

In 1971, George Pompidou sent a French battleship to New York to retrieve the physical gold which backed 150 million USD held by France. Shortly thereafter, Richard Nixon

[2]Their book, however, focuses on 16 developed and democratic countries. Furthermore, it does not consider effects in the long run – more than 5 years after the austerity programs – or the effects beyond macroeconomic aggregates. This reflects the bias in the study political agency in developing economies, particularly when it comes to matters of finance.

reacted by closing the gold window permanently. This marked the beginning of the contemporary international monetary system, the transition from commodity-backed currencies to fiat money. The loss of this anchor of stability – despite the social and political upheaval of the 1960s, the dollar remained valued at 35 per ounce of gold – radically changed the global economy, which now had to adapt to a world of floating, market-driven exchange rates.

These changes were not, however, circumscribed to the economic sphere. Pompidou's decision to send a battleship to retrieve physical gold was heavily imbued with symbolism. It reflected widespread dissatisfaction in Paris towards what former French Finance Minister Valéry Giscard d'Estaing dubbed the US' "Exorbitant Privilege" [56]. The notion that Washington was abusing the system that it had put in place years before was a factor that fueled the demise of the Bretton Woods system. However, when Nixon suspended USD-gold convertibility, he framed his own country as the victim of foreign speculators, which had been "waging an all-out war on the American dollar". Furthermore, it was other countries that were, according to Nixon, free-riding on the US' commercial and financial policies, forcing his country to "to compete with one hand tied beyond her back." [147]. On both sides of the debate, the opposing financial narratives were deeply intertwined with ideas of *fairness*.

After months of negotiations, the Group of Ten (G–10) industrialized democracies agreed on a new set of fixed-exchange rates centered on a devalued dollar in the December 1971 Smithsonian Agreement. Although characterized by Nixon as "the most significant monetary agreement in the history of the world", the attempt to revive the Bretton Woods system was short lived. Fifteen months later, in February 1973, the dollar was yet again subjected to heavy pressure in financial markets; however, this time there would be no attempt to restore a Bretton Woods type agreement. In March 1973, six members of the European Community bound their currencies together and jointly floated against the U.S.

dollar, a decision that effectively signaled the abandonment of the fixed exchange rate system and the consolidation of the current system of floating exchange rates.

This development had broad distributional effects. Developing nations held reserves in USD rather than bullion to a greater degree than developed nations. By suspending convertibility, the global price of gold rose and with it the relative value of the reserves of the the developed *vis. a vis.* the developing world. This was, in effect, sudden and substantial wealth transfer on a global scale. Furthermore, developing countries were largely excluded from forums to attempt to stabilize the supply of dollars to the global economy throughout the 1970s and 1980s [183].[3] Global *de facto* South-to-North financial wealth transfers and perceived unilateralism have prompted questions on weather the centrality of the US currency is a tool of domination or the provision of a global public good.

As discussed in Chapter 2, the existing hierarchies of the international financial architecture have elicited different explanations, as well as different strategies for dealing with them. The broader narratives on international politics and the financial system have developed idiosyncratic elements that are a function of their time and of the attributes of the societies and groups in which they become prevalent. Yet, as discussed in Chapter 1, the effects opposing worldviews have on actual policy outcomes are dependent on several factors. The strategic setting or *context* in which a government operates has great bearing on their capacity to act *pro-actively* rather than *re-actively*.

3.1.1 The Original Sin

The link between the international monetary system and the challenges faced by emerging-market sovereign debtors has been a recurring theme in international financial governance. One of the most exemplary cases of this was the 1997 East Asian financial crisis, when

[3] This was the case during the Plaza (1985) and Louvre (1987) accords which sought to stabilize the value of the USD.

the Thai currency, the Baht, plummeted and dragged much of the region with it. One of the reasons behind this crisis was that Thailand had violated a principle in international economics known as the Mundell-Flemming trilemma.[4] It states that a small open economy cannot simultaneously pursue the following policies: a) an independent monetary policy, b) a fixed exchange rate and c) open capital markets. The resulting crash in Thailand which ended up spreading throughout the region seemed to validate this claim.

Bangkok tried to gain a competitive edge by attracting more investment than its neighbors with fixed exchange rates, relatively high interest rates and free capital flows. Its strategy collapsed under the force of speculative attacks and with it, the Baht. Similar attempts to maintain a peg have failed in the contemporary international monetary system: the European Monetary System in 1992, the Mexican Peso in 1984 and several emerging economies around the world throughout the 1990s, from Russia to Brazil.

The notion that the original sin of emerging market economies is their inability to borrow in their own currency was first advanced by Barry Eichengreen and Ricardo Hausmann in 1999 [57] and it has been reflected in the transformative financial crises that have shaped emerging economies since the 1980s. When developing nations contract foreign debt in currencies other than their own, they must export their goods and services to obtain the *hard* currencies they require to repay their debts. As opposed to debts denominated in their own *soft* currencies, they cannot simply inflate away their obligations. Likewise, raising taxes on their own population is insufficient as they would still have to acquire the foreign currency they require in international markets. Aside from increasing export revenues, distressed sovereigns also have the options of attracting more foreign investment – usually through tax incentives and privatizations – and restructuring their debts on more serviceable terms.

[4]The model was developed independently by Marcus Flemming and Robert Mundell in the early 1960s and based on the Keynesian open-economy macroeconomic policy model. [22]

Getting loans denominated in foreign currencies leaves the borrowing country in relatively vulnerable position, especially for small and less developed economies. Not only does it make it more difficult to pay should the economic panorama go awry, it also leaves them exposed to interest rate and exchange rate fluctuations.[5] Similarly, if there is a sudden slump for the price of its main export commodity(ies), the country's capacity to service its debts could also be eroded.

Nevertheless, developing nations are also in need of constant access to foreign credit. Their small domestic markets, relatively low savings rates and competitive pressures in a world of open capital markets drive them seek external credit to increase investment or achieve other economic policy goals. These countries thus have high ratios of foreign currency denominated public and publicly-guaranteed long-term debt, particularly in US dollars.

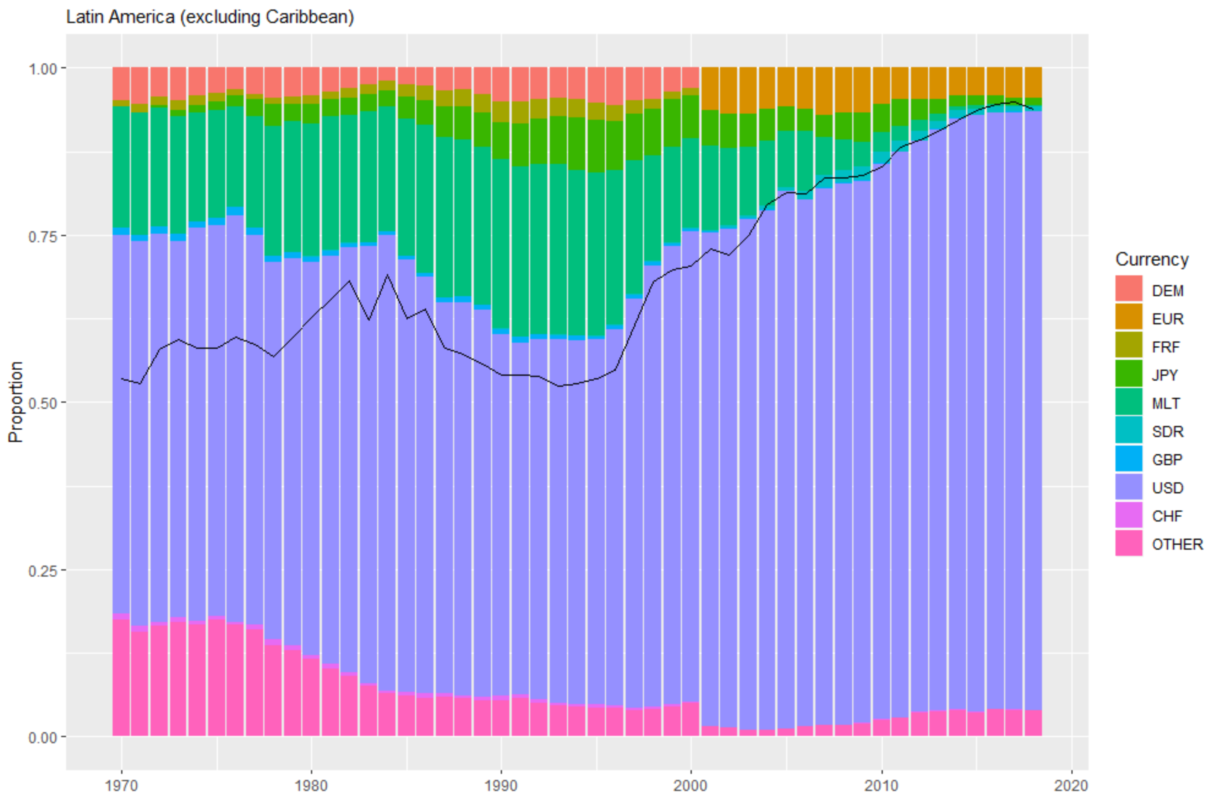
Figure 3.1 shows the median USD composition of new external commitments for countries in Latin America contrasted with the proportion of debt denominated in other currencies.[6] Though the USD has been the main currency of denomination since the 1970s, in the mid 1990s it began to climb significantly. This increase came at the expense of new external commitments denominated in Multiple Currencies (MLT) and OTHER currencies.[7] With the small of exception of Japanese Yen (JPY) denominated debt throughout the 1990s,

[5]For example, if a commodity-exporting nation contracts a 1 billion USD loan at a variable interest rate starting at LIBOR+1 when the global price for its main export commodity is 500 USD/unit there are several factors which are outside of its control. Assuming the country is small and has its own currency, it could find itself paying a significantly higher amount than expected if: a) LIBOR changes due to shifts in global appetite for risk or b) global demand for the currency in which it contracted its debt becomes more demanded.

[6]This excludes countries in the region that are full members of the Caribbean Community (CARICOM). This as those (mostly) island nations tend to have different economic structures, historical legacies and political systems – mostly parliamentarian – than presidential and luso-hispanic continental Latin America. CARICOM nations are excluded from all subsequent graphs referring to the Latin American region (LCN).

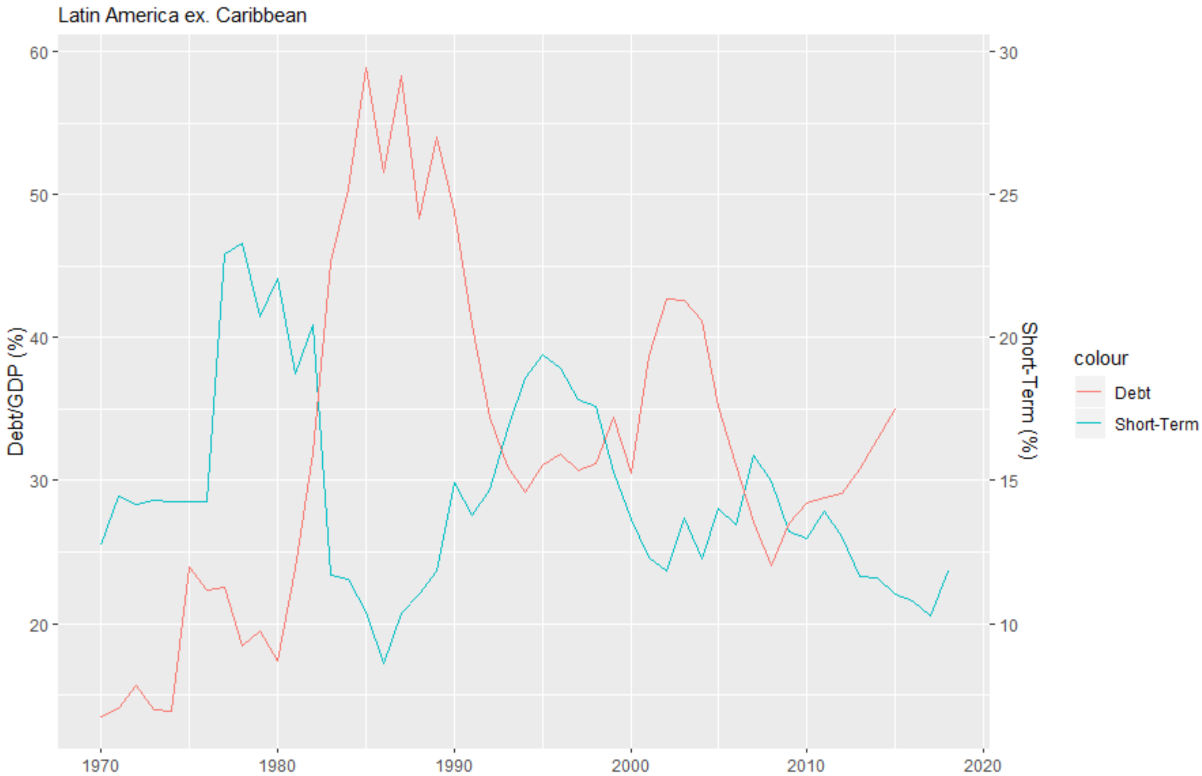
[7]Though not explicitly dis-aggregated in the data, the assumption is that both OTHER and MLT denominated debts have some domestic currency component.

Figure 3.1: Latin American Debt Currency Composition



Note(s): Excludes full members of CARICOM. Data taken from the World Bank International Debt Statistics [192]. Uruguay and Chile are excluded as they do not report their debt structures to the database as they are considered High Income by the World Bank [191]. It includes debt denominated in all of the most traded currencies and Special Drawing rights. Other is calculated as 1 - the sum of all other currencies. The black line represents the median of new external commitments to the region denominated in USD. The data does not differentiate between debt contracted with private or public external creditors.

Figure 3.2: Latin America Debt Composition



Note: Debt represents the median external debt to GDP ratios for countries in Latin America (excluding CARICOM members). Short-term (%) represents the median percentage of short-term debt (less than 1 year maturity) in a given year for the same group – in the right-hand y axis.

most *hard* currencies besides the USD constitute small and relatively unchanging proportions of Latin American external debt. Following this logic, there is a hardening of terms of credit offered to the region begining in the mid 1990s, with median USD denominated debt crossing 90% by 2013.

3.1.2 Sovereign Debt Cycles

3.2 Relative Financial Strength

Dragoslav Avramovic's "Economic Growth and External Debt" (1964) **??**, has guided the selection of economic variables associated with sovereign defaults (short-term liquidity factors and long-term macroeconomic health) in empirical studies to date. These include debt to GDP ratios, debt to exports/imports, inflation, GDP growth and investment rates. Panel data studies **??** have confirmed that these variables have significant effects on the probability sovereign defaults. However, "only few studies [. . .] tried to test the significance of political variables even though such factors are generally acknowledged to be important" [153, p. 7]. This section overviews the existing literature on the impact of political variables on sovereign defaults and considers not only the traditionally employed indicators of domestic politics, but also variables that show foreign policy trends. After all, defaulting to external creditors, public and private, is itself an act of foreign economic policy.

There are two main categories of empirical sovereign default studies: a) studies on the determinants of sovereign creditworthiness ratings and b) country-risk studies which attempt to predict defaults. In the first group, macroeconomic indicators such as per-capita income, GDP growth, inflation, debt ratios and default history are widely used across the board and have been found to impact whether the instruments issued by a sovereign borrower can be considered investment grade or not. However, "results on the significance of political variables have been mixed: Archer et al. (2007) concluded that political factors had little effect on bond ratings; Mellios and Paget-Blanc (2006) found that indicators of corruption were an important determinant of ratings; and Afonso et al. (2007) found a significant coefficient for an indicator of government effectiveness." [110, p. 5] The variables selected by these studies have however, been limited to good-governance indicators.[8]

Rother *et. al.* (2007) [168] find that government effectiveness is a significant factor in determining the creditworthiness of a sovereign. Similarly, both Jaramillo (2010) [110] and Peter (2002) [153] find that the *International Country Risk Index* is significant both for ratings and defaults respectively. Finally, Rowland and Torres (2004) [169] find that indicators of openness also have meaningful effects on credit ratings. Similarly, when indicators of political regime (democracy/autocracy) have been considered, "non-democratic systems are frequently described as inherently unstable, or shifts from one kind of political system to another are commonly taken as indicators of political instability" [163, p. 312]. This has been used as a proxy for political stability along with the presence of internal conflicts and frequency of government changes.

On the other hand, even though there is general agreement on which economic indicators are closely associated with higher country risk, "there are not even two studies with exactly the same determinants of debt servicing difficulties" [153, p. 7]. Nevertheless, financial ratios such as external debt to imports/exports and to GDP are consistently used and found to be significant; as have other macroeconomic indicators such as per capita income, GDP growth and inflation have also been widely used by economists. Though most contemporary studies rely on similar independent variables, they differ in two main issues: the first is the definition of the dependent variable and the second is the selection of political variables associated with defaults.

The selection of political variables relies on the assumptions of the scholars behind each study. These assumptions are regularly informed by behavioral models such as those advanced by Eaton and Gersovitz (1980) [55] and Sachs and Cohen (1982) [173]. These models proposed a strategic game in which debtors and private lenders (commercial banks

[8]This reflects an assumption that good politics are rewarded by financial markets.

and bondholders) interact in an environment of limited enforceability of contracts and credit ceilings. Such settings are deemed advantageous to debtors due to the existence of information asymmetries[9] and assumed optimum default times. They also assume that the decision to default follows some sort of utility maximization function anchored on the relative costs of *ex post* market exclusion.

Citron and Nickelsburg [38] find that "political instability tends to be an extremely important component of the probability of default, even when a very crude measure is employed." [38, p. 385] They select changes in government as a proxy for political instability guided by the notion that countries change governments when there is widespread dissatisfaction and that new ones must solidify power bases. This changes their preferences over either securing future loans from foreign creditors or reaping the short-term benefits of defaults. They found that: "when governments are changing frequently, the marginal benefit of default relative to alternative policies becomes positive, and when they are not changing frequently that ability-to-pay factors such as export earnings are more important" [38, p. 387]. However, their study also found that changes in GDP and Current Account were not significant, though they yielded the expected coefficient signs. However, a decade later, Rivoli and Brewer (1997), 317) found output indicators to be significant and that "the indicators of governmental regime change and of governmental legitimacy consistently did not have predictive power." [163, p. 317] This literature provides a general view on the macroeconomic indicators associated with sovereign defaults but presents mixed results on the – admittedly important – role of politics.

[9]The debtor has more information on his willingness and ability to repay than the creditor ever could.

3.2.1 Measuring Terms of Credit

In this section, I develop an index to trace the relative *terms of credit* of Emerging Market Economies (EMEs)[10] over time and in relation to each other. Rather than focusing on the assessment of a country's creditworthiness by private actors – such as credit rating agencies – I concentrate on the average terms of new debt contracts that an EME receives in relation to other emerging markets. The goal is not to predict defaults – as is the case of creditworthiness scores – but to rank countries on an annual basis.

The terms of credit are assessed by measuring new external debt commitments per year over four dimensions. The first one is the average interest rate (percentage) on new debt. The second is average maturity (in years) on new commitments. The third is the share of total new contracts (in current USD) which a country receives each year. The final dimension is currency composition, which is the percentage of new contracts not denominated in hard currencies.[11]

A country with a high TCI is thus one that has a) a low interest average rate, b) a high average maturity, c) a high proportion of debt denominated in soft currencies (arguably their own), and d) a high share of the total new commitments for a given year in comparison to other Emerging Markets. The underlying assumption is that EMEs compete amongst each-other for credit, especially from global financial centers.

One of the main advantages of calculating *relative* terms of credit is that they are not directly affected by the cyclical flows of capital from advanced economies to emerging markets discussed in section 3.1.2. A country (i) in year (t) can maintain relatively high (or low) terms of credit when compared to other emerging markets even during times of global

[10]Emerging Market Economies are classified according to their World Bank Income Group: Low Income, Lower-Middle Income, Upper-Middle Income and High-Income.In this paper, I consider Middle Income countries, which have a GNI per capita between $1,025 and $12,375 as of 2018.

[11]USD, EUR, CHF, JPY, SDR, GBP, SDR, and combinations of all

financial upheaval when creditors lose appetite for investing in emerging markets overall. Similarly, this indicator is less sensitive to contagion effects, which may affect all EMEs. However, since I have no data on advanced economies, the index cannot be considered to be an expression of creditworthiness overall, since some EMEs compete for funding with more advanced economies (which do not report their debt structures).

The data on all three dimensions comes from the World Bank's 2019 International Debt Statistics and covers all Middle-Income Countries. The database covers the period from 1970-2018. Low-Income countries are excluded for two reasons: a) their share of credit is too low to be considered to meaningfully compete with other EMEs, and b) there are special programs such as the Highly Indebted Poor Countries Initiative which provide credit to them on more favorable grounds. The four variables used to construct the TCI are described below. They are divided in two categories, new debt contracted with private creditors such as commercial banks and bondholders; and that contracted with official creditors, such as other sovereign nations or multilateral institutions. Only Public and Publicly Guaranteed (PPG) Debt[12] – sovereign debt broadly speaking – is reported and thus considered.

The *average maturity* on new external debt commitments is the weighted average of the number of years to the original maturity date. This calculated as the years between the signing of the contract and the last repayment of principal. The maturities for all public and publicly guaranteed (PPG) loans is weighted by the amount of the loan in order to construct the country-year average. The average interest rate is calculated from all PPG loans contracted during a year, it is constructed by weighing the amount of each loans

Commitments represent the amount of PPG long-term loans – over one year in maturity – that were signed in a given year. Total commitments represents the sum of all EME

[12] This encompasses long-term external debt obligations of all public debtors and external debts of private actors that are guaranteed for repayment by a public institution.

commitments (current USD) for a given year. Finally, currency composition refers to the percentage of long-term PPG loans that were not contracted in one of the top-traded global currencies reported to the World Bank Debtor Reporting System[13]. This does not necessarily mean that a loan was denominated in domestic currency, but rather that it was not explicitly denominated in a *hard* currency. This is taken as a proxy for both creditor *diversity* (i.e. loans from China or other large EME creditors) or domestic currency issued external PPG loans.

The four variables are ranked by year, and then the rank for each dimension is weighted to construct two separate indexes. A private TCI, based on the data from PPG loans contracted with private creditors, and an official TCI which considers debt to multilateral institutions and foreign public institutions. Each dimension accounts for .25 % of their respective terms of credit index. Furthermore, an overall TCI is constructed by weighing the private and official TCIs at 50% each.

The four variables[14] are normalized by ranking. This lets the TCI be unaffected by outliers while tracing the performance of a country in *relative* terms over time. The process used to determine the ranks is twofold. In step one, the variables are ranked from lowest to highest (or *vice versa* depending on their relation to the TCI) for each year. In step two, these yearly ranks are again normalized in order to obtain a score that oscillates between 0 and 1, where 1 represents the highest ranked country in a given year.

The normalized variable rank ($R_{t,i}^{var}$) for country (i) year (t) is calculated by ranking ($r_{t,i}^{var}$) the variable (var) – in descending or ascending order – relative to all other EMEs (N_t) observed in a given year. Where:

[13]USD, EUR, CHF, JPY, SDR, GBP, SDR, and combinations of all

[14]COM - commitments, MAT - average maturity, INR - average interest rate and CUR - currency composition. INR and MAT values equal to zero are ignored, as the data is calculated as a weighted average by the World Bank for MAT and INR

$$R_{i,t}^{var} = \frac{N_t - r_{i,t}^{var}}{N_t - 1} \tag{3.1}$$

The ranks are calculated separately for public and publicly guaranteed debt (PPG) contracted with private and official. creditors, where:

$$TCI_{i,t}^{Pr} = (R_{i,t}^{p.int} * .25) + (R_{i,t}^{p.mat} * .25) + (R_{i,t}^{p.cur} * .25) + (R_{i,t}^{p.com} * .25) \tag{3.2}$$

$$TCI_{i,t}^{Of} = (R_{i,t}^{o.int} * .25) + (R_{i,t}^{o.mat} * .25) + (R_{i,t}^{o.cur} * .25) + (R_{i,t}^{o.com} * .25) \tag{3.3}$$

Finally, an overall TCI is calculated by combining both private and official terms of credit ranking scores as follows:

$$TCI_{i,t} = (TCI_{i,t}^{Of} * .5) + (TCI_{i,t}^{Pr} * .5) \tag{3.4}$$

Prior to annual ranking (see equation 3.1), commitments (COM) are weighted by a country's share of EME GNI. Where:

$$com_{i,t}^{r} = \frac{\log(com_{i,t})}{\log \sum_{i=1}^{n} gni_{i,t}} \tag{3.5}$$

The weighted scores are then rescaled by min-max (0-1) as follows:

$$com_{i,t}^{r'} = \frac{com_{i,t}^{r} - min(com_{t}^{r})}{max(com_{t}^{r}) - min(com_{t}^{r})} \tag{3.6}$$

The normalization, re-scaling and weighing methods described above ensure that each component of the TCI is a variable that oscillated between 0 and 1, where all of its components have been weighted by the amount of contracted debt, as well as a country's share of overall EME gross national income.[15] This provides us with a meaningful indicator to compare the average contract placed on the market by one emerging economy in relation to its peers.

The results of the terms of credit index show the expected trends when it comes to the case studies of the thesis. Namely, that Mexico's terms of credit went from being among the lowest for EMEs to being consistently among the highest after 2000 (see figure 3.3. In the case of Ecuador, it shows the market exclusion after the 2008 default in the private terms of credit dimension, as well as a dip in official terms of credit after said event.

This measure allows us to observe differences between similar groups of borrowers, in this case South-South comparisons. However, it does not take into consideration the cyclical flows of credit from the global North to the global South.

3.3 Political Fallouts and Gains

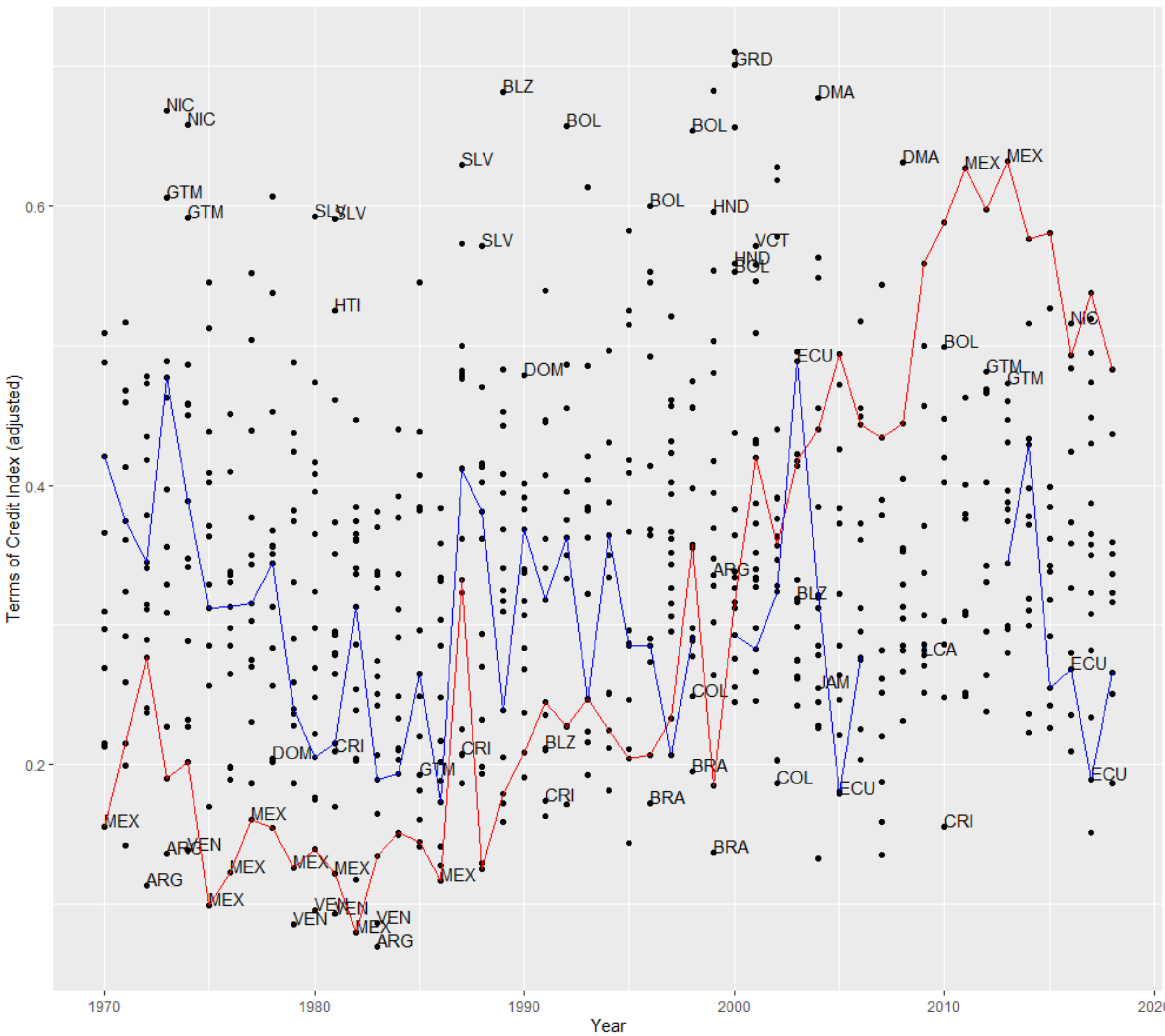
In *Manias, Panics and Crashes*, Charles Kindleberger [**?**] argues that "the cycle of manias and panics results from the pro-cyclical changes in the supply of credit" [**?**, p. 13], it increases during *good* times but drops sharply during *hard* times.

> The economic situation in a country after several years of bubble-like behavior resembles that of a young person on a bicycle; the rider needs to maintain the forward momentum or the bike becomes unstable. During the mania, asset prices will decline immediately after they stop increasing – there is no plateau, no 'middle ground'. The decline in the prices of some assets leads to the concern that asset prices will decline further and that the financial system will experience 'distress'. The rush to sell these assets becomes self-fulfilling and so precipitous that it resembles a panic. The prices of commodities – houses, buildings, land, stocks, bonds – crash to levels that are just 30 to 40 percent of their prices at the peak. Bankruptcies surge, economic activity slows, and unemployment increases. [**?**, p. 13]

The transition from pegged currencies to floating currencies that began in 1971 also

[15] The index was also constructed with the unweighed share of commitments to GNI, which benefited larger economies. However, the relative trends among larger EME did not change (i.e. Mexico-Brazil). I opted to report the weighted commitment-to-GNI ranks as they provide a better way of comparing larger economies to smaller ones in the income group category.

Figure 3.3: Terms of Credit Index



Note: The Y axis represents the overall TCI (GNI adjusted), where a score of 1 represents an observation ranked with the lowest average interest rate, longest average maturity, lowest soft-currency debt composition and highest share of total commitments relative to GNI for a given year (X axis). Each point represents an observation for a country in Latin America, points above the first decile and below the ninth are highlighted. The red line represents the Mexican TCI over time, and the blue one represents Ecuador's TCI.

Figure 3.4: Case Study TCI

Note: The two components of the TCI (GNI adjusted) are plotted for the two case studies in the thesis. Breaks in the line represent non available data (or market exclusion).

increased the number of asset-price bubbles around the world. Rapid inflows of capital and subsequent economic collapses impacted the politics as well as the economies of the affected countries. They were accompanied by sudden and large-scale re-distributions of wealth in society. Key assets were sold in distress and bankruptcies and unemployment engulfed many a country. As this occurred, it touched upon one of the most powerful narrative themes: *fairness*.

NOTE: THIS SUBSECTION WILL BE SIGNIFICANTLY EXPANDED ON

3.4 Narrative Constellations and Contentions

As Randall Germain (1997) puts it: "[t]he balance of power between state and market authority has been transformed since the 1970s" [76, p. 163]. It changed from a world of high State involvement in the creation and international allocation of credit – through syndicated and bilateral loans and negotiated exchange rates – to one where private actors have been increasingly guiding capital flows. Reactions to this phenomenon have been mixed and widespread. Academics, journalist and politicians have advanced distinct narratives with their own sets of concepts, policy prescriptions and assumptions about the nature of the financial system. Despite changes in financial innovations, relative and absolute State capacities, and even political regimes throughout the world in the last 50 years; the debate over the desirability of more or less state intervention in market affairs remains. Each side of this debate underpins a what Shiller (2019) calls a narrative constellation.[16] Furthermore, these two narrative constellations qualify as what he calls *perennial*, which "won't completely go away, and [...] pop up in many mutated forms" [178, p. 107].

As market mechanisms became the norm in the international financial architecture,

[16]These are "[n]arratives that occur together [...] in terms of some basic idea". [178, p. 92] In this case the idea is the role that public authority *should* play in society.

political forces with a higher preference for State involvement in the system began advocating for reforms which returned the prerogative of credit allocation to public authorities. This became an agenda of *defiance* against the prevailing rules of the game. Conversely, political forces with higher preferences for market solutions have advanced agendas based on engaging with the system in *good faith*. Though both side may have access to the same data, their interpretation mechanisms and their strategic blueprints differ. Though all Latin American countries face similar challenges with regards to their access to *hard* currencies, they have opted for different strategies to deal with the international monetary system: with deeper cooperation with the global financial centers and compliance with their rules of engagement on one hand, and attempts to create South-South cooperation mechanisms and reassert political control over central banks on the other.

The two cases discussed in this thesis are representative of this divide. Mexico under Fox and Ecuador under Correa took opposite stances towards global private lenders and exemplify polar opposites in Latin America, and to a lesser extent for all Middle Income Countries. Since the signing of NAFTA and transition to democracy in the 1990s, Mexico became increasingly more open to the world economy and signed several bilateral and multilateral agreements on trade. In turn, this stance has also been present in its relationships towards private external creditors, exemplified by its active push for the dissemination of the collective action clauses proposed by the Institute for International Finance.

By contrast, Quito distanced itself from western-led global economic institutions during Rafael Correa's presidency. After rising to power, Correa enacted an agenda which sought to pull his country away from global markets and the influence of private creditors. This culminated in the creation of a debt auditing commission which recommended ceasing payments on all private debt external debt contracted by the country; resulting in one of the few cases on record when a country has defaulted on its debts based on arguments of their illegitimacy rather than on incapacity to repay.

Nevertheless, not all countries that have positive attitudes towards global markets avoid defaults, nor do they go out of their way to shape or advance the rules of international lending. Similarly, not all countries that have negative attitudes towards global trade and western finance default on their obligations. Vicente Fox in Mexico and Rafael Correa in Ecuador clearly occupied opposite poles of the narrative spectrum on the international political-economy; with the former having been a prominent businessman before taking office and the latter a Marxist professor of Economics. However, both heads of state inherited stable economies. This after the long and pervasive periods of economic and financial instability outlined throughout this chapter.[17]

Sovereign debt crises have been a recurring source of global financial instability for decades. After the end of dollar-gold convertibility and the increase in private cross-border financial flows, these crises have risen in frequency and severity. This has been accompanied by numerous initiatives and proposals to prevent and resolve such crises. In the following chapter, I present an overview the evolution of the international institutional mechanisms for sovereign debt restructuring from the Paris Club to Brady Bonds and Collective Action Clauses.

[17] Further evidence for the preferences and narratives held by both leaders, as well as the state of the economies the inherited is presented in the case studies on Mexico in chapter 6 and Ecuador in chapter 7.

Chapter 4

Sharing the Burden

"Morality binds and blinds"

Jonathan Haidt

IN *The Code of Capital* Katharina Pistor (2019) [158] argues that the financial system is a legal construct, Capital "is coded in law" [156, p. x]. There is a world-wide web of contracts and obligations that underpins the actual flows of cross-border goods and services. Throughout the 1980s, a set of legal and economic reforms spread throughout both the developed and developing worlds. These changes consolidated by the collapse of the Soviet Union and the emergence of a truly global economy. "The idea was to create conditions by which everyone would prosper. Individual initiative protected by clear property rights and credible contract enforcement would, so the argument went, ensure that scarce resources would be allocated to the most efficient owner, and this in turn would increase the pie to the benefit of all." [158, p. 1] The notion that *the rising tide would lift all boats*, became common economic sense throughout the world and remained so virtually until the 2008 global financial crisis.

Pistor (2013) [156] argues all financial assets, from legal tender to securities and credit arrangements, are contracts whose value is dependent on their eventual legal vindication and on the appetite for liquidity and risk of investors. This leads to two characteristics of the financial system: a) the legal structure contributes to fundamental instability and b) law becomes more flexible as it approaches the apex of the system. Furthermore, she argues that "the choice of governance regimes for finance is driven more by ideology than compatibility with underlying institutional developments" [?, p. 295]. According to this legal theory of finance, the structure of international finance is a core-periphery one.[1] According to Pistor (2014): "the *laissez-faire* model is not an equalizer, but a governance regime that privileges the banks housed at hegemons at the expense of the economies of the periphery of the transnational or global integration regime." [157, p. 300]. The language employed by Pistor and other proponents of this theory uses similar concepts to the narratives of the international political-economy.

Though the basic elements of each narrative have remained relatively constant through time, their salience ebbs and flows. The salience of the international financial architecture increases after *bad times* and decreases during *good times*.[2] Furthermore, as the nature of these flows changes – from public creditors to private ones and from syndicated loans to bonds – so have the debates on the best mechanism to resolve of sovereign defaults and arrears.

Furthermore, as seen in the previous chapter, different narratives of stability and global monetary and financial hierarchies have developed in order to explain the state of the contemporary financial architecture. The economic and political particularities of the developing world in general and Latin America in particular have outputted several regional initiatives and calls for global reform. In this chapter, I go over a range of proposals to reform the global norms that pertain to the restructuring of sovereign debt, as well as their connection to the narratives of the international political-economy discussed in Chapter

[1] The origin of the terminology center-periphery can be traced to the work of Raul Prebisch on economic development prospects in post-war Latin America (see section **??**).

[2] This pattern is further explored throughout the UNGA corpus in the following chapter.

2, and to the differences in capabilities of emerging-market economies outlined in Chapter ??.

4.1 The Negotiated IMS and Latin America

In 1944, the set of international financial institutions of the international framework dubbed the *Liberal World Order* by Ruggie (1982) [171] was agreed upon by the United States and its allies.[3] These institutions remain in operation to date, including the International Monetary Fund and the World Bank along with the International Bank for Reconstruction and Development. Respectively, they were originally charged with: preventing vicious cycles of competitive revaluations, funneling funds to emerging markets through accessible loans, and financing the reconstruction of advanced economies [95]. Nevertheless, their functions and policy outlooks have changed with the passing decades and its challenges [82].

As shown in the previous chapter, the international financial architecture has been subject to numerous transformations since the inception of the contemporary monetary system; from a world characterized by capital controls and fixed exchange rates to one of free capital flows and (mostly) floating exchange rates [23]. In turn, these transformations have been accompanied by international efforts to reach some level of agreement on the norms that govern cross-border flows of capital. The agenda-setting power for such reforms and agreements has rested historically in the developed world, and more specifically in its monetary core. This has fostered the perception that developing countries have been merely spectators to these changes, at best protesting them but to little effect on their design.

According to Raymond Mikesell [137, p. 2] – an American economist present at the

[3]After World War II ended attempts to revive the classic gold standard, the Bretton Woods system emerged to provide global liquidity and enable the restoration of the global economy. Under this system, the price of the US dollar was fixed at 35 units per ounce of gold and countries traded with the American currency under the assumption that this peg was to be maintained.

Mount Washington Hotel conference – "there were few instances in which countries other than the United States and United Kingdom were able to influence the final outcome." Though several countries such as France and Switzerland had proposals of their own on how the new monetary system should be configured, only two were debated: the American plan designed largely by Harry Dexter White and a British alternative advanced by John Maynard Keynes.[4] Despite the prominence of these two delegations, a total of 730 delegates, representing 44 allied countries, attended the meeting. Of the nations represented, 19 were Latin American and 11 European.

In contrast to the generalized perception that the developing world's role at Bretton Woods was a footnote in the annals of history, Helleiner (2014) [98] argues that the inspiration for its design came from the US' experience dealing with Latin America under Roosevelt's Good Neighbor financial partnership. This occurred under a particular historical period for the Americas, when both Washington and its southern peers view State intervention in the economy with favorable eyes. As Helleiner (2014) puts it: "[f]or many New Dealers, the sens of solidarity with Latin America was reinforced by their antipathy towards the New York financial community" [98, p. 33]. Though short-lived,[5] this sense of pan-American solidarity under the Roosevelt administration was strengthen throughout the course of WWII, as the threat of fascism aligned geopolitical interests along with ideological concordance.

The zeitgeist of the New Deal was as present in the initiatives taken by the Roosevelt administration to financially engage Latin America. White was his administration's key

[4] The First American President of the IMF and alleged soviet sympathizer and occasional collaborator. The Division of Monetary Research of Henry Morgenthau's US Department of the Treasury was headed by White and staffed with alleged communists [200]. His plan ended up succeeding over Keynes' proposal of creating an international system centered around a unit called *Bancor* rather than the US dollar.

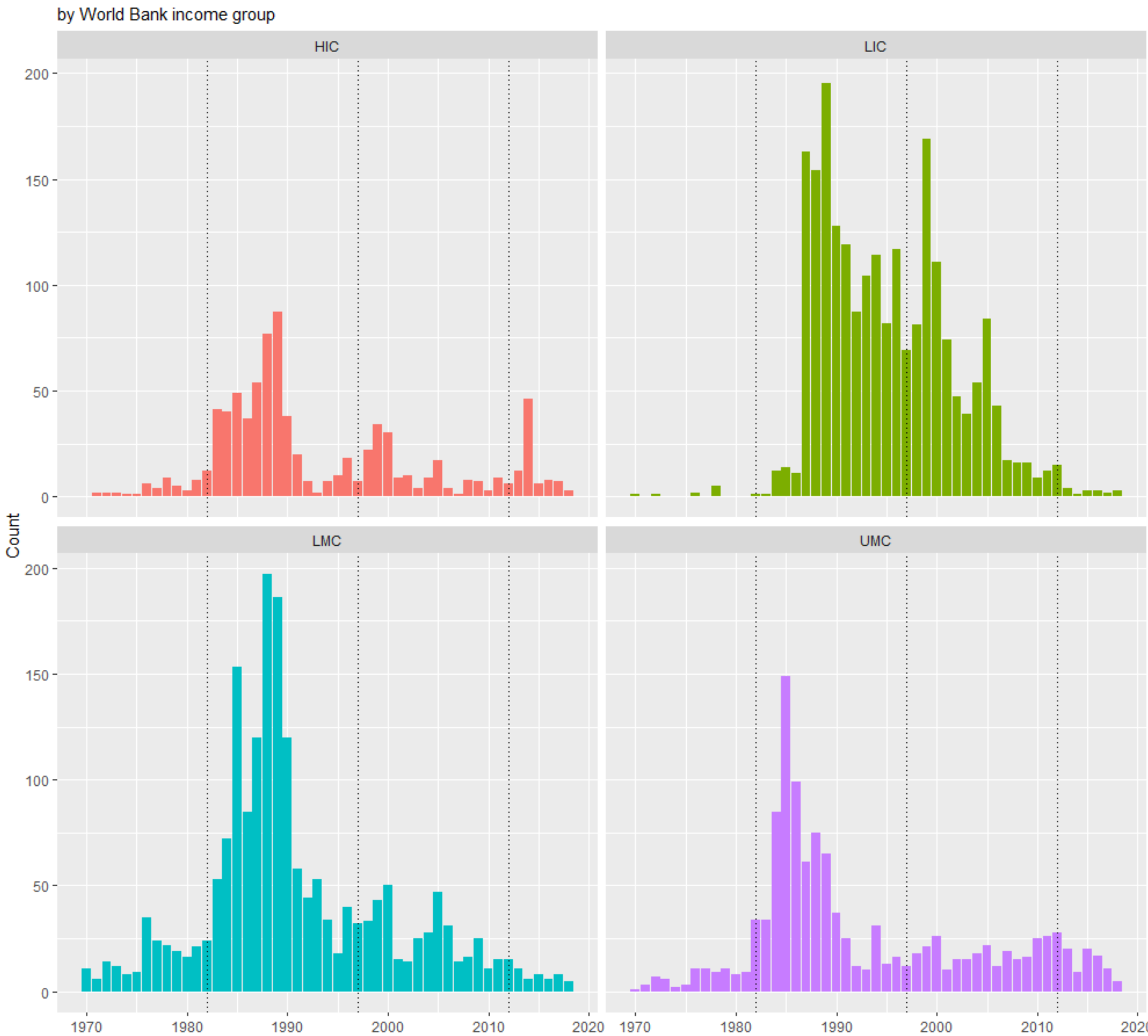
[5] A variety of factors eroded this by the 1940s, chief among them were a) the opposition of the New York Financial community to public-sector lending to the region and b) bureaucratic tensions within the administration as the one between Hull and Morgenthau.

figure in this endeavor. The agreements reached during this period (1936-8) short-term bilateral loans for balance-of-payments purposes and an increase in direct public lending over private credit. Many of these policies, as well as their emphasis on financing for development ended up in the Bretton Woods proposal advanced by White. This new economic architecture promoted free trade, but allowed for greater financial planning and capital controls. The influence of the US-Latin America financial relationships was symbolically acknowledged as Eduardo Suarez – Mexico's Treasury Secretary – was named the chair of one of the conference's three panels.

As shown in Figure 4.1, *debt* has been a far more salient issue for the developing world. Low (LIC) and Lower Middle Income Countries (LMC) mention the term far more that their High Income (HIC) and Upper Middle Income (UMC) peers. It is a particularly recurring theme for the world's poorest countries. However, the popularity of the term in UNGA speeches also varies through time. During the 1980s it was a particularly important topic on the international agenda across all income groups. In the aftermath of global financial *hard* times, the issue of debt becomes more relevant. Notably, the world's richest economies become more concerned about the topic if a crisis threatens the entire financial system. Though less of a concern for HICs, debt became briefly more salient after the 1997 Asian financial crisis and the 2012 European crisis.

Changes in the prominence of debt in the international agenda have been accompanied by debates over how to best resolve the crises that placed the global spotlight on the financial architecture. These debates have fallen across the usual debtor-creditor lines, with the former advocating for more leverage over the latter and *vice versa*. Nevertheless, there are several other factors at play, from geopolitical considerations to political and ideological lines. The narrative constellations outlined in Chapter 2 are among these factors. Perspectives on the nature of the financial system and the inherent fairness of its rules have shaped debates over how to *fairly* share the burden once the music stops and some are left

Figure 4.1: *Debt* in UNGA speeches



Note: This was calculated from the United Nations General Debate Corpus [10]. It sums all mentions of the term debt 1970-2018. The income groups are taken from the World Bank lending group data. The vertical lines along the x axis represent three crisis years: 1982, 1997 and 2012.

standing. Just as recurring as crises are the negotiations to deal with their fallout.

4.1.1 Good Faith and Defiance

The financial policies of 1944 and their accompanying support for State-led lending faded away as the geopolitical realities of the Cold-War set in. With the rise of the Soviet Union and the defeat of the fascist threat, Washington turned increasingly hostile to public intervention in the economy and ever more weary of the political allure of socialism south of its border. The US-Latin America financial partnership was an example of what I refer to throughout this thesis as an agenda of *good faith*, and one greatly enabled by the narrative similarities between its participants. This concordance began to erode throughout the mid 20th century turned into outright confrontation by the 1970s.

Monetary politics are deeply intertwined with politics in the broader sense. Aside from its economic role as store of value, unit of account and medium of exchange; money is a political symbol which evokes sentiments of nationalism[6] and brings forth assumptions about the appropriate relationship between the State, the Market and Society.

Hayek found it unfortunate that money is described as a noun rather than as an adjective. He saw no *strict* distinction between money and non-money, but rather a continuum of objects that are imbued with varying degrees of liquidity. Objects, thus, have currency, but are not currency themselves. Commenting on Gersham's Law [7], Hayek [93, p. 42]

[6] Eric Helleiner [94, p. 1409] identifies 5 ways in which currencies relate to national identities: "a) providing a vehicle for nationalist imagery that constructs a sense of collective tradition and memory, (b) acting as a common medium of social communication that may facilitate the "communicative efficiency" of members of the nation and encourage similar frameworks of thought, (c) creating collective monetary experiences that can bolster the feeling of membership in a national community of shared fate, (d) contributing to a sense of popular sovereignty, at least insofar as the national currency is managed in a way that corresponds with the people's wishes, and (e) strengthening the kind of quasi-religious faith that is associated with nationalism, especially when the currency is managed in a stable manner."

[7] This monetary principle asserts that if there are two forms of commodity money in circulation, the bad money will drive the good out of circulation as the latter will be hoarded by the public.

highlights that it "will apply only to different kinds of money between which a fixed rate of exchange is enforced by law". This is directly connected with the relationships between debtors and creditors. "If the law makes two finds of money perfect substitutes for the payments of debts and forces creditors to accept a coin of a smaller content of gol in the place of one with a larger content, debtors will, of course, pay only in the former and find a more profitable use for the substance of the latter." [93, p. 42-3] In other words, if rates are left to vary without the intervention of public authority, then the *bad money* will indeed be discarded from use and that the discretionary exercise of such power runs the risk of obfuscating the obligations contracted in a society.

Often, financial crises are taken as an opportunity for reform between opposing political groups. This has occurred at both the national and international level. On a spectrum, those that believe that the discretionary use of authority to solve and prevent economic problems advocate for a State that has greater capacity to regulate, direct or forbid the flow of credit in an economy. Conversely, those skeptical of government power advocate for solutions that are not subject to the logic of politics but rather to agreements among members of a market, with the State's role ideally reduced to not much more than an arbiter should said arrangements go awry.

Though there are several shades of grey within this spectrum, political coalitions on one side or the other have vied for control over governing institutions. Once in power, their leaders have shifted its policies to reflect their ideological presuppositions. The rise and fall of the Glass-Steagall act in the United States, the change in policy approach at the IMF during the late 1970s and the transition from Import-Substitution Industrialization in Latin America to economic liberalization are all examples of such confrontations. Debates on financial matters are never apolitical and seldom solely over technical concerns. Sovereign debt is particularly salient issue in politics precisely because public debates over it brush on the broader, and more diffuse, concept of *sovereignty* itself.

Assuming the leadership believes that engaging with international financial markets is a net positive, then it is expected to act in good faith. This means going beyond simple compliance with the rules of the game: going further to advance the policy objectives of the dominant governance structure, even at a modest cost to itself. In the case of sovereign debt restructuring, this would translate into an emerging market player taking the costs in terms of risk for experimenting with contractual innovation or closely cooperating with the institutional frameworks that constitute the international regime.[8]

Conversely, when the leadership believes that global financial markets are a means of domination by more powerful countries – and the issue is politically salient–, then the expectation is that they act in defiance of the established norms and procedures. In the realm of sovereign debt, such defiance can take many forms: from establishing parallel regional financial frameworks to outright default on sovereign obligations. However, strategies of defiance are not always successful, and the cost of failure is grave. This can mean exclusion from capital markets not just during economic upswings, but during downturns as well. The latter case is more pernicious for an economy, and especially for a peripheral one, as it requires additional inflows of capital to cope with a reduction in output. Thus, the option of defiance implies the acceptance of the costs and risks that come with it. Though EMEs mostly play by the rules regardless of their leadership's narrative of finance either to enjoy its benefits or to avoid the negative consequences for challenging it; studying atypical cases can help us better understand the role that ideas play in sustaining international regimes, and potentially in transforming them.

The two distinct narratives of the international financial architecture outlined in Chapter 2 suggest different ways of interacting with the system. The *zero*-sum narrative of finance in Latin America prescribes a strategy of *defiance* against the contemporary in-

[8]For the topic at hand this includes the Paris Club, the Institute for International Finance, the International Capital Markets Association as well as the Bretton Woods institutions.

ternational organization of credit. On the economic front, there is a clear preference for greater public authority over economic life, particularly in terms of monetary sovereignty and debt rescheduling. On the political front, the assumption that gains for the periphery can only come in detriment to the core and the acknowledgement of the asymmetries between the two groups result in a strategy of South-South cooperation to balance out the power and influence of the global North.

Conversely, the strategy prescribed by the variable-sum narrative is one of good faith negotiations with the central nodes of the financial system. Economically, market mechanisms are considered to be a better way of allocating financial and tangible resources, thus the best strategy is to attract greater shares of global free-flowing capital by providing better information and returns in investments. Politically, the importance of South-South cooperation is considerably lower than bilateral ties with the global North, in the case of Latin America this has typically translated in greater bilateral cooperation with the United States.

4.2 Bargaining Sovereign Debt Restructuring

During the debt crises of the 1980s, when a small number of creditors held a large percentage of EME debt, restructuring was a more orderly process as all parties involved had the incentive to reach an agreement that was sustainable. The main lenders to distressed sovereigns were commercial banks. They had several reasons to maintain a good relationship with a possible future client and were more easily swayed by their own domestic regulators and their political (or geopolitical) interests in the debtor's macroeconomic stability. The transition to bonds and a constellation of atomized lenders changed this strategic setting. The heterogeneity of bondholders in contrast to commercial banks and syndicated loans makes it more difficult to restructure debts as not all creditors have the same incentives for a rapid and orderly process and some may profit from uncertainty. The possibility of hold-outs added an additional layer of doubt to an already costly restructuring process.

4.2.1 The Sovereign Debt Restructuring Mechanism (SDRM)

On November 26, 2001, IMF Deputy Managing Director Anne Kreuger gave a speech at the National Economists' Club Annual Members' Dinner – a Washington event hosted by the American Enterprise Institute – calling for the creation of a Sovereign Debt Restructuring Mechanism (SDRM) to improve global financial governance. She alluded to the series of EME financial crises in the previous two decades as an indicator of a hole in the financial system: the lack of incentives for orderly restructuring and the potential moral hazard of private-creditor bailouts by the international community.

To address this issue, she outlined a proposal that the IMF staff had been designing months prior: the SDRM was described as "a framework offering a debtor country legal protection from creditors that stand in the way of a necessary restructuring, in exchange for an obligation for the debtor to negotiate with its creditors in good faith and to put in place policies that would prevent a similar problem from arising in the future." [**?**, p. 1]. Additionally, she stated that the mere existence of such an international workout system would encourage creditors and debtors to reach sustainable agreements on their own terms.

A cornerstone of the SDRM proposal was that the IMF would throw its weight behind temporarily distressed debtors that were facing liquidity shocks insofar as they were pursuing macroeconomic policies deemed sound by the fund. This was far from an actual bankruptcy framework for sovereigns, yet it sparked great controversy among the participants of the international regime for sovereign debt management. Though it was not the first attempt at the IMF to develop such a framework, it was the most public one to date.[9]

The SDRM proposal came after the 1994 Mexican and the 1997 Asian crises. It "came from both the political right, who consider(ed) the elimination of moral hazard associated with public guarantees to private creditors is an essential prerequisite for the good functioning of financial markets, as well as from the left, who saw excess debt levels as a strong obstacle to development" [89, p. 195]. Though it quickly lost traction, it was a reaction to the perceived deficiencies in the system of private creditor bailouts as well as the issue of hold-outs.

However, not all participants had the same attitudes towards what was possibly an international bankruptcy regime. Among private lenders, there was an ongoing concern that such a measure would erode creditor's rights. Similarly, not all debtors were behind the idea of the SDRM or any type of sovereign bankruptcy framework for that matter. Though some saw it through the lens of potential beneficiaries of the proposed changes, others complained that it would raise their cost of borrowing and of getting a fresh start should they end up defaulting [176].

The main idea behind the SDRM was that there would be a more efficient and equitable solution to the restructuring problem; on that was fair to creditors but also left breathing room for distressed borrowers. In parallel, the option of CACs – where bonds would be easier to restructure by a qualified majority – was being developed. Opposers to the SDRM claimed that such a mechanism was detrimental to the interests of creditors, to the point where they could lose interest in the market altogether and stop lending. In theory, a statutory approach might be more efficient and fairer, but the market would dry up as no foreign investors would be willing to effectively subsidize bad policies. Even if they were

[9] Throughout the 1990s, IMF officials and scholars like Stanley Fischer and Jeffrey Sachs had proposed reinterpreting the articles of agreement to give the fund the prerogative to protect sovereigns from litigation and the creation of a new international bankruptcy law [176].

to continue lending, it was feared that the rates would have increased substantially. This short-lived debate to transform this international regime ended when Mexico issued bonds with new clauses meant to reduce the possibility of hold-outs and eroded the uncertainty over whether they would increase the cost of borrowing for other EME debtors by creating the expectation of future default [96].

4.2.2 Collective Action Clauses (CACs)

A collective action clause (CAC) is a stipulation incorporated into a sovereign debt security contract. This clause specifies that a supermajority of creditors (normally 75%) for a given instrument can amend terms – notably but not exclusively in terms of payments – and impose them on a dissenting minority. Though the use of these clauses pre-dated 2003 in the London market, securities issued under New York law required unanimity among creditors in order to make amendments to the instrument, thus "making consensual restructuring difficult" [140, p. 103].

This debacle originated from a problem of *incomplete contracting*, which refers to when the clauses of a debt instrument permit either the debtor or the creditor to ask opportunistically at the expense of the other party involved. Though advanced economies also issue sovereign bonds, "[t]heir sovereign debt contracts are essentially devoid of terms other than the interest rate, amount, and maturity" [37, p. 2]. By contrast, EME borrowers typically include provisions for orderly restructuring in case of default; as well as additional terms to indicate strong contractual commitments.[10] CACs and the overall issue of contractual technology advancement was especially salient for EMEs. Though the prevention of *hold-outs* has received the bulk of the attention in the literature on sovereign debt restructuring,

[10] These may include arbitration procedures, investment treaties or the out-right partial waver of sovereign rights over certain assets as collateral.

"the debates among market participants are even deeper and broader than much of the literature might suggest" [140, p. 115].

Efforts to improve and perfect the CACs system reflect this focus on holdouts and the overarching efficacy of the current distribution of adjustment burden and negotiation power between debtors and creditors. An IMF report [108, p. 4] on the matter asserts that "[w]hile it is in the interest of sovereign debtors, creditors and the system more generally for debt to be repaid under the original terms, there may be circumstances where it is recognized by a sovereign and its creditors that an orderly restructuring is necessary." The principal aim of these clauses is to facilitate negotiations between creditors and debtors by ensuring intra-creditor cohesiveness. It is designed to overcome collective actions among lenders by decreasing the risk of financial instability from speculative behavior by asset holders that horde emerging debtor instruments in the secondary market.

To date, most EMEs have adopted CACs when issuing their sovereign bonds and the European Union made them standard practice for their foreign-jurisdiction-issued bonds in 2003 [107]. The debate on the creation of a formal mechanism that mirrors national bankruptcy laws as an alternative for the market solution of improved contracts has since been left aside. Nevertheless, multilateral and non-profit organizations as well as EMEs have continued to work on developing lending and restructuring standards that also consider the developmental responsibilities of States. UN developmental frameworks such as the Sustainable Development Goals (SDGs) have provided impetus for such initiatives. Nevertheless, tweaking the language of the clauses continues to be an issue. In July of 2015 controversy in the field of sovereign debt restructuring remerged when a US federal judge – Thomas Greisa –sided with an investment fund's claim that a standard clause in the boilerplate version of CACs (*pari passu*) enabled it to hold-out on negotiations between Argentina and its other creditors.

4.2.3 Market-Based vs. Statutory Debate

Helleiner (2008) poses the question, “if a SDRM (sovereign debt restructuring mechanism) would boost debtor interests vis-à-vis foreign capital, how can we explain the fact that debtor governments have frequently objected to their creation?” (Helleiner, 2008, p. 111) Helleiner’s answer to this is that ‘good’ debtor countries did not wish to be lumped into the same category as ‘bad’ ones, which in turn created collective action problems on the side of debtors in order to advance sovereign debt restructuring initiatives. Thus, the rapid spread of these clauses in the sovereign bond market, which ultimately displaced the efforts to create an regime based on treaty commitments, was due to “ the combination of the unilateral decisions of debtor governments to issue them and the embrace of these bonds by private creditor interests.” (Helleiner, 2009, p. 111)

One of the key arguments in favor of CACs is that they would increase global financial stability without increasing the risk of moral hazard that would come from raising the negotiating power of debtors. However, there are many arguments against this stance. Gelpern & Gulati [75] indicate that, despite the hype of increased stability and lower borrowing costs for emerging markets, CACs rather serve the purpose of creating market identities. According to Pistor [156], they are mostly political symbols that reflect *core-periphery* market bargaining and the hierarchical nature of financial markets.

The supporters and detractors of CACs over a statutory approach such as the SDRM are usually divided between those that consider the current rules of the game in terms of creditor responsibilities to be effective – supporters of CACs – and those that deem them to be biased in favor of creditors. At the time, the private sector – represented by organization such as the Institute for International Finance or the International Capital Markets Association – and the US treasury were concerned over a central authority imposing haircuts and overall, in moving away from finding market solutions to the restructuring issue.

At the crux of the matter was an ideological debate over the efficiency of markets and the desirability of political control over them.

In turn, supporters of a statutory approach claimed that market solutions led to protracted negotiations, which worsened the already dire situation of distressed debtors. For countries already in default restructuring processes that go on for months or years lead to the further erosion of productive capacity and an increase of the development gap with creditor nations. In addition, a statutory approach would increase the bargaining power of debtors by creating a third-party administered court, potentially bringing the interests of other debtors into the mix on a given case of restructuring.[11] For lenders, who tend to see themselves at a disadvantage due to information asymmetries, such a mechanism would destroy the market for sovereign debt as any further tilting of the board in the favor of debtors would effectively destroy an incentive to issue credit and thus kill the market.

Though there are potential gains to be made from a clear delineation of rights and obligations for creditors and debtors in restructuring sovereign debt, namely in the form of preventing rush to the exit that could potentially exacerbate a crisis, all proposals that have sought to advance this agenda have failed. Rather, this area of financial governance has been characterized by ad-hoc forums and bilateral agreements (Trebesch, Papaioannou, & Das, 2012).

The next attempt to create a centralized forum for restructuring came with a proposal brought by Argentina to UN General Assembly after its most recent crisis. This resulted in the creation of an *ad hoc* committee on debt restructuring and a 2014 UNGA resolution on Sovereign Debt Restructuring based on UNCTAD's Basic Principles of Responsible Sovereign Borrowing and Lending [198]. Nevertheless, many debtor governments have opted to oppose these measures and tacitly validate the current paradigm of debtor-oriented

[11]This has many nuances that are proposal-specific, but this is the main point that these mechanisms seek and the main element of contention for creditors.

moral hazard. China and the G-77 have been the most vocal proponents of the creation of a formal restructuring mechanism under the auspices of the United Nations. However, the United States, the European Union and the International Monetary Fund have explicitly stated that they are unwilling to even participate in discussions on the matter. This reflects the limited consensus on the effectiveness of the CAC regime as much as it does the roadblocks towards the implementation of a statutory solution.

The diffusion of CACs has raised many questions in the study of contracts and in political economy. The shift away from unanimity to a majority threshold for significant alternation in the terms of credit was a boilerplate change in contracts. In general, boilerplate contracts in complex financial instruments are widely used as they are well known by all participants and thus carry with them strongly internalized and shared expectations about how they will be interpreted. Their inertia is partly due to the cost of making even minor changes. It cannot be known how they will be received by the community of practice, and if they will benefit the party that makes the change in the way that it expects. The shift to CACs in emerging market bonds in the New York market is a rare example of the under-researched phenomenon of boilerplate change in the contracting process in general [74, p.1629]. Furthermore, this rather obscure legal feature took the center stage in the global financial community's discussions on financial stability, at the level of more traditionally salient issues like exchange rate regimes.

This brief, but important, debate is illustrative of both the importance of the Latin American region in the evolution of the international regime for sovereign debt restructuring and the importance that political and ideological considerations have over seemingly technical matters. The choice over a market-based approach versus a statutory approach was often framed as one between faith in the efficiency of markets and concerns over their perils. More than any other region, particularly when it comes to EMEs, Latin American governments have influenced debt management. Some, like Mexico in 2002-3, were in positions of relative political and macroeconomic tranquility whereas others, like Argentina or Mexico in the early 1980s, were not. In order to separate behavior during *good times*, it is necessary to identify what factors separate them from *hard times*; as well as which political forces shape their course.

Chapter 5

Narratives of Finances in UNGA Speeches

"You shall not crucify mankind upon a cross of gold."

William Jennings Bryan

In Chapter 2, I outlined two mutually exclusive narratives of the international political-economy. A *zero*-sum view which stresses the perils of global finance to society which coexists with a *positive*-sum view which highlights its more benign aspects. In Chapter 4, I argued that these narratives extend beyond academic and journalistic debates and can be often found in debates over policies and political discourse; though their popularity ebbs and flows. These narrative patterns can be observed in the international stage, where the issue of sovereign debt crises and the best way to resolve them has been as perennial a concern for the members of the United Nations as peace and development itself.

According to Slava, Baturo & Dasandi (2017) [10] United Nations General Assembly Speeches "are the most sovereign thing that a country does as a member of the UN" (p. 2). Unlike in more restricted forums, there is no agenda that constrains the topics to which world leaders must adhere. This makes UNGA speeches an excellent source to infer the outlooks and priorities of world leaders, as they are at their freest in choosing which issues to talk about and how to frame them.

As discussed in Chapter 3, since the inception of the contemporary monetary order in the 1970s, several crises and mayor economic developments have brought the financial system onto the global spotlight. What drives world leaders to support it or to voice their discontent? Throughout this chapter I examine how often the international financial architecture has been discussed at the UN General Assembly and in which terms. To this effect, I construct a prevalence/polarity metric to trace changes in the *salience* and *sentiment* of references to the financial system and identify high-salience speeches from Latin America. I employ two Computational Text Analysis (CTA) methods – topic modeling and dictionary sentiment analysis – commonly used in other social sciences but still quite infrequent in International Political Economy (IPE).

I identify the speeches from Latin America where the salience of the financial system was the highest and examine the way in which it was framed. I find evidence of the two narratives of finance discussed in Chapter 2 and of the importance of the topic throughout the tenure of Vicente Fox in Mexico and Rafael Correa in Ecuador.

5.1 The Financial Architecture in UNGA Speeches

CTA methods consist typically on the application of statistical and machine learning models to collections of documents. This set of documents is the *corpus*, which is then usually transformed into a document-term *sparse* matrix. The vectorized text can also include meta data about the documents, such as the name or affiliation of the speaker and the time at which it was created, these are the *docvars*.

For example, in an imaginary *corpus* of transcripts from event inaugurations, consider the phrase: *Dear colleagues, welcome to my event.* Each item in this sentences is placed in a column in a matrix, this process is called *tokenization*. However, certain elements

Table 5.1: Vectorized Text Example

	dear	colleagues	welcome	event	
doc_1	2	1	1	5	
doc_2	1	3	0	4	[...]
doc_3	0	2	0	1	
doc_4	0	0	0	0	
doc_5	0	0	0	3	
			[...]		

Note(s): Documents that do not have a particular word have the value 0. After excluding common terms like prepositions – *stopwords* –, most documents will have many empty columns as the words used vary (a *sparse* matrix). In this example, doc_4 has none of the words in of the first four columns. We can infer that the sample sentence was found in the first document, and that it also included the term *event* another 4 times.

such as punctuation or common words like prepositions are not necessarily meaningful. Removing such elements, as well as lowering the case of words and extracting numbers or other unnecessary items is done during the *pre-processing* stage. Table 5.1 shows the first five documents and the first four columns of a document-term $n * n$ matrix from the imaginary *corpus* with $n > 5$ documents.

By treating texts as vectors of terms, QTA techniques allow us to classify documents using a range of statistical and machine-learning algorithms. Text classification has been employed extensively in computer science and related fields. Similarly, it has been employed in the social sciences to identify positions within political spectra. One of the most popular examples of this is the Manifesto Project [117]. The Manifesto Project's corpus consists of the electoral manifestos of over 1,000 political parties since 1945 world round. By placing these political texts in a machine-readable format, the project has allowed researchers to trace the salience of issues over time and across different ideological and geographical lines. Extensive studies on factors such as policy preferences, electoral effectiveness of pledges and ideological polarization have relied on this data.[1]

5.1.1 Sentiment Scores

In contrast to Computer Scientists, Social Scientists – especially in Political Science – typically employ machine-learning algorithms "to measure a certain characteristic or latent quantity in the world" (Grimmer, 2014) [85, p. 81] rather than to make predictions. Making sense of the ever-larger sets of data provided by social media and machine-readable texts requires the substantial knowledge that social scientists have accumulated on a wide range of issues in order to make meaningful inferences from this windfall of information.

One of the most popular forms of computational text analysis in Social Sciences in general is dictionary-based sentiment analysis. In these studies, keywords are assigned a value by researchers in order to calculate the polarity (negative-positive) or specific tone of a document. For example, Watanabe et. al. (2018) [170] use sentiment analysis on a large-N dataset of news wires regarding the Ukraine crisis to identify news bias in the Russian state-owned news agency ITAR-TASS.

In the aftermath of the September 11, 2001 terrorist attacks on the United States, the tone of US policy makers shifted as they prepared for the war on terror. This negative tone was reflected in George W Bush's speech at the United Nations. General patterns like this can be observed using dictionary *sentiment* analysis, which counts the number of words associated with sentiments in a pre-defined dictionary. Figure 5.1 shows how the tone of speeches changes through time based on a dictionary collected by Bing *et. al.* (2008) [49] which is included in the *TidyText* R package [**?**]. It consists of a list of words with negative and positive connotations classified accordingly. Here, the words in the Bing dictionary

[1] According to the Manifesto Project website, 462 substantive research articles have relied on their data as of February 2020

are cross-referenced with the words in the UNGA speeches to find the number of positive and negative terms employed each year.

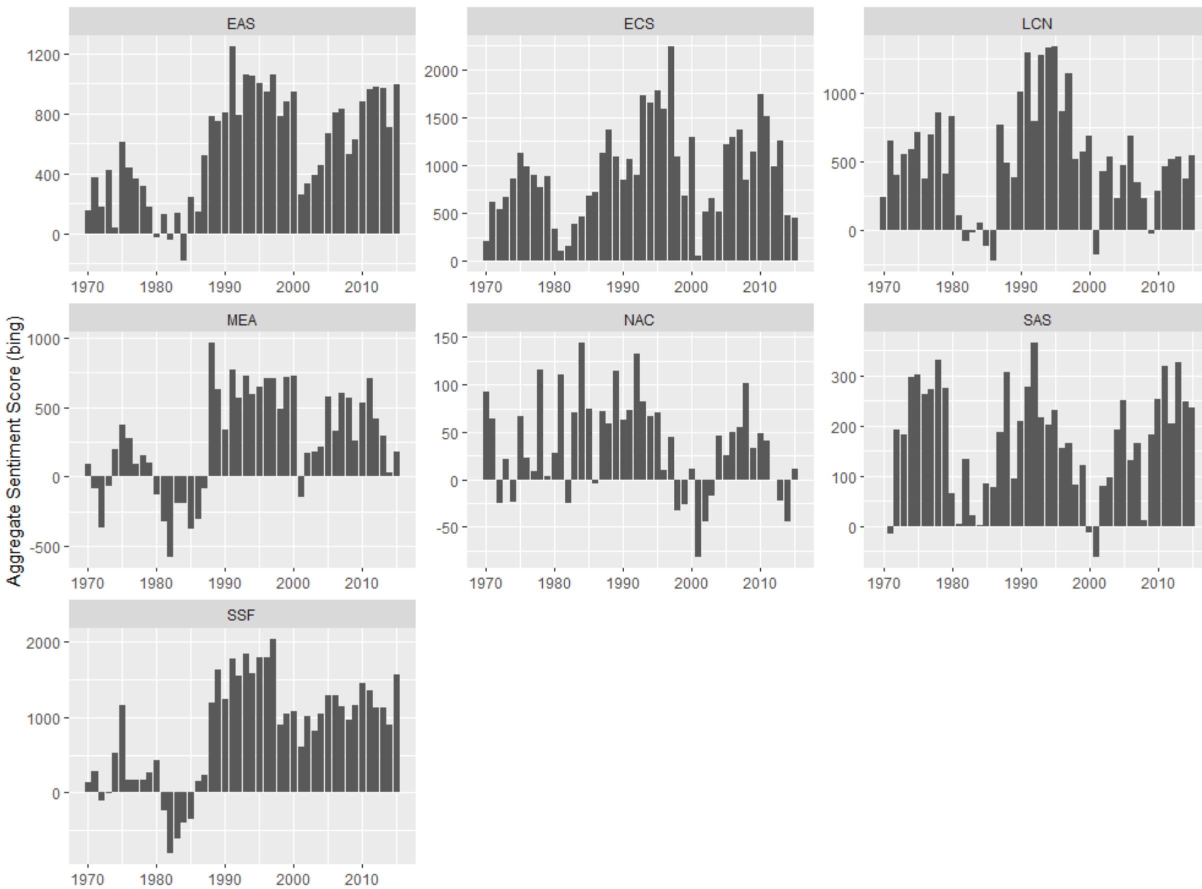
As can be seen in Figure 5.1, UNGA speakers tend to utilize more positive terms overall.[2] This is unsurprising given the high stakes of international diplomacy. The most recurrent positive term by far is *peace*, with over 80,000 mentions. In addition, there are over 5,000 mentions of the term *debt*, which has a negative connotation according to the Bing dictionary.

An immediately apparent trend is the increase in negativity throughout the 1980s, this is especially pronounced in the Middle East (MEA), Sub-Saharan Africa (SSF) and Latin America (LCN). A likely explanation for this is the series of debt crises that ravaged the emerging world, particularly Latin America. As *debt* became a more salient issue, the net sentiment decreased. Furthermore, as it was an era of generalized economic crisis for the Global South, more neutral economic terms were intermixed with ones with negative connotations. Though figure 5.1 shows the potential of sentiment analysis to capture real-world trends and concerns expressed in speeches numerically, it is merely painting with a broad brush. This does not provide much information about what specifically produced fluctuations in sentiment, though it can be attributed to known events in global politics.

A targeted dictionary analysis can help reduce the vagueness of more general approaches like the ones described above. Zooming-in on the specific use of terms, Figure 5.2 shows the framing of the international financial architecture over time in UNGA speeches. Here, the *international financial architecture* is defined as the international institutions that are involved in sovereign lending and setting standards for regulating cross-border financial flows.The multilateral financial institutions considered in this paper are the World Bank Group, the International Monetary Fund, regional Policy Banks (i.e the Inter-American

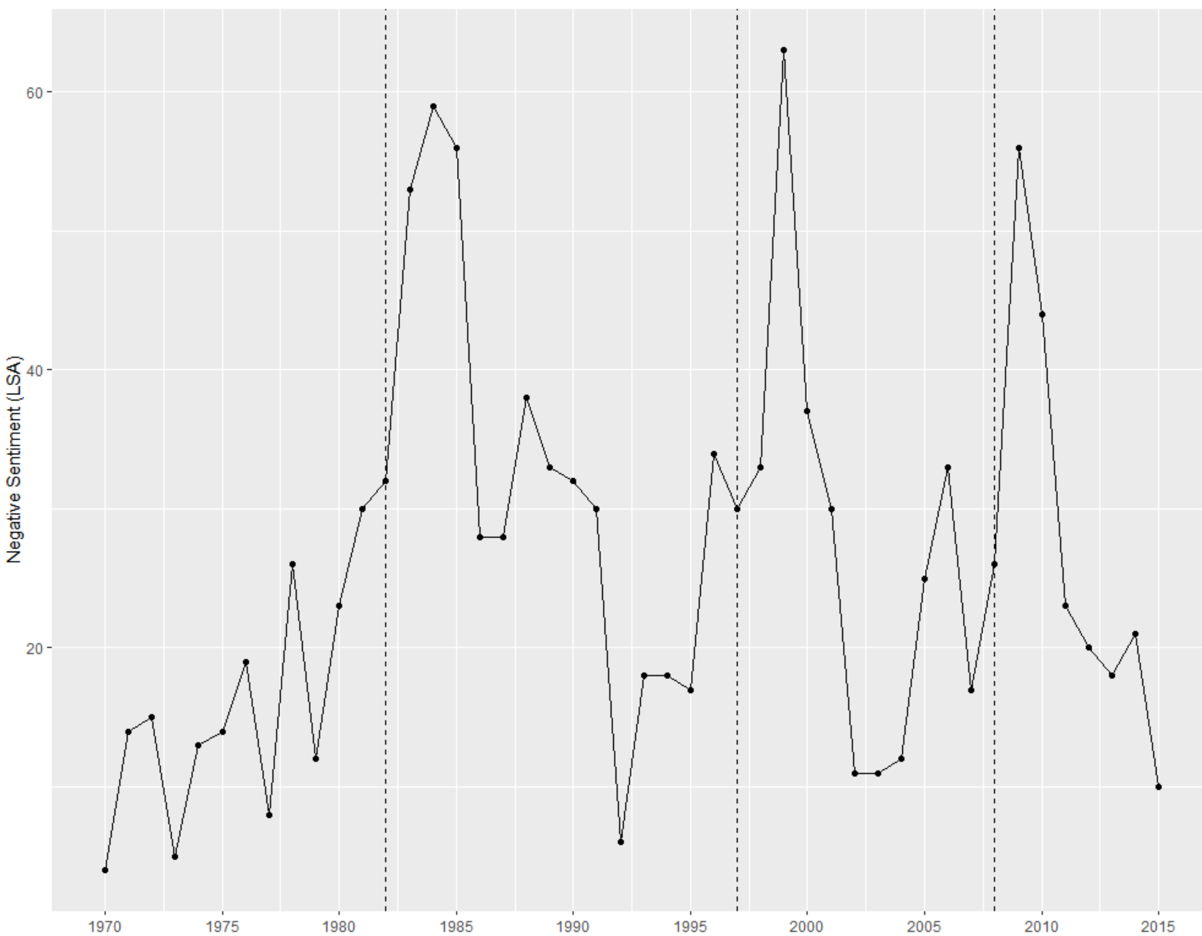
[2]Figure A.5, in the appendix, shows the top 20 positive and negative terms found across the entire corpus.

Figure 5.1: Total Sentiment by Region (year)



This was done using the R package TidyText [?], removing all *stopwords*, which consists of a precomplied list of the most common words in the English language (i.e. prepositions) and attaching the positive-negative scores available in the built-in dictionary *Bing*.

Figure 5.2: Negative Sentiment towards the International Financial System



Development Bank) and *ad hoc* multilateral initiatives that deal with debt restructuring issues and financial standards (i.e. the Paris Club and the G20). For example, though the Bank for International Settlements (BIS) does not lend to countries directly; the standards set by its Basel Committee on Banking Supervision affect how countries shape their regulatory frameworks and how private banks allocate capital (including sovereign lending). Similarly, systemically important institutions like the China Development Bank (CDB) – which has overtaken the World Bank in terms of net lending to the emerging world – and the US Federal Reserve (FED) are included in the dictionary. Institutions that are precursors to a latter one, or subsidiaries of another are coded using the same code. For example, the International Bank for Reconstruction and Development (IBRD) – part of the World Bank Group – shares the code WB. The G-7, G-8 and Financial Stability Board (FSB) share the same code as the G-20 (GTT). Table A.2 in the appendix indicates all the institutions included in the dictionary along with their corresponding codes. Other international economic institutions such as the World Trade Organization (WTO) or the Organization for Economic Cooperation and Development (OECD) are excluded.

As expected, the general negative sentiment scores rise sharply during periods of financial turmoil. The first noticeable surge occurs in the first half of the 1980s, throughout the Latin American debt crises. There is also a surge in negativity in the late 1990s, with the Asian Financial crisis and after the 2008 Global Financial Crisis. Figure 5.2 was constructed by using the targeted dictionary analysis function of the *Quanteda* R package [11], which counts negative and positive words[3] that surround (in an n-length window[4]) the pre-defined keywords in the dictionary.

Figure 5.2 indicates only the total sum of negative terms that surround mentions of

[3] The sentiment values in this case are taken from quanteda's built in Lexicoder Sentiment Dictionary (LSD)

[4] For figure 5.2 n =10.

one of the international financial institutions throughout the corpus. However, figure **??**, in the appendices, shoes that trends in negativity surrounding the keywords are mirrored and exceeded by positive scores. This makes sense, as the financial system is expected to be more salient during times of crisis. Given the propensity of UNGA speakers to use positive terms, the more an issue is talked about, the higher its net sentiment score.

Despite their popularity in Social Sciences, pre-made dictionaries are created for use in specific fields of study such as finance [126], politics [207] and social-media analysis [91,92]. There is to date no dictionary developed specifically for International Relations. Different dictionaries give different sets of values to their terms as they seek to assess area-specific polarity. This can create biases and false positives when applied to other types of *corpora*.[5] Furthermore, there are disparities in the length of the UNGA speeches,[6] thus biasing raw sentiments scores.

To correct for these issues, I create a weighted sentiment measure following [52], relying on four dictionaries available with the TidyText package.[7] The polarity of terms for each dictionary is transformed into 1 if positive and 0 if negative, neutral or ambiguous classifications are dropped. ψ_d [-1,1] represents the sum of all scores divided by the total number of words[8] for document d in year t. Since positive words are given the value 1 and negative words -1, ψ_d is calculated as follows:

$$\psi_d = \frac{w_d^{pos} - w_d^{neg}}{w_d^{total}} \tag{5.1}$$

[5]For example, the Bing (2009) [**?**] dictionary assumes that *debt* is a negative term.

[6]See table A.3 in the appendix

[7]These are collected from Loughran and McDonald (2011) [126], Bing *et. al.* (2008) [49], Hansen *et. al.* (2011) [91] and Mohammad and Turney (2010) [**?**]

[8]This is the *un-processed* word length.

5.1.2 Bigram Topic Model

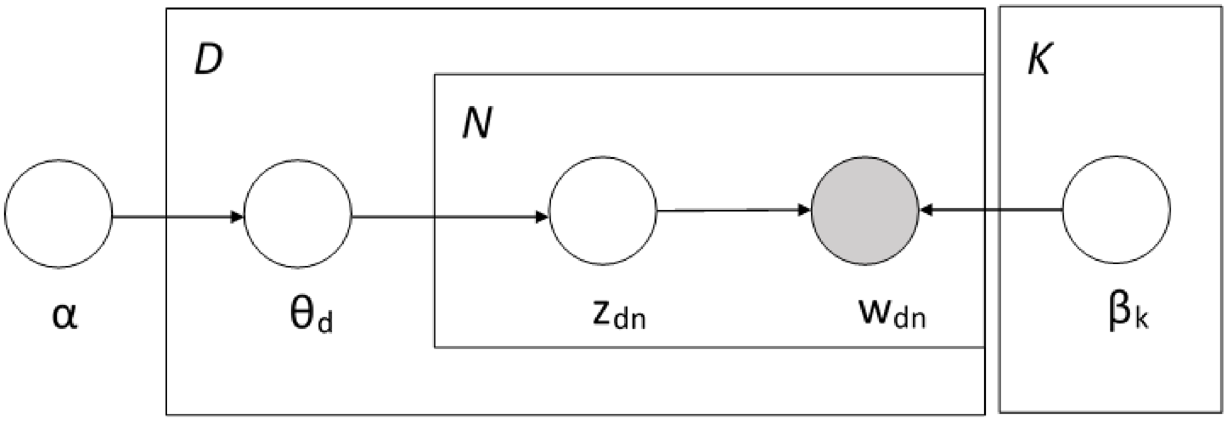
Probabilistic topic modeling has been used by political scientists to identify the salience of issues in diverse forms of political discourse across groups and through time. For example, Schoonvelde *et. al.* (2017) [194] use topic modeling to study the communication strategies of prime ministers in Europe and find that macroeconomic indicators impact the use of *blame shifting* and *issue engagement* strategies. The most frequently used method for topic modeling is Latent Dirichlet Allocation (LDA), developed by Blei *et al.* (2003) [16]. This unsupervised machine learning method is used to calculate a probabilistic distribution of *topics* for the documents in a corpus, as well as the words that are likely to have been generated by a given *topic*.

The LDA model makes certain assumptions about how a document inside a corpus is generated and attempts to retrace the process from the finished product. The first assumption about the nature of documents (d) is that they are composed of underlying (latent) topics (Z). In turn, topics are the made of words that are likely to appear together. This is an intuitive proposition, a given speech can cover several issues such as climate change, gender equality and the importance of sovereign equality in international relations among others. In each of these subsections a speaker uses specific terms much as *markets*, *dialogue*, *trust* in different combinations. By assuming that documents are made of different proportions of topics, LDA allows us to compare which ones are more salient throughout documents in a *corpus*.

The second set of assumptions made by the LDA model is about how documents are generated. This is defined as a three step process: a) the number (N) of words in a document (d) is chosen, b) the proportion of topics (θ) that will make the document is selected; and finally, c) words (w) re chosen to fill the document from a probability[9]

[9] $p(w_n|z_n, \beta)$

Figure 5.3: LDA parameters



Note: This figure is based on the LDA graphical model found in Blei *et al.* (2003) [16, p. 997]. Here nodes are variables and links are dependences. The inner rectangle represents the document level, which is a series of N words (W). The outer rectangle represents the corpus level, a collection of documents (D). Two parameters, α & β, exist outside the corpus. These are the Dirichlet priors. α refers to the per-document topic distributions and β refers to per-topic word distributions. θ_d is the topic distribution for a given document and z_{dn} is the topic assigned to a specific word w_{dn}.

conditioned on the topic (z_n). The LDA model calculates the posterior distribution[10] $p(\theta, Z, \beta|w)$ to infer per-word topic assignments Z_{dn}, per-document topic proportions θ_d and the corpus-wide topic distribution β_k. With this, it attempts to uncover the latent structure of the corpus.

In this sense, LDA attempts to peer into the black box of the minds of world leaders. This is done by estimating the probability that a document is composed of *(1,...,K)* number of topics, which are in turn constituted by words *(1,...,N)*. This process by which this is achieved is explained in figure 5.3. The algorithm begins by randomly assigning a topic for a word in a document, a process which becomes more precise with each iteration. Each document can have different proportions of a topic. Document A can be 10% topic k,

[10]Though there are many methods for this, in this paper I use Gibbs sampling

whereas document B can be 18% topic *1* and so forth, this proportion is given by θ_m. In turn, certain words are deemed more likely to have been generated by one of the topics β.

There are, however, some limitations inherent to topic modeling in general and the LDA model in particular.[11]The first is that it assumes that the number of topics k is known beforehand. This demands that the researcher input a value of k. Though it is common practice to select an arbitrary number of topics [52,128,150,189], here the optimal value of k is calibrated by using the *ldatunning* R package [145] – see figure A.4 in the appendix.[12]

Furthermore, the base-line LDA model does not consider different document covariates which might impact topic prevalence (θ) or their most probable (β) words. o account for this issue, I rely on the *structural topic model* developed by Roberts *et. al.* (2014) [164,165] to analyze texts from open-ended surveys. This allows researchers to include a regression with metadata directly into the baseline LDA model and has been used extensively in Economics [32], Political Economy [52], Political Science [114, 127, 128] and International Relations [204].

Though most studies that employ STM topic modeling rely on single words, I run an STM with time and regional covariates using *bigrams*. Relevant concepts in foreign affairs tend to appear in sets of two words like: *human-rights, economic-development, or world-trade*. I find that this measure increases the interpretability of topics.

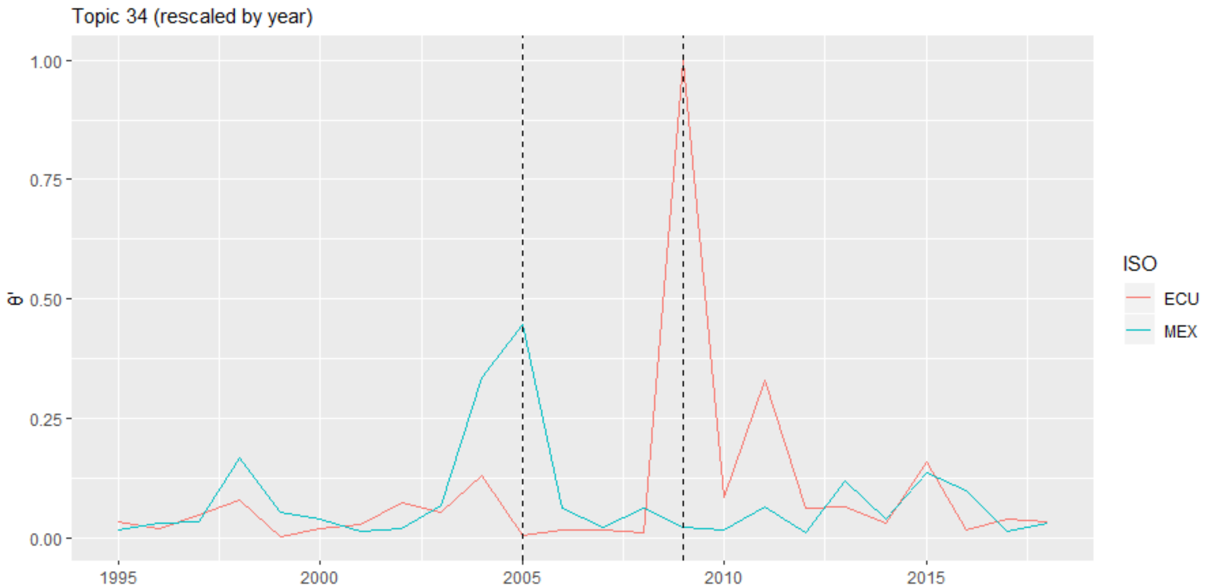
Of the 50 topics calculated by the STM model, Topic 34 was the one most evidently about the international financial architecture. The top 5 bigrams by frequency and exclusivity (FREX) for this topic are: *world-bank, international-financial, monetary-fund, financial-institutions and international-monetary.*[13] Figure 5.4 shows the changes in the

[11]For a discussion on the merits of semi-supervised topic-modeling see Watanabe and Zhou (2020) [204]. However, such methods require discretionary inputs by the researcher. To avoid bias, I rely on an unsupervised method.

[12]There is a trade-off for the increase of the number of topics in the model and their interpretability [34]. Thus, I select k = 50, as there are diminishing returns per each 10 increase in k.

[13]Similarly, the raw highest probability (β) terms for the topic (θ_{34}) are: *international-financial, world-*

Figure 5.4: Topic 34 Prevalence (θ'_{34}) for Mexico and Ecuador



Note(s): θ' [0,1] represents the year-normalized proportion of Topic 34 for UNGA speeches by Mexico and Ecuador. The dashed horizontal lines mark the historical peak (1970-2018 considered, 1995-2018 shown) in Topic 34 prevalence for each country.

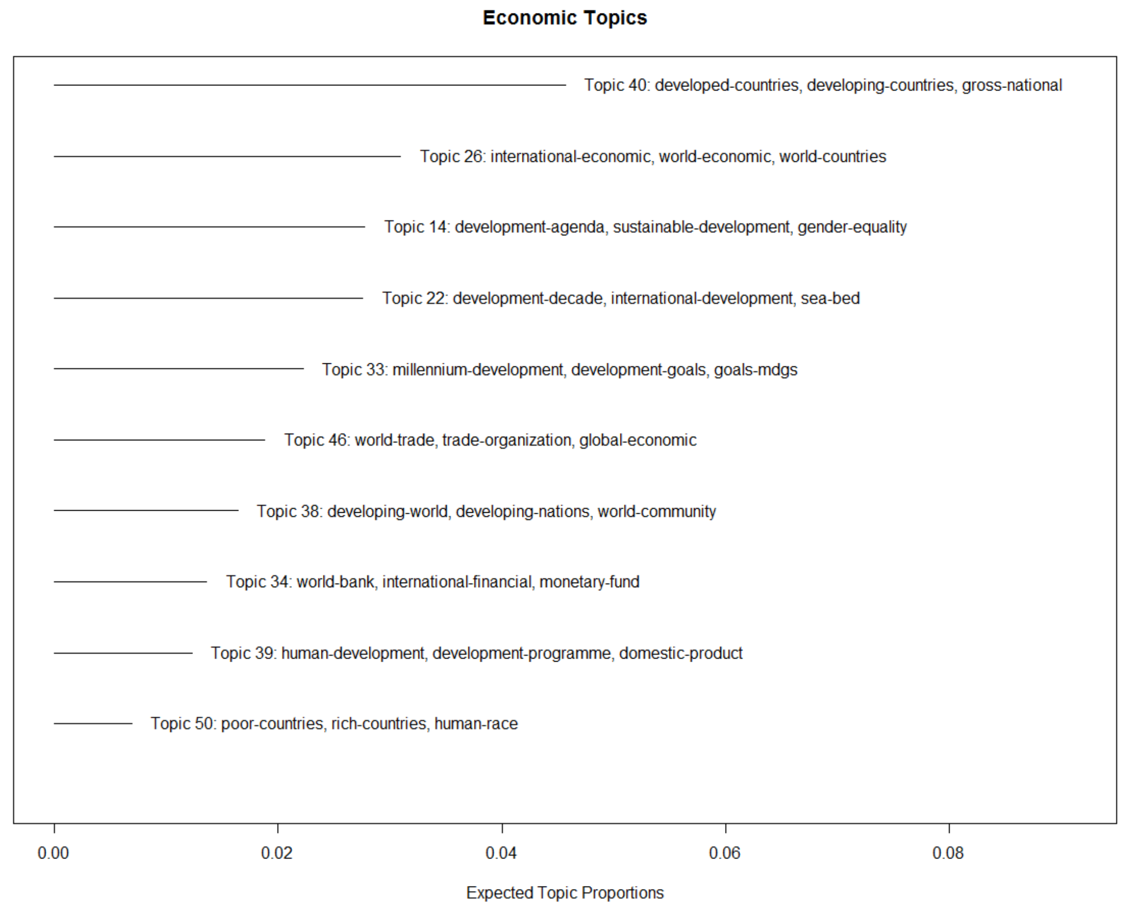
salience of the international financial architecture (Topic 34) for the two case studies considered in this article.

However, Topic 34 is not the only one that addresses economic issues. Other issues such as North-South relations, development and trade are likely to appear in close proximity to references to the international financial architecture. To get a better sense of the prevalence of related economic issues I sum the year-normalized posteriors $\theta'_1 : \theta'_n$ [0,1] for a document d. I take the subset of topics labeled with economy-related keywords – see figure 5.5 – and select the ones that are likely to co-appear with Topic 34 using the Zhao and Lieu (2012)[14] estimation available within the STM R package.

bank, international-monetary, financial-institutions, monetary-fund. The top terms by highest β and FREX of all 50 topics are available in the online appendix.

[14]Figure A.6 in the appendix shows the cutoffs graphically.

Figure 5.5: Topic Summary (STM)



Note(s): This was made using the STM summary function. It presents the relative prevalence of economic topics – vertical line – and the top three bigrams by frequency and exclusivity (FREX) per topic.

5.1.3 Prevalence-Polarity Measure

The sum of all topic-proportions associated with topic 34[15] in a document d is represented by $\theta_d^{econ'}$, shown in equation 5.2.

[15] The topic cluster includes topics: 38, 40, 50, 46 and 39. See figure A.6.

$$\theta_d^{econ'} = \sum_{i=1}^{n} \theta_i = \theta_1 + ... + \theta_n \tag{5.2}$$

Following Larsen (2017) and Dybowski *et. al.* (2018) [52, 121], I construct prevalence-polarity indicator which considers the net sentiment of a document $\psi'_{d,t}$ alongside the prevalence of a topic or set of topics. In this case, I select the sum of all economic topics that are likely to appear in proximity to references to the global financial architecture and multiply it by the time-normalized document polarity. This results in a λ score – equation 5.3 – which increases as the references to the selected topics regarding the global economy increase, and whose sign (+/-) is determined by the net sentiment.

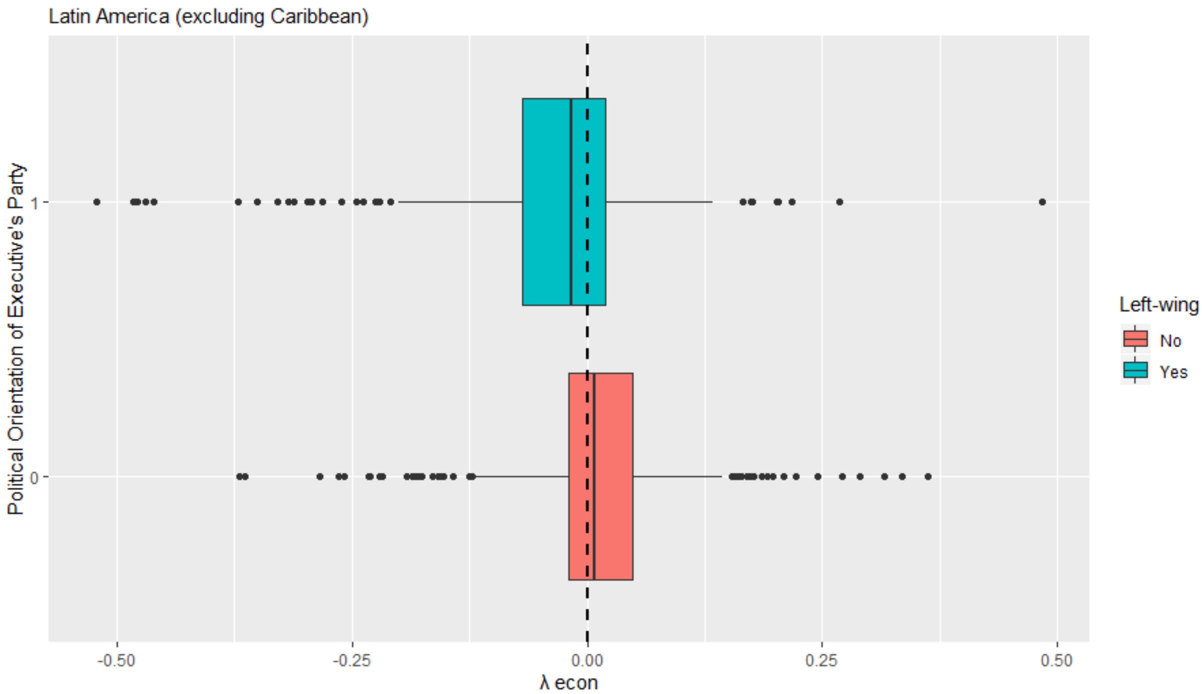
$$\lambda_{d,t}^{econ} = \psi_{d,t} \times \theta_d^{econ'} \tag{5.3}$$

A high and positive $\lambda_{d,t}^{econ}$ [-1,1] suggests that the document has a high proportion of the economic topic-cluster combined with an overall positive tone. Conversely, a high and negative prevalence-polarity indicator suggests that a document where the economic topic cluster is prevalent, but with a negative tone.[16]

Figure 5.6 shows the pooled λ_{econ} distributions for Latin American countries by the orientation of the chief executive's party. This suggests that when these countries' leaders discuss topics in cluster $\theta^{econ'}$, their tone tends to be more negative if they are left-wing. This is expected as left-wing parties in Latin America tend to favor State intervention and to use highly critical rhetoric of international finance and market-mechanisms in general.

[16] It is important to note that $\psi_{d,t}$ refers to document-wide sentiment, including non-economic topics.

Figure 5.6: Economic Prevalence Polarity Measure (λ_{econ})



Note(s): The *corpus*-wide range for λ_{econ} is min. -0.646590 and max. 0.658245. The orientation of chief executive party is taken from the Database of Political Institutions [**?**], where left is 1 and 0 otherwise. Countries that are full members of the Caribbean Community (CARICOM) are excluded on the grounds that their political systems and colonial history tend to differ from mostly Presidential and Ibero-American continental Latin America.

5.2 Two Narratives in Latin America

Despite their intuitive assumptions and results, the outputs of unsupervised machine-learning text models have the risk of being read as *tea leaves*. One of the main hurdles facing the use of CTA methods in social sciences in general is the issue of validation. In the case of topic modeling, this is especially challenging since there is a trade-off between topic coherence and traditional quantitative assessment and parameter adjustment tools of the models – such as perplexity. Thus, "[m]ost topic modeling papers display qualitative assessments of the inferred topics or simply assert that topics are semantically meaningful, and practitioners use topics for model checking during the development process" [34, p. 3]. To overcome this issue, Blei, Chang et. al. (2009) suggest "that practitioners developing topic models should thus focus on evaluations that depend on real-world task performance rather than optimizing likelihood-based measures" [34, p. 3]. Notably, CTA tools are meant to enhance, but not replace in-depth human reading and evaluation of texts.

Table 5.2: High Salience Speeches (LCN)

Year	Country	President	Sentiment
1987	Bolivia	Víctor Paz Estenssoro	0.01
2008	Bolivia	Evo Morales	-0.43
2004	Costa Rica	Abel Pacheco	-0.19
1998	Cuba	Fidel Castro	-0.62
2013	Cuba	Raul Castro	0.24
2014	Cuba	Raul Castro	-0.24
2009	Ecuador	Rafael Correa	-0.03
1974	Honduras	Oswaldo López	-0.79
2005	Mexico	Vicente Fox	0.21
1989	Nicaragua	Daniel Ortega	0.06
2008	Paraguay	Fernando Lugo	-0.45
1972	Uruguay	Juan María Bordaberry	0.34
1993	Uruguay	Luis Alberto Lacalle	0.26
2018	Uruguay	Tabaré Vázquez	0.02
1994	Venezuela	Rafael Caldera	0.27
2006	Venezuela	Hugo Chavez	-0.74

List includes all countries in Latin America (excluding CARICOM) where $\theta^{econ'}_{i,t}$ & $\theta^{t34'}_{i,t}$ were in the 95th percentile for year t. Sentiment represents the overall speech polarity (-/+) $\psi_{d,t}$.

In order to assess the proposed prevalence-polarity measure (λ_{econ}), I consider the speeches from Latin America[17] where the economic topic cluster $\theta^{econ'}_{i,t}$ *and* the financial architecture topic $\theta^{t34'}_{i,t}$ were in the 95th percentile of year-normalized prevalence. Table

[17]Excluding countries in the Caribbean Community (CARICOM) as they tend to have different political, historical and economic characteristics in contrast to Ibero-American Presidential continental Latin American countries.

5.2 shows the speeches considered, their polarity (-/+) $\psi_{d,t}$ and the Presidents in turn at the time.

I expect that the speeches outlined in table 5.2 with net negative sentiment will be more critical of the international financial architecture and *vice versa*. Furthermore, I expect that the use of language for positive and negative polarity in these high salience speeches will describe the financial system as either a *zero*-sum or *positive*-sum game, as outlined in Chapter 2. In other words, that they will emphasize the need for deeper South-South cooperation and depict the financial system as extraction in the case of the former. For the latter, I expect North-South cooperation to be more prevalent and criticisms to be centered around the lack of fulfillment of commitments rather than the institutional framework itself.

5.2.1 *positive*-sum narrative

Of the high-salience Latin American UNGA speeches identified in table 5.2, the one with the most positive tone was given by the representative of Uruguay in 1972 (0.34). It discussed at length the process of decolonization, reflecting one of the concerns of the time especially for countries outside of Europe and the Anglo-sphere, praising recent advances. It also talked about military de-escalation, giving it a generally optimistic tone.

Regarding the international economy, the speech pointed out that “the Second United Nations Development Decade has not shown any success in the effective fulfillment of its programs, but there do exist encouraging signs in the co-operation between prosperous nations and those in the process of development.” It explicitly mentioned the IMF, stating that “the time has come to make its procedures more flexible, adjusting them in clearer fashion to the specific conditions of the member countries.” It also called for the increase of financial assistance from the world credit institutions in order to promote development in the global South. Though the speech did present some criticisms of the global financial architecture, it did not call for its complete overhaul and stressed the importance of North-South cooperation to address its flaws.

NOTE: THIS SUBSECTION WILL BE SIGNIFICANTLY EXPANDED ON

5.3 Discussion

In the aftermath of a large-scale financial crisis, the international institutions that deal with the issue were mentioned more, and the negative connotations surrounding them increased. Likewise, the general sentiment of speeches decreased significantly throughout the 1980s, and more markedly so in regions the experienced protracted external debt crises. However, this sentiment analysis relied on explicit mentions of specific institutions and was conducted at the world and region level. Furthermore, world leaders may be more likely to name names outside such a formal event. Thus, expanding the corpus beyond UNGA speeches can provide further insight into how leaders frame the global financial architecture and how this may affect their foreign economic policies.

The STM topic model presented in section 4 attempted to reconstruct the *black box* process of speech generation through unsupervised machine learning. There are, however, two important limitations to this approach. This first relates to the selection of the number of topics (k), which must be decided beforehand by the researcher. This conveys a degree of arbitrariness which forces scholars to find compelling ways to justify their selection of k. The second limitation is the interpretation of topics. Once again, there is a degree of arbitrariness in labeling and extracting meaning from the topics found by the STM algorithm. Cross-validation and parameter justification are thus of crucial importance in order to drawn any meaningful conclusions from this type of analysis.

The CTA methods outlined above are useful for identifying speech patterns in a consistent and reproducible way on large collections of documents. They can enable IPE scholars to benefit from the growing wealth of text-as-data to uncover relevant trends from Nation-branding to the effectiveness Soft-Power strategies. By quantifying speech patterns like term frequencies, sentiment and similarity scores, and topic proportions; QTA allows us to look for significant correlations with the variables and that we are accustomed to using in the field and thus enrich its conceptual depth.

Though powerful, these methods enhance, but cannot supplant in-depth reading and human analysis of meaning. There are several limitations inherent to both topic modeling and dictionary analysis, among them are: a) the interpretation of topics by researchers, b) the lack of consistent selection criteria for k and c) broadness of dictionary analysis for multi-topic *corpora*. This creates challenges for researchers that seek to build robust covariates for formal hypothesis testing.

Though not yet widely used in the field, CTA techniques can be useful for IPE scholars focusing on discourse analysis to justify their selection of documents in a reproducible way, and for researchers who seek to identify trends from large sets of unstructured texts about any of the many aspects of the international economic agenda. The trends sought in this article were the *salience* of international finance in UNGA speeches and their general tone as a proxy for a specific *economic narrative*: either market-friendly or market-hostile. These metrics only point to rhetoric however. In the following chapters I explore how highly salient *positive*-sum and *zero*-sum narratives of international finance have led to pro-active foreign economic policies in Mexico and Ecuador respectively.

Chapter 6

Mexico under Fox: *In Good Faith*

"La globalización es el signo de nuestro tiempo, pero debemos conciliarlo con los intereses de México."

Vicente Fox

As detailed in Chapter 4, several attempts to create a multilateral framework to resolve sovereign debt crises have been put on the international agenda. In 1933, the Mexican Foreign Minister Jose Manuel Puig exhorted his Latin American peers present at the Pan-American conference at Montevideo to rally around his initiative to create an international organization "to take care of debts negotiations and agreements, in order to exclude thereby the intervention of Bankers' Committees and to look for the interest of both debtors and creditors" [96, p. 95]. In October of 1978, the United Nations Conference on Trade and Development (UNCTAD) Secretariat put forward a proposal for the creation of an institutional mechanism for the restructuring of sovereign debt. This came as a response to the creation of *ad hoc* advisory committees made up of private lenders to deal with the wave of emerging market defaults of the 1970s. However, these attempts – as well as those initiated by the governments of the developed world and the international organizations in which they are the main stakeholders – did not come to pass.

Before President Miguel de la Madrid took office in December of 1982, Mexico's stance towards private lenders in many ways a hostile one. His predecessor, Jose Lopez Portillo (1976-1982), was responsible for the nationalization of the Mexican banking system after blaming the sector for the destabilizing capital outflows and high-inflation that characterized the last part of his mandate. By the late 1990s the situation had reversed, not only were private banks re-chartered but they had increasingly been acquired by foreigners; something unthinkable just a few years prior. This is just an example of the great transformation of the Mexican economy since the 1980s.

Though Vicente Fox's victory in 2000 was a pivotal moment in the political history of the country, in terms of macro-economic policies there was continuity with his PRI predecessors. The slogan of *Change* that put him in office did not involve changing the economic paradigm of the government. After years of recurring financial turmoil, the electorate was weary of any threat to the new-found stability of the late 1990s. The issuance of sovereign bonds with collective action clauses in 2003 was the continuation of this policy of openness and cooperation with external private creditors. Furthermore, it was in line with the Fox administration's goal of becoming a more engaged member of the international community and a norm-setter in global fora by capitalizing on what was called the *democratic bonus*.

The broad agenda of turning Mexico into a leader in North-South rapprochement was largely thwarted by the terrorist attacks of 9/11 and a decreasing popularity of the Fox government domestically. Nevertheless, the diffusion of collective action clauses in sovereign debt instruments was one of its rare successes and it continues to impact the market to date. This was made possible by the convergence of three factors a) Fox had a *positive*-sum narrative of the international economic and financial system, b) he had a favorable *context* during the first part of his mandate due to an initial wave of popularity and relative economic stability, and c) the debate over a formal arbitration mechanism gave his administration the incentive to make a political statement of support towards market-based solutions.

6.1 The December Error (Salience)

For 70 years, the Institutional Revolutionary Party (PRI for its Spanish acronym) dominated politics in Mexico. Its origins can be traced back to the Mexican Revolution as it ensured the peaceful transition of power since its inception in 1929. Its hold on power was near absolute for decades and did not begin to erode until the late 1980s, with opposition parties such as the conservative National Action Party (PAN for its Spanish acronym) and left-wing offshoots from within the PRI's own ranks such as the Democratic Revolution Party (PRD) gaining ground [1]. Under such system, the successor to the presidency was usually selected by the president himself, and the ensuing election was more of a legitimizing ritual than an actual political contestation.

Though closed to meaningful political opposition, the PRI system left room for change in economic policy-making. The most dramatic example of this was the shift in macroeconomic policies from the Presidency of Jose Lopez Portillo (1976-1982) to that of Miguel de la Madrid Hurtado (1982-1988). Though de la Madrid had served as his predecessor's Secretary of Budget and Programming, the sovereign debt crises that plagued Lopez Lopez-Portillo's final months in office demanded a shift towards a more prudent management of the economy. Whereas Lopez-Portillo had embarked on a strategy of increased public spending funded by external debt backed by new found oil deposits as collateral, de la Madrid began the dismantlement of the import-substitution economic paradigm and commenced the reduction of the role of the State in the national economy.

The de la Madrid administration has been described as one of lost opportunities by prominent historians such as Enrique Krauze [118] due to the systematic suppression of the democratic demands of the citizenry and the political opposition. Nowhere is this clearer than in the election of his successor, Carlos Salinas de Gortari (1988-1994), who was pronounced the winner of one the country's first – meaningfully – contested presidential elections after a mysterious system *error*. Despite widespread accusations of electoral fraud, Salinas continued to push his agenda of economic reform and achieved high levels of popularity after years of economic growth, successful social outreach programs such as *Solidaridad* and the signing of the North American Free Trade Agreement (NAFTA).

However, the political capital Salinas had accumulated throughout his tenure ended abruptly during his last year in office. An uprising in the rural south – San Cristobal de las Casas, Chiapas – by the Zapatista National Liberation Army (EZLN for its Spanish acronym) began on January 1st of 1994, on the same day that NAFTA entered into force. This was not the only surprise in that tumultuous year. Though the Salinas administration sought to portray the signing of the agreement with Canada and the United States as Mexico finally entering the first world – a staple of the country's political rhetoric – these expectations came undone as the year progressed. Just as Lopez Portillo's tenure had left the Mexican economy in a disastrous state, with rampant inflation and rising inequality; Salinas' presidency ended in scandal and a looming exchange rate crisis that came to head once his successor – Ernesto Zedillo (1994-2000) – assumed office.

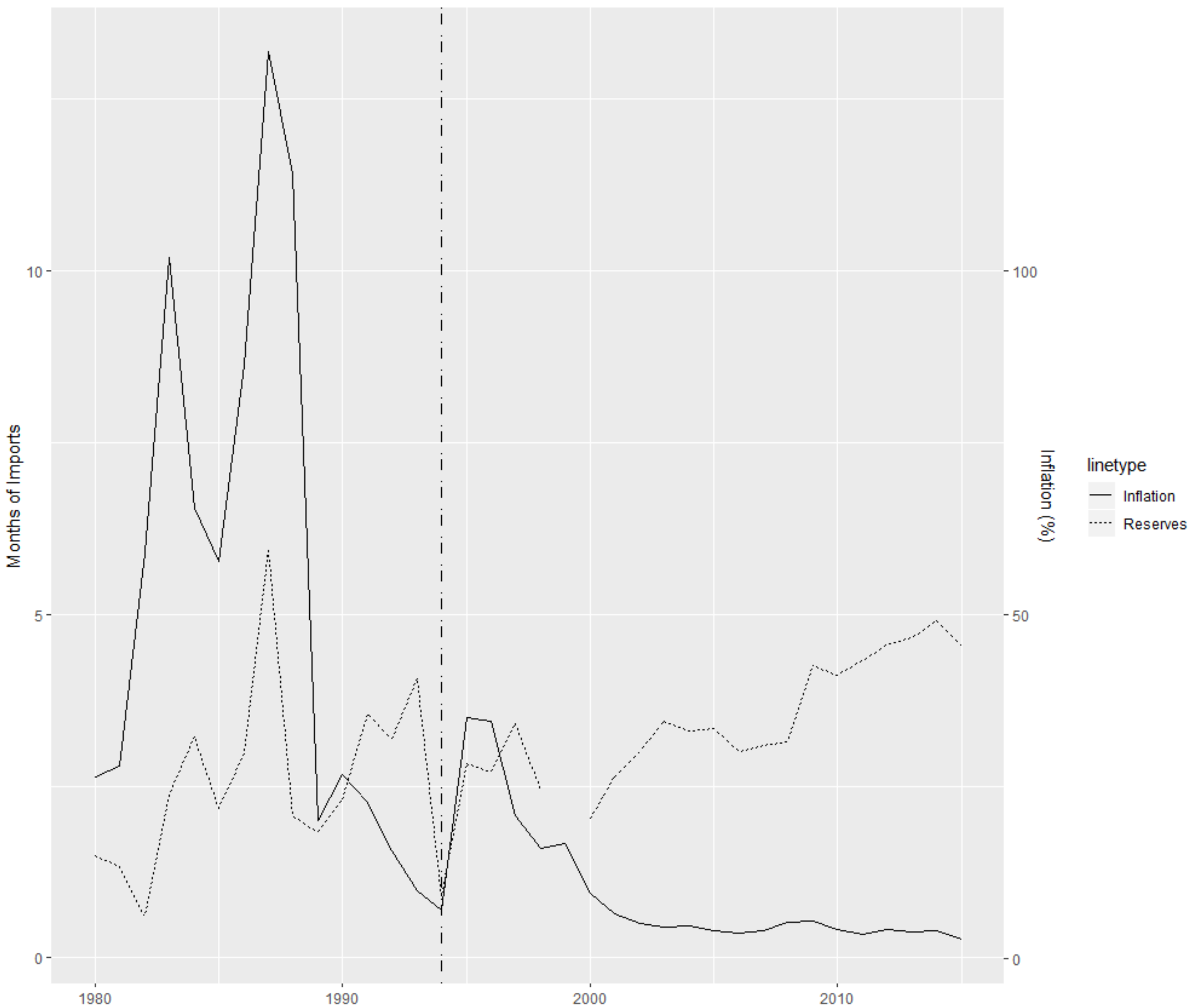
All major devaluations of the Mexican peso (MXN) – 1985, 1987, and 1994 – were followed by changes to the institutional architecture of the financial regulatory apparatus. Following a lapse in fiscal and financial discipline in 1985, the peso took a sudden loss of 20 percent of its value after a massive capital outflow. This situation repeated itself in 1987, prompting the government to adhere to an announced nominal exchange rate (or anchor) from 1988 onward, a policy that was successfully kept in place until December of 1994. While a 1985 currency crash led to a fiscal overhaul, the path towards central bank independence begun after the 1987 devaluation and the 1994 exchange rate crisis – also known as the *December error* – led to significant changes in the financial regulatory framework [27, p. 2].

On December 20th 1994, a 15% increase in the exchange rate band effectively translated into a devaluation by that same amount. In two days, approximately half of total international reserves exited the country, a total of 4.6 billion dollars. Most of the fleeing capital was Mexican. Many national businessmen had been made aware of the government's intention to broaden the floating band of the currency the previous day. Though it was a routine meeting held by the government and top business leaders, the attendees used the information provided by Secretary of Finance Jaime Serra Puche to change their MXN into USD the next morning. The exchange rate and the country's reserves quickly collapsed, leaving the peso in free-fall. This *December error* was a tactical mistake in an already deteriorated strategic setting.

Figure 6.1 shows the sudden drop in reserves in 1994. In terms of months of imports, reserves dropped from 4.06 in 1993 to 0.88 the following year. It would not be until 2009 when the would once again go above the 4 month benchmark (The World Bank 2017). Similarly, inflation began to subside after 1997 and stabilized by the turn of the millennium.

As opposed to the crises of the 1980s and 1970s, the 1994 December error did not bring with it a change in the government's macroeconomic policies, but rather consolidated the liberalization efforts that had begun since 1982. The re-privatization of the banking sector after President Lopez Portillo had nationalized it in the wake of the sovereign debt crises at the end of his term began in the early 1990s. In May of 1990, articles 18 and 123 of the constitution were modified to re-allow access to private actors in commercial banking activities. Between 1997 and 2003, the ratio of total financial assets held by foreign-

Figure 6.1: The December Error



Source(s): IMF and WB

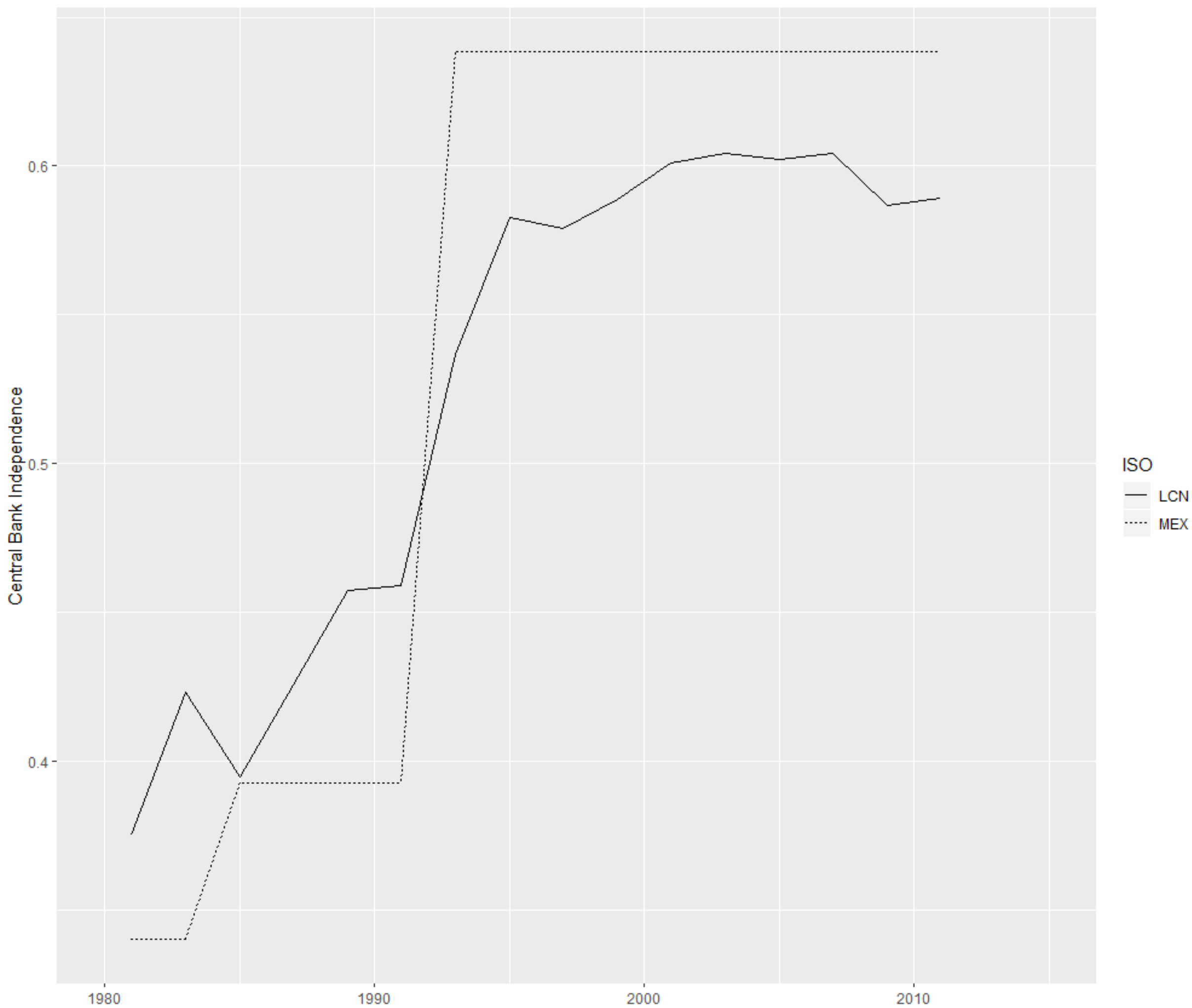
majority-owned institutions went from 18% to 81%, well above the OECD average [188, p. 668].

In May of 1993, the central bank (BANXICO) was given autonomy with a reform to article 28 of the Constitution. Its new mandate charged it with the protection of price stability and barred it from directly financing government spending. This legislative change transferred emission and exchange rate faculties from the federal government to BANXICO and gave the ultimate administrative responsibilities of the institution to an independent Governor and board [20]. Though BANXICO was created in 1925 and had gone through various periods of relative autonomy [197], it was not until the 1993 reforms that its independence from the executive was awarded robust constitutional guarantees. This cemented the slow transition towards inflation-targeting and a flexible exchange-rate monetary policy designed to safeguard the economy against expansionary measures stemming from executive overreach.

The 1994 crisis forced Mexico to abandon its soft peg to the USD and adopt a floating exchange rate. Since the 1950s, the country had experimented not only with various institutional configurations of the monetary authority but also in monetary regimes, from the hard (but adjustable) peg under the original Bretton Woods system to the contemporary floating rates and modern inflation targeting. By 1995, Mexico had become the first emerging market to implement a fully floating exchange rate regime [196, p. 14]. Though originally meant to be a temporary measure derived from the government's incapacity to defend the soft peg, it was maintained as standard policy once the economy recovered from the shock, despite widespread skepticism about its long-term viability within – and outside – Mexico.

Figure 6.2 shows the change in central bank independence in Mexico, contrasted with the regional average. The constitutional reforms gave BANXICO the capacity to formally enact an inflation-targeting strategy and allowed it to recuperate market actor confidence

Figure 6.2: Central Bank Independence Index



Source(s): Garrida

by stating long-term inflation objectives and providing the information required to monitor and evaluate its behavior. The benefits over the short and medium term were evident in the form of more diversification by economic agents and the creation of a derivatives market for the national currency. Furthermore, it placed a hard constraint on fiscal profligacy, as previous semi-fixed rates created moral hazard by encouraging indebtedness in foreign currencies with the implicit understanding of exchange-rate guarantees by the government. The run-up to the 1994 devaluation was a prime example.

The new monetary regime also proved robust in the face of other emerging market crises such as the Asian (1997), Russian (1998), Brazilian (1998-9), Turkish (2001) and Argentine (2001-2) crashes, as well as the dot-com crash of the early 2000s. This despite widespread market-actor fears over a loss of discipline [27]. The stability that the new monetary policy brought to the economy, along with increased trade with the United States under NAFTA, led to a period of modest but steady growth and macroeconomic stability. The Zedillo administration could recover from a disastrous beginning and finish with general public support of his administration's handling of the economy. The independence of the Central Bank and the shift towards a floating exchange rate regime and an open economy – ever-more integrated with the American market – were strategies that an electorate weary of recurring financial turmoil supported. Though there was widespread criticism [146] over the way in which banks were bailed out after the 1994 crisis, falling levels of inflation and the reignition of credit were enough to maintain political stability. Furthermore, the 1996 democratic reforms initiated by Zedillo opened the door for genuine electoral competition, which served to channel the public's demands for change more constructively.

6.2 *Change*! (Context)

The 1994 *Tequila Effect* was not the only crisis that struck the nation that year. The assassination of presidential candidate Luis Donaldo Colosio and PRI Secretary General J. F. Ruiz Massieu led to a protracted political crisis. Though the PRI candidate (Zedillo) ended up winning the 1994 elections, he was selected to be the party's candidate as a last resort by Salinas. Furthermore, the opposition had begun obtaining electoral victories in the North, with the PRI even loosing state governorships for the first time.

By the time Vicente Fox arrived at the national political stage, the grip that the PRI had on the political system had begun to erode as the Zedillo administration played a pivotal role in Mexico's transition to democracy. Fox was a newcomer to the conservative opposition party PAN. Having entered in 1987, he was close to well-known leftist intellectuals and accused by his own party members of fiscal recklessness and populism. Furthermore, he entered the political scene at a crucial juncture in the political history of Mexico as "a truly viable voter, who could hold political leadership accountable, did not emerge until after 1988, when Cuauhtémoc Cardenas, a coalition candidate, surprised most observers with his strong showing against Carlos Salinas despite widespread fraud" [3, p. 29].

Furthermore, in the wake of the 2000 presidential election Zedillo (and the PRI) deviated from the longstanding tradition of top-down candidate appointment and let the matter be decided by way of an open internal primary election. This resulted in the nomination of Francisco Labastida, a compromise candidate between two factions of the party: the technocratic and US-educated – among them Zedillo, Salinas and de la Madrid – and the traditional *politicos*, who made their careers ascending through the party ranks.

By the turn of the millennium, the insurgencies in the south had been placated. The economy was back on track, with per capita GDP recuperating its 1994 losses. In addition, "profound reforms in 1996 had effectively transformed Mexico's electoral system into one worthy of emulation by many established democracies" [50, p. 2]. Survey data[1] from the run-up to the July of 2000 presidential election indicate that, though voters had a positive image of the PRI's handling of the economy, the issue became secondary to that of political *Change*.

Though the public had a favorable view of Zedillo's handling of the economy, "the PRI had trouble convincing voters that it stood for either *change* or *democracy*, though it clearly understood that voters were demanding both" [24, p. 123-124]. Fox's campaign targeted centrists, the urban middle classes and young voters, placing higher importance on the political than on the economic dimension. The message was change after decades of single-party rule, though the substance of such change beyond the simple transition of power was unclear. "Fox was change. Change was Fox. Everything else could be filled in by the voter as he or she wished" [24, p,142]. In fact, 66 percent of voters claimed that they cast their ballot for Fox for *change* and 28 percent declared that they were motivated by the candidate himself.

Though in the 1994 election voters deemed Ernesto Zedillo as most capable of steering the country's economic future, in 2000 the electorate "made little distinction based on the two candidate's primary policy proposals, on their personal or party's ability to implement programs to cope with those issues, and even on their personal qualities" [3, p. 35]. Similarly, Magaloni and Poire (2004) [129, p. 295] conclude that "Mexican voters stopped perceiving the PRI and its candidate as the most competent in handling the national economy."

The vote for *change* was not a ballot cast for a new political system, but rather for the increased efficiency of the one in place. After all, voters gave Fox the executive branch, but

[1] The data is taken from the Mexico 2000 Panel Study, which "consists of approximately 7,000 interviews in five separate polls over the course of the campaign, using a hybrid panel/cross-sectional design" [50, p. 12].

withheld control over the legislative from the PAN. "Mexican citizens were ready to try out a new president from a different party, but they also bought a double insurance policy – against renewed authoritarian lordship and against wild policy implementation" [50, p. 341]. In the end, Fox won with 43 percent of the vote, 7 points above his main PRI opponent. The 2000 election, though momentous in terms of the evolution of the democratic process of governance in Mexico, did not bring with it a change in macroeconomic policy, well in line with the electorate's mandate.

The main reason behind the electorate's support – tacit as it may have been – of the continuation of the Zedillo era's macroeconomic policies was the stability that they brought to the country. This can be observed by the management of the 1994 financial crisis, particularly when compared to the performance of previous administrations in the face of financial turmoil. After the 1994 collapse, the Mexican government sought to reconfigure its debt structure. This meant issuing its obligations internally rather than externally. As figure **??** indicates, overall external indebtedness levels had been consistently declining since the late 1980s. From a historic peak of 82 percent of GNI in 1986, they were reduced to 26 percent by 1993. The effects of the December error can be seen in the 23-point increase between 1994 and 1995, to 50 percent of GNI. In fact, between 1999 and 2010 this ratio remained below 30%.

The structure of debt also began shifting towards short-term obligations in the years prior to the crash in 1994. The government found itself unable to service payments on short-term dollar-denominated instruments called *Tesobonos*. As opposed to previous decades, the problem was not the volume of public debt or even its growth, but rather its composition. These instruments gradually displaced peso-denominated debt throughout 1994. Whereas *Tesobonos* represented merely 3 percent of government obligations issued within the country in January, this increased to 40% in November and reached 55 percent by December of the same year. However, this trend began to reverse in 1995 and stabilized after 2000 [67]. To this effect, the support of the Clinton administration to its new NAFTA partner. The Zedillo administration received a 50 billion USD bailout in 1995, placing the economy back on track.

By the time Vicente Fox took office in 2000, he inherited a stable economy after decades of financial uncertainty, a wave of popular support as the first opposition leader in 70 years and a good relationship with the United States. Both at home an abroad, this political capital provided him with an extraordinarily favorable context in which to materialize his agenda for political and economic policies and reforms.

6.3 The Monterrey Consensus (Framing)

With the economy on solid ground and cautious optimism regarding the management of the economy, Vicente Fox had the space to attempt to materialize his vision of Mexico's future and its place in the world. During the first years of the administration, the latter part of this vision was delegated to his secretary of foreign affairs Jorge Castañeda.

The central axis of Mexican foreign policy throughout the Fox years – and largely throughout its history as an independent nation – was its relationship with the United States. With the transition of power away from the PRI and into the hands of an opposition candidate along with a new government in Washington, the future looked promising. Fox and G. W. Bush took office seven weeks apart from each other: December 2000 and January 2001 respectively. The two heads of state had met previously during their tenures as Governors of Guanajuato and Texas (respectively) and were ideologically and personally compatible: both conservative scions of wealthy families with a proclivity towards ranching.

However, this optimism faded quickly after the terrorist attacks of September 11, 2001. The securitization of American foreign policy, along with disputes over migration reform quickly soiled the bilateral relationship's favorable prospects. Regardless, foreign secretary

Castañeda embarked on an ambitious campaign to revamp Mexico's foreign policy. The main issue in his agenda was migration reform in the United States, and in this he would fail [172][2]. Regardless, three broad objectives guided his tenure and largely that of his successor, Ernesto Derbez: a) to project a new image of Mexico abroad, b) to prioritize the strategic relationship with the United States and c) to increase the country's role in multilateral organizations. In the economic realm, these objectives reflected a stark narrative of the international economic and financial system as a *positive*-sum game worth engaging with to the fullest.

There was a continuation in macroeconomic policy as in the importance allocated to a good relationship with Washington of the Zedillo presidency. However, the arrival of the PAN to power did bring significant changes to Mexico's dealings with the rest of the world; namely, the government ceased to use sovereignty as a shield against criticism over human rights abuses within the country [30]. Sovereignty was a recurring theme in this new foreign policy, as exemplified in the new administration's National Development Plan (2001-2006). Economic development was tied-in with the protection of national sovereignty. Nevertheless, this did not come in detriment of the open-market, in Ambassador Bernal Rodríguez's [12, p. 26] words: "[author's translation] development and sovereignty appear, more than ever, intimately intertwined. Without a doubt, the best defense of sovereignty lies in having a strong economy, diversified and growing." Castañeda himself regarded the issue of cooperation in matters of global governance not as a form of subordination or capitulation to foreign interests, but rather as "[author's translation] the best instrument that the disposal of each nation to influence its own destiny in an international system in which ever more, local affairs turn national and national ones, global" [31, p. 53]. In the realm of financial governance, this view was put into practice as Mexico began to pursue

[2] He resigned in January of 2003

a larger role in the international system.

This opportunity came in 2001 as the UN General Assembly called for an international conference on Financing for Development to be held in the city of Monterrey, Mexico. There, Mexico sought "[author's translation] greater participation in international organizations, with the goal of influencing the rule-making process" [180, p.35]. One of main outcomes of the Monterrey Consensus was the Highly Indebted Poor Countries (HIPC) initiative on debt relief. This was later considered a great success for Mexican diplomacy as a consensus emerged regarding the appropriate financing mechanisms for achieving the millennium goals (MDGs).

In 2005, Ambassador Enrique Berruga delivered Mexico's UNGA speech on behalf of the Fox administration. This speech was country's historic maximum for Topic 34 prevalence – see figure 5.4. In it, the UN representative discussed the legacy of the 2002 Monterrey Conference on financing for development. He lauded it as a landmark achievement for development and praised its North-South cooperation spirit.

> A partnership between rich and developing countries was forged for the first time ever, with the purpose of fighting poverty head-on and defining financial targets and timetables in that fight. We therefore particularly appreciate the decision of those developed countries that have announced precise timetables and levels of their gross national product to be allocated for official development assistance. We reiterate our call to the rest of the economic Powers to move in that direction, and we urge the developing countries to present, as soon as possible, their own national strategies to ensure that they can access those resources. It is crucial that all parties fully meet their commitments. [10]

The speech reflected the Fox government's *positive*-sum view of the international financial architecture and its developmental possibilities. This rhetoric was also accompanied by policy innovations within the sphere of sovereign debt restructuring. This market-friendly approach was also reflected in the decision to promote the use of Collective Action Clauses in New-York issued bonds.

6.4 In Good Faith: CACs (Outcome)

The global shift in the market for sovereign debt from private banks to dispersed bondholders as the main emerging market creditors raised concerns about systemic vulnerability. The 1994 Mexican crisis as well as the emerging market distress crises that followed further fueled such fears. This led to increased efforts to find a viable way of restructuring the obligations of sovereigns in distress. The issue came to a head with the 2001 default by Argentina, then the largest in history. Despite its turn towards unilateral foreign relations after 9/11, the Bush administration did not increase pressure on Buenos Aires, despite pleas from mostly U.S. based creditors. This despite the ideological discrepancy between the conservative republican administration and the leftist government of Argentina.

Helleiner [**?**, p. 951] argues that the support of Argentina's restructuring by the Bush administration "reflects familiar influences: strategic goals, neoliberal ideology and conservative anti-internationalist sentiments". More so, it reflected the reluctance of the United States to use the power of government to intercede in the resolution of market disputes. This lax attitude would be further evidenced in the run-up to the incorporation of Collective Action Clauses (CACs) in sovereign debt instruments and the demise of the alternative initiative to create a sovereign debt restructuring mechanism (SDRM) to by the International Monetary Fund.

Prior to 2003, to make changes to the terms of a bond issued in New York (by far the largest market), all bondholders would have had to agree to the proposed amendment. This made restructuring for emerging sovereigns particularly challenging as countries cannot file for bankruptcy. "[N]o law and no judge [could] override the will of the bondholders" [73, p.86]. Each bondholder essentially held veto rights over negotiations regarding restructuring. Unlike banks, bondholders had little long-term interest in the economic well-being of the debtor country. Thus, the incentive to hold-out in negotiations to force the debtor to make good on the original claims was constantly present. An investor could acquire a bond in the secondary market at a low price and take on the costs of the legal procedure to extract as much value from the instrument as possible, with the legal leverage of being able to hold hostage all the negotiations between the borrowing nation and all the rest of its creditors.

Throughout the mid-1990s, private sector actors and IMF shareholders began to frame this problem as one of *collective action*. The very name of the clauses is itself a peculiarity in the realm of contracts. It is derived from Olson's theory of collective action, which points out circumstances in which the pursuit of rational self-interest by individuals acts in detriment of the interests of the group. The free-rider in this case was the hold-out speculator, which could stall a restructuring agreement and transfer the costs of the rest of the parties involved. Two options to solve this issue emerged: a) a vaguely framed mechanism within the IMF to arbiter such issues when they arise, and b) the incorporation of CACs in sovereign debt instruments that would require that a certain percentage of bondholders that agree to restructuring terms would make such terms binding for all other creditors that held the issuance in question.

This debate illustrated the clash between two economic ideas; on one hand the preference for *ad hoc* market-based solutions and the improvement of contractual technology [162], and on the other a statutory approach under a multilateral framework [89]. The latter sought to reform the international financial architecture by giving greater negotiating power to sovereign debtors – typically emerging market ones – during restructuring and resolution processes. This debate fell across several cleavages, from the political left-right to the geo-economic North-South. However, it also touched upon differences in economic narratives, particularly regarding the power imbalances between sovereign creditor and debtors.

The campaign in favor of CACs began in 2001 and was largely spearheaded by the U.S.

Department of Treasury. During the Clinton years, the Treasury of the United States had an different approach to financial crisis resolution, reflecting the belief that "the potential consequences of contagion outweighed the risk of moral hazard and so justified the particular intervention" [160, p. 30]. However, there was a change in strategy with George W. Bush's new treasury team, which was skeptical of the merits of discretionary government intervention wholesale, including in the resolution of sovereign debt crises.[3] Ultimately, the matter was settled in favor of CACs – widely supported not only by the U.S. treasury but also by private lenders and organizations such as the Institute for International Finance [107] – as "Mexico's bond issue in February 2003 rendered the debate between bankruptcy and CAC solutions a thing of the past" [205, p. 57]. The tipping point came when Mexico, a leading emerging market debtor, issued its new global bond with CACs and disproved fears that it would raise emerging market borrowing costs.

> Mexico's SEC-registered twelve-year global note issue launched in February 2003 tipped the markets in the direction of CACs. Mexico's sole—momentous—innovation was in the modification provisions. Departing from the unanimity convention under New York law, the notes allowed amendment of financial terms by holders of 75 percent of outstanding principal. In a concession to creditors, Mexico raised the threshold for amending most other terms from 50 percent to 66 2/3 percent; several non-financial terms, including priority ranking and waiver of immunity, now required 75 percent. Higher thresholds for non- financial terms make it harder for creditors participating in a debt exchange to amend securities held by non-participating creditors so as to make them effectively worthless [...]. [74, p. 1641]

In study consisting of 100 interviews with participants, Gelpern and Gulati [74, p. 1710]conclude that there is "no basis to conclude that parties adopted CACs to improve their contracts". Furthermore, the interviewees routinely mentioned that they were "not worried about the contingency the new terms addressed, and insisted that these terms were at best marginally useful in managing risks associated with default" [74, p. 1711]. Rather, they stated that the reason for the adoption of CACs was to send a message to the market and

[3]The new Under Secretary for International Affairs at the Treasury was none other than John Taylor, a prominent Stanford Economist who opposed the use of government discretion in detriment of strict policy rules [176].

reap potential political and reputational benefits down the line.

Instead of putting the interests of creditors against debtors or of emerging economies and the governments of the developed world, the CACs issuance saw a widespread convergence of interests, thought their value in terms of actual risk reduction is debatable [75]. In the case of U.S.-Mexico relations, both the Bush and the Fox administrations used the juncture to send a political message. On one hand, the U.S. treasury displaced the SDRM proposal in favor of a market solution. On the other, Mexico reaffirmed its ongoing policy of projecting itself as a responsible and more engaged member of the international community, not only an emerging-market leader but also a norm-setter.

Though there was precedent of minor borrowers like Kazakhstan and Lebanon experimenting with CACs in the New York market since 1997, they "appeared to have no knowledge of the official campaign for CACs; they did little to publicize their innovations, and showed no desire to diffuse or take credit for them" [73, p. 89]. This is not surprising as the CACs would not be retroactive and thus solved no immediate problems and had only prospective effects in terms of robustness at some point the mid to long term after issuance. Rather than as an actual prudential measure, the diffusion of CACs was a symbolic message of support towards market-solutions in issues of sovereign debt restructuring, one that the Fox administration was eager to make. In the end, the concerted attempt to change market practice was successful, by 2005 95 percent of emerging market debt contained these clauses.

Since then, Mexico has continued this foreign policy strategy of cooperation with global financial governance initiatives, the G20 being one of the main examples. Ever since the 1997 Asian financial crisis, the finance ministers and central bank governors of member states have been meeting annually to address the challenges of the global economy. This global governance initiative was deepened in 2008 to coordinate efforts to combat the effects of the 2008 global financial crisis; with the first meeting of the heads of state of member countries occurring in November of that same year in Washington D.C.

The role played by the Mexico in the G20 is based on a similar underlying logic and perspective on globalization and sovereignty as the country's leadership in the 2002 financing for development summit held in Monterrey and in the issuance of CACs. "[Author's translation] In terms of identity, G20 ascension could be considered a scene in the formation of the identity of [emerging] countries stemming from the learning that they experience throughout a process of 'socialization', which consists in satisfying the expectations that developed countries have of the conduct of emerging ones in that regard" [130, 172]. Rather than a way of constructing like-mindedness as an end, it was a point of departure. Thus, Mexico City's consistently positive view of global markets was compatible with the forum's outlook.

The G20 was one of the main fora to coordinate global efforts to combat the effects and spread of the 2008 financial crisis. In comparison to previous monetary and financial governance initiatives, it was inclusive and gave voice to key emerging markets to accommodate for a rapidly globalizing world. However, not all emerging markets were keen on cooperating with this new governance system. Whereas Mexico took the critical juncture of the global financial crisis as an opportunity to reaffirm its commitment to a strategy of global solutions to global problems (asymmetrical as they may be), other such as Ecuador saw in it the chance to do just the opposite.

The legacy of the Zedillo administration was a solid platform from which the developmental potential of the country could be deployed.[4] The Fox administration did not deviate from this strategy of international activism but rather sought to deepen it [13].

[4]His Secretary of Foreign Affairs, Angel Gurría, stated that the 50 billion USD bailout by the U.S., multilateral lending and private creditors was: a) not a result of the incapacity to pay but rather the lack of solvency –stating that indebtedness levels were at 40 percent of GDP in contrast with the 60 percent average of other OECD countries, and b) that it "[author's translation] constituted a recognition by the international community of the solid basis of the Mexican economy and the show of unity given by various national sectors in front of such a difficult situation" [88, p. 298-9].

Though Fox had begun his presidency with high hopes of giving Mexico a new role in the world and championing the cause of the millions of Mexican migrants in the United States, these expectations began to clash with reality throughout his first years in office. In 2003, and amid a series of blunders [172] such as a late and lukewarm response to the 9/11 attacks and a clash with Fidel Castro, Castañeda resigned and was succeeded by the Secretary of Economy: Eugenio Derbez. Though Mexico did not end up taking on a new role of leadership in global politics, it did succeed in making its mark in global financial governance and consolidated itself as one of the main emerging-market players in the field.

6.5 Conclusion

Chapter 33 of the United States-Mexico-Canada Agreement binds the signatories to commit to market-determined exchange rates, the IMF's articles of agreement on the proscription of competitive devaluations and to a monthly public disclosure of data on reserve balances, balance of payments and foreign exchange market interventions.[5] Despite sitting President Andres Manuel Lopez Obrador's constant derision of *neoliberalism*, in monetary and financial affairs his government has continued to pursue a conciliatory strategy towards the global financial architecture.

The diffusion of CACs in emerging market instruments was an example of the triumph of the policy of market solutions to financial turmoil. Though its merits as an actual improvement of global financial stability are a subject of debate, the rapid and widespread change in established practice that it entailed illustrates its powerful political and symbolic dimension. It was a vote of confidence on the financial system that pre-dated the 2008 crisis and it was first cast by the Mexican government under Fox.

[5] All three members of the agreement already had a good track record on the matter and the inclusion of Chapter 33 has been largely seen as a template that US could use on future agreements with third parties.

President Fox had no intention of disrupting the flexible exchange rate monetary policy initiated by the Zedillo administration nor to attack the independence of the central bank. Neither was he keen on reversing the economic and political rapprochement with the United States that was initiated by previous administrations. However, this alone does not explain why the treasury under his command opted to take the initiative and bear the initial risk of issuing bonds with CACs in the New York market; effectively ending the debate on the most appropriate mechanism to govern sovereign restructuring. This is particularly puzzling considering that at the time Mexico was in the process of shifting from external to internal debt as the main source of public funding. The potential economic prospects of lower cost of borrowing in the long-run thus seem like an insufficient explanation for such policy.

This is not to say that there was no expectation of reward, it is doubtful that Mexico would have willfully worsened its access to private external credit for the sake of experimentation. Nevertheless, the risk could have been taken by other emerging borrowers, at no cost to Mexico. This act of *good faith vis. a vis.* private lenders cannot be fully understood without considering the broader foreign policy strategy of the Fox administration. One that not only continued with the macro-economic paradigm of its predecessors, but also sought to increase the visibility of the country. The CACs issuance was part of the government's efforts to become a global norm-setter and a *bridge* between the emerging and developed worlds. Though the broader foreign policy goal of international notoriety can hardly be called a success, in the specific case of setting a trend in the world of international finance Mexico was successful.

The *positive*-sum narrative about market-based solutions and the international financial architecture expressed by Fox transcended the rhetorical dimension. It guided both the country's role in the Monterrey Conference, as well as the decision to move forward with CACs. Despite tensions with Washington over migration and security, Fox's government pursued an agenda of deeper economic and financial cooperation with the US. This strategy was enabled by the initial popularity of the President, along with the economic stability he inherited. In addition, the issue of financial reform had become salient once again with the 2001 Argentine default. I argue that given those conditions, Fox's favorable views of the system based on market-solutions influenced his policies to the extent where they can be considered an example of *good faith*.

The Fox administration largely built on the financial and economic system put in place by his PRI predecessors. However, he went beyond a merely reactive or passive stance towards a system that had brought macro-economic stability and pro-actively promoted it. By contrast, current President López-Obrador has been vocal against this very same system, denouncing the legacy of *neoliberalism*. Yet, to date his government has not upended the financial institutions and policies that are associated with the paradigm of his PRI and PAN predecessors.

This illustrates the special conditions under which narratives of the international political-economy influence actual policies. Though López-Obrador holds a more *zero*-sum view of the system and has enjoyed high levels of popularity, financial reform has not been salient domestically nor internationally. Since the 1990s, Mexico has been macro-economically stable and has remained engaged politically and commercially with Washington, despite tensions over migration and tariffs.

Chapter 7

Ecuador under Correa: *In Defiance*

> "El orden mundial no solo es injusto, es inmoral; los dobles estándares cunden por doquier; y se quiere sostener hasta las más aberrantes irracionalidades, todo en función del capital"
>
> Rafael Correa

On January 15th, 2007, a previously little-known one-term minister of Finance named Rafael Correa became president of Ecuador. His first victory was a landslide by the country's standards, taking 56.67% of the votes in the second electoral round.[1] Correa's two subsequent re-elections were even more astounding, so much so that second rounds became unnecessary. Under the banner of a *Citizen's Revolution* , the Correa administration implemented far reaching economic policy reforms, reformed the Constitution and significantly increased public investment [72]. In addition, he constantly derided foreign creditors – even referring to them as *real monsters* [133] – and referred to

[1]By contrast, his predecessor Lucio Gutiérrez won with 54.79%. Before that, Jamil Mahuad had won with 51.2% in the race between the two most successful candidates and their vice-presidents during their respective first electoral rounds [64].

the economic policies of his predecessors as the causes of a "[author's translation] long and sad neoliberal night" [44].

Correa acted as Minister of Finance under President Alfredo Palacio (2005-2007) after the latter's predecessor – Lucio Gutiérrez (2003-2005)– was ousted. According to Correa, the Gutiérrez presidency was characterized by "[author's translation] the application of schemes that destroyed the economies of the underdeveloped world, that deteriorated their environment, that generated greater social inequalities, that put their democracies at risk, and whose determining factor was not development, but to submissively accommodate to transnational interests and the service of external debt" [44, p. 110]. Though this piece was written when Correa was already in power, it reflects a long-standing attitude towards global financial markets. Before being named Minister of Finance in April of 2005, he was an academic whose research focused on Ecuador's public finances. Prior to this appointment, he had claimed that the 2000 debt restructuring with funds from the IMF was invalid and that it disproportionally benefited external creditors, in detriment of national interests [123, p. 215]. It is thus unsurprising that sovereign indebtedness was a centerpiece of his presidential campaign. However, and in contrast to many others that have run on promises to take a stand against foreign creditors, Correa surprised the financial world in 2008 by actually following through.

7.1 Economic and Political Crises (Salience)

On October 14th, 2019, Correa's successor Lenin Moreno reached a deal with protesters who briefly took over the streets of the capital demanding the reinstatement of fossil fuel subsidizes. This is but a recent chapter in Ecuador's long history of economy and political unrest.

Another one of the turning points in contemporary Ecuadorian politics came with the

1999 banking crisis and the demise of the national currency – the Sucre. These events led to the overthrow of the sitting president and were portrayed as a massive *heist* by the media and later on by Correa's presidential campaign [43]. Though the crisis was exacerbated by exogenous shocks to oil prices and devastation in the coast due to the *El Niño* phenomenon; it was its mismanagement which resulted in several years of political turmoil within the country [167]. After the dust of the crisis had settled, the sitting president, Jamil Mahuad, and the Sucre were no more.

Mr. Mahuad came to power on August 10th, 1998, in the middle of an ongoing political and economic crisis. During the first month of his presidency there was a sharp increase in the prices of gasoline, electricity, a 15% devaluation of the Sucre and a very unpopular letter of intent from the IMF [63]. Though he was elected for a term of 4 years and 5 months, his tenure ended in on January 21st of 2000 after a severe banking crisis hit the country.

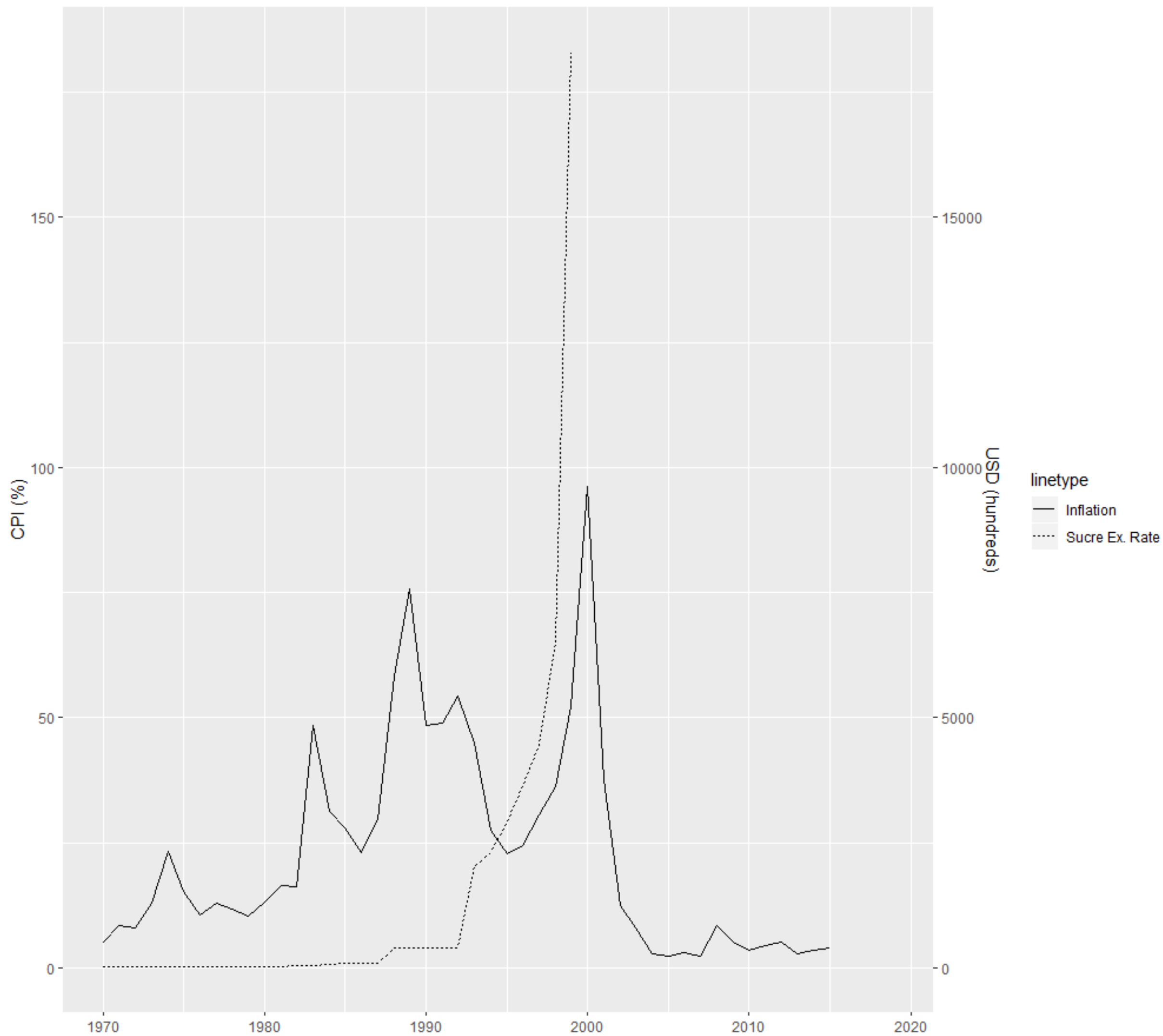
During Mr. Mahuad's term, the Sucre was replaced by the U.S. dollar and millions of Ecuadorians lost their savings after a countrywide bank freeze. On March 8th, 1999 Mr. Mahuad declared a bank holiday in order to a) organize a bailout of the financial sector after months of instability and b) forestall rampant inflation. These news caught many citizens off-guard, as the president had previously declared that no such actions would be taken. Originally stated to last for 24 hours, the bank holiday went on for 5 days. By January 21st Mr. Mahuad left the presidency as a result of mounting social unrest and a coalition of the military and indigenous movements occupying the National Palace and the National Congress demanding his resignation. The following day, Vice-president Gustavo Noboa replaced Mr. Mahuad. Though the protesters had succeeded in ousting the president, the dollarization system remained in place and the Sucre -which had been Ecuador's currency for 116 years- was put to rest [60].

As is often the case with bank holidays [48], the Ecuadorian case revolved around the fear of a generalized run on banks thought to be insolvent. The catalyzing event was a rumors that one of Ecuador's largest banks, *Banco del Progreso*, would no longer be able to service its depositors. These rumors fueled the already burning fires of uncertainty as a few months earlier another one of Ecuador's main financial institutions, *Filanbanco*, had to be bailed out. Furthermore, that bailout occurred a week after a new law – passed on December 1st, 1998 – had given the central bank the authority to extend unlimited lines of credit for struggling banks. Accusations of corruption and political agitation swept through the country [62]. One of the leaders of the military coup, Colonel Lucio Gutiérrez, came to power after Gustavo Noboa's term (2000-2003) came to an end. However, neither of them was willing, nor able to reverse dollarization and revive the national currency.

At the time the Central Bank of Ecuador was chartered (in 1927), one U.S. dollar traded for 5 Sucres. Inflation levels remained stable until 1982, when the Mexican debt crisis sent shock-waves across Latin America. From that year on and until its demise at the turn of the millennium, the Sucre saw itself subject to yearly devaluations in relation to the USD and with inflation levels of around 24% [175, p. 5]. Quito saw the history of financial turmoil of the early 1980s repeat itself in the late 1990s. A devaluation in Brazil on February 12th, 1999 led to renewed speculation against the Ecuadorian currency. By March of that year, the exchange rate had dropped to 13,000 Sucres per dollar.

Figure 7.1 shows the how the devaluation process began since 1992, followed by a dramatic currency crisis by 1999. Mr. Mahuad responded to the crisis by declaring a bank holiday on March 8th and announced an economic austerity plan three days later. Alas, this measure was not enough to stabilize the economy but did spark popular outrage. On August of that same year Quito suspended payments on its external debt obligations. By January of 2000, the situation had become unsustainable and Mr. Mahuad decreed the dollarization of Ecuador with a rate of 25,000 Sucres per USD, finally stabilizing the market. Though the politically exhausted president was ousted in a *coup d'état* on January

Figure 7.1: Sucre and Inflation



Source(s): The World Bank and *Banco Central del Ecuador* [8]
Note(s): After the Sucre was replaced by the USD, Ecuador's inflation levels went back down to single digits after reaching nearly 100% at the peak of the exchange-rate crisis.

21st, the new government was unable to reverse the process and Congress approved the Economic Transformation of Ecuador Law on February 29th [175]. On September 13th of 2000 the Sucre officially ceased to be legal tender.

Its controversial origins not withstanding, dollarization had lasting positive effects on the country's macro-stability. By 2009, inflation had stabilized at 4.3% and long-term lending was reignited [136]. This measure reduced economic uncertainty as financial institutions, severely hit by the crisis, were less reticent to issue credit – to real companies this time – and economic agents became keener on embarking on productive endeavors without the looming doubt of unforeseen losses stemming from monetary mismanagement and volatility.

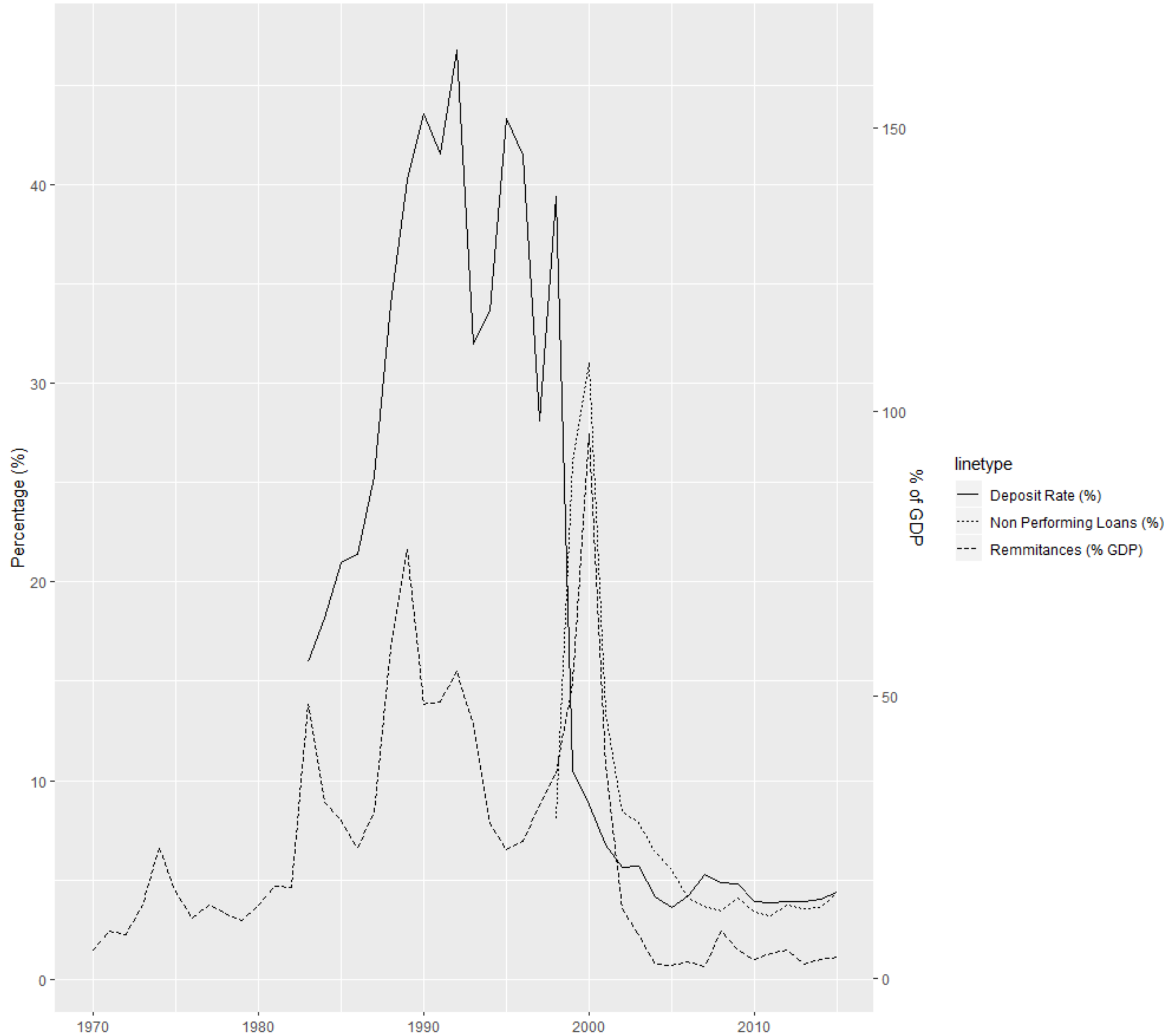
However, not all shared the view that dollarization was a net positive for the country. In September 2004, then Professor at the University of San Francisco de Quito, Rafael Correa wrote a commentary on a special edition of the Ecuadorian academic journal Iconos about the dollarization process. In the introduction, Correa [42, p. 84] stated that "[author's translation] we must remember that there are few things that are irreversible in economics, and dollarization is not one of them." The commentary concludes with a critique of what Correa denominated *the dogma of stability*, which he argued would control inflation only at the cost of the real economy. His concerns over sovereignty were also made evident. He stressed the importance of "[author's translation] recovering sovereign economic policies that serve true national projects, and of impeding that the economy and the common good be subject to the arbitration and understandings of the market" [42, p. 89]. Dollarization in his view was not only technically absurd for a small, open and under-performing economy; but also, a source of public discontent and the degradation of national identity and sovereignty itself.

This skepticism and association with public malaise was not entirely unfounded. The monetary stabilization strategy had broad distributional effects, debtors in Sucre saw their obligations reduced to a fraction of their initial value while pensioners and low income workers took a large hit to their standard of living [28]. Support for dollarization in Ecuador rested on concerns over transparency. The fear of rampant inflation pushed Quito into relinquishing control over money creation for the sake of stability: political and economic alike.

Its many critics not withstanding, fifteen years later, the policy still enjoyed broad support amongst the people of Ecuador. A poll conducted by CEDATOS – a GALLUP affiliate in the country – concluded that 85% of the population supported the measure in December of 2014. By contrast, dollarization was supported by only 32% of the population in 2000 and 62% in 2006. Furthermore, it increased trust in the economy as a whole. In an interview with the newspaper *El Comercio*, the head of CEDATOS stated that "[author's translation] In 1999 65% of the population wanted to leave the country, today [2014] it is 23% or 27%" [58]. Figure 7.1 shows how inflation levels – by consumer price index – decrease sharply with globalization and have remained well below the levels of the Sucre era.

Nonetheless, many people, particularly the most vulnerable sectors of society, saw their income and savings radically decrease. The 1999 crisis was not just an economic one, it was a crisis of sovereignty and it paved the road for Rafael Correa's presidency, making his tough rhetoric against *neoliberalism* all the more appealing to the electorate. The so-called *neoliberal* reforms began during the presidency of Sixto Durán Ballén (1992-1996). Though letters of intent from the IMF could be traced back to the 1980s, it wasn't until the early 1990s when they were implemented in force. It was during the Durán years when the legal framework of financial liberalization that preceded the crisis was enacted. With these reforms, interest rates were liberalized and no longer channeled to favor certain industries, capital controls were lifted and off-shore deposit accounts were permitted. Furthermore, foreign depositors were allowed to open accounts in Ecuador in order to attract capital

Figure 7.2: Loans and Remittances



Source(s): The World Bank
Note(s): It was bad.

into the struggling economy, still recovering from a series of armed conflicts over territorial disputes with Peru [142].

Though these measures were intended to make the financial system more efficient, poor investments and sometimes outright corruption resulted from a massive and sudden increase in interest rates on deposits in commercial banks and unrealistic guarantees from the monetary authority. Figure 7.2 shows the evolution of deposit interest rates, reflecting a phenomenon similar to what Hyman Minsky [?] has dubbed *Ponzi finance*; the extent of the financial system's fragility can be further observed with proliferation of bad loans. These toxic assets ballooned to nearly a third all of total total by 2000, an unsurprising dynamic with historically high passive rates. This reflects an unsustainable and highly speculative financial situation. The high rates encouraged people to sell physical and performing assets and place their savings in the banking system, expecting to live off the interests. Long term lending practically came to a halt and short term credits were extended to risky borrowers, sometimes to ghost companies with no collateral which disappeared after the crash with little more than a paper trail. The adjustment from 40% interest on deposits to rates below inflation and the loss of the national currency was a painful process for the Ecuadorian people, and it took an immense political toll on the nation's governing parties.

After the collapse of the financial system and the economic downturn that followed, many citizens saw no choice but to leave the country to seek opportunities abroad. Remittances from these emigrates became one of the lifelines of the economy. Figure 7.2 shows how, after 1999, the share of remittances of the Ecuadorian economy doubled, a trend that only began to decrease after the 2008 global financial crisis. Those that did not vote with their feet grew weary of the mismanaged economy and the political establishment's incapacity to fix the situation. The social outrage that followed ended with the removal of president Mahuad from office; however, the political fallout for his party, and in fact for all of the main political parties in Ecuador, was immense. Though Correa would not run for the presidency for another 7 years, the fallout of 1999 would keep the issue of debt and finance a salient, as it remains today.

7.2 The Pink Tide (Framing)

Alongside other contemporary Latin American leaders such as Evo Morales and Hugo Chávez – and his hand-picked successor Nicolás Maduro –, Rafael Correa is often considered to be part of the third wave of populist leaders in the region [25, 65]; also known as the *Pink Tide*. For decades, Latin America has been fertile ground for many types of political movements which have caused the downfall of long-standing parties and caused many an electoral surprise; at least in democratic regimes.

Canovan [29, p. 2] claims that democracy has two opposing faces, a pragmatic one and a redemptive one, and that it is "the inescapable tension between them that makes populism a perennial possibility."[2] The distinguishing elements of populism comprise challenges not only to the political elite itself, but also to its values. It is in many was a rhetorical revolution led by a charismatic leader that can connect with his base in ways that the discredited elite cannot by claiming that the jargon of bureaucracy is no more than "a self -serving racket perpetuated by professional politicians, and that the solutions to the problems ordinary people care about are essentially simple" [29, p. 6]. Other points of distinction with politics-as-usual are the mobilization of normally apolitical people and the exalting of the virtues of an idealized, united and vaguely defined *people*.[3]

The *Citizen's Revolution* movement that propelled *Alianza PAIS* and Correa to power

[2] In Canovan's argument, each face complements the other, without the element of redemption there is corruption and without pragmatism the peaceful resolution of conflicts that serves as foundation for democracy is rendered mute in favor of totalitarian measures.

[3] Similarly, Arditi [6, p. 20] argues that the populist experience is "an internal periphery of liberal-democratic politics". It follows democracy as a shadow – or rather a specter – that can be either a promise or an underside; a visitation that reminds the political elite of its obligations to the people or haunting that has the potential of destroying democracy itself. It can be a "dimension of representation and a mode of participation lodged in the rougher edges of democracy, but also something more disturbing, as it can thrive in political democracies while it morphs into democracy's nemesis." [7, p. 143]. Mueller [143] advances a similar argument. He, however, adds that aside from anti-elitism there is an element of anti-pluralism. Thus, populism is a characteristic of representative democracy as its champions claim to be the only ones that can legitimately represent the will of *the people*.

had several of these characteristics. The leader's strong rhetoric and accusations of subservience of his predecessors to foreign interests are a staple of left-wing populist movements throughout the region. Since it targets those left outside of the benefits of economic globalization, it is not surprising that its leaders describe external credit markets as a racket, or a device of control by external powers in collusion with the privileged few inside the historically unequal region. Correa categorically belongs to this stripe of Latin American leaders which views the international financial system as a *zero*-sum game in which their nations have been the perennial losers.

The appeal of this derision of global lenders and the policy prescriptions of so-called *neoliberalism* was heightened by the history of economic crises in Ecuador, and Correa as a presidential candidate was quick to capitalize on that fact. The campaign strategy employed by his leftist coalition, *Alianza PAIS* (AP), was as unprecedented in Ecuadorian politics as it was successful. The established parties rarely deviated from narrow political discursive scripts, a fact which AP was able to take advantage of to effectively market itself as a distinct political movement. Correa referred to the political establishment with the pejorative term *partidocracia* or party-oligarchy, a term that remained a staple of political speech in Ecuador and that has been taken up as a standard by the left. Unlike its political rivals, AP was able to "[author's translation] channel the needs of the different popular groups and organizations in Ecuador, who found in Alianza PAIS the raison d'etre of Ecuadorians as a people, founded upon a national-popular project that vindicates state and national control over the nations resources" [35, p. 430]. The message of the campaign was clear; the enemies of the people – globally linked elites, international capital and the domestic political oligarchy – had infringed upon the sovereignty of the people of Ecuador and left the country in shatters, time was ripe for a change.[4]

[4]This electoral strategy remained successful throughout Correa's mandate, his 2013 reelection campaign won him the presidency along with a Victory Award for political marketing [61]

Correa fashioned himself in the image of Simón Bolivar, the liberator of South America. Alongside a grass-roots strategy, AP made emphasis on the candidate's personal attributes. Not only was he a young and charismatic leader; he was also a Jesuit-educated PhD in Economics who had spent part of his life living in the Andes as an educator in marginalized indigenous communities. This background provided him with the legitimacy and credibility to denounce those rulers that "[author's translation] speak in Spanish but think in English [and] go about saying *I am Ecuadorian*" [43] in his inauguration speech. The message of what he called the socialist movement for the 21st century took hold.

The established parties, those that had constituted the majority prior to 1999, were the biggest losers of the 2006 election. Already in 2002 their influence had begun to dwindle, giving rise to new and more populist political parties. To illustrate, the established parties had garnered 53.3% of overall votes in 2002 and 32.7% in 2006 [72, p. 253]. Support for Correa was particularly high in the eastern mountain areas, heavily populated by indigenous groups and rural communities. By contrast, his adversary in the second electoral round of 2006, Álvaro Noboa, received more support from the coastal – more urbanized – regions. In the end, Correa was able to secure victory with a higher margin than any of his predecessors.

Once in power, Correa and AP were eager to put their vision for Ecuador in motion. In order to consolidate the political project and reverse the effects of the *[author's translation]long and sad neoliberal night*, a new constitutional order was deemed necessary. Like the constitution that was in place at the time he was elected, this new document was to be decreed under the auspice of a popular referendum. This did not come without opposition, as 57 representatives opposed the methods used by Correa to establish a constituent assembly. However, these voices were ignored and the congressmen were dismissed from their posts by the Supreme Electoral Tribunal of Ecuador [9].

By December of 2008, the referendum for a new constitution had garnered 63.9% of popular support. Among the changes was the possibility of presidential re-election [193]. Likewise, articles 289 to 291 of the new constitution placed limits and guidelines on the indebtedness of Ecuador [40]. The *Citizen's Revolution* had not only triumphed, but also garnered considerable political capital. Capital which the new administration was quick to deploy to the benefit of his ambitious political agenda.

One of the issue areas that came under the spotlight for the newly elected president was Quito's foreign economic relations. Correa was able to portray financiers, domestic and international, as enemies of Ecuador's sovereignty quite successfully. Nevertheless, though he had made external debt a centrepiece of his political campaign and later his presidency, concerns over economic sovereignty in the face of global markets preceded his tenure.

In November 2005, a proposal to create a National Foreign Policy Plan was spearheaded by Ambassador Francisco Carrión Mena. The catalyzing event was the settlement of a territorial dispute with Peru.[5] Regarding sovereignty and international economic relations, the plan expressed the need for an economic diversification strategy and increased regional integration. Regarding the issue of global financial markets, the report stated that:

> [author's translation] The world requires new institutions in the realm of finance, where norms and regulations agreed upon by states are lacking, and in which external debt constitutes an obstacle for the development of less advantaged countries. Based on many United Nations declarations and a series of international conventions, one can argue that external debt implies an obstacle for the validity of human rights, specially, the rights to development and the free self-determination of peoples. Ecuador needs an active policy in the international arena to attain better conditions in the treatment of its public external debt. [138, p. 37]

Political backlashes against the highly unpopular IMF conditionality and economic liberalization programs were common in Ecuador's even before the arrival of Correa and remain so to this day. The issue of debt service payments was a particularly sore spot. Nonetheless, Quito remained a rule-taker in the realm of global finance under previous

[5]Throughout the 1980s and until the signing of the Brasilia Accords in 1998, much of Ecuador's foreign policy was centered around its territorial disputes with Peru [109, p. 147]. The collapse of the Mahuad regime and the period of political instability that followed left little room for the development of a foreign policy beyond the resolution of conflicts with neighboring states.

administrations, unwilling and unable to put its words into action. However, the new constitution also meant a new foreign policy vision for the country, one which would be taken further throughout his presidency. Among its new principles was the promotion more decent living standards or *Sumak Kawsay*, a concept from the pre-Columbian Quechan people of Ecuador utilized by the Correa administration.

Article 416 of the new constitution stated that Quito was bound to the promotion of multilateralism in its foreign policy, a common feature in Latin American legal systems, and that "[author's translation] the application of international commercial instruments shall not be in detriment, direct or indirectly, of health, access to medicine, basic goods, services or scientific and technological advancements" [109, p. 150]. An ambitious mandate that was clearly a reference to the then recent experience with the adjustment policies demanded by the IMF.

Similarly, non-intervention, selective economic protectionism and commercial rapprochement with Iran, Russia, China and Venezuela were staples of Correa's foreign policy throughout his first term in office [206, p. 48]. Critics of the administration have pointed out that his policies undermine the democratic order and concentrate a disproportionate amount of power in the presidency [151]. This tendency has been particularly pronounced in the conduction of foreign policy. Correa began setting up summits with Iranian, Russian and Venezuelan dignitaries in detriment of ties with its traditional commercial and political partners such as Spain and the United States as early as 2008 [132]. Relations with financial institutions turned particularly sour.

Correa's distaste for global markets reflected a widely-held view of Ecuador as a historic victim of looting by foreign powers aided by domestic elites. He has argued that "[author's translation] from the end of the 19th century until the second decade of the 20th [Ecuador] based its economy on cacao exports, which got to be 80% of total exports; the main political crises and the main socio-economic transformations of said period, among them the emergence of a powerful agro-exporting class, were directly related to conditions of cacao production and the international market of said product" [44, p. 15]. This export-led model that concentrates power in an elite few was deemed to be a feature of the Ecuadorian political-economy, with changing industries and names, but a consistent structure. Furthermore, it reflects a high degree of skepticism on the benefits that global markets have had for economic development in Latin America. With this world-view, acquiescing to the demands of global markets and heeding the calls of domestic actors to do so would be in direct contradiction with national sovereignty.

The president's economic framework of analysis, after all he was trained in the profession, is relevant in this case due to the high concentration of political power that Correa attained from the onset of his mandate. Though harsh rhetoric against external actors, and the West in particular, have been a long-standing staple of Latin American populist leaders, Rafael Correa was in a particularly strong domestic position to materialize his views. With the opposition in shambles after the 1999-2000 crisis -Correa would become the first president to finish his mandate since 1996- this political outsider assumed office with a high level of popular support and deployed it effectively in order to consolidate his position and push through an already popular agenda of defiance against the global financial system. The element of sovereignty in sovereign debt took on renewed importance, making the 2008 default on the grounds of an alleged illegitimacy of the credit arrangements a politically feasible (and fruitful) enterprise.

7.3 A Period of Stability (Context)

The Analytical Framework 1.3 detailed in the introduction suggests that Ecuador's 2008 default was a product of Rafael Correa's sovereigntist agenda, and not the result of economic hardship. However, these should be given ample scrutiny. Quito has been, after all, a serial defaulter, with 3 sovereign defaults between 1970 and 2010 [161]. Similarly, as an oil-dependent, small, un-diversified economy with no independent monetary policy and weak institutions; it is particularly vulnerable to global economy downturns and commodity price swings. The timing of the event also gives cause for question, as the global economy was undergoing its largest downturn since the Great Depression.

Starting with the 1982 sovereign debt crisis in Mexico, most Latin American economies struggled to adjust to the new world of floating exchange rates that emanated from the ashes of the Bretton Woods system. Ecuador was no exception. Though interest payments on external debt as a share of the economy ebbed and flowed alongside global lending rates, Quito's overall stock of external debt would not reach their pre-1982 levels until well into the mid-2000s.

In comparison to its regional peers, Ecuador had healthy external debt ratios to GNI and to exports in the run up to the 2008 default. As table 7.1 indicates, the average external debt to GNI and exports threshold for sovereign defaults in the region averaged 70.5% and 271.3% respectively for the period between 1970 and 2010. Ecuador's 1984 default occurred when external debt stocks had reached 52.3% of GNI and 282.7% of exports. By contrast, the 2008 default happened with considerably lower levels of indebtedness. In fact, debt levels were not just historically low for Ecuadorian default standards, but debt-to-GNI was one standard deviation below the Latin-American average and the debt-to-export ratio was nearly two standard deviations below the period average.

Ecuador's overall external debt stock rose sharply during the late 1990s, a trend that did not reverse until the implementation of the USD as legal tender in 2000. Nevertheless, by 2003 debt rations had fallen back to their 1998 levels and continued to decline in the run up to the default. Quito's debt burden fell from its historic peak in 2000 of 116% of GNI to 34% in 2008, a level that had not been achieved since the late 1970s. The total external debt stocks even fell below the Latin American average on the year of the default [?].

Table 7.1: External Debt Stock and Defaults

Country	Year	GNI	Exports
Argentina	1982	55.26	448.87
	2001	58.49	418.51
Bolivia	1980	61.31	266.30
Brazil	1983	51.72	406.81
Chile [*]	1972	N/A	N/A
	1983	N/A	N/A
Costa Rica	1981	146.50	285.80
	1984	52.33	282.74
Ecuador	2000	116.08	318.61
	2008	34.37	97.63
Guatemala	1986	41.55	242.32
Honduras	1981	67.29	200.03
Mexico	1982	32.68	261.06
Paraguay	1986	N/A	261.82
	2003	124.40	183.94
Panama	1983	86.12	59.48
Peru	1978	85.03	408.40
	1984	71.94	310.16
Uruguay [*]	1983	N/A	N/A
Venezuela	1982	42.82	159.93
Average		70.4	271.3
Std. Dev.		32.3	107.2

Note(s): [*] These countries do not report to the International Debt Statistics and are considered high-income by the World Bank and are thus excluded from this table. Source(s): Reinhart and Rogoff (2009) [161], This Time it is Different [Default dates]; The World Bank (2019) [?], International Debt Statistics [Data on debt]

Similarly, though Ecuador has historically had a lower international reserve ratio than its regional counterparts, there was a slight upward trend in reserve ratios between 1985-2000 and 2001-2014; indicating that depletion was not an underlying cause for panic for the government.[6]

In less than a decade, Ecuador went from one of its historically weakest external debt positions to one of its strongest. These trends reinforce the notion that Correa's decision to audit, and subsequently default, on the country's external private debt obligations was not an act of financial desperation. In fact, when the plan to create the debt auditing commission was created, on July 9th of 2007, the Ecuadorian economy was at one of its strongest points on record.

In terms of trade, the 2008 crisis did not hit Ecuador as hard as would be expected, especially given its status as a small, oil-exporting economy without and independent monetary policy. However, the country's economy, particularly its export sector, remains both highly dependent on commodities trade and concentrated around a single foreign market.

Ecuador's largest trading partner is by far the United States. Though attempts to diversify Ecuador's economy were a cornerstone of Correa's economic strategy – so-called socialism for the 21st century – his administration has had little success beyond the realm of rhetoric and the signing of agreements with ideologically compatible regimes. Quito remained as commercially reliant on the West, and the U.S. in particular, as it ever had been.

Nevertheless, the country's current account balance was on the path to recovery after an 8 point drop between 1999 and 2000. Starting in 2005, Ecuador had a positive balance of 1.14% of GDP and reached 3.69 in the year prior to the default, though still below

[6]It is also worth noting that the importance of this variable decreased with the forfeiture of the national currency in 2000

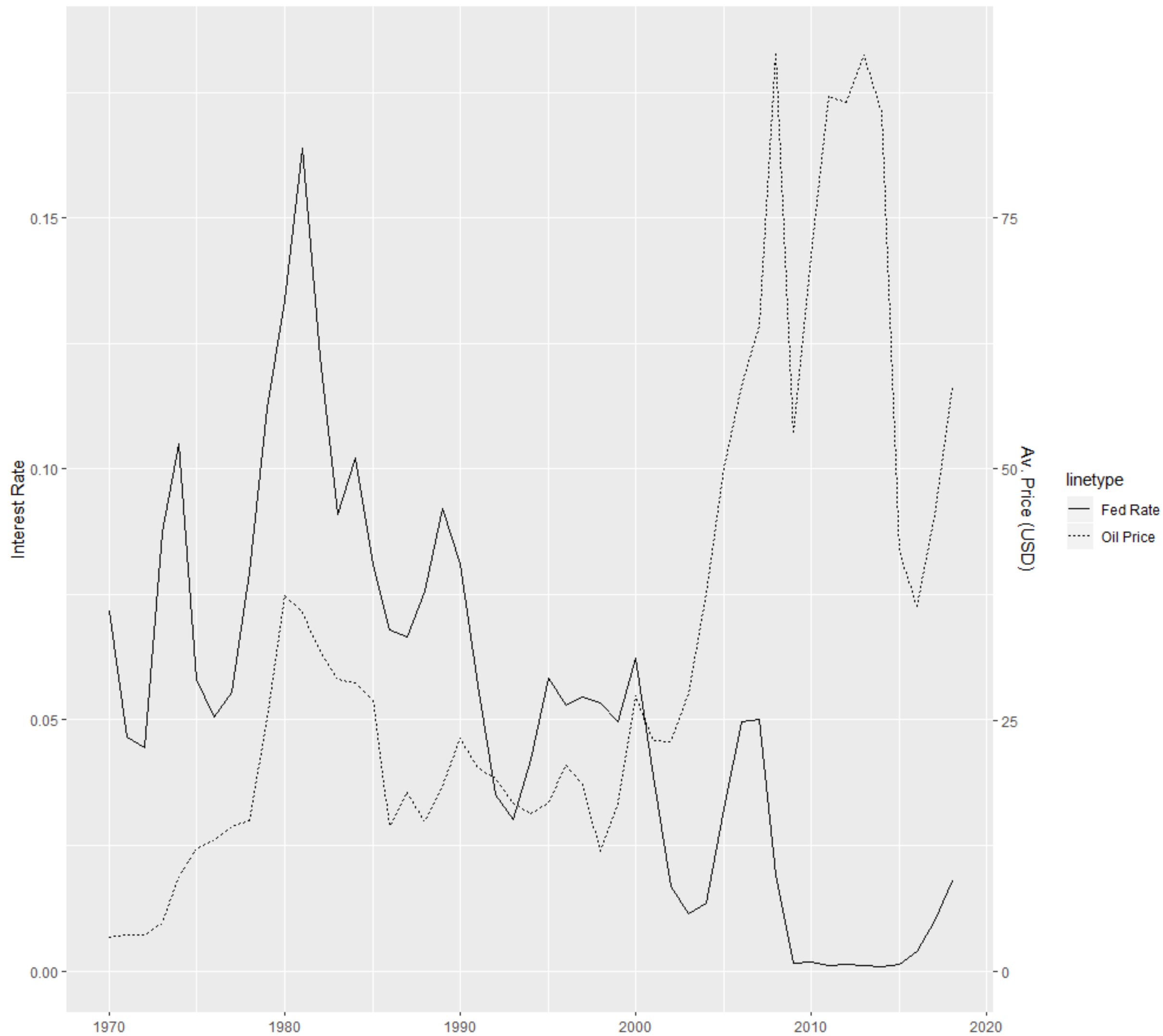
its pre-Sucre-crisis levels (see figure ??). Though the economy remained, and largely still does, an under-performing one compared to its regional peers, there is sufficient evidence to assert that it was at the very least in a sustainable condition at the time of the default. A key element in this recovery was the mid-2000s upswing in global oil prices.

Ecuador was one of the many beneficiaries of the oil price boom of the 1970s. The average nominal dollar price of a barrel of crude rose from 2.8 USD in 1973 to 10.9 USD in the following year. By 1980, this figure had risen to 36.8 dollars per barrel. The purchasing power of Ecuadorians rose along with the increase in global oil prices throughout the 1970s. Measured by purchasing power parity, GDP per capita doubled between 1970 and 1980. Growth in Ecuador began to flounder in the mid-1980s with a sharp decrease in the real price of oil barrels, and it remained stagnant throughout the 1990s [19].

After this trend reversal and a subsequent increase in global interest rates (see figure 7.3), fiscal deficits in Ecuador rose sharply. In 1984, Quito entered into negotiations with the IMF and agreed to implement the structural adjustment policies recommended by Washington. These included the usual prescriptions of reduction of public spending, privatizations and interest rate adjustments to increase domestic savings.

Ecuador left the Organization of the Petroleum Exporting Countries (OPEC) in 1992 amid disputes over production quotas. The country needed to increase production in order to continue to service its external obligations and to make the sector more attractive to foreign investment. In 1993, the legal framework that governed oil production was modified to allow greater participation of the private sector and foreign direct investment. It also made it possible to pay associated firms with percentages of crude oil production so they could do with it as they pleased –which contrasts with the strict OPEC approach of having control over the final destination of production [69]. The liberalization trend of the 1990s continued throughout the early 2000s, with overall investments rising from 126 million USD in 1990 to 1,160 million in 2004 [70, p. 18]. In 2007, Ecuador rejoined OPEC and

Figure 7.3: Interest Rates and Oil Prices



Source(s): The World Bank

benefited from a nearly threefold increase in global crude prices between 2000 and 2008.

In sum, the Ecuadorian economy was in a solid state in the run up to the 2008 default, at least when compared to previous years. Not only were its debt ratios well below what they had been prior to its other default events, it had a modest trade surplus and benefited from an upswing in oil revenue. This economic setting supports the government's claim that the default on selected obligations to private creditors was not the result of looming or ongoing economic turmoil. In fact, the opposite was true.

The government's stated concerns over sovereignty and resource reallocation cannot be readily dismissed as the key motivations behind the default. Being unable to reverse dollarization or significantly diversify the economy, Correa had to find other – more creative – ways to advance his agenda of defiance against global financial markets and the economic influence of the United States. Opportunity called in 2008 with the global economic and financial core reeling in from the most severe financial crisis since the Great Depression and oil prices at an all-time high. Correa managed capitalize on the critical juncture to turn rule-taking Quito into a rule-maker, if a short-lived one.

7.4 A case of Defiance (Outcome)

Fander Falconi, Ecuador's minister of Foreign Affairs, delivered his country's most Topic-34-centric – fig. 5.4 – speech in 2009. This speech reflected greatly on the aftermath of the 2008 global financial crisis and constituted a clear denunciation of the international financial architecture. It praised regional South-South financial cooperation initiatives such as the Bank of the South and the Bolivian Alternative for the Americas (ALBA for its Spanish acronym).

> Although this [2008] crisis originated in the main speculative markets of the rich countries of the North, that is, the casino economy, its effects have been multiplying and expanding in developing countries. Nevertheless, the current financial crisis is only a symptom of a larger crisis — the crisis of a system that favours the financial and speculative economy over the

> real economy. It is also the result of an international financial architecture that is unequal, non-inclusive and inefficient and that must be reformed urgently. [10]

This indictment of the global financial system reflected a starkly *zero*-sum view. The speech also called up the need to restructure the debts of the entirety of the developing world and the substantial reform of the monetary system based on the USD. This market-hostility was evident in the Correa administration's debt auditing commission and subsequent default.

On July 9th, 2007, the Integral Auditing Commission for Public Credit of Ecuador (CAIC for its Spanish acronym) was created.[7] The purpose of the CAIC was to:

> 1. To determine the precontractual and contractual conditionalities, the renegotiations, the execution and the closure of the public credit, as well as the interferences [*sic*] and alterations in the legislation and juridical order of the nation, in the State's organization, in their financial availabilities and in the life conditions of the population. 2. To verify if the loans resources were destined to the finality for which they were contracted, as well as their efficient and economical usage. 3. To determine the social, ecological, economical and over nationalities and peoples impacts, generated by the projects financed with debt. 4. To identify institutions and national and international actors responsible of eventual irregularities in these process. 5. To present objective and documented evidences that will permit to the President of the Republic and others national authorities to demand the eventual nullity of the obligations derived of the debts declared, illegitimate and/or illegal as well as other corresponding actions. [**?**, p. 17]

The CAIC issued its final report in November of 2008, a month before the default. Based on its recommendations, Quito stopped payments on its 2012 and 2030 Global Bonds in December 2008 and defaulted on debt contracted in 2000, itself a restructuring of previous loans, to the total 3.2 billion USD [166]. Nevertheless, the debt owed to multilateral organizations, such as the World Bank, IMF and regional development banks was left untouched. Furthermore, bilateral debt was also respected, and the administration ultimately decided to stop payments only to private creditors [190].

In the end, external debt bounced back to its pre-default levels. The external debt and interest payments to GDP ratios reached their pre-default levels by 2015. The main

[7] Prior to the CAIC, a Special External Debt Auditing Commission (CEIDEX for its acronym in Spanish) had already found several irregularities in the debt renegotiation process [21]

difference is that the structure of its obligations changed, with the percentage of loans from governments growing at the expense of private lenders (at least until 2015 when Ecuador re-entered the market at high a cost). Likewise, the burden of interest payments on the economy has increased, but still to the manageable levels of 2007.

Despite this, the economy continued to grow at a higher rate than the regional average. Between 2008 and 2015, the average annual GDP growth rate for Latin America (excluding high income countries) was 2.3% whereas for Ecuador it was 4.1% [**?**]. Similarly, the social spending increase did have a substantial effect on the reduction of poverty and inequality. Ecuador's Gini Index decreased from 56.38 in 2000 to 45.38 in 2014. As the figure **??** indicates, the most significant gains in this metric occurred after 2007, at the start of the Correa administration. The percentage of the population living with less than 1.90 dollars a day also decreased from a historic peak of 28.15% of the population in 2000 to 3.82% in 2014. However, this latter trend was more pronounced in the years after the implementation of dollarization, with its downward slope continuing but slowing down after 2006.

In the end, the legacy of the 2008 default was a mixed one. Though it failed to significantly reduce the debt burden on the Ecuadorian economy in the medium to long run, it was successful in buying the Correa administration time and room for maneuvering to reallocate resources from debt service to social expenditure in the short run, with discernible results in terms of poverty combat. It is, however, unclear whether these performance results would have been achieved without Quito reneging on its obligations.

7.5 Conclusion

On August 25th 2015, well into his third mandate, Rafael Correa stated that "[author's translation] dollarization will be maintained, but we [the administration] are clearly saying what a technical barbarity, even in terms of sovereignty, its adoption was" [59]. Allusions to national sovereignty were a recurring theme in Correa's economic discourse, particularly when referring to Ecuador's linkages to the global economy. The lack of an independent monetary policy tightly constrains the economy as it is unable to devalue its currency to increase the competitiveness of its exports [141]. However, reversing this policy posed significant political challenges, a fact by which even the Correa administration was constrained.

What started as a banking crisis in 1999 turned into a political crisis. The demise of the national currency and the sudden implementation of a dollarized economy hurt many of Ecuador's most vulnerable social sectors, with poverty and migration sky-rocketing. After a few years, the new monetary system succeeded in stabilizing the economy, but it took its toll on the political system. In fact, Correa was the first president to finish his mandate since 1996. His predecessors had succumbed to riots and coups with their terms being seen through by their vice-presidents. His successor and former collaborator, Lenin Moreno, is facing similar challenges as this is being written. The international financial system remains a salient issue in domestic politics, though Ecuador's new president did not opt for the strategy of defiance.

The 2008 default did not come out of necessity, the Correa's was more than able to continue to service its debt payments based on previous trends, it was rather a *political* decision. One that came from the confluence of three factors: a) a strong domestic position for the executive, economically and politically, b) a favorable economic juncture which allowed the government to keep its access to hard currency and c) and the salience of external debt in domestic politics and the willingness of the government to take the risk and defy the status quo.

The decision to default on certain tranches of its sovereign debt thus cannot be dissociated from the internal politics of Ecuador. It was framed by the Correa administration as part of a broader strategy to distance the country from Washington in several issue areas, ranging from security to foreign policy and ultimately finance.

Mirroring the process in Mexico, this realignment away from western financial institutions came about in the aftermath of a severe economic crisis and subsequent change in the ideological background the executive and of key members of the administration. However, in contrast to what occurred in Mexico, Correa and his economic team held views that denied the efficiency of global financial markets but rather categorized them as means of extraction from a periphery to a core: a zero-sum view on the system. This unique case is indicative that EMEs do enjoy some degree of agency in the international financial system. Nevertheless, as can be seen today with the embattled Moreno presidency, the costs of back-tracking when times get harder are high.

Appendix A

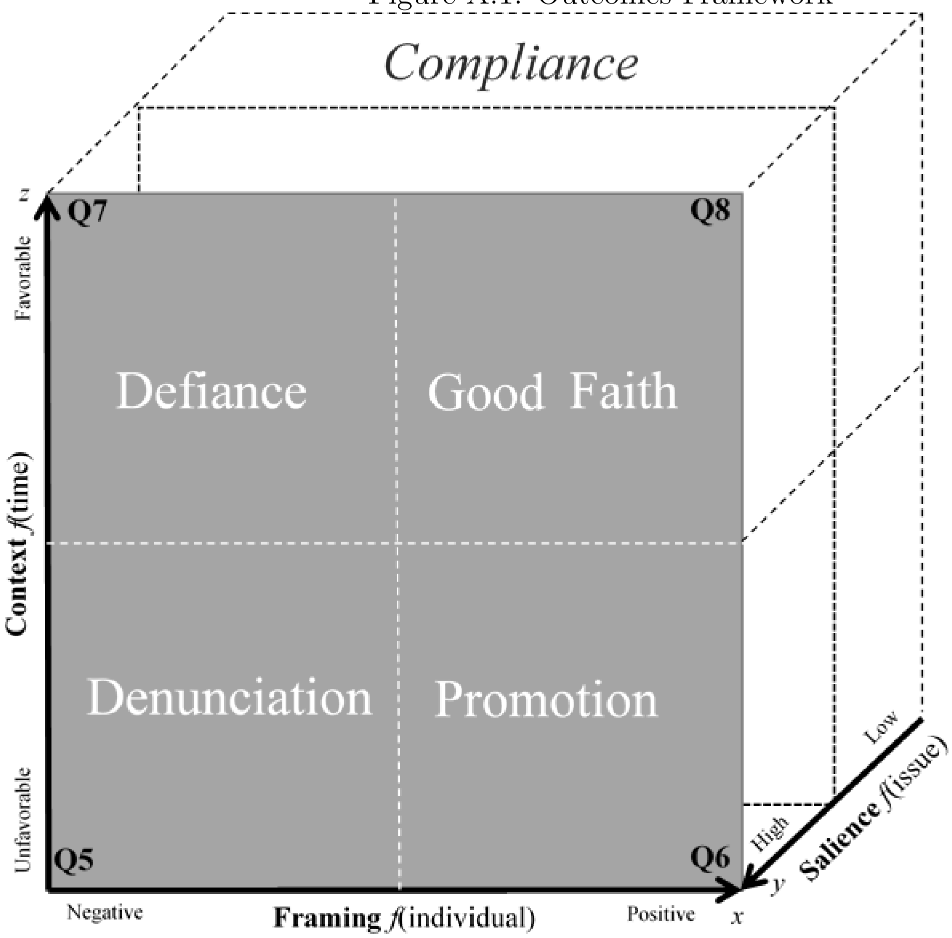
Appendix

Table A.1: Regions and Income Groups

Region	Code	Income Group	Code
East Asia and Pacific	EAS	Low-Income	LIC
Europe and Central Asia	ECS	Lower-Middle-Income	LMC
Latin America & the Caribbean	LCN	Upper-Middle-Income	UMC
Middle East & North Africa	MEA	High-Income	HIC
North America	NAC		
South Asia	SAS		
Sub-Saharan Africa	SSF		

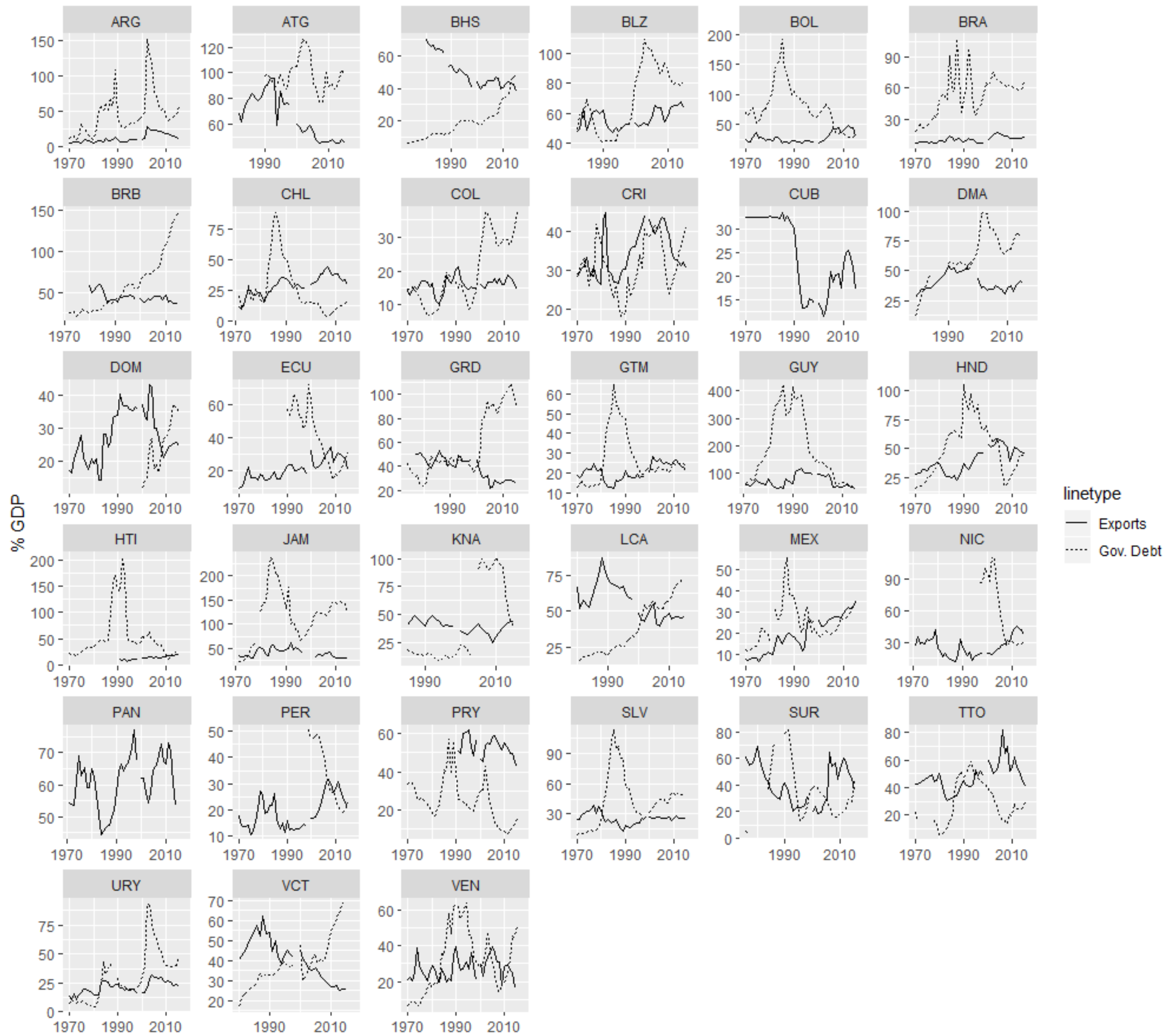
Note: The codes and group classifications are taken from the World Bank Development Indicators (2019) [**?**]. Classification by Income Group begins in 1987 and considers year-to-year changes in income group based on the thresholds set by the World Bank for each period. Countries that ceased to exist are tied to their successor State whenever possible and supranational organizations are given a regional classification (i.e. the European Union-ECS). This an all other tables were built using the R package *stargazer* [102]

Figure A.1: Outcomes Framework



This figure shows the top end of Figure 1.3 in Chapter 1. It fixes issue-salience at high and thus disregards the latent dimension of discourse. Here there are four outcomes, with the top two reflecting proactive behavior by leaders.

Figure A.2: Debt and Export Ratios (LCN)



The gap between both trendlines presents a visual guideline of countries that have been historically mismanaged, like Argentina, to those that have been more stable, like Chile. Furthermore, it shows changes through time such as the rapid deterioration of economic conditions in Venezuela after 2010.

A.0.1 IPE Abstract Classification

As discussed in Chapter 2, there are two distinct schools of thought within the field of International Political Economy. As Murphy and Nelson (2001) put it there is an "American school or the *International Organization* (IO) school of IPE, after the US journal that has been the primary site of its development" and a British school which "has its major journals, R*eview of International Political Economy* (RIPE) and *New Political Economy*" [144, p. 394-5]. They argue that IPE is largely a discourse-centered field where the typical norms of science (the authors highlight data-collection and systematic theory building) are subordinate to rhetorical spheres.[1]

Given the importance of discourse within IPE and its amply recognized paradigmatic divide, is it possible to classify its scholarly outputs in a reproducible and objective manner using text analytics? To answer this question I consider the articles from the three top journals of the field – International Organization (80), Review of International Political Economy (187) and New Political Economy (133) – that contain the key term *sovereign debt*.[2] I expect that the vectorized texts of the abstracts can be classified using a binomial logistic regression into American and British school journals.[3]

Figure A.3 suggests that the vectorized pre-processed[4] texts of the abstracts are a good predictor of whether the abstract was published in IO or the RIPE/NPE journals. The maximum area under curve (auc) for a the model classifying the abstract term vectors

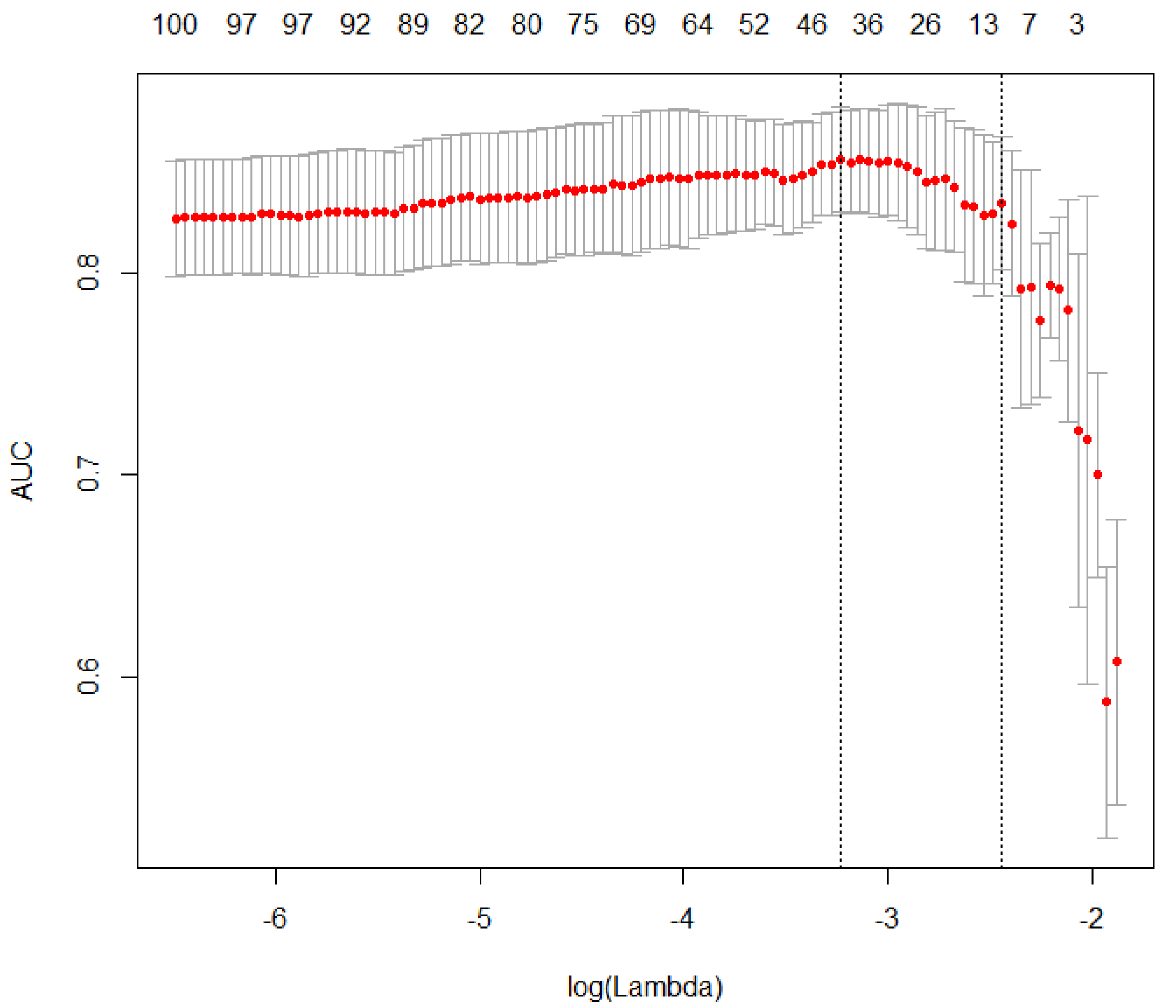
[1] Murphy and Nelson (2001) rely to a limited extent on key term analysis and find that the term *Harvard* is more prominent than terms associated with measurement and science within the IO articles [144, p. 403]

[2] The abstracts for each of the articles was web-scraped and concatenated into a corpus with three variables: the abstract, an article id and the journal from which it was collected. This was performed using the R package *Rvest* [?]

[3] There are several other methods of text classification that rely on both supervised and unsupervised machine-learning such as *Wordscores*) and (*Wordfish*) respectively [122, 181]. However, for the sake of simplicity and given the relatively small size of this corpus, here I rely on logistic regression.

[4] English stopwords, punctuation and infrequent terms were removed from the vectors

Figure A.3: Area Under Curve: IO-abstract binomial classifier



The texts were vectorized using the R *text2vec* package [?]. Two sets were created, a train set of 150 observations and a test set of the remaining ones. The logistic regression (L1 penalty and 4f cross-validation) was calculated using the *glmnet* R package [?]. The response variable in this figure is the abstract being published in the journal IO (1, 0 if from the NPE or RIPE journals) whereas the predictor variables were the values of the token vectors for each abstract (a sparse matrix) in the corpus. The maximum area under curve for the train set was 0.8557 whereas for the test set it was 0.8489418.

between the two schools was 0.8557 for the train set and 0.8489418 for the test set. By contrast, the maximum auc when considering only RIPE and NPE articles was 0.5126 for the train set and 0.583621 for the test set, that is, with little greater accuracy than change (.5). This supports the claim that there are are clearer distinctions in the use of language on the topic of sovereign debt than within them.[5]

There are certainly various overlaps within the journals – as with the schools they are associated with –, however, the results summarized in figure A.3 above suggests that there is a quantifiable and reproducible way of differentiating the two IPE schools into the journals they are most associated with. As seen in section 2.1.1, the use of certain words provides some insight into the worldview of a speaker. Just like the use of the term *neoliberalism* gives some insight into the position on a given issue, the distribution of all terms across a vectorized set of texts can be used to calculate the distance between documents in a corpus.

[5]Similarly, the maximum auc for IO/NPE was 0.9616 for the train set and 0.9090909 for the test set. In the case of IO/RIPE this was 0.8977 for the train set and 0.8323755 for the test set.

Table A.2: Int. Financial Architecture (dictionary)

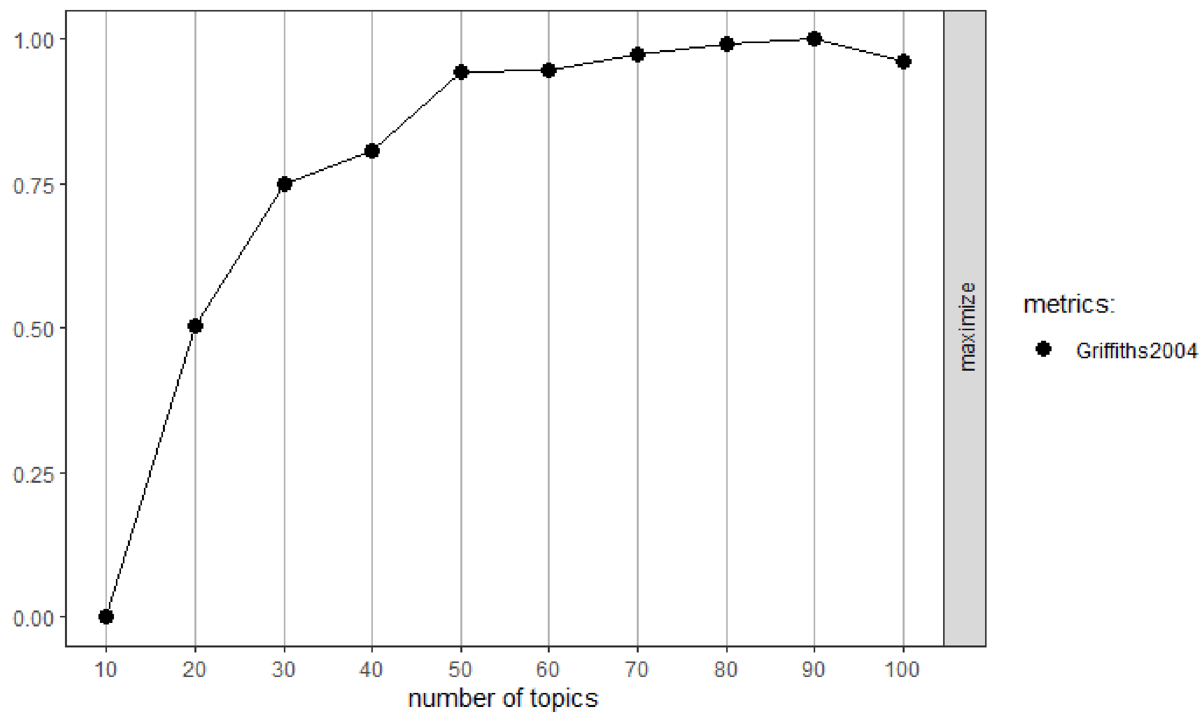
Name	Code	Name	Code
International Monetary Fund	IMF	World Bank*	WB
The Paris Club	TPC	The London Club	TLC
China Development Bank	CDB	European Central Bank	ECB
Bank for Int. Settlements*	BIS	International Inv. Bank	IIB
G-20/8/7*	GTT	European Monetary Union*	EMU
Institute for In. Finance	IIF	Islamic Development Bank	ISDB
Inter-American Dev. Bank	IADB	New Development Bank	NDB
Eurasian Development Bank	EDB	European Investment Bank	EIB
Asian Development Bank	ADB	Asian Infra. Investment Bank	AIIB
African Development Bank	AFDB	Euro. Bank for Recon. & Dev.	EBRD

* Subsidiaries and precursor institutions share the same code.

Table A.3: Speech Word Counts (descriptive statistics)

Region	N	Mean	St. Dev.	Min	Pctl(25)	Pctl(75)	Max
ALL	7,471	715.120	250.456	126	527.5	870	2,168
EAS	1,016	663.557	226.045	139	499	796	1,591
ECS	1,838	667.697	240.703	160	488	829	1,658
LCN	1,379	755.322	253.226	145	574	908.5	2,168
MEA	901	747.893	241.518	126	572	881	1,669
NAC	92	829.902	231.542	279	676.2	955	1,587
SAS	350	763.929	262.582	254	568.5	927.5	1,685
SSF	1,895	729.338	259.988	178	529	896	1,979

Figure A.4: FTN LDA Tunning



Note(s): This was calculated using the R Package *ldatunning* developed by Murzintcev (2019) [145]. Its maximization methodology was derived from Griffiths and Steyvers (2004) [84]. I selected k = 50 as the Griffiths metric shows diminishing returns for an increase in topics thereafter. This was calculated from a 10% sample of the document-frequency matrix and [10:100] range by 10 interval.

Figure A.5: Top 20 Sentiment Terms (Bing)

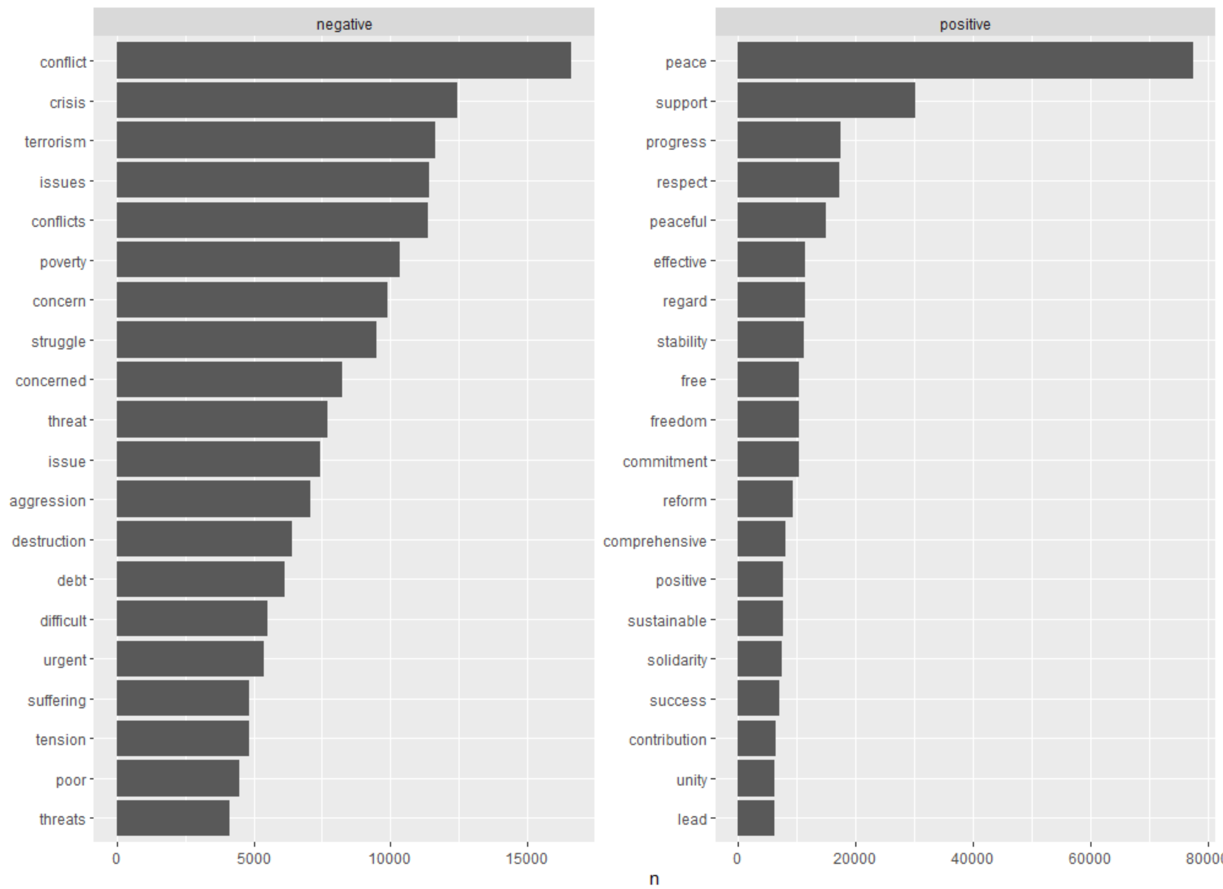
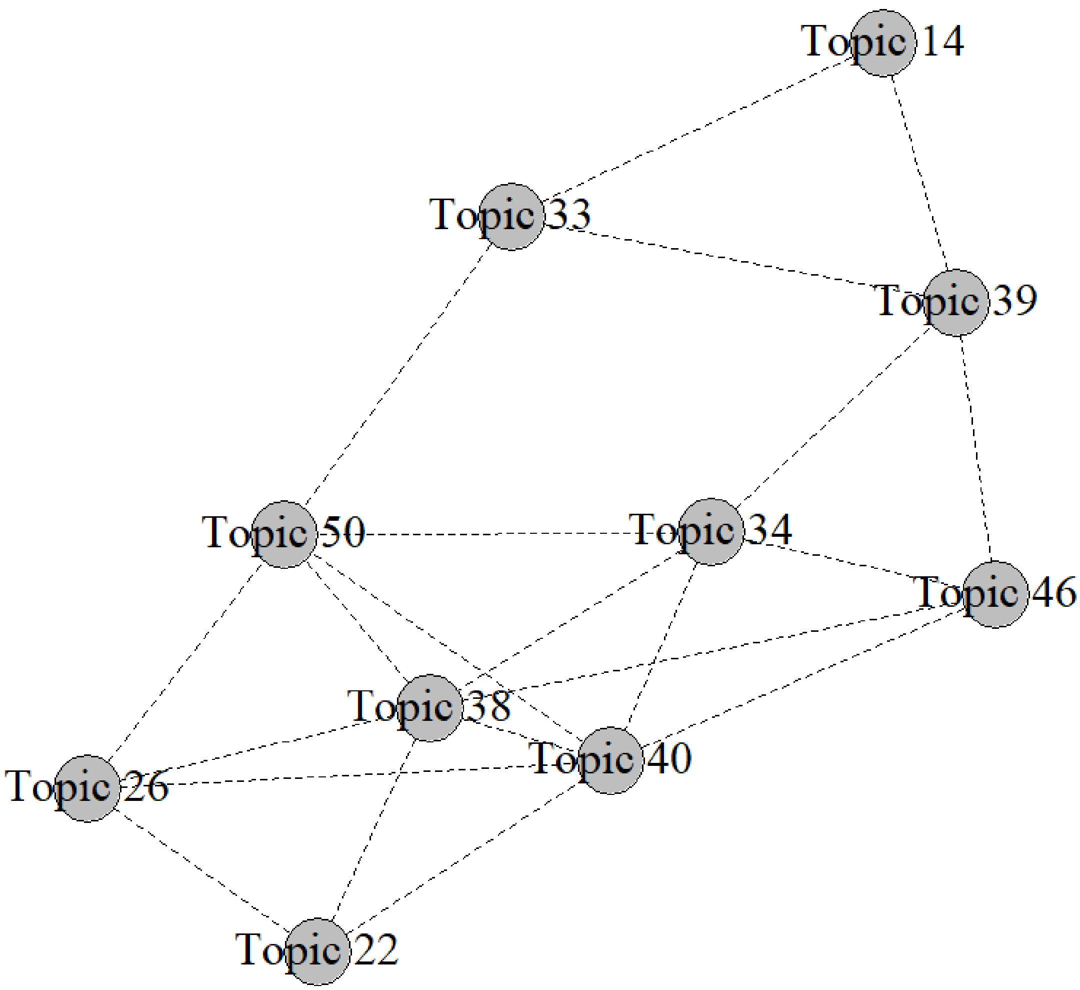


Figure A.6: Economic Topics Correlation Plot



Note(s): This was made using the function topicCorr function available in the STM using the huge package estimation method developed by Zhao and Lieu (2012). The edges represent correlation probability beyond the estimated threshold. Nodes represent the economic topics summarized in figure 5.5.

Table A.4: Top 10 Bigrams per Topic

Topic	FREX:
Topic 1	universal-declaration, human-rights, rights-council, fundamental-freedoms, rights-violations, fundamental-human, political-rights, human-dignity, basic-human, economic-social
Topic 2	el-salvador, political-solution, armed-forces, armed-conflict, achieve-peace, political-parties, international-situation, national-liberation, democratic-institutions, progress-achieved
Topic 3	sierra-leone, economic-community, west-african, african-unity, unity-oau, debt-burden, socio-economic, african-countries, west-africa, external-debt
Topic 4	island-developing, development-partners, nations-convention, nations-system, environmental-degradation, natural-disasters, development-efforts, developing-country, international-support, international-development
Topic 5	viet-nam, national-independence, national-liberation, independence-sovereignty, liberation-movements, foreign-troops, social-progress, south-korea, national-rights, korean-people
Topic 6	democratic-people, korean-peninsula, south-korea, peaceful-reunification, korean-people, world-peace, north-south, countries-concerned, cold-war, current-session
Topic 7	guinea-bissau, ninth-session, raw-materials, eighth-session, liberation-movements, natural-resources, human-dignity, specialized-agencies, human-lives, african-continent

Continued on next page

Table A.4 – *Continued from previous page*

Topic	**FREX:**
Topic 8	keeping-operations, peace-keeping, nations-peace, preventive-diplomacy, regional-conflicts, cease-fire, collective-security, east-west, active-role, nations-system
Topic 9	democratic-republic, peaceful-coexistence, peace-loving, tireless-efforts, international-situation, restore-peace, political-stability, social-progress, neighbouring-countries, socio-economic
Topic 10	central-america, central-american, american-countries, foreign-ministers, east-west, external-debt, peaceful-solution, social-development, achieve-peace, economic-social
Topic 11	south-africa, south-african, southern-africa, racist-regime, front-line, illegal-occupation, council-resolution, negotiated-settlement, african-unity, peaceful-solution
Topic 12	european-union, regional-cooperation, conflict-prevention, regional-organizations, special-representative, foreign-policy, nations-resolutions, governmental-organizations, civil-society, middle-east
Topic 13	palestinian-people, occupied-territories, nations-resolutions, arab-countries, occupied-arab, legitimate-rights, arab-territories, middle-east, resolutions-adopted, islamic-conference
Topic 14	development-agenda, sustainable-development, gender-equality, national-development, private-sector, civil-society, development-goals, effective-implementation, extreme-poverty, nations-conference

Continued on next page

Table A.4 – *Continued from previous page*

Topic	FREX:
Topic 15	east-timor, fourth-session, parties-involved, armed-conflicts, special-attention, fundamental-rights, western-sahara, outgoing-president, relevant-resolutions, living-conditions
Topic 16	prime-minister, global-community, global-peace, million-people, collective-action, short-term, status-quo, human-suffering, vast-majority, move-forward
Topic 17	united-kingdom, international-court, draft-resolution, months-ago, assembly-resolution, overwhelming-majority, international-system, vast-majority, foreign-ministers, sovereign-equality
Topic 18	entire-international, afghan-people, international-community, peaceful-solution, neighbouring-countries, entire-world, deep-concern, political-solution, lasting-solution, international-organizations
Topic 19	drug-trafficking, free-trade, organized-crime, democratic-institutions, social-justice, political-parties, natural-resources, extreme-poverty, political-stability, significant-progress
Topic 20	african-union, african-continent, african-countries, road-map, western-sahara, lasting-solution, west-africa, positive-developments, pay-tribute, significant-progress
Topic 21	soviet-union, outer-space, arms-race, nuclear-war, international-situation, nuclear-arms, political-settlement, international-security, strategic-arms, nuclear-powers

Continued on next page

Table A.4 – *Continued from previous page*

Topic	FREX:
Topic 22	development-decade, international-development, sea-bed, development-strategy, nations-conference, special-session, common-heritage, racial-discrimination, nations-development, kurt-waldheim
Topic 23	security-council, council-resolutions, council-reform, council-resolution, international-peace, chapter-vii, collective-security, maintaining-international, nations-charter, primary-responsibility
Topic 24	nuclear-weapon, weapon-free, nuclear-weapons, nuclear-disarmament, free-zone, nuclear-powers, nuclear-arms, review-conference, nuclear-tests, complete-disarmament
Topic 25	international-terrorism, counter-terrorism, nations-peacekeeping, peacekeeping-operations, nations-reform, post-conflict, reform-process, terrorist-attacks, social-council, international-cooperation
Topic 26	international-economic, world-economic, world-countries, economic-relations, industrialized-countries, global-negotiations, south-dialogue, world-economy, north-south, economic-system
Topic 27	de-cuellar, perez-de, cease-fire, fortieth-anniversary, javier-perez, international-conference, economic-recovery, economic-situation, commodity-prices, regional-conflicts
Topic 28	super-powers, foreign-forces, world-war, korean-people, south-korea, internal-affairs, foreign-interference, peace-loving, national-sovereignty, foreign-troops

Continued on next page

Table A.4 – *Continued from previous page*

Topic	**FREX:**
Topic 29	south-east, east-asian, asian-nations, east-asia, major-powers, political-solution, peace-stability, parties-concerned, political-settlement, aligned-movement
Topic 30	cold-war, fiftieth-anniversary, eighth-session, boutros-ghali, social-development, boutros-boutros, world-conference, international-cooperation, world-summit, preventive-diplomacy
Topic 31	latin-america, latin-american, american-countries, san-francisco, social-justice, international-trade, natural-resources, days-ago, international-level, international-forums
Topic 32	millennium-summit, hiv-aids, kofi-annan, millennium-declaration, world-summit, international-conference, pay-tribute, world-leaders, civil-society, private-sector
Topic 33	millennium-development, development-goals, goals-mdgs, food-security, development-assistance, extreme-poverty, official-development, gender-equality, socio-economic, global-challenges
Topic 34	world-bank, international-financial, monetary-fund, financial-institutions, international-monetary, financial-crisis, international-institutions, economic-crisis, external-debt, international-system
Topic 35	peace-process, peace-agreement, displaced-persons, national-reconciliation, comprehensive-peace, national-unity, civil-war, neighbouring-countries, political-settlement, humanitarian-assistance

Continued on next page

Table A.4 – *Continued from previous page*

Topic	**FREX:**
Topic 36	indian-ocean, aligned-countries, legitimate-representative, aligned-movement, namibian-people, racist-regime, south-west, pretoria-regime, africa-people, international-economic
Topic 37	climate-change, framework-convention, global-warming, nations-framework, global-challenges, economic-crisis, future-generations, food-security, front-line, fourth-session
Topic 38	developing-world, developing-nations, world-community, world-body, twentieth-century, developed-world, international-affairs, international-action, world-peace, international-system
Topic 39	human-development, development-programme, domestic-product, nations-development, health-care, south-south, national-development, economic-development, nations-agencies, financial-resources
Topic 40	developed-countries, developing-countries, gross-national, national-product, official-development, development-assistance, industrialized-countries, world-economy, development-process, international-trade
Topic 41	international-criminal, criminal-court, international-law, international-humanitarian, armed-conflict, armed-conflicts, international-legal, international-system, fundamental-principles, primary-responsibility
Topic 42	ban-ki, peace-security, peaceful-means, promote-peace, sixth-session, peaceful-resolution, peaceful-settlement, seventh-session, international-disputes, previous-session

Continued on next page

Table A.4 – *Continued from previous page*

Topic	**FREX:**
Topic 43	federal-republic, world-organization, foreign-minister, nations-charter, world-wide, equal-rights, world-peace, san-francisco, international-security, friendly-relations
Topic 44	ki-moon, challenges-facing, international-levels, living-conditions, peace-stability, civil-society, tireless-efforts, natural-disasters, current-session, economic-social
Topic 45	mass-destruction, international-efforts, chemical-weapons, atomic-energy, energy-agency, middle-east, innocent-people, review-conference, grave-concern, nuclear-weapons
Topic 46	world-trade, trade-organization, global-economic, economic-growth, gross-domestic, global-economy, economic-cooperation, international-cooperation, food-security, economic-progress
Topic 47	test-ban, ban-treaty, nuclear-test, comprehensive-nuclear, arms-control, conventional-weapons, nuclear-tests, special-session, fiftieth-anniversary, review-conference
Topic 48	confidence-building, eastern-europe, north-atlantic, atlantic-treaty, building-measures, treaty-organization, east-west, regional-conflicts, foreign-policy, joint-efforts
Topic 49	international-relations, foreign-affairs, internal-affairs, territorial-integrity, mutual-respect, international-life, armed-forces, national-sovereignty, peaceful-coexistence, foreign-policy

Continued on next page

Table A.4 – *Continued from previous page*

Topic	FREX:
Topic 50	poor-countries, rich-countries, international-solidarity, human-race, international-trade, developing-countries, developed-countries, industrialized-countries, middle-east, economic-development

Note(s): FREX refers to frequent and exclusive terms. It is calculated by the STM R package's *labeltopics* function. Frequency is calculated as the harmonic mean of β within the topic and exclusivity as the rank by distribution of a topic given $p(z|w = v)$.

Bibliography

[1] Luis Abiotes Aguilar. El Ultimo Tramo: 1929-2000. In El Colegio de Mexico, editor, *Nueva Hist. Minima Mex.*, chapter 7, pages 262–302. El Colegio de Mexico, Mexico D.F., 5 edition, 2008.

[2] Vinod K. Aggarwal. *Debt games: Strategic interaction in international debt rescheduling.* Cambridge University Press, Cambridge, 1996.

[3] Roderic Ai Camp. Citizen's Attitudes toward Democracy and Vicente Fox's Victory in 2000. In Jorge Domínguez and Chappell Lawson, editors, *Mex. Pivotal Elect. candidates, voters, Pres. campagin 2000*, chapter 2, pages 25–46. Stanford University Press, Stanford, 2004.

[4] George A. Akerlof and Robert J. Shiller. *Animal Spirits: How human psychology drives the economy and why it matters for global capitalism.* Princeton University Press, Princeton, 2009.

[5] Alberto F. Alesina, Carlos Favero, and Francesco Giavazzi. *Austerity: when it works and when it does not.* Princeton University Press, Princeton, 2019.

[6] Benjamin Arditi. Populism, or, politics at the edges of democracy. *Contemp. Polit.*, 9(1):17–31, 2003.

[7] Benjamin Arditi. Populism as a Spectre of Democracy: A Response to Canovan. *Polit. Stud.*, 52:135–143, 2004.

[8] Banco Central del Ecuador. TIPO DE CAMBIO SUCRE-DÓLAR HISTORICO, 2001.

[9] Santiago Basabe-Serrano. La Revolución Ciudadana de Rafael Correa. *Foreign Aff. Latinoam.*, Marzo, 2015.

[10] Alexander Baturo, Niheer Dasandi, and Slava J. Mikhaylov. Understanding state preferences with text as data: Introducing the UN general Debate corpus. *Res. Polit.*, 4(2), 2017.

[11] Kenneth Benoit, Kohei Watanbe, Haiyan Wang, Paul Nulty, Adam Obeng, Akitaka Matsuo, and Stefan Muller. quanteda: An R package for the quantitative analysis of texual data. *J. Open Source Softw.*, 3(30):774, 2018.

[12] José Luis Bernal Rodríguez. Política exterior y promoción económica internacional: hacia una nueva diplomacia económica. *Rev. Méxicana Política Exter.*, 62/63:7–27, 2001.

[13] Enrique Berruga Filloy. La política mexicana de cooperación internacional. *Rev. Mex. Política Exter.*, 61:248–267, 2000.

[14] Carlos Berzosa. RAÚL PREBISCH Y LA ECONOMÍA DEL DESARROLLO. *Rev. Econ. Crítica*, 21:131–134, 2016.

[15] Stephanie Blankenburg and Jose Gabriel Palma. Introduction: the global financial crisis. *Cambridge J. Econ.*, 33(4):531–538, 2009.

[16] David M Blei, Andrew Y Ng, and Michael I Jordan. Latent Dirichlet Allocation. *J. Mach. Learn. Res. 3*, 3:993–1022, 2003.

[17] Mark Blyth. The Austerity Delusion: Why a Bad Idea Won Over the West, 2013.

[18] Taylor C. Boas and Jordan Gans-Morse. Neoliberalism: From new liberal philosophy to anti-liberal slogan. *Stud. Comp. Int. Dev.*, 44(2):137–161, 2009.

[19] J. Bolt and L. van Zanden. The Maddison-Project, 2013.

[20] Francisco Borja Martinez. El nuevo régimen del Banco de México. *Comer. Exter.*, pages 12–19, 1995.

[21] Benoît Bouchat, Stéphanie Jacquemont, Eric Toussaint, and Cecile Lamarque. Ecuador at the Crossroads : An Integral Audit of the Public Debt. 2007.

[22] James M Boughton. On the Origins of the Fleming-Mundell Model. *IMF Staff Pap.*, 50(1):9, 2003.

[23] J. Lawrence Broz and Jeffry A. Frieden. The Political Economy of International Monetary Relations. *Annu. Rev. Polit. Sci.*, 4:317 – 343, 2001.

[24] Kathleen Bruhn. The Making of the Mexican President, 2000: Parties, Candidates and Campaign Strategy. In Chappell Lawson and Jorge Domínguez, editors, *Mex. Pivotal Elect. candidates, voters, Pres. campagin 2000*, chapter 6, pages 123–156. Stanford University Press, Stanford, 2004.

[25] Miguel A Buitrago. El significado de la llegada de Evo Morales al poder en la República de Bolivia. *Iberoamericana*, VI(22):159–164, 2006.

[26] Jeremy Bulow and Kenneth Rogoff. Sovereign Debt: Is to Forgive to Forget? *Am. Econ. Rev.*, 79(1):43–50, 1989.

[27] Angel Calderón-Madrid. Currency Crises and Institutional Changes in Latin America: Lessons from Mexico. In *Euro Dollar*, page 15, Coral Gables, 2006. Jean Monnet Chair of the University of Miami.

[28] Angel Calderón Mayorga. La dolarización ecuatoriana, nov 2011.

[29] Margaret Canovan. Trust the People! Populism and the Two Faces of Democracy. *Polit. Stud.*, XLVII:2–16, 1999.

[30] Jorge Castañeda. Política exterior de México: principales ejes de acción. *Rev. Mex. Política Exter.*, 62-63:139–144, 2001.

[31] Jorge G. Castañeda. El nuevo activismo internacional mexicano. *Rev. Mex. Política Exter.*, 64:43–53, 2001.

[32] Paola Cerchiello and Giancarlo Nicola. Assessing news contagion in finance. *Econometrics*, 6(1):1–19, 2018.

[33] Phillip Cerny. Restructuring the Political Arena: Globalization and the Paradoxes of the Competition State. In Randall Germain, editor, *Glob. its Critics Perspect. from Polit. Econ.*, chapter 4, pages 117–138. MacMillan, London, 2000.

[34] Jonathan Chang, Jordan Boyd-Graber, Sean Gerrish, Chong Wang, and David M. Blei. Reading tea leaves: How humans interpret topic models. *Adv. Neural Inf. Process. Syst. 22 - Proc. 2009 Conf.*, pages 288–296, 2009.

[35] Martha Carolina Chaparro Medina. Rafael Correa: Estrategia de politingen el siglo XXI. *Opción*, 31(3):429–445, 2015.

[36] Jeffrey T. Checkel. Mechanisms, process, and the study of international institutions. In Andrew Bennett and Jeffrey Checkel, editors, *Process Tracing From Metphor to Anal. Tool*, pages 74–97. Cambridge University Press, Cambridge, 2015.

[37] Stephen J Choi, Mitu Gulati, and Eric A Posner. POLITICAL RISK AND SOVEREIGN DEBT CONTRACTS. 2011.

[38] Joel Tomas Citron and Gerald Nickelsburg. Country risk and political instability. *J. Dev. Econ.*, 25(2):385–392, 1987.

[39] Benjamin J. Cohen. *International Political Economy. An Intellectual History.* Princeton University Press, Princeton, 2008.

[40] Constitucion de Ecuador. Texto de la Nueva Constitución (Relativo al endeudamiento), 2009.

[41] R. Conte, N. Gilbert, G. Bonelli, C. Cioffi-Revilla, G. Deffuant, J. Kertesz, V. Loreto, S. Moat, J. P. Nadal, A. Sanchez, A. Nowak, A. Flache, M. San Miguel, and D. Helbing. Manifesto of computational social science. *Eur. Phys. J. Spec. Top.*, 214(1):325–346, 2012.

[42] Rafael Correa. Dolarización y desdolarización : más elementos para el debate. *Iconos, Rev. Ciencias Soc.*, (20):84–89, 2004.

[43] Rafael Correa. DISCURSO DEL PRESIDENTE RAFAEL CORREA EN RENDICIÓN DE CUENTAS DE LA AGENDA SOCIAL. Technical report, Presidencia de la Republica del Ecuador, Guayaquil, 2007.

[44] Rafael Correa. Ecuador: De banana republic a la NO República, 2009.

[45] Robert W. Cox. Social Forces, States and World Orders: Beyond International Relations Theory. *Millenn. J. Int. Stud.*, 10(2):126–155, 1981.

[46] James Crotty. The Realism of Assumptions Does Matter: Why Keynes-Minsky Theory Must Replace Efficient Market Theory as the Guide to Financial Regulatory Policy. In Gerald Epstein and Martin Wolfson, editors, *Handb. Polit. Econ. Financ. Cris.*, chapter 7, pages 133–158. New York, 2013.

[47] Gábor Csárdi and Tamas Nepusz. The igraph software package for complex network research. *InterJournal*, Complex Sy:1695, 2006.

[48] Douglas W Diamond and Philip H Dybvig. Bank Runs , Deposit Insurance , and Liquidity. *J. Polit. Econ.*, 91(3):401–419, 1983.

[49] Xiaowen Ding, Bing Liu, and Philip S. Yu. A holistic lexicon-based approach to opinion mining. *WSDM'08 - Proc. 2008 Int. Conf. Web Search Data Min.*, pages 231–239, 2008.

[50] Jorge Domínguez and Chappell Lawson. *Mexico's pivtoal election: candidates, voters, and the presidential campaign of 2000.* Stanford University Press, Stanford, 2004.

[51] Edgar J Dosman, editor. *Raúl Prebisch: power, principle, and the ethics of development.* IDB-INTAL, Buenos Aires, 2006.

[52] T. P. Dybowski and P. Adämmer. The economic effects of U.S. presidential tax communication: Evidence from a correlated topic model. *Eur. J. Polit. Econ.*, 55(June 2017):511–525, 2018.

[53] Kenneth Dyson. *States, Debt, and Power: 'Saints' and 'Sinners' in European History and Integration*. Oxford University Press, Oxford, 2014.

[54] Kenneth Dyson. A History of Financial Saints and Sinners, 2015.

[55] Jonathan Eaton and Mark Gersovitz. LDC participation in international financial markets. Debt and reserves. *J. Dev. Econ.*, 7(1):3–21, 1980.

[56] Barry Eichengreen. *Exorbitant Privilege: The Rise and Fall of the Dollar*. Oxford University Press, New York, 2011.

[57] Barry Eichengreen, Ricardo Hausmann, and Ugo Panizza. Currency Mismatches , Debt Intolerance , and Original Sin Why They Are Not the Same and Why It Matters. In Sebastian Edwards, editor, *Cap. Control. Cap. Flows Emerg. Econ. Policies, Pract. Consequences*, number May, chapter 3, pages 121–170. University of Chicago Press, Chicago, 2007.

[58] El Comercio. 15 años después, el dólar tiene un 85% de popularidad en el país, jan 2015.

[59] El Comercio. Ecuador seguirá dolarizado pese a difícil situación económica, dice Correa, aug 2015.

[60] El Comercio. Los hechos que marcaron el derrocamiento de Jamil Mahuad, jan 2016.

[61] El Telégrafo. Campaña presidencial de Rafael Correa es reconocida internacionalmente, apr 2014.

[62] El Telégrafo. Créditos vinculados fueron parte de la crisis bancaria, jan 2014.

[63] El Telégrafo. Con Mahuad, Ecuador sufrió la peor crisis económica y social de su historia, nov 2016.

[64] El Telégrafo. El retorno de la democracia: Historias Electorales, 2016.

[65] Steve Ellner. HUGO CHÁVEZ Y ALBERTO FUJIMORI: ANÁLISIS COMPARATIVO DE DOS VARIANTES DE POPULISMO. *Rev. Venez. Econ. y Ciencias Soc.*, 10(1):13–37, 2004.

[66] Niall Ferguson. *The Ascent of Money: A Financial History of the World*, volume 40. The Penguin Press, New York, 2008.

[67] Jorge Fernández Ruiz. El manejo de la deuda pública externa. In Nora Lustig, editor, *IX Crecim. Econ. Y EQUIDAD Los Gd. Probl. México*, chapter 6, pages 215–252. El Colegio de Mexico, Mexico D.F., 2010.

[68] Albert Fishlow. Lessons from the past: capital markets during the 19th century and the interwar period. In Miles Khaler, editor, *Polit. Int. Debt*, pages 37–94. Cornell University Press, Ithaca, 1986.

[69] Guillaume Fontaine. Sobre bonanzas y dependencia: Petróleo y enfermedad holandesa en el Ecuador. *Iconos, Rev. Ciencias Soc.*, 13:102–110, 2002.

[70] Guillaume Fontaine. Gobernanza Energética, renta Petrolera y Conflictos en el Ecuador. *Ecuador Debate*, 70:11'41, 2007.

[71] Francis Fukuyama. *The end of history and the last man*. MacMillan, New York, 1992.

[72] Santiago Garcia Alvarez, Diego Carrion Sanchez, Francisco Gachet, and Mario Unda. *Balance critico del gobierno de Rafael Correa*, volume 53. Universidad Central del Ecuador, Quito, 2014.

[73] Anna Gelpern and M. Gulati. Innovation after the revolution: foreign sovereign bond contracts since 2003. *Cap. Mark. Law J.*, 4(1):85–103, 2009.

[74] Anna Gelpern and Mitu Gulati. Public symbol in private contract: A case study. *Wash. UL Rev.*, 84(7):1627–1715, 2006.

[75] Anna Gelpern and Mitu Gulati. The wonder-clause. *J. Comp. Econ.*, 41(2):367–385, 2013.

[76] Randall Germain. *The International Organization of Credit*. Cambridge University Press, Cambridge, 1997.

[77] Randall Germain. Introduction: Globalization and its Critics. In Randall Germain, editor, *Glob. its Critics Perspect. from Polit. Econ.*, chapter 1, pages xiii–xx. MacMillan, London, 2000.

[78] James M. Goldgeier and Michael McFaul. A tale of two worlds: core and periphery in the post-cold war era. *Int. Organ.*, 46(02):467, 1992.

[79] Google. Ngram viewer, 2020.

[80] Peter A. Gourevitch. Politics in Hard Times: Comparative Responses to International Economic Crises, 1986.

[81] Peter A. Gourevitch. YET MORE HARD TIMES? Reflections on the Great Recession in the Frame of Earlier Hard Times. In Miles Kahler and David A Lake, editors, *Polit. New Hard Times Gt. Recess. Comp. Perspect.*, pages 252–274. Cornell University Press, Ithaca, 2013.

[82] Ilene Grabel. Not your grandfather's IMF: Global crisis, 'Productive incoherence' and developmental policy space. *Cambridge J. Econ.*, 35(5):805–830, 2011.

[83] David Graeber. *Debt: the first 5,000 years.* Melville House Publishing, Brooklyn, 2011.

[84] Thomas L. Griffiths and Mark Steyvers. Finding scientific topics. *Proc. Natl. Acad. Sci. U. S. A.*, 101(SUPPL. 1):5228–5235, 2004.

[85] Justin Grimmer. We are all social scientists now: How big data, machine learning, and causal inference work together. *PS - Polit. Sci. Polit.*, 48(1):80–83, 2014.

[86] Justin Grimmer and Brandon M. Stewart. Text as data: The promise and pitfalls of automatic content analysis methods for political texts. *Polit. Anal.*, 21(3):267–297, 2013.

[87] Mitu Gulati and Joseph Blocher. Markets and Sovereignty. *Osgoode Hall Law J.*, 54:19, 2017.

[88] Ángel Gurría. Principios, objetivos y estrategias de la política exterior de México en los años noventa. *Rev. Mex. Política Exter.*, 46:284–301, 1995.

[89] Martin Guzman, Joseph Stiglitz, and Jose Antonio Ocampo. *Too Little, Too Late The Quest to Resolve Sovereign Debt Crises*. Columbia University Press, New York, 2016.

[90] Savina Gygli, Florian Haelg, Niklas Potrafke, and Sturm Jan-Egbert. The KOF Globalisation Index – Revisited. *Rev. Int. Organ.*, 2019.

[91] Lars Kai Hansen, Adam Arvidsson, Finn Aarup Nielsen, Elanor Colleoni, and Michael Etter. Good friends, bad news - Affect and virality in twitter. *Commun. Comput. Inf. Sci.*, 185 CCIS(PART 2):34–43, 2011.

[92] Stephen Hansen and Michael McMahon. Shocking language: Understanding the macroeconomic effects of central bank communication. *J. Int. Econ.*, 99:S114–S133, 2016.

[93] F. A. Hayek. *Denationalisation of Money: The Argument Refined*. The Institute of Economic Affairs, London, third edition, 1990.

[94] E. Helleiner. National Currencies and National Identities. *Am. Behav. Sci.*, 41(10):1409–1436, 1998.

[95] Eric Helleiner. *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*. Cornell University Press, Ithaca, 1994.

[96] Eric Helleiner. The Mystery of the Missing Sovereign Debt Reestructuring Mechanism. *Contrib. Polit. Econ.*, 27:91–113, 2008.

[97] Eric Helleiner. Filling a Hole in Global Financial Governance? The Politics of Regulating Sovereign Debt Restructuring. In Walter Mattli and Ngaire Woods, editors, *Polit. Glob. Regul.*, chapter 3, page 289. Princeton University Press, Princeton, 2009.

[98] Eric Helleiner. *Forgotten Foundations of Bretton Woods: International Development and the Making of the Postwar Order*. Cornell University Press, Ithaca, 2014.

[99] Benjamin E. Hermalin, Andrew K. Rose, Peter M. Garber, Andrew Crockett, and David W. Mullins. Risks to Lenders and Borrowers in International Capital Markets. In Martin Feldstein, editor, *Int. Cap. Flows*, chapter 7, pages 363–420. University of Chicago Press, Chicago, 1999.

[100] Richard a. Higgott and Matthew Watson. All at sea in a barbed wire canoe: Professor Cohen's transatlantic voyage in IPE. *Rev. Int. Polit. Econ.*, (January 2015):37–41, 2008.

[101] Albert 0. Hirschman. *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States.* Harvard University Press, Cambridge, 1970.

[102] Marek Hlavac. stargazer: Well-Formatted Regression and Summary Statistics Tables, 2018.

[103] Eric Hobsbawm. *The Age of Revolution: 1789-1848*, volume 77. Vintage Books, New York, 1996.

[104] Michael Hudson. Trade, Development and Foreign Debt, 2009.

[105] Michael Hudson. *. . . and forgive them their debts: Lending, Foreclosure and Redemption From Bronze Age Finance to the Jubilee Year.* ISLET, 2018.

[106] Gabe Ignatow and Rada Mihalcea. *An Introduction to Text Mining: Reseach Design, Data Collection, and Analysis.* SAGE, London, 2018.

[107] IMCA. Collective action clauses, 2014.

[108] International Monetary Fund. Strengthening the contractual framework to address collective action problems in sovereign debt restructuring. (October), 2014.

[109] Darwin Ordóñez Iturralde and Susana Hinojosa Dazza. La Política Exterior del Ecuador en el Marco del Plan Nacional del Buen Vivir. *Rev. Retos*, 8(1):143–156, 2014.

[110] Laura Jaramillo. Determinants of Investment Grade Status in Emerging Markets. 2010.

[111] Miles Kahler. Conclusion: politics and proposals for reform. In Miles Kahler, editor, *Polit. Int. Debt*, pages 245–272. Cornell University Press, Ithaca, 1986.

[112] Robert R. Kaufman. Democratic and authoritarian responses to the debt issue: Argentina, Brazil, Mexico. In Miles Kahler, editor, *Polit. Int. Debt*, pages 187–218. Cornell University Press, Ithaca, 1986.

[113] Robert O. Keohane and Joseph S. Jr. Nye. *Power and Interdependence*. Pearson, Glenview, 4 edition, 2012.

[114] Sung Eun Kim. Media Bias against Foreign Firms as a Veiled Trade Barrier: Evidence from Chinese Newspapers. *Am. Polit. Sci. Rev.*, 112(4):918–938, 2018.

[115] Gary King, Patrick Lam, and Margaret E. Roberts. Computer-Assisted Keyword and Document Set Discovery from Unstructured Text. *Am. J. Pol. Sci.*, 61(4):971–988, 2017.

[116] Stephen D. Krasner. Structural causes and regime consequences: regimes as intervening variables. *Int. Organ.*, 36(02):185, 1982.

[117] Werner Krause, Pola Lehmann, Jirka Lewandowski, Theres Matthieß, Nicolas Merz, Sven Regel, and Annika Werner. Manifesto Corpus, 2020.

[118] Enrique Krauze. La Presidencia Imperial: Ascenso y caida del sistema politico mexicano (1940-1996), 2002.

[119] Rafael La Porta, Florencio Lopez de Silanes, Andrei Shleifer, and Robert W. Vishny. Legal Determinants of External Finance. *J. Finance*, 52(3):1131–1150, 1997.

[120] Ranjit Lall. From failure to failure: The politics of international banking regulation. *Rev. Int. Polit. Econ.*, 19(4):609–638, oct 2012.

[121] Vegard H. Larsen. Components of Uncertainty. *SSRN Electron. J.*, pages 1–39, 2017.

[122] Michael Laver, Kenneth Benoit, and John Garry. Extracting policy positions from political texts using words as data. *Am. Polit. Sci. Rev.*, 97(2):311–331, 2003.

[123] Odette Lienau. *Rethinking Sovereign Debt: Politics, Reputation, and Legitimacy in Modern Finance*. Harvard University Press, Cambridge, 2014.

[124] Thomas Lin Pedersen. ggraph: An Implementation of Grammar of Graphics for Graphs and Networks. 2018.

[125] Charles Lipson. International debt and international institutions. In Miles Kahler, editor, *Polit. Int. Debt*, pages 219–244. Cornell University Press, Ithaca, 1986.

[126] Tim Loughran and Bill McDonald. When Is a Liability Not a Liability? Textual Analysis, Dictionaries, and 10-Ks. *J. Finance*, LXVI(1):35–65, 2011.

[127] Christopher Lucas, Richard A. Nielsen, Margaret E. Roberts, Brandon M. Stewart, Alex Storer, and Dustin Tingley. Computer-assisted text analysis for comparative politics. *Polit. Anal.*, 23(2):254–277, 2015.

[128] Seraphine F. Maerz and Carsten Q. Schneider. Comparing public communication in democracies and autocracies: automated text analyses of speeches by heads of government. *Qual. Quant.*, (0123456789), 2019.

[129] Beatriz Magaloni and Alejandro Poiré. The Issues, the Vote, and the Mandate for Change. In Jorge Domínguez and Chappell Lawson, editors, *Mex. Pivotal Elect. candidates, voters, Pres. campagin 2000*, chapter 12, pages 293–320. Stanford University Press, Stanford, 2004.

[130] Günther Maihold and Villamar Zirahuén. El G20 y los países emergentes. *Foro Int.*, LVI(1):165–211, 2016.

[131] Aaron Major. Neoliberalism and the new international financial architecture. *Rev. Int. Polit. Econ.*, 19(4):536–561, oct 2012.

[132] Carlos Malamud and Carola Garcia-Calvo. La política exterior de Ecuador : entre los intereses presidenciales y la ideología. *Anal. del Real Inst. Elcano*, (61):1–8, 2009.

[133] Naomi Mapstone. Ecuador defaults on sovereign bonds: President labels bondholders ‘real monsters’, 2008.

[134] James G. March and Johan P. Olsen. The Institutional Dynamics of International Political Orders. *Int. Organ.*, 52(4):943–969, 1998.

[135] Walter Mattli and Ngaire Woods. In Whose Benefit? Explaining regulatory change in global politics. In *Polit. Glob. Regul.*, pages 1–43. 2009.

[136] Paúl Mena Erazo. Diez años de dolarización en Ecuador, jan 2010.

[137] Raymond F Mikesell. *The Bretton Woods Debates: A Memoir*, volume 192. Princeton University Press, Princeton, 1994.

[138] Ministerio de Relationes Exteriores. *Plan Nacional de Política Exterior 2006-2020.* Quito, 2006.

[139] Camelia Minoiu and Javier a. Reyes. A network analysis of global banking: 1978–2010. *J. Financ. Stab.*, 9(2):168–184, jun 2013.

[140] Charles W . Mooney. A Framework for a Formal Sovereign Debt Restructuring Mechanism : The KISS Principle (Keep It Simple , Stupid) and Other Guiding Principles. 2015.

[141] Valeria Moy. Ecuador: ¿la siguiente crisis de endeudamiento? *Foreign Aff. Latinoam.*, Febrero, 2016.

[142] Pabel Muñoz López. ECUADOR: REFORMA DEL ESTADO Y CRISIS POLÍTICA, 1992-2005 Pabel Muñoz López. *Hist. Actual Online*, 11(Otoño):101–110, 2006.

[143] Jan-Werner Mueller. *What is populism?* University of Pennsylvania Press, Philadelphia, 2016.

[144] Craig N Murphy and Douglas R Nelson. International political economy: a tale of two heterodoxies. *Br. J. Polit. Int. Relations*, 3(3):393–412, 2001.

[145] Nikita Murzintcev. ldatuning, 2019.

[146] Benito Nacif. El fin de la Presidencia dominante. In Jose Luis Mendez, editor, *XIII POLÍTICAS PÚBLICAS. Los Gd. Probl. México*, chapter 1, pages 45–84. El Colegio de Mexico, Mexico D.F., 2010.

[147] Richard Nixon. Speech by Richard Nixon (15 August 1971). Technical Report August, US Government Printing Office, Washington D.C., 1971.

[148] Thomas Oatley, W. Kindred Winecoff, Andrew Pennock, and Sarah Bauerle Danzman. The Political Economy of Global Finance: A Network Model. *Perspect. Polit.*, 11(01):133–153, 2013.

[149] John S Odell. Case Study Methods in International Political Economy. *Int. Stud. Perspect.*, 2:161–176, 2001.

[150] Steffen Osterloh. Words speak louder than actions: The impact of politics on economic performance. *J. Comp. Econ.*, 40(3):318–336, 2012.

[151] Simón Pachano. ECUADOR: EL NUEVO SISTEMA POLÍTICO EN FUNCIONAMIENTO. *Rev. Cienc. Polit.*, 30(2):297–317, 2010.

[152] Ugo Panizza, Federico Sturzenegger, and Jeromin Zettelmeyer. The Economics and Law of Sovereign Debt and Default. *J. Econ. Lit.*, 47(3):651–698, 2009.

[153] Marcel Peter. Estimating Default Probabilities of Emerging Market Sovereigns: A New Look at a Not-so-New Literature. 2002.

[154] M. J. Peterson. International Regimes as Concept, 2012.

[155] Kees Van Der Pijl. *A Survey of Global Political Economy.* Centre for Global Political Economy- University of Sussex, Sussex, 2009.

[156] Katharina Pistor. A legal theory of finance. *J. Comp. Econ.*, 41(2):315–330, may 2013.

[157] Katharina Pistor. Transnational Regulatory Regimes in Finance: A Comparative Analysis of their (Dis-)Integrative Effects. In László Bruszt and Gerald A. McDermott, editors, *Lev-*

eling Play. F. Transnatl. Regul. Integr. Dev., chapter 12, pages 294–312. Oxford University Press, Oxford, 2014.

[158] Katharina Pistor. *The Code of Capital: How the law creates wealth and inequality*. Princeton University Press, Princeton, 2019.

[159] Raúl Prebisch. El desarrollo económico de la América Latina y algunos de sus principales problemas. *Desarrollo Econ.*, 26(103):479–502, 1986.

[160] Randal Quarles. Herding Cats: Collective -Action Clauses in Sovereign Debt- The Genesis of the Project to Change Market Practice in 2001 Through 2003. *Law Contemp. Probl.*, 73, 2010.

[161] Carmen M Reinhart and Kenneth S Rogoff. *This Time is Different: Eight Centuries of Financial Folly*. Princeton University Press, Princeton, 2009.

[162] Lex Rieffel. *Restructuring Sovereign Debt: The case for Ad Hoc machinery*. Brookings Institution Press, Washington D.C., 2003.

[163] Pietra Rivoli and Thomas Brewer. Political instability and country risk. *Glob. Financ. J.*, 8(2):309–321, 1997.

[164] Margaret E. Roberts, Brandon M. Stewart, and Dustin Tingley. Stm: An R package for structural topic models. *J. Stat. Softw.*, 91(2), 2019.

[165] Margaret E. Roberts, Brandon M. Stewart, Dustin Tingley, Christopher Lucas, Jetson Leder-Luis, Shana Kushner Gadarian, Bethany Albertson, and David G. Rand. Structural topic models for open-ended survey responses. *Am. J. Pol. Sci.*, 58(4):1064–1082, 2014.

[166] Vivianne Rodrigues and Andres Schipani. Ecuador returning to bond market after 2008 default, jun 2014.

[167] Carlos Rojas. Las 9 claves para entender la crisis de 1999 y la caída de Mahuad, may 2014.

[168] Bjoern Rother, Ivetta Hakobyan, and Monica Baumgarten de Bolle. The Level and Composition of Public Sector Debt in Emerging Market Crises. *IMF Work. Pap.*, 06(186):1, 2006.

[169] Peter Rowland and Jose Torres. Determinants of Spread and Creditworthiness for Emerging Market Sovereign Debt: A Panel Data Study. Technical report, Banco Central de Colombia, Bogotá, 2004.

[170] Elena Rudkowsky, Martin Haselmayer, Matthias Wastian, Marcelo Jenny, Štefan Emrich, and Michael Sedlmair. More than Bags of Words: Sentiment Analysis with Word Embeddings. *Commun. Methods Meas.*, 12(2-3):140–157, 2018.

[171] John Gerard Ruggie. International regimes, transactions, and change: embedded liberalism in the postwar economic order. *Int. Organ.*, 36(02):379, 1982.

[172] Erika Ruiz Sandoval. La política exterior de México durante el sexenio de Vicente Fox: mucho discurso y pocas nueces. *Foro Int.*, 48(1/2 (191/192)):66–80, 2008.

[173] Jeffrey Sachs and Daniel Cohen. LDC Borrowing with Default Risk. *NBER Work. Pap. Ser.*, (925):1–54, 1982.

[174] Javier Santiso. *The Political Economy of Emerging Markets: Actors, Institutions and Financial Crises in Latin America*. Palgrave Macmillan, New York, 2003.

[175] K Schuler. El futuro de la dolarización en Ecuador. 2002.

[176] Brad Setser. The Political Economy of the SDRM. *Overcoming Dev. Ctry. Debt Cris.*, 49(3):1976–2001, 2010.

[177] Robert J. Shiller. *Finance and the Good Society*. Princeton University Press, Princeton, 2012.

[178] Robert J. Shiller. *Narrative Economics: How stories go viral and drive major economic events*. Princeton University Press, Princeton, 2019.

[179] Andrei Shleifer. Will the sovereign debt market survive? *Am. Econ. Rev.*, 93(2):85–90, 2003.

[180] Miguel Hakim Simón. El Consenso y los compromisos de Monterrey. *Rev. Mex. Política Exter.*, 66:23–36, 2002.

[181] Jonathan B. Slapin and Sven-Oliver Proksch. A Scaling Model for Estimating Time-Series Party Positions from Texts. *Am. J. Pol. Sci.*, 52(3):705–722, 2008.

[182] Susanne Soederberg. The Transnational Debt Architecture and Emerging Markets: The Politics of Paradoxes and Punishment. *Third World Q.*, 26(6):927–949, 2005.

[183] Robert Solomon. *Money on the Move: the revolution in international finance since 1980.* Princeton University Press, Princeton, 1999.

[184] Thomas Sowell. *A Conflict of Visions: Ideological Origins of Political Struggles.* Basic Books, New York, 2006.

[185] Susan Strange. Cave! hic dragones: a critique of regime analysis. *Int. Organ.*, 36(02):479, 1982.

[186] Susan Strange. *States and Markets.* Continuum, New York, 1994.

[187] Federico Sturzenegger and Jeromin Zettelmeyer. *Debt Defaults and Lessons from a Decade of Crises.* MIT Press, Cambridge, 2006.

[188] Carlos Tello. *Estado y desarrollo económico: México 1920-2006.* Universidad Nacional Autónoma de Mexico, Mexico D.F., 2011.

[189] Rochelle Terman. Islamophobia and media portrayals of Muslim Women: A computational text analysis of us news coverage. *Int. Stud. Q.*, 61(3):489–502, 2017.

[190] The Economist. Ecuador's winning strategy, jun 2009.

[191] The World Bank. Country and Lending Groups, 2018.

[192] The World Bank. International Debt Statistics 2018. Technical report, The World Bank Group, Washington D.C., 2018.

[193] Lourdes Tiban. Las enmiendas constitucionales en Ecuador: El gobierno intenta permitir la reelección indefinida, nov 2015.

[194] Denise Traber, Martijn Schoonvelde, and Gijs Schumacher. Errors have been made , others will be blamed : blame avoidance and blame-shifting in Prime Minister speeches during the economic crisis in Europe. *Pre-Print*, (October), 2017.

[195] Christoph Trebesch, Michael G Papaioannou, and Udaibir S. Das. Sovereign Debt Restructurings 1950-2010: Literature Survey, Data, and Stylized Facts. *IMF Work. Pap.*, 12(203):i, 2012.

[196] Lorenza Martínez Trigueros. La Política Cambiaria Y Monetaria En México : Lecciones De Una Década de Flotacion Cambiaria. *Rev. ICE*, 821:11–30, 2005.

[197] Eduardo Turrent Díaz. Las tres etapas de la autonomía\ndel banco central en México. *Análisis Económico*, XX(43):47–80, 2005.

[198] UNGA. Towards the establishment of a multilateral legal framework for sovereign debt restructuring processes. Technical Report Sixty-eight session, United Nations, New York, 2014.

[199] Hamid Akin Unver. Computational International Relations: What Can Programming, Coding and Internet Research Do for the Discipline? *SSRN Electron. J.*, (February 2018):20, 2018.

[200] James C. Van Hook. Treasonable Doubt: The Harry Dexter White Spy Case Review. *Cent. Intell. Agency*, 49(1):8–10, 2005.

[201] Yanis Varoufakis. *Adults in the Room: My battle with Europe's deep establishment*. Farrar, Straus and Giroux, New York, 2017.

[202] William Vlcek. Power and the practice of security to govern global finance. *Rev. Int. Polit. Econ.*, 19(4):639–662, oct 2012.

[203] Pedro Vuskovic. Raúl Prebisch y su teoría del capitalismo periférico. *Comer. Exter.*, 37(5):409–413, 1987.

[204] Kohei Watanabe and Yuan Zhou. Theory-Driven Analysis of Large Corpora: Semi-Supervised Topic Classification of the UN Speeches. *Soc. Sci. Comput. Rev.*, pages 1–21, 2020.

[205] Mark Weidemaier and Mitu Gulati. A People's History of Collective Action Clauses. *VA. J. Int. Law*, 54(December 2012):51–95, 2013.

[206] Galo Yépez Holguín. La actual Política Exterior del Ecuador y su relación con la nueva Constitución. *Rev. AFESE*, 52(December):37–54, 2009.

[207] Kevin L. Young. Transnational regulatory capture? An empirical examination of the transnational lobbying of the Basel Committee on Banking Supervision. *Rev. Int. Polit. Econ.*, 19(4):663–688, oct 2012.