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

I, the undersigned [Alfredo Hernandez Sanchez], candidate for the degree of Doctor of Philosophy at the Central European University Doctoral School of Political Science, Public Policy and International Relations, declare herewith that the present thesis is exclusively my own work, based on my research and only such external information as properly credited in notes and bibliography. I declare that no unidentified and illegitimate use was made of works of others, and no part the thesis infringes on any person's or intstitution's copyright. I also declare that no part the thesis has been submitted in this form to any other institution of higher education for an academic degree.

Budapest, 10 May 2020

Signature

Word Count ≈ 57,000

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

— Alfred North Whitehead

Science and Philosophy

To my loving parents

Acknowledgments

"All changes, even the most longed for, have their melancholy; for what we leave behind us is a part of ourselves; we must die to one life before we can enter another."

Anatole France

It seems appropriate for a thesis about debt to begin by enumerating all the – very many – people to whom the author owes gratitude. So many friends, mentors and colleagues have extended their unwavering support throughout the past six years that it would take another dissertation to do everyone justice. Furthermore, though I am excited to move on to a new chapter, I am saddened by the fact that this will be among the last dissertations defended in Budapest. The city, as much as the university itself, has played a great role in my life. This I attribute to all the wonderful people that I have met along the way, rather than to the beautiful architecture that surrounds us every day.

I can only commence by thanking Professor Horvath, without whom this dissertation would not have been possible. His constant support and insights have been invaluable, and I am left with an unpayable debt of gratitude. Similar thanks must go to the very committed members of my committee. I would like to thank both internal members of my panel Michael Dorsch and Michael Merlingen for their continued patience and support. The same applies to Juan Flores for his interest and insights on this project.

Other members of the Central European University's faculty have also been sources of inspiration, academic and otherwise. Special thanks must go to Herman Schwartz for his suggestions and help to the very end. The same applies to Wolfgang Reinicke, Sally Schwager and Lazslo Csaba for their mentorship.

Being a part of the CEU's community has been such an intellectually and personally enriching experience in great part thanks to all the wonderful colleagues I have had the pleasure of working besides. I would like to express my most sincere gratitude and appreciation to Alexandru Moise, Sergiu Delcea and Thomas Peak for their *pro bono* editorial work. Similar thoughts go out to all my PhD and *lab* colleagues such as Peter Visnovitz, Liza Potapova, Simona Torotcoi, Carl Nordlund, Olga Loblova, Felix Bender, Akos Mate, Milos Resimic, Peter Marton, Eszter Farkas, Antonio Smith and Dominik Brenner, among many others.

The time spent on this PhD has also taken me to many fascinating places outside of Budapest, were I have met equally fascinating people. I wish to thank Fulya Apaydin at the Barcelona Institute for International Studies for hosting my research abroad and for her advice along the way. Likewise, I am grateful to my colleagues at the American University of Central Asia for their constant support in such a new and challenging environment; especially so to Farhad Kerimov.

I would not have managed to get to the finish line of this endeavor without the steadfast encouragement of friends and family. I am deeply thankful to Higuatzi Maldonado, Victor Revilla, Ella Jebelean, Apratim De, Alejandro Pedraza, Erick Aguilar, Luis and Mariana Anaya for their motivation and friendship throughout this process and beyond. Finally, I know myself blessed each day for having such an amazing family, without whom this project – or any other I could undertake – would have been quite impossible. So many people have touched my life in these past few years and contributed to this piece that it would not be possible to mention all. I apologize to those whom I could not name but I remain ever grateful for their time nonetheless.

List of Abbreviations

BANXICO – Central Bank of Mexico

BIS – Bank for International Settlements

CAC – Collective Action Clause

CAIC – Integral Public Credit Auditing Commission (Ecuador)

CDB – China Development Bank

CTA – Computational Text Analysis

FED – United States Federal Reserve System

IDS – International Debt Statistics Database

IMF – International Monetary Fund

IPE – International Political Economy

MIC – Middle Income Country by World Bank Classification

NCS – Narrative, Context, Salience Analytic Framework

PAN – National Action Party (Mexico)

PPG – Public and Publicly Guaranteed Debt

PRI – Institutional Revolutionary Party (Mexico)

SDRM – Sovereign Debt Restructuring Mechanism

TCI – Terms of Credit Indicator (Private and Official lenders)

TF-IDF – Term Frequency / Inverse Document Frequency

UNCTAD – United Nations Conference on Trade and Development

UNGA – United Nations General Assembly

WB – The World Bank

Abstract

What drives world leaders to support the international financial system or voice their discontent? How can this be measured? I propose a three-level analytic framework to study proactive stances towards the international regime for sovereign debt, particularly those of emerging-market actors.

I argue that Latin American leaders draw on two narratives of the global political-economy: a) one which characterizes the international monetary and financial system as a zero-sum game which perpetuates economic hierarchies, and b) one which stresses its developmental potential and characterizes it as a positive-sum game. I employ Computational Text Analysis (CTA) methods to measure how often the topic of international finance has been discussed in United Nations General Assembly (UNGA) speeches (1970-2018) and how it has been framed.

Subsequently, I analyze two paradigmatic cases from Latin America where a proactive foreign economic policy was pursued informed by these opposing economic narratives. The first is Mexico's promotion of market mechanisms to reform the international financial architecture under Vicente Fox with the diffusion of Collective Action Clauses and the 2002 Monterrey Consensus. The second considers the politically motivated 2008 Ecuadorian default and Rafael Correa's denunciation of international financiers.

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) [119] dubbed 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 – had spread throughout 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; they reinforce something that was previously named. An anthem is just a song if there is no word for *nation*. 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 of 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 and its foes. 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 those resources by force or fraud? More importantly, how can economic freedom best be preserved or regained if lost?

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* [81], the 21st century has seen the decline of conflicts across old ideological fault lines. Furthermore, it has seen the emergence of a truly global economy.

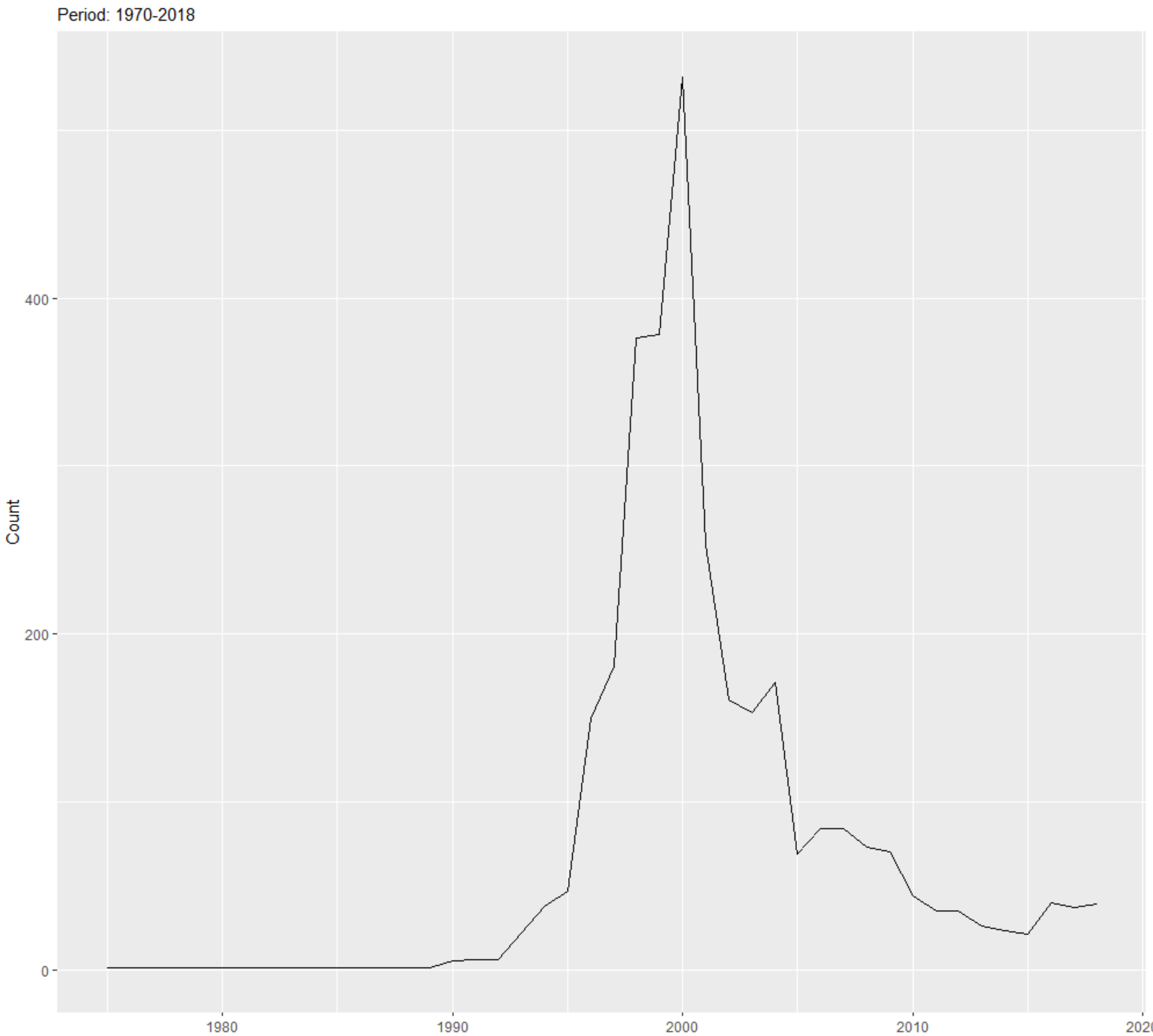
Yet *globalization* is not free of debates regarding its definition or its effects on society. On one hand, "[t]he popular press cannot decide on balance whether [it] has a liberating or a pernicious effect on society" [88, p. xiii]. On the other, its definition has remained nebulous, despite its widespread 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" [88, 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 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 *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" [38, p. 118]. At the crux of this debate is the desirability of market-solutions over discretionary political authority.

[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 [90].

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) [12]. It sums all mentions of the term globalization in general debate speeches by year 1970-2018.

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 International Political Economy (IPE) but also in economics and legal studies [19, 92, 185, 192, 222] – 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 [212]. Other perspectives argue that there is an alignment of interests between local elites and global market actors [17, 199, 216]. The answers to these questions fall in line with broader debates in 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 constant theme in academic debates, the salience of the international financial architecture ebbs and flows in the political arena. Furthermore, 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 [234]. 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 [112]; being mostly content with their role as rule-takers. 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, increase public spending and settle trade transactions. Studying the exceptional cases 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 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 its European and multilateral external creditors on better terms [241].

Prevalent asymmetries of 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 system [216, 242] to their complaints about the Basel accords for banking regulation standards [144, 248], the way in which their voices have gone 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* [20, 51, 157] – simply that such accounts tend to focus on advanced economies and how the notions of *their* leaders shape the world.

1.1 Agency at the Margins

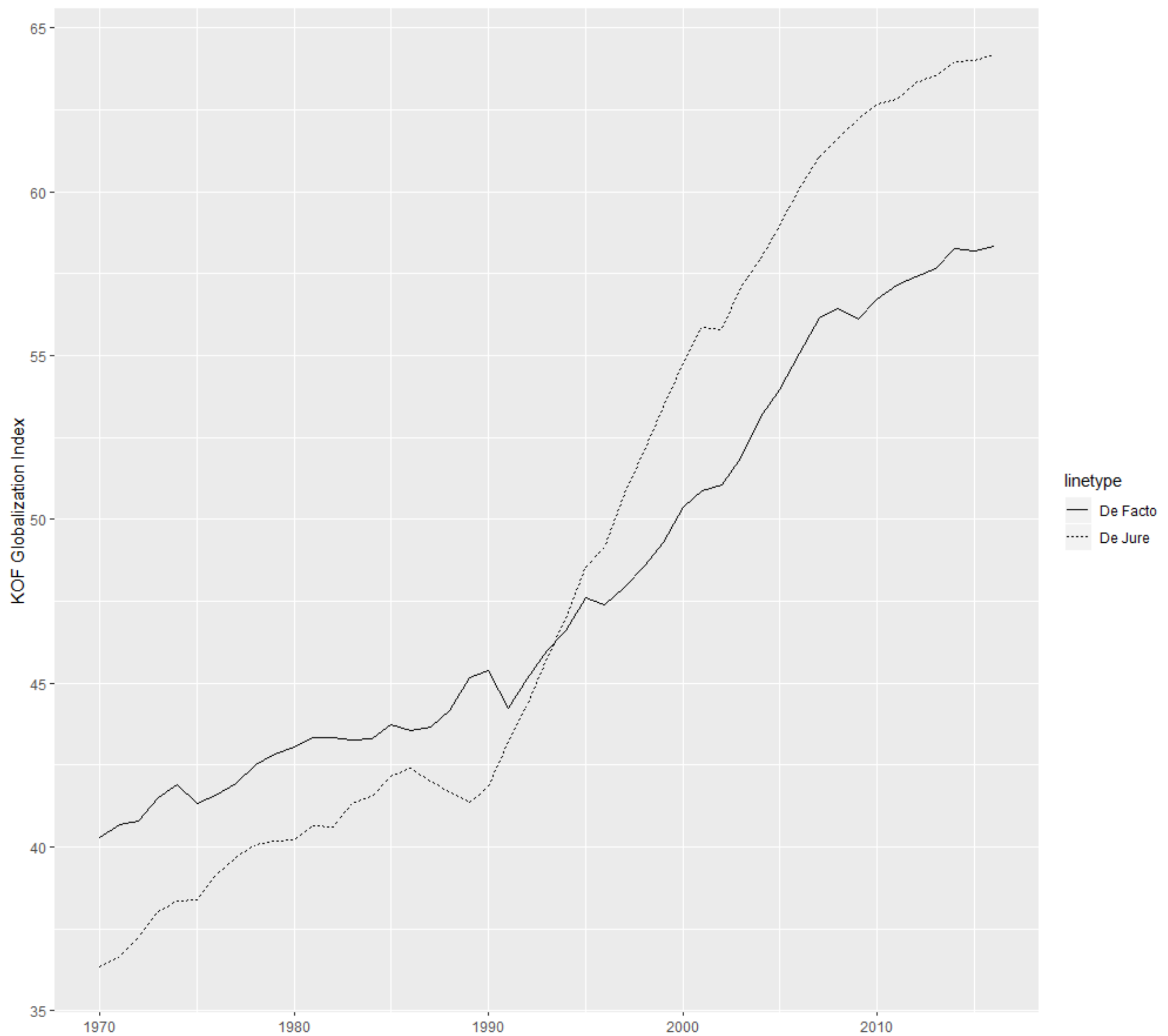
In *Politics in Hard Times*, Peter Gourevitch (1986) argues that great crises open the door for great transformations. According to the author, economic policy during *hard times* follows a fundamentally different logic than during *good times*. In tumultuous times, pre-existing coalitions shift with the economic landscape and new opportunities for change arise [91, p. 21]. This view is summarized in Gourevitch's adage: *policy requires politics*. However, for developing countries experiencing external debt crises, transformation comes not from domestic politics, but rather from external conditionality. In such cases, *policies determine politics*.

Before the collapse of the Soviet Union, the 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 or to some form of non-alignment. This was the original meaning of the *Third World*, 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 [89]. Figure 1.2 shows this trend: after 1991, average *de jure* globalization around the world increased significantly.[2]

Nowadays, members of the international community do not have a clear *exit* option.

[2] The KOF index [102] 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 [102] 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.

Countries may decide not to take part in a set of treaties or to move towards economic autarchy, but they can never truly leave the globalized world. This is not to say that they are without options. In Albert O. Hirschman's (1970) [117] 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 [160, 161], with all its pitfalls and historical examples of failure. Without a strong coalition behind them, the 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 observation is reflected in studies on sovereign debt in the developing world in general, and Latin America in particular. Santiso (2003) [206] uses Hirschman's framework of *exit*, *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*. Emerging-market economies (EMEs) compete among themselves not just to attract foreign creditors but also to keep them. Santiso 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 overlooks the way in which EME leaders behave towards global finance. The underlying logic 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) [206] book, as well as in similar studies on emerging market debt [65, 101, 148, 223], 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 exceptional instances when nations at the margins act *without* a crisis pushing them forward but with their hands tied behind their backs.

Despite such occasions being infrequent, they are not unimportant. From a theoretical perspective, outlier 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" [179, p. 166]. In the case of emerging market debt – and its Latin American idiosyncrasies – the questions of why sovereigns repay 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 Money as Politics

According to Hirschman (1970), the schism between *exit* and *voice* reflects "that between economics and politics" [117, 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" [117, 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" [117, 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" [74, 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" [74, 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" [74, 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" [94, p. 8]. The former having 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

[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]" [117, p. 19].

that "[t]hroughout the history of Western civilization, there has been a recurrent hostility to finance and financiers" [74, 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) [210] 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" [210, 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" [210, 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, its *de facto* power structures notwithstanding, is in this view a potential avenue for shared 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". Yet theories on money and finance *also* reflect visions on politics and the role that power and political discretion *should* play in society. This debate goes beyond the strictly objective and rational. Hierarchies evoke an emotional response. As Shiller (2012) puts it: "partly it is the presumption, the

[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" [74, 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 [241].

arrogance, that accompanies economic power that rankles" [210, 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?

1.2.1 NSC Analytic Framework

Figure 1.3 outlines the Narrative, Salience, Context (NCS) analytic framework I propose in this thesis to study the perspectives on the international financial system held by world leaders 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 dimensions: a) the X axis indicates the *narrative* through which the the agent in question makes sense of the international financial architecture; b) the Y axis represents the *salience* of the issue, which oscillates between high and low[7]; finally c) the Z axis corresponds to the *context* in which the leader operates over time, which is characterized as favorable or unfavorable.

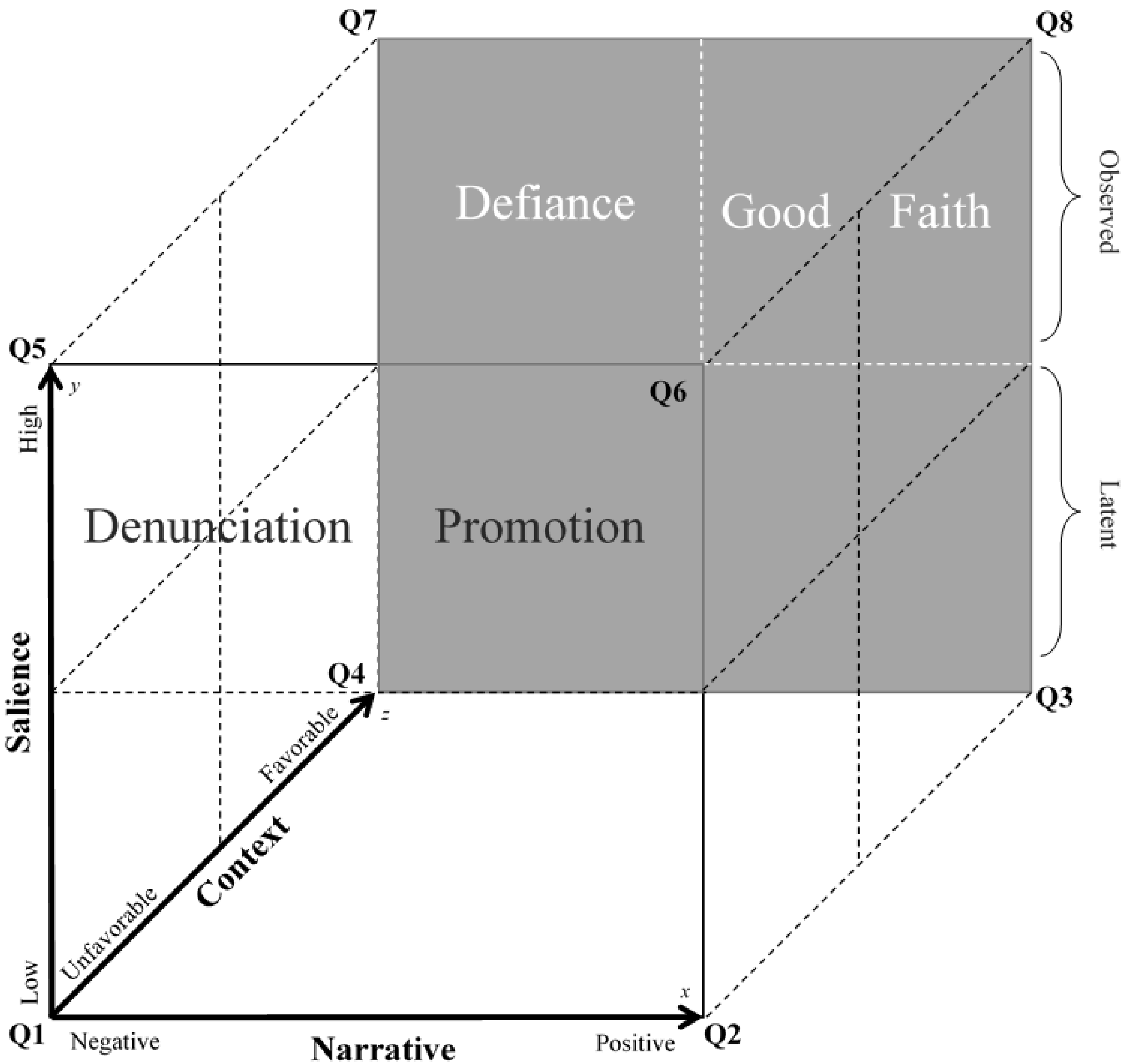
A favorable context does not automatically lead to policy actions: leaders are assumed to act only on issues that they deem important and to otherwise follow established norms.[8] The Y axis in the front face of figure 1.3 (Q3, Q4, Q7, Q8) indicates the salience of the issue.

[6] I use this term along with *international financial architecture* and *international organization of credit* [87] indistinctly. The term *rules-based* system is used within it normative concept: the preference of market solutions and support for the current system.

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

[8] Salience is assumed a prerequisite to break with policy inertia, as without political pressure there is little incentive to act and to risk any additional costs. 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.

Figure 1.3: NCS 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.

The bottom along its Y axis – low salience – depicts a latent dimension of international politics, typified by compliance. Though some form of agency may occur when an issue is relatively unimportant, such processes are less scrutable. By their very nature, low-salience issues are not often discussed and making 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 it merits a leader's attention and discourse, thus making it possible to infer her perception on it by analyzing her speech patterns.[9] 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. Conversely, were she to hold the opposite view of financial markets, then the expectation is that she would act in *good faith* towards the established norms.

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: 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.[10] 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

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

[10]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.

complex, thus broadly defined in this thesis as spectra. Furthermore, the NCS framework 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 Consilience

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 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" [46, 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 Computational Text Analysis (CTA) methods [98, 123, 138] 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 in 2002, and Ecuador in 2008 – occurred at times that were economically favorable based on markedly higher export ratios and lower debt ratios than in their recent past.[11] 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 exceptional 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 dis-

[11] 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.

seminate 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 left-wing college professor.

Both Correa and Fox talked extensively about international finance though in different 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.[12] 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*.

[12]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.

1.3 Thesis Structure

The thesis is organized into eight chapters. Chapter 2 introduces the basic elements of Computational Text Analysis and its growing use in IPE. Furthermore, it outlines the two *narratives* on the international political-economy and their Latin American specificities. It explores 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 explores 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 its countries over time. In addition, it considers the political factors that have been associated with favorable macroeconomic *contexts*.

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 CTA 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 – terms – that are specific to Latin American leaders, namely those that are critical of the US-led international system and use them to develop a prevalence-polarity measure to identify *zero*-sum and *positive*-sum economic narratives and their salience over time.

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 and its promotion of North-South financial rapprochement with the Monterrey Consensus. Chapter 7 analyzes Ecuador's External Debt Auditing Commission during the government of Rafael Correa, along with its strategy of South-South financial cooperation. Both cases are studied with the analytic framework depicted in Figure 1.3 against the counter-factual statement that said actions were taken as a *reaction* to outside pressure rather than a *proactive* stance by their respective governments.

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. However, as is shown throughout this thesis, notions of what is fair vary greatly. Fairness as proportionality often clashes with fairness as equality. As they become more compelling, these – often opposing – impulses draw two different pictures of how the world *should* be. The key word is should. After all, narratives of finance are narratives of morality.

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". 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) [211] 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" [211, 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 computer science, particularly in the field of natural language processing. Shiller 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" [211, p. 103].[2]

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, *narrative* IPE seeks to measure speech patterns regarding the international economic system in broad terms.

[1]Shiller [211, 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.

In this Chapter, I argue that there are two opposing narratives of international finance, one which sees the existing *rules-based* system as overall fair – indeed as based on rules –, and another one which deems it extractive and oppressive in nature, emphasizing its hierarchies. Subsequently,I explore how these opposing narratives have evolved 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 (1986) [91] remarks *policies require politics*; in turn, politics requires organization. Whether organized behavior is emergent or designed, it needs some form communication among its elements: a common language. Computational Text Analysis (CTA) draws on recent advances in Natural Language Processing to allow researchers to measure word patterns in collections of machine-readable texts, or *corpora*. The ever increasing availability of text-as-data has 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) [98] 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" [239, 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.[6] 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.[7]

2.1.1 Narrative Elements: ***Keywords*** and ***Bigrams***

In *Narrative Economics*, Shiller (2019) [211] 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

[6]This is discussed at length in Chapter 5 section 5.1.

[7]Section A.0.2 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) [116].

debate sessions made available in machine-readable format by Slava, Baturo & Dasandi (2017) [12]. 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.[8]

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*.[9] 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 articles and prepositions – the *stopwords* –, removing punctuation and numbers, and even stemming words by removing their prefixes and suffixes. After this procedure, the tokenized texts are run through a range of text models[10] and visualized as graphs.

In politics and diplomacy alike, certain words carry profound connotations and symbolic weight. Their presence or absence provide clues about the outlook that a speaker may have on a particular issue. Simple word frequencies allow us glimpse at the items that capture significant attention across not just time but also regions.[11] 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.

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

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

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

[11]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.[12]

Yet, terms that are employed in nearly every speech or in virtually none 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.[13]

A term's simple frequency is not the only metric of its relevance. It is therefore important to combine CTA methods with theoretical knowledge in order to draw meaningful conclusions from the data. A relevant example of this is the concept of *neoliberalism*.[14] *Neoliberalism* in all of its lexical configurations can be found only 53 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 (2015).[15]

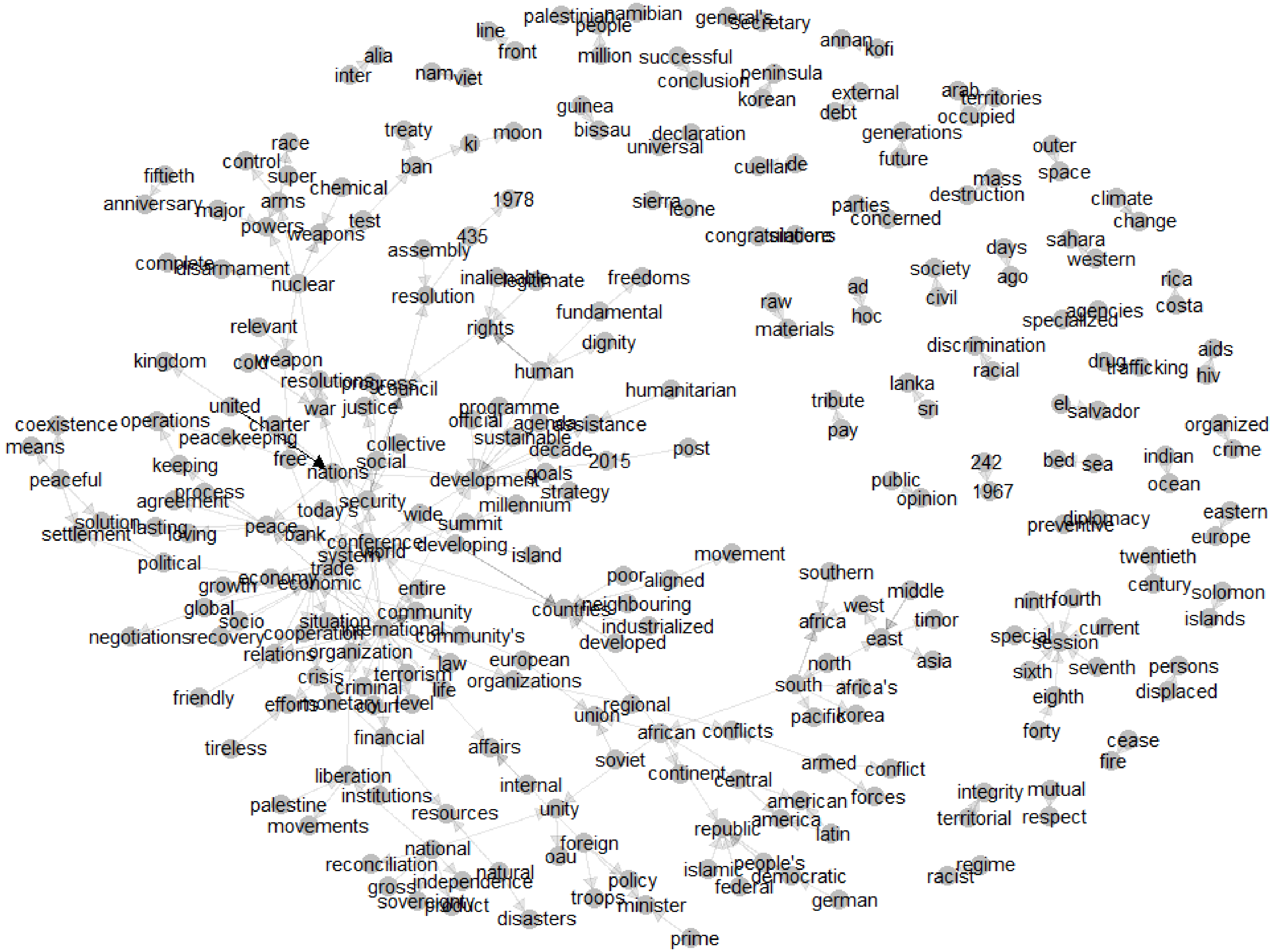
[12]Though most speeches in the corpus have a similar number of words (on average 715) there is some regional variability – see Table A.3 in the appendix.

[13]To circumvent these issues its is common to normalize the tokens. Section A.0.1 in the appendix describes term frequency - inverse document frequency (TF-IDF) normalization.

[14]The highest TF-IDF score for the term *neoliberal*(.02) can be found in Venezuela's 2010 speech. By contrast, the maximum TF-IDF score for all terms throughout the corpus is .23 and the third quartile is .0029. It follows that, when used, *neoliberalism* in all of its variants is quite relevant according to the TF-IDF metric – see section A.0.1.

[15]This was found using the function 'Keyword in Context' in the *Quanteda* package for R [13].

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* [53] & *ggraph* [149].

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.

The ubiquity of *neoliberalism* in academia and beyond notwithstanding, Boas and Gan-Morse (2009) [21] 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* [21][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" [21][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" [21][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*" [21][p. 140] but rather pejoratively associate others with the term.

2.2 Narratives of Finance

As the use of *neoliberalism* 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, the term is used almost exclusively by speakers who have notoriously negative views of the international financial system and readily categorize it as unjust. Though often not explicitly acknowledged, there is a strong normative dimension to stories about the distribution of resources in society. The discretionary 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 a deep 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 a belief in the potential of the exercise of power to counter such trend.

I argue that there are 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 significant overhaul of the system.

Both opposing financial narratives coexist in the political arena, as well as in broader academic debates on the nature of the international financial system. They combine elements of political and economic ideology, but their complex interrelations can be placed on 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 command economy and a completely decentralized self-regulated market.[16]

[16]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" [79]. Is objective was to update the classical liberal prescription of *laissez-faire* 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 certain monopolies. Thus, "citizens would be protected against the state by the existence of a free private market; and against one another" [79].

On the specific dimension of monetary affairs, 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." [107, p. 29] He further lamented that since governments have acquired such power they "without qualifications, have incessantly and everywhere abused their trust to defraud the people" [107][p. 30]. Given such poor track record, why has this prerogative of sovereigns to control money persisted? Hayek argued that this is solely attributed to the *myth* that was necessity. In a famous adage, he asserted that "history is largely inflation engineered by government" [107, 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.

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 [17], Hayek [107, p. 42]

[17] This monetary principle asserts that if there are two forms of commodity money in circulation, the

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 gold 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." [107, 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.

Even in a world of *de-nationalized* money, private banks issuing currency would be subject to 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" [107, 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" [107, 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.[18]

Friedman and Hayek's fear of *expropriation by repudiation* along with the benefits – not

bad money will drive the good out of circulation as the latter will be hoarded by the public.

[18]It is important to note that Friedman [80, 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.

just economic but also political – of international competition and free cross-border capital flows echoed in the *positive*-sum narratives of the global political-economy of the 1990s and early 2000s. In the monetarist narrative [80], 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.[19]

This concern over *expropriation by repudiation* at the domestic level is mirrored in academic debates on the functioning of the market for sovereign debt. 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" [212, p. 85]. The peculiarity 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.[20]

Under this *sticks and carrots* logic, creditor rights are the stick and continued access to markets is the carrot. Some empirical evidence supports this perspective. A study conducted by La Porta et. al. (1997) [143] 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 [29, 212]. The assumption is that there is an

[19] Hayek acknowledges this risk, yet considers that the most harmful effect of inflation of society is "misdirecting the use of resources and drawing labour [sic] and other factors of production (especially the investment of capital) into which uses remain profitable so long as inflation accelerates". [107, p. 82]

[20] 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. [99]

asymmetry of power that favors sovereign debtors, which in turn must be corrected by increasing the rights of creditors.[21]

The effectiveness of the reputational mechanism is itself a controversial issue, 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*." [29, 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." [212, 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. This becomes especially salient during hard times.

The arrangements for managing international debt crises from the point of view of creditors have been widely studied both in IPE and related fields. Provisions for international debt rescheduling have been "aimed directly at overcoming deficiencies in cooperation among creditors" [150, p.220]. 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" [150, 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 have met with stark opposition from creditors. "[Paris Club] donors have resisted such demands on the plausible grounds that more elaborate institutionalization would encourage more applications for debt relief, might be con-

[21] This raises important questions on why the market for sovereign debt continues to exist [182]; 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?" [192, p. 52].

trolled by debtors, and could shift the terms of bargaining" [150, p. 221]. This position reflects a tacit understanding that the current bargaining terms are either balanced or slightly favorable to debtors.

The absence of an enforcement mechanism on sovereigns and the prevalent informational asymmetries that plague international debt markets are key elements of the economic narrative that the market functions on a reputation-based logic in which sovereign debt obligations must always be fulfilled in full to secure access to funds in the future. Conventional macroeconomic wisdom indicates that without such a mechanism, then sovereign credit – especially North-South – would be too risky as it is not cost-effective for creditors to collect [114] given the legal prerogative of the borrower to unilaterally cancel the debt.[22]

At its core, this positive-sum narrative of global finance asserts that everyone is better off as the resources of the world are employed more efficiently and human potential is unleashed. Like prices, interest rates sum up the vast amount of information available to market participants. Wherever market failures arise it is due to inefficiencies in the flow of information. More pernicious are government failures, through mismanagement of its own finances to outright deceit about them. This, paired with sovereignty, leaves global lenders in a vulnerable position and in need to coordinate among themselves to protect their interests. For debtors who subscribe to this narrative, it is thus paramount to signal their willingness to meet their obligations and competency in managing them: to act in *Good Faith*.

[22]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 [134].

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 interests and consolidate an *oligarchy*. This perspective places public authority in a more benign role. Rather than expropriation, the main risk in this narrative is a tendency towards *dispossession by accumulation*, accentuated by the lack of public constraints on wealth accumulation through (mostly) 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." [122, 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 in 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 *structures* 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." [122, 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." [122, p. xii].[23]

According to Hudson (2009) [121], 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 [120]. 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 (positive-sum) 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 for commodities, the leading nations "denied less developed

[23]In Hudson's (2019) [122] 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.

countries the ability to utilize the special advantages resulting from their favorable raw material exports". [121, 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" [121, 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 global 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 the main vehicle for this is understood to be *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.[24]

In the realm of sovereign debt, the level of power which creditors hold over debtors is a

[24] 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." [56, 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.

key element in both Marxist and structural-realist traditions of IPE [106, 185].[25] Soederberg (2005) offers a class-based analysis of North-South financial flows. The positive-sum narrative 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 foreign assets.[26] Soederberg, criticizes this stance on the grounds that it overlooks the asymmetry of power between creditors and debtors, "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" [216, p. 940]. In her framework, the confidence of investors is 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 or positive-sum economic narrative can also be found in other academic disciplines – such as history and anthropology – and similarly point to the asymmetries of power between creditors and debtors. Dyson (2014) [60] explores 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

[25]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 [76]. 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.

[26]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.

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." [61] 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." [61] The problem is therefore not that the flows of information are imperfect, but rather that the very language in which the topic is discussed is rife with implicit hierarchies and *ex profeso* obscusation in order to uphold them.

This line of argumentation is consistent with anthropological approaches to debt relations and their embeddedness in societal conceptions of morality. According to Graeber (2009) [94], 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, the absence of such negotiations thus implies that the participants are far from equal.

Graeber 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 conditional refinancing of external debts thus lend credence to the notion that debtors not in an advantageous potion in relation to creditors, but rather the other way around.[27] This is not to say that that international finance is inherently a zero-sum game, but rather that 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.[28]

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*. 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. Debtors that hold this narrative are thus expected to seek coalitions with like-minded organizations and governments – usually South-South – in order to balance out the power attributed to international lenders.

The zero-sum and positive-sum views paint two 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 by enforcing unpayable obligations lest

[27]Graeber 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 European Central Bank to help manage the 2012 Greek crisis.

[28]Like Hudson, Graeber 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.

public authority becomes involved in the renegotiation of debts and distribution. History offers a wealth of examples of the excesses of both world views. Both economic narratives are widely held as both academic paradigms and popular models of thought; thus they shape preferences and strategies by reducing the universe of possible consequences of economic policies to a digestible and communicable set of options.[29]

Given the current structure of the international financial architecture, defenders of the *status quo* assume a global political-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 prevalent normative framework 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 hard contract enforcement insofar as they preserve individual freedom legitimize the use of power; though to a narrowly defined scope. In the zero-sum view, the legitimizing element of power is redistribution and renegotiation backed by public authority as a way of curbing a natural tendency towards inequality and preserving social stability. In the former, overreach is the peril; for the latter it is capture. Yet, for both *fairness* is quintessential, though the means to achieve it are quite different.

[29]Both narratives are false when held up to the standard of the *correspondence* take on truth, yet useful as ways of organizing human activity due to their inherent *coherence*.

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 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.

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 proscribed. There are, nevertheless, clear hierarchies within and exceptions to this anarchic state. Like in the case of finance, narratives about the global 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 Dependency and Interdependence

The Dependency School of thought is the first distinctly Latin American economic school of thought.[30] Its proponents assert that underdevelopment and development are two sides of the same coin, and that the international division of labor is a self-reinforcing dynamic

[30]Its tenets were heavily influenced by the economic nationalism of Friedrich List (1909) [151], 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.

that produces a wealthy *core* and an impoverished *periphery*.[31] Along with colleagues from the Economic Commission for Latin America (CEPAL for its acronym in Spanish), Prebisch (1986) [189] asserted that the theories of modernization and development 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.[32]

The spread of Communism in the later half of the 20th century fueled discontent against the US-led order throughout Latin America.[33] This inspired socialist regimes with strong anti-US dispositions such as Castro's Cuba and – even after the implosion of the USSR – 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. In order words, it fosters economic *dependency* and with it the geopolitical subordination of Latin America, often in collusion with domestic elites.

By contrast, in *Power and Interdependence*, Keohane and Nye (2011) [135] identify an opposing rhetoric of international politics: that of *interdependence*. In an interdepen-

[31]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 [176]. In a study on cross-border bank flows by Minoiu & Reyes (2013) [166] 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) [177] 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.

[32]These approaches focused on the spatially or temporally determined attributes of the nodes of the system (countries); that is, in terms of similarities and dissimilarities rather than on strictly structural layouts themselves [16, 58, 243].

[33]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.

dent 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. [135, p. 6-7]

Keohane and Nye (2011) claim that "it would be a mistake to envisage contemporary networks of globalism simply in terms of a hub and spokes of an American empire that creates dependency for smaller countries" [135, p. 253] The authors identify three main problems with the *hubs and spokes metaphor*[34] 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" [135, 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.[35]

[34] 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.

[35] The UNGA corpus contains 3,426 mentions of the term *interdependence* in all of its grammatical forms. By contrast, *dependency* is mentioned 871 times.

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.

2.3.2 Transatlantic Divide

In *International Political Economy (IPE): an Intellectual History*, Cohen (2008) [44] identifies the *Really Big Question* of the field: systemic transformation.[36] 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 (1981) [50] has dubbed *problem-solving*, whereas the latter has typically adopted a more 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 [116], with one side attempting a formalization of rational behavior [2] and the other looking to history for structural continuities [87]. The debate on global institutions in IPE has centered around the nature and effects of *international regimes*.[37] This concept has been a

[36] This is an equally important question for students of international organization in the broader sense, as March and Olsen (1998) [160, 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.

[37] Krasner defines international regimes "as principles, norms, rules and decision-making procedures around which actor expectations converge in a given issue-area." [139, p. 185]. According to this definition, principles and norms are the basic defining characteristics of a regime, whereas changes in rules and

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 [184]. 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 [41]. 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." [139, 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 them in a vacuum. Susan Strange (1982) suggests that so-called international regimes are merely epiphenomena of underlying power structures [221]. 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." [44, p. 113][38]

decision-making procedures happen within them. By contrast, Ruggie [202] 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.

[38]Since the concept of *international regime* is charged with assumptions on the nature of international

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 [2,63,76,133]. 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" [192, p. 50] in addition to economic and financial rationale.

There is, however, a strand of literature 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) [148] 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 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

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.*

appropriate action for borrowers and lenders alike and structuring key moments in debt relations today" [148, 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.

2.4 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." [211, 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) [220] argues that there are two main conflicting visions of human nature, which in turn shape our understanding of society.[39] For Sowell, "[t]he effects of visions do not depend upon their being articulated, or even on decision-makers' being aware of them" [220, p. 13]. 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" [220, p. 13]. Like the narratives outlined in this chapter, Sowell's visions appear as mutually exclusive

[39] 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.*

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 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." [172, 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" [172, 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 [211] 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. In Chapter 1, I argued that – given the set of conditions identified in section 1.2 – narratives on the international political-economy influence the choice of strategies that world leaders select 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 analyze how Latin American countries have fared in the contemporary monetary and financial architecture in order to assess the factors that determine the favorability of their relative and absolute contexts.

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 dimension, 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

[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.

rare, 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 often take a harsh and unproductive tone.

On the political dimension, 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 challenges. The authors attempt to address this issue by considering key political variables as proxies for strength such as 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 and terms of external credit to governments throughout the region and how their economies and political systems have adapted to sudden changes in the availability of finance.

3.1 The Evolution of the 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 his country [95]. Shortly thereafter, Richard Nixon reacted by closing the gold window permanently. This marked the beginning of the contemporary international monetary system, the transition from commodity-backed

[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.

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 (mostly) floating, market-driven exchange rates.

These changes were not, however, circumscribed to the economic sphere. Pompidou's decision 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" [64]. The notion that Washington was abusing the system that it had put in place years before was a key 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." [175]. On both sides of the debate, the opposing financial narratives were deeply intertwined with notions 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, an overnight 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 [219].[3] Global *de facto* South-to-North financial wealth transfers and perceived unilateralism prompted questions on weather the centrality of the US currency was used as an instrument of domination or the provision of a global public good.

As discussed in Chapter 2, the existing hierarchies of the international financial architecture have inspired 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 two other factors. The strategic setting or *context* in which a government operates has great bearing on its 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 debates. One of the most exemplary cases of this was the 1997 East Asian financial crisis, when 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

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

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 among them [147].

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 [65] 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 foreign currency 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.

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

[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 [25].

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 to 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 debt (PPG).

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 further increased its market share. 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, 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 beginning in the mid 1990s, with median USD denominated debt crossing 90% by 2013.[8]

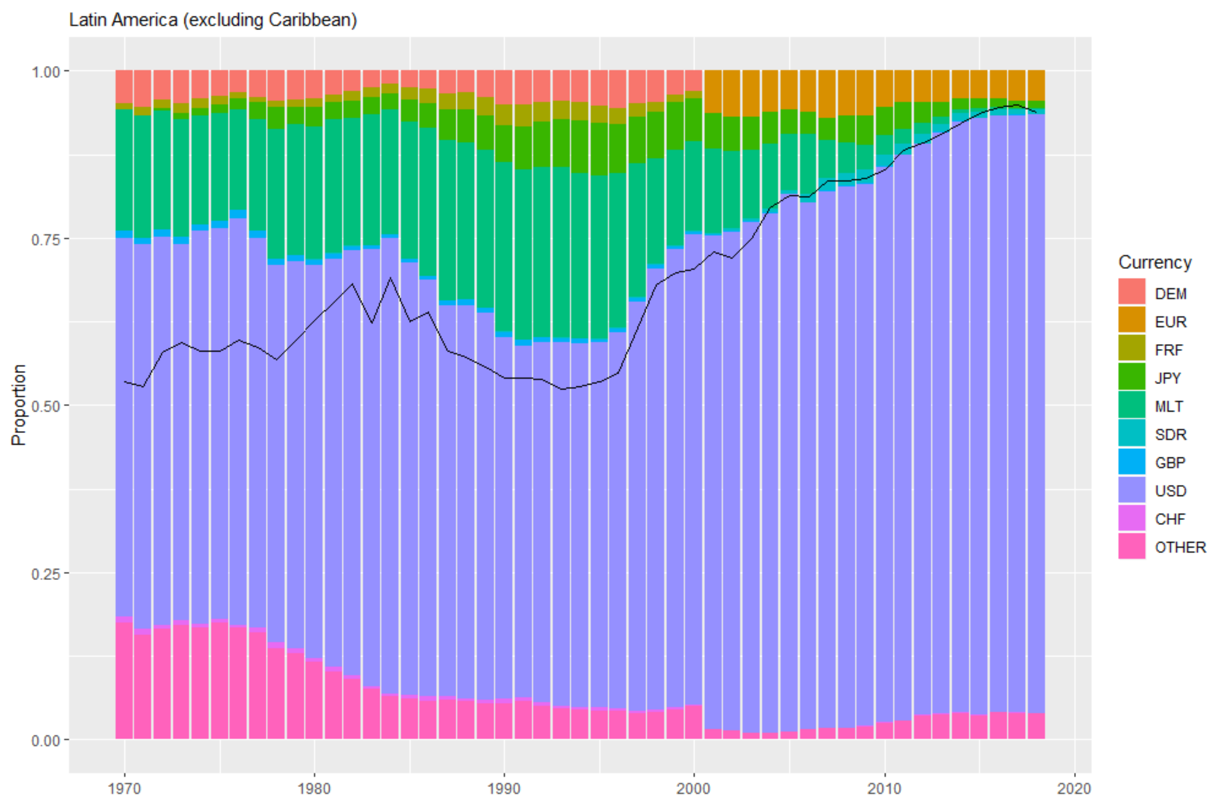
[5]For example, if a commodity-exporting nation contracts a 1 billion USD loan at a variable interest rate starting at LIBOR+1 when the global price for its main export commodity is 500 USD/unit there are several factors which are outside of its control. Assuming the country is small and has its own 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.

[8]As of the second quarter of 2019, 61.63% of Official Foreign Exchange Reserves were claims in US

Figure 3.1: Latin American Debt Currency Composition



Note(s): Excludes full members of CARICOM. Data taken from the World Bank International Debt Statistics [229]. Uruguay and Chile are excluded as they do not report their debt structures to the IDS database as they are considered High Income by the World Bank [228]. 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.

3.1.2 Debt Cycles

In *Manias, Panics and Crashes*, Charles Kindleberger (2000) follows Minsky's *financial fragility hypothesis* [167] to argue that "the cycle of manias and panics results from the pro-cyclical changes in the supply of credit" [137, p. 13]. Terms of credit loosen during *good* times only to harden once more *hard* times.

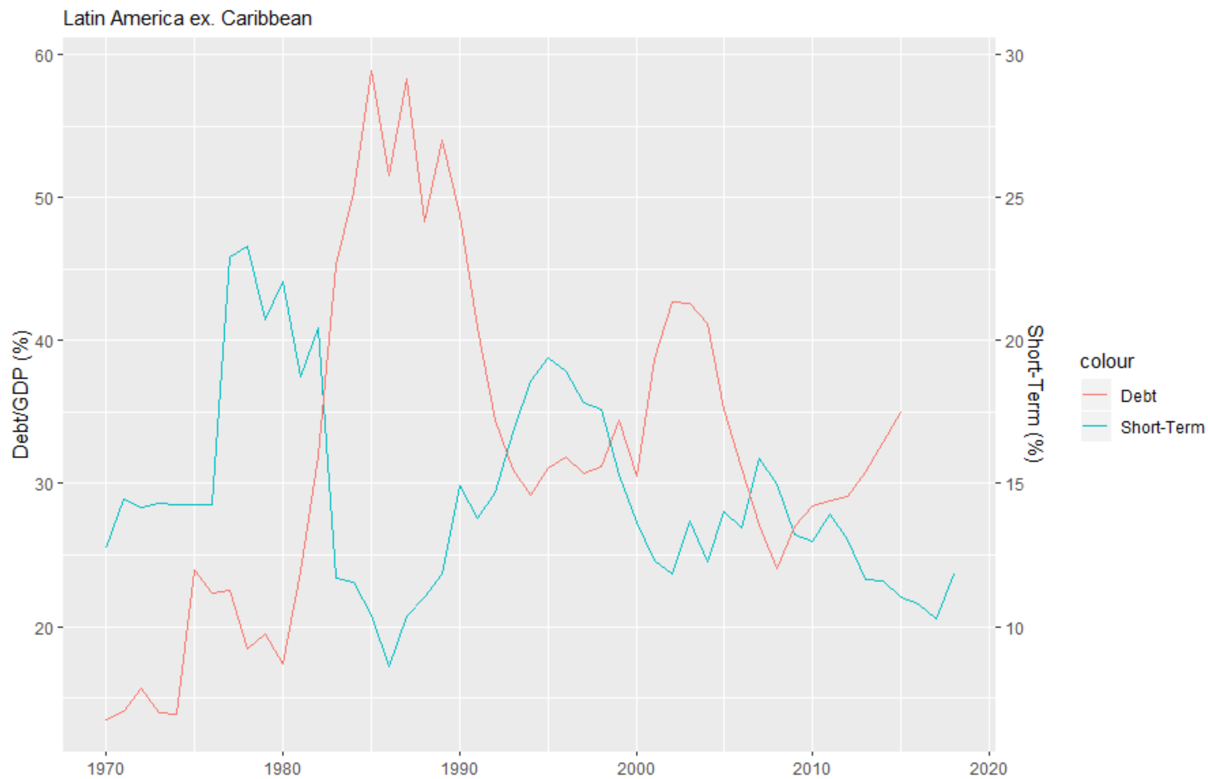
> The economic situation in a country after several years of bubble-like behavior resembles that of a young person on a bicycle; the rider needs to maintain the forward momentum or the bike becomes unstable. During the mania, asset prices will decline immediately after they stop increasing – there is 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. [137, p. 13]

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

Throughout the 1980s, the average debt stock for Latin American countries as a percentage of Gross National Income (GNI) doubled, this in contrast with the relatively modest average growth of developing countries over the same period. New external commitments on public and publicly guaranteed debt (PPG) remained at least one percentage point relative to GNI higher for Latin America than for all other emerging markets from the

Dollars. This compared to the 20.35% share of Euro-denominated claims and the meager 1.97% of Chinese Renminbi. Though the USD proportion has ebbed and flowed since the IMF started collecting the data in 2005, the lion's share of FX reserves has remained in USD [127] The Official Foreign Exchange Reserves (COFER) database distinguishes a monetary authorities' claims on nonresidents denominated the world's top-traded currencies. There are 149 reporters, which include IMF members, non-members and other FX reserve-holding entities.

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.

mid-1970s to the early 1980s [229].

After 1982, when Mexico declared itself unable to service its debts, the International Monetary Fund and the United States stepped in with new loans – this time no longer owed to private foreign creditors – contingent on structural reforms. Among the conditionalities attached to this financial relief was the liberalization of capital markets. From the 1980s onward, the global economy would oscillate almost exclusively between the options of independent monetary policy or fixed-exchange rates the Mundell-Flemming trilemma [219]. The *absolute* financial strength of the emerging world is highly susceptible to the global market trends, in the following section, I outline an indicator to assess their financial terms *relative* to others in their income category.

3.2 Assessing Financial Strength

In this section, I develop an indicator to trace the terms of credit extended to emerging market economies[9] over time and relative 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 PPG debt[10] contracts that a developing country received during a given year. The goal is not to predict defaults – as is the case of creditworthiness scores – but to rank countries on regional and annual basis.

The terms of credit indicator (TCI) is calculated by measuring the composition of new external PPG debt commitments per year over four dimensions. The first one is the average weighted interest rate (percentage) on new PPG debt. The second is the average weighted maturity (in years) on these 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 developing countries compete with each-other for credit access from global financial centers.

One of the main advantages of calculating *relative* terms of credit is that they are

[9]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.

[10]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.

[11]The list includes the following: USD, EUR, CHF, JPY, SDR, GBP, and SDR.

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 financial upheaval when *absolute* credit terms decrease for all.

The data on comes from the World Bank's 2019 International Debt Statistics [229] and covers all Middle-Income Countries (MICs) – by World Bank Classification – from 1970 to 2018. Low-Income countries are excluded from this analysis for two reasons: a) their share of credit is low compared to other emerging markets, and b) there are special programs such as the Highly Indebted Poor Countries Initiative which provide credit to them on more favorable grounds, especially in terms of grant elements on new PPG debt commitments.

The four variables used to construct the TCI 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 (bilateral) or multilateral financial institutions. Only PPG debt is 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 PPG loans are weighted by the amount of each loan in order to construct the country-year average. The average interest rate is calculated from all PPG loans contracted during a year; similar to maturity, it is constructed by weighing the amount of each loan.

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 Middle Income Country (MIC) 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. 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 emerging market creditors) or domestic currency issued external PPG loans.

The four variables[12] are normalized by rank. Reduced the impact of 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 year ranks for each dimension are used construct two separate indicators. A private PTCI, based on the data from PPG loans contracted with private creditors, and an official OTCI which considers debt to multilateral institutions and foreign public institutions. To highlight the relative importance of interest rates and to avoid biases resulting from debt structure preferences (reflected in maturity differences over a wide array of instruments such as bonds versus loans), each dimension is weighed differently. Average interest rates (INR) constitute 50% of the score, maturities (MAT) and currency (CUR) denominations make up 20% each, and the share of total new commitments (COM) is the remaining 10%. Subsequently, an overall TCI is constructed by weighing the private and official TCIs at 50% each.

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 MICs (N_t) observed in a given year. Where:

[12] 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 PPG debt contracted with private and official creditors, where:

$$TCI_{i,t}^{Pr} = \frac{R_{i,t}^{p.int}}{2} + \frac{R_{i,t}^{p.mat}}{5} + \frac{R_{i,t}^{p.cur}}{5} + \frac{R_{i,t}^{p.com}}{10} \tag{3.2}$$

$$TCI_{i,t}^{Of} = \frac{R_{i,t}^{o.int}}{2} + \frac{R_{i,t}^{o.mat}}{5} + \frac{R_{i,t}^{o.cur}}{5} + \frac{R_{i,t}^{o.com}}{10} \tag{3.3}$$

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

$$TCI_{i,t} = \frac{TCI_{i,t}^{Of} + TCI_{i,t}^{Pr}}{2} \tag{3.4}$$

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

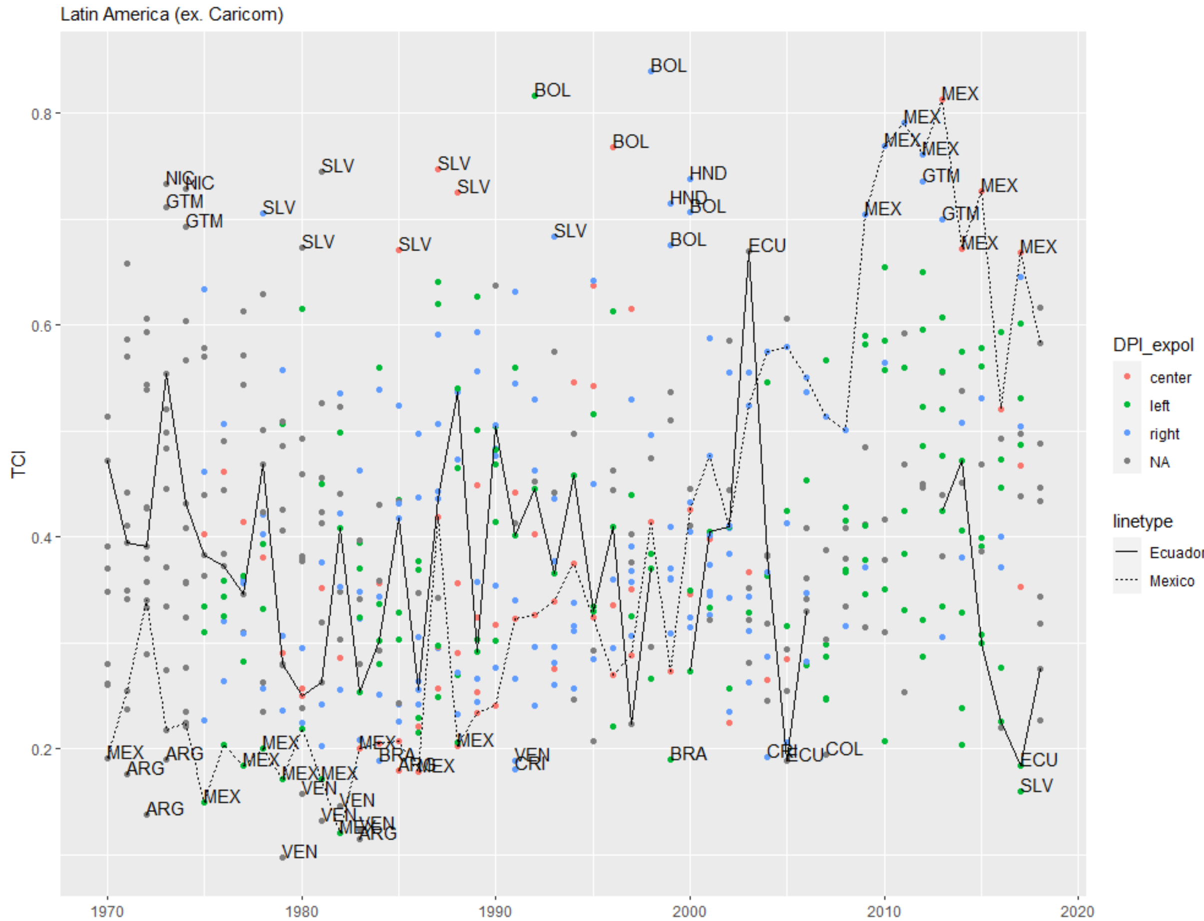
$$com_{i,t}^{r} = \frac{\log(com_{i,t})}{\log \sum_{i=1}^{n} gni_{i,t}} \tag{3.5}$$

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 oscillates between 0 and 1, where all of its components have been weighted by the amount of contracted debt. This provides us with a meaningful indicator to compare the average contract placed on the market by a Middle

Figure 3.3: Terms of Credit Indicator (TCI)

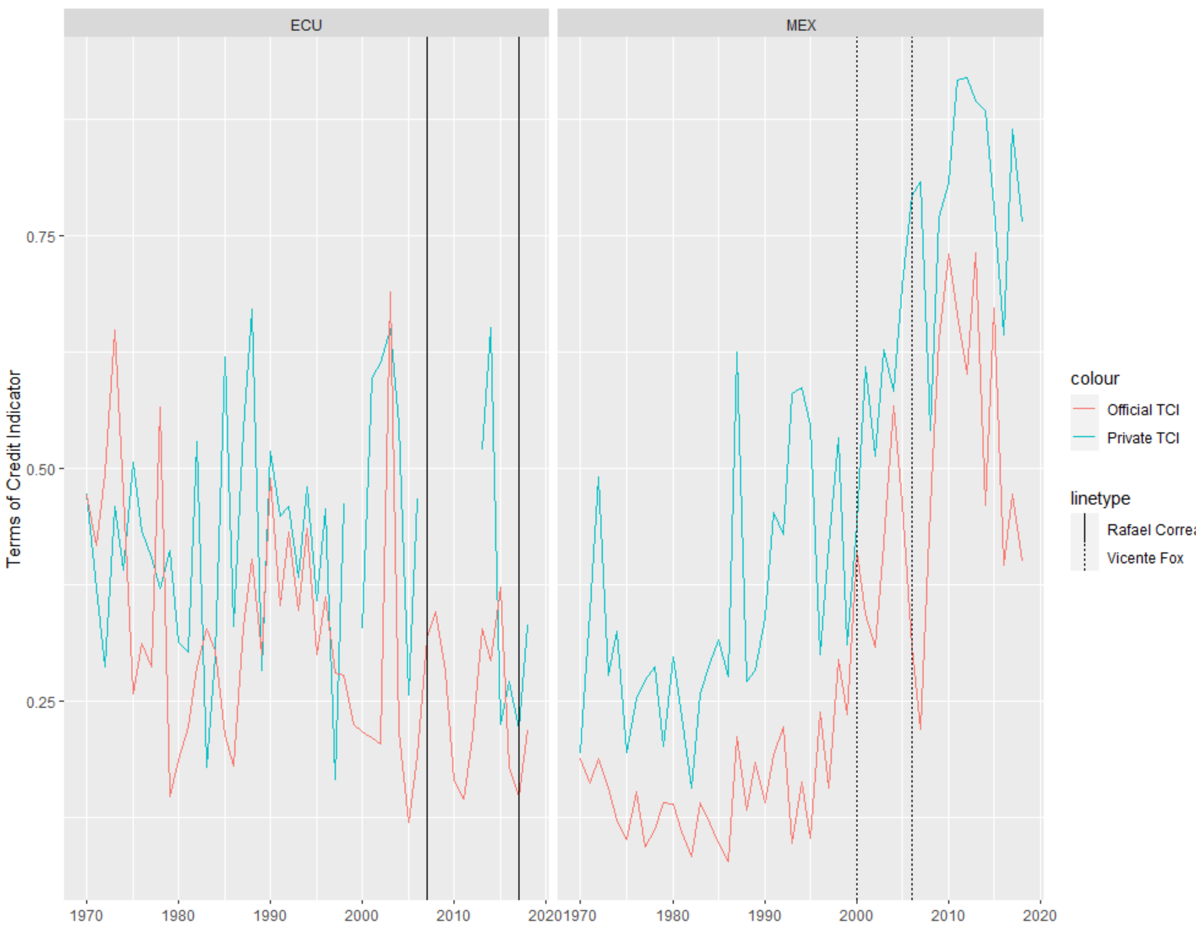


Note: The Y axis represents the overall TCI [0,1], where a score of 1 represents an observation ranked with the lowest average interest rate, longest average maturity, lowest soft-currency debt composition and highest share of total commitments relative to GNI for a given year. Each point represents an observation for a country in Latin America (excluding Caricom), points in the top 95th and bottom 5th percentiles (relative to all MICs) are highlighted. The black lines show the TCI of the two case studies over time. The orientation of chief executive party (point color) is taken from the Database of Political Institutions [52].

Income Country in relation to its peers and relative to its size.

The results of the terms of credit indicator show the expected trends for the cases considered in this thesis. Namely, that Mexico's terms of credit went from being among the lowest for Middle-Income countries to being consistently among the highest after 2000 (see figure 3.3). In the case of Ecuador, it shows market exclusion after the 2008 default in

Figure 3.4: Case Study TCI



Note: The two components of the TCI (official and private) are plotted for the two case studies in the thesis. Breaks in the line represent non available data (or market exclusion). The horizontal lines indicate the periods considered in Chapters 6 and 7.

Table 3.1: Relative and Absolute Financial Positions at Default

Country	Year	Gov. Debt	Debt Dev.	Inflation	Inf. Dev.	PTCI	OTCI
Argentina	1982	50.91	10.08	N/A	N/A	0.36	0.24
	2001	49.43	8.35	N/A	N/A	0.54	0.25
Bolivia	1980	91.97	65.22	47.24	19.49	0.54	0.21
Brazil	1983	47.91	1.16	135.02	60.41	0.30	0.11
Chile	1972	10.06	-11.76	77.79	60.79	N/A	N/A
	1983	45.49	-1.25	27.25	60.41	N/A	N/A
Costa Rica	1981	32.38	-0.17	37.04	8.01	0.23	0.24
	1984	52.33[*]	N/A	31.23	-91.80	0.29	0.30
Ecuador	2000	63.67	23.60	96.09	83.94	0.32	0.21
	2008	20.57	-7.59	8.40	-1.27	0.38	0.34
Guatemala	1986	53.89	-5.24	36.93	-19.71	0.17	0.43
Honduras	1981	43.84	11.28	9.40	-19.61	0.52	0.53
Mexico	1982	31.51	-9.31	58.91	22.54	0.15	0.08
Paraguay	1986	40.32	-18.81	31.74	-24.90	N/A	N/A
	2003	32.18	-21.32	14.23	5.84	N/A	N/A
Panama	1983	86.12[*]	N/A	2.10	-57.90	N/A	N/A
Peru	1978	85.03[*]	N/A	57.848	39.34	0.58	0.26
	1984	71.94[*]	N/A	110.20	-12.82	0.37	0.31
Uruguay	1983	23.08	-23.66	49.19	-11.21	N/A	N/A
Venezuela	1982	18.59	-22.24	N/A	N/A	0.21	0.08

Note(s): Default dates are taken from Reinhart and Rogoff (2009) [192]. Inflation by Consumer Price Index (%) data is taken from The World Bank (2019) [231]. Central Government Debt (% of GDP) is taken from the IMF Debt Statistics (2020) [129];, when not available [*] External Debt Stocks to GNI (%) are reported with data from the International Debt Statistics Database (2019) [229]. Deviation scores are calculated against the yearly mean for Latin American countries excluding CARICOM. Data for Private and Official Terms of Credit Indicators (PTCI and OTCI) come from the International Debt Statistics Database (2019) [229], which exclude High Income Countries in the region (Chile and Uruguay).

the private terms of credit dimension, as well as a dip in official terms of credit thereafter.

3.3 Politics, Defaults and Creditworthiness

Dragoslav Avramovic's "Economic Growth and External Debt" (1964) [8], 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. However, "only few studies [. . .] tried to test the significance of political variables even though such factors are generally acknowledged to be important" [183, p. 7]. There is, however, a pattern in the choice political variables that affect sovereign defaults, one which includes 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." [132, p. 5] The variables selected by these studies have however, been limited to good-governance indicators.[13]

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

Rother *et. al.* (2007) [200] find that government effectiveness is a significant factor in determining the creditworthiness of a sovereign. Similarly, both Jaramillo (2010) [132] and Peter (2002) [183] find that the *International Country Risk Index* is significant both for ratings and defaults respectively. Finally, Rowland and Torres (2004) [201] 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" [194, 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" [183, 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) [62] and Sachs and Cohen (1982) [204]. These models proposed a strategic game in which debtors and private lenders (commercial banks 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[14] 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 [43] find that “political instability tends to be an extremely important component of the probability of default, even when a very crude measure is employed.” [43, 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” [43, 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.” [194, 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.

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[15] and brings forth assumptions

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

[15]Eric Helleiner [108, 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

about the appropriate relationship between the State, the Market and Society.

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" [87, 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" [211, p. 107].

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

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."

[16]These are "[n]arratives that occur together [...] in terms of some basic idea". [211, p. 92] In this case the idea is the role that public authority *should* play in society.

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 *Debt: the first 5,000 years*, David Graeber (2011) asserts that "if one looks at the history of debt, then, what one discovers first of all is profound moral confusion" [94, p. 8]. Such *confusion* comes from the extensive anthropological evidence compiled by Graeber which suggests that humans "hold simultaneously that (1) paying back money one has borrowed is a simple matter of morality, and (2) anyone in the habit of lending money is evil" [94, p. 8]. There is a strong connection between finance and notions of morality. This is evident in the language of finance itself. Concepts like *moral hazard* are indicative of the overarching concern over *fairness* that accompanies seemingly technical debates about matters of debt.

Drawing on the field of Moral Psychology, Johnathan Haidt (2012) finds that there are two dimensions of fairness: one concerned with equality and another with proportionality. The former "triggers an urge to band together to resist or overthrow bullies and tyrants." The latter stems from "a deep intuitive concern for the law of karma – they want to see cheaters punished and good citizens rewarded in proportion to their deeds" [103, p. 215]. The relative weight of these moral impulses shape political ideologies but can be found –

in different forms – on both sides of the aisle. Furthermore, elements of these two views of fairness can be found in policies and proposals on how to best share the burden of good debts gone bad.

4.1 The International Salience of Finance

Often, financial crises are taken as an opportunity for reform by opposing political groups. This has occurred at both the national and international level. On a spectrum, those that believe in 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.

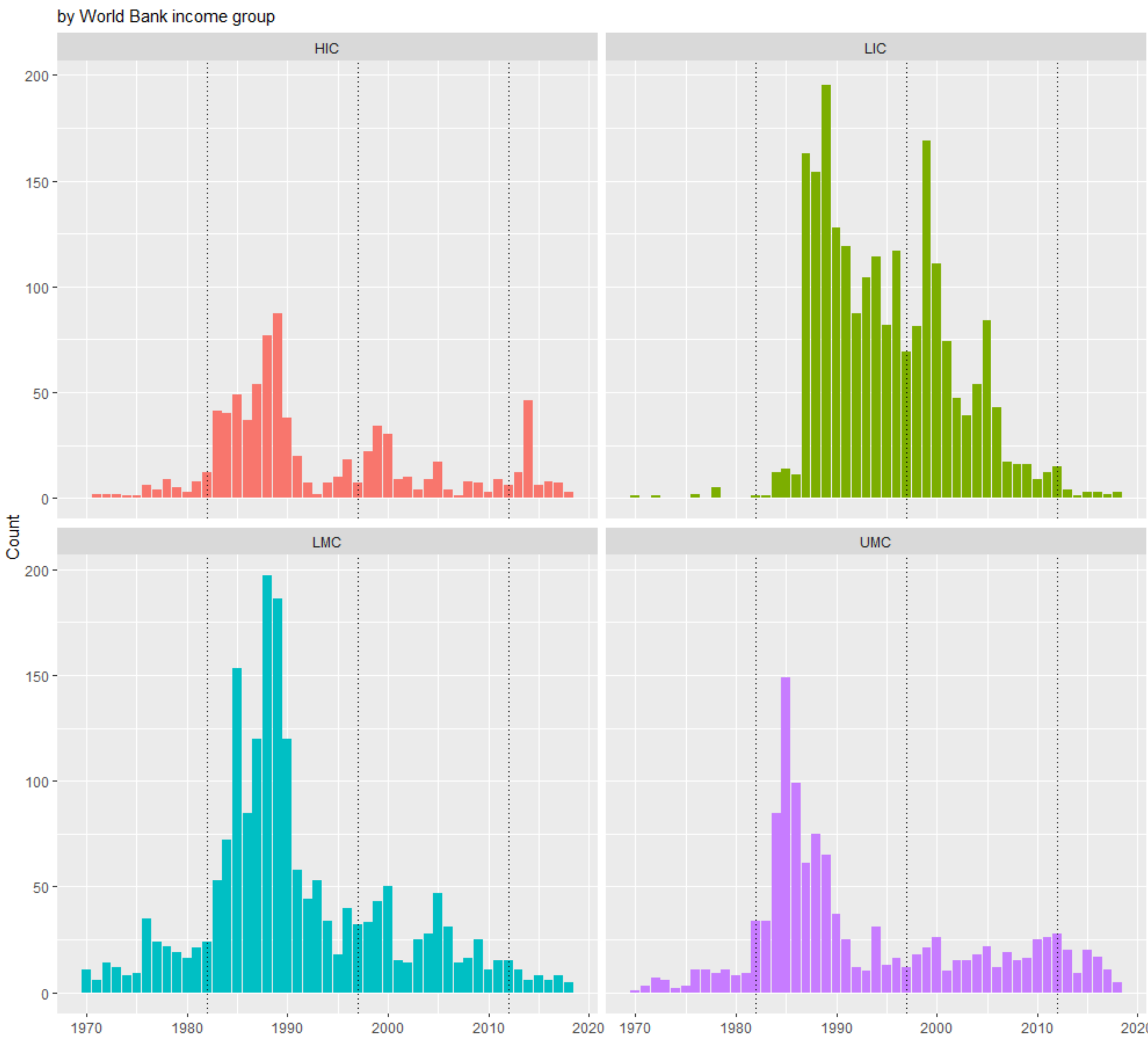
Though there are several shades of grey within this spectrum, political coalitions on one side or the other have vied for control over public institutions to remake them along their preferred lines and ideological presuppositions. The rise and fall of the Glass-Steagall act in the United States, the change in policy prescriptions 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 [93]. Debates on financial matters are never apolitical and seldom solely over technical concerns. Sovereign debt is a particularly salient issue in politics precisely because public debates over it brush on the broader, and more diffuse, concept of *sovereignty* itself.

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.[1] 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. 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 sovereign debt crisis [115]. It is a topic of hard times.

As proposed in the NCS analytic framework outlined in section 1.2.1, when the salience of an issue is low, its politics enter a latent dimension. Uncertainty is low, and roles, rules and principles are relatively fixed. As its visibility increases – in the case of finance often after hard times –, political discussions become less technical and more appealing to an observant public. Changes in the prominence of debt in the international agenda have been accompanied by debates over how to best resolve the crises that have 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 standing. Just as recurring as crises are the negotiations to deal with their fallout.

[1] Income Groups are classified according to the categories set by the World Bank [228]. As of 2020, Low Income countries (LIC) are those with a GDP per capita of 1,025 USD or less, Lower Middle Income counties (LMC) are those with a GDP per capita between 1,026 and 3,995, for Upper Middle Income countries (UMC), the range is 3,996 to 12,375 and for High Income (HIC) it is 12,376 USD and above.

Figure 4.1: *Debt* in UNGA speeches



Note: This was calculated from the United Nations General Debate Corpus [12]. 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. Region and Income Group codes are detailed in table A.1 in the appendix.

4.1.1 The Good Neighbor Policy

In 1944, the set of international financial institutions of the international framework dubbed the *Liberal World Order* by Ruggie (1982) [202] was agreed upon by the United States and its allies.[2] 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 [109]. Nevertheless, their functions and policy outlooks have changed with the passing decades and its challenges [93].

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 (mostly) fixed exchange rates to one of free capital flows and (mostly) floating exchange rates [26]. 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 within 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 times denouncing them but to little effect on their design.

According to Raymond Mikesell (1994) "there were few instances in which countries other than the United States and United Kingdom were able to influence the final outcome." [164, p. 2] 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

[2]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.

American plan designed largely by Harry Dexter White and a British alternative advanced by John Maynard Keynes.[3] 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) [113] 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 during an atypical historical period for the Americas, when both Washington and its southern peers viewed State intervention in the economy with favorable eyes. As Helleiner (2014) puts it: "[f]or many New Dealers, the sense of solidarity with Latin America was reinforced by their antipathy towards the New York financial community" [113, p. 33]. Though short-lived,[4] this sense of pan-American solidarity under the Roosevelt administration was strengthen throughout the course of WWII, as the threat of fascism aligned both geopolitical interests and ideological leanings.

The zeitgeist of the New Deal was as present in the initiatives taken by the Roosevelt administration to financially engage with Latin America. White was his administration's key figure in this endeavor. The agreements reached during this period (1936-8) included 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

[3] White became the First American President of the IMF and earlier head of the Division of Monetary Research in Henry Morgenthau's US Department of the Treasury [240]. His plan ended up succeeding over Keynes' proposal of creating an international system centered around a unit called *Bancor* rather than the US dollar.

[4] 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 Cordell Hull and Henry Morgenthau.

regional financial architecture promoted free trade, but allowed for greater State planning and capital controls. The influence of the US-Latin America financial relationships at Bretton Woods was symbolically acknowledged as Eduardo Suarez – Mexico's Treasury Secretary – was named the chair of one of the conference's three panels.[5]

Yet, 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*, 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 late 1970s.

4.1.2 The Washington Consensus

In *The Code of Capital* Katharina Pistor (2019) [188] argues that the financial system is a legal construct; capital "is coded in law" [186, 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 were adopted throughout both the developed and developing worlds. These changes consolidated after the collapse of the Soviet Union and the emergence of a truly *global* political-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

[5]The others were chaired by White and Keynes.

turn would increase the pie to the benefit of all." [188, p. 1][6] The notion that *the rising tide would lift all boats*, became common economic sense throughout the world and remained so until the 2008 global financial crisis [9, 218].

Following a period of strict capital controls in place between the 1950s up until the 1970s, a wave of financial deregulation began during the 1980s. The set of policies associated with the term *Washington consensus*, included the privatization of inefficient public assets, deregulation of economic activity and the liberation of capital controls. The gradual adoption of these new policies throughout the world enabled the consolidation of a global market places not only for goods and services, but also for financial instruments. Arguments in favor of this policy highlighted their potential for global risk sharing. This would allow economics going through hardship, such as an environmental disaster or a temporary economic downturn, to access global capital markets to better cope with their situation.

There was also a political positive element associated with a *global* capital market: "to discipline policymakers who might be tempted to exploit a captive domestic capital market" [178, p. 10]. Speculative outflows of capital would thus steer governments into shying away from excessive borrowing or generally unsound policies. This is in line with the over-arching positive-sum narrative concern over government abuse and expropriation in general – see section 2.2. Yet what was seen as risk-sharing system that protected property rights by one narrative was seen as a system for perpetuating global economic hierarchies through *structural* power by the other [217].

[6] Pistor (2013) [186] 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. Furthermore, she finds that the law becomes more flexible as it approaches the apex of the system. Thus "the choice of governance regimes for finance is driven more by ideology than compatibility with underlying institutional developments" [186, p. 295]. According to this *legal theory of finance*, the structure of international finance is a core-periphery one. Thus, "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." [187, p. 300]. 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 2.3).

This change in global economic paradigm also changed political and ideological fault lines. In contrast to the North-South engagement of the late 1930s and early 40s; the 1980s and 90s witnessed increasing hostility from the Latin American left towards the financial architecture. In turn, right-wing parties throughout the region sought to increase their financial and political links with Washington. Though the basic elements of both the zero-sum and variable-sum financial narratives in Latin America have remained relatively constant through time, their salience ebbs and flows. The salience of the international financial architecture increases during *hard times* and decreases during *good times*. Furthermore, as the nature of cross-border financial 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.

4.2 Moral Hazards

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 international 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 emphasis on 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. In the economic dimension, 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 on investments. Politically, the importance of South-South cooperation is considerably lower than are strong bilateral ties with the global North, in the case of Latin America this has typically translated in greater bilateral cooperation with the United States.

This means going beyond simple compliance with the rules of the game – a behavior expected when the salience of an issue is low regardless of the narrative stance –, rather going further to advance the policy objectives of the dominant governance structure, even at the risk of a modest cost to itself. In the case of sovereign debt restructuring, this would translate into an emerging market player taking the risk of experimenting with contractual innovation, closely cooperating with the institutional frameworks that constitute the international financial order.[7]

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 developing 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;

[7]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.

studying atypical cases can help us better understand the role that ideas play in sustaining international regimes, and potentially in transforming them.

These two narratives advance different accounts of what constitutes a *moral* hazard in the global political-economy. As mentioned above, narratives of finance are closely related to notions of morality. They are narratives of fairness, though understood through two different lenses. The first (zero-sum) focuses on *equality*, and sees its hazard as the potential of creditors to bend debtors to their will, particularly so during times when the latter most require access to credit. The second (positive-sum) focuses on *proportionality*, and sees moral hazard as the creation of incentives to cheat in the future. Both views have concerns about fairness deeply embedded into their assumptions about the world and their strategic menu of options on how to interact with it. Nevertheless, their notions of fairness are distinct, thus suggesting either good faith towards a system that balances creditor and debtor rights by protecting the former, or one of defiance against a system that perpetuates imbalance.

During the debt crises of the 1980s, when a small number of creditors held a large percentage of emerging market 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 respective 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. 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 time can have detrimental effects over the long run as spill-overs in debtor countries can hinder their ability to repay their loans.

4.2.1 The Sovereign Debt Restructuring Mechanism

On November 26, 2001, IMF Deputy Managing Director Anne Krueger 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." [142, 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.[8]

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" [101, 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 [209].

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. Those opposed 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

[8]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 [209].

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 [111].

Supporters of a statutory approach to debt resolution 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.[9] 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 any incentive to issue credit.

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 [234].

4.2.2 Collective Action Clauses

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

[9] 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.

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" [168, 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" [42, 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 *holdouts* has received the bulk of the attention in the literature on sovereign debt restructuring, "the debates among market participants are even deeper and broader than much of the literature might suggest" [168, 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 [125, 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.

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

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 [86] 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 [186], they are mostly political symbols that reflect *core-periphery* market bargaining and the hierarchical nature of financial markets.

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 change in the boilerplate structure of 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 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 [85, 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.

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 [124]. 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.

4.3 Enduring *ad-hoc*-ism

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 [238]. Nevertheless, many debtor governments have opted to oppose these measures and tacitly validate the current paradigm of debtor-oriented 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.

Private creditors have been reluctant to alter the *status quo* despite 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 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 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.

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. Furthermore, the key factor addressed in this Chapter has been salience. In Chapter 5 I propose a reproducible metric to trace the relative salience of an issue, as well as its framing, by applying computational text analysis methods to UN General Assembly speeches.

Chapter 5

Financial World Views

> "The greatest enemy of any one of our truths may be the rest of our truths."
>
> William James

In *The Will to Believe*, William James (1912) poses that "*Moral questions* immediately present themselves as questions whose solution cannot wait for sensible proof. A moral question is a question not of what sensibly exists, but of what is good, or would be good if it did exist." For James, the belief in a moral order becomes a self-fulfilling prophecy. For individuals: "[w]hen we stick to it that there is truth [...] we do so with our whole nature, and resolve to stand or fall by the results." For collectives: "[w]herever a desired result is achieved by the co-operation of many independent persons, its existence as a fact is a pure consequence of the precursive faith in one another of those immediately concerned" [131, p. IX]. When the global spotlight shines of the financial system, world leaders – within the constraints of their positions – attempt to proselytize their respective worldviews by either promoting or denouncing the prevailing international organization of credit.

March and Olsen (1998) identify two logics of action in the interpretation of the dynamics of international political orders: one of expected consequences and another of appropriateness. The former *frame* "sees political order as arising from negotiation among rational actors pursuing personal preferences or interests in circumstances in which there may be gains to coordinated action" [160, p. 949]. The latter, by contrast, "see political actors as acting in accordance with rules and practices that are socially constructed, publicly known, anticipated, and accepted" [160, p. 952]. Both are logics of individual action, not mutually exclusive and have subtle and often changing relationships between them. According to March and Olsen: "[w]hen preferences and consequences are precise and identities or their rules are ambiguous, a logic of consequences tends to be more important. When identities and their implications are clear but the implications of preferences or expected consequences are not, a logic of appropriateness tends to be more important" [160, p. 952].[1] In a similar vein, I argue that as salience of the financial system increases – often following hard times –, the speech patterns of world leaders can be better assessed through the lens of the logic of appropriateness. At the UN General Assembly, speakers employ scarce time to express their (dis)satisfaction with the prevailing rules and principles that underpin the global financial architecture.

According to Slava, Baturo & Dasandi (2017) [12] United Nations General Assembly (UNGA) 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. Throughout this chapter I examine how often the inter-

[1] This is one of four major interpretations of the relationship between the two logics, and the one that best fits the case at hand.

national financial architecture has been discussed at the UN General Assembly and with 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).

5.1 UN Speeches: an automated approach

CTA methods consist typically in 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 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, CTA 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

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.

popular examples of this is the Manifesto Project [140]. Its 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, the electoral effectiveness of pledges and ideological polarization have relied on this data.[2]

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) [97, 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

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

of issues in order to make meaningful inferences from this windfall of information.

One of the most popular forms of applied computational text analysis in Social Sciences 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) [244] use sentiment analysis on a large-N dataset of news wires regarding the recent Ukraine crisis to identify news bias in the Russian state-owned news agency ITAR-TASS.

General sentiment analyses are based on dictionaries of terms associated with a specific feeling (anger, joy, disgust) or polarity (negative, positive).[3] 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*.[4] Furthermore, there are disparities in the length of the UNGA speeches, thus biasing raw sentiments scores.

To correct for these issues, I create a weighted sentiment measure following [59], relying on three dictionaries available with the *TidyText* R package [213].[5] The polarity of terms for each dictionary is transformed into 1 if positive and -1 if negative, neutral or ambiguous classifications are dropped. ψ_d represents the sum of all scores divided by the total number of words[6] for document d in year t. Since positive words are given the value 1 and negative words -1, ψ_d is calculated as follows:

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

[3]Despite their popularity, pre-made dictionaries are created for use in specific fields of study such as finance [152], politics [248] and social-media analysis [104, 105]. There is to date no dictionary developed specifically for International Relations.

[4]For example, the Bing (2008) [55] dictionary assumes that *debt* is a negative term.

[5]These are collected from Loughran and McDonald (2011) [152], Bing *et. al.* (2008) [55] and Hansen *et. al.* (2011) [104].

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

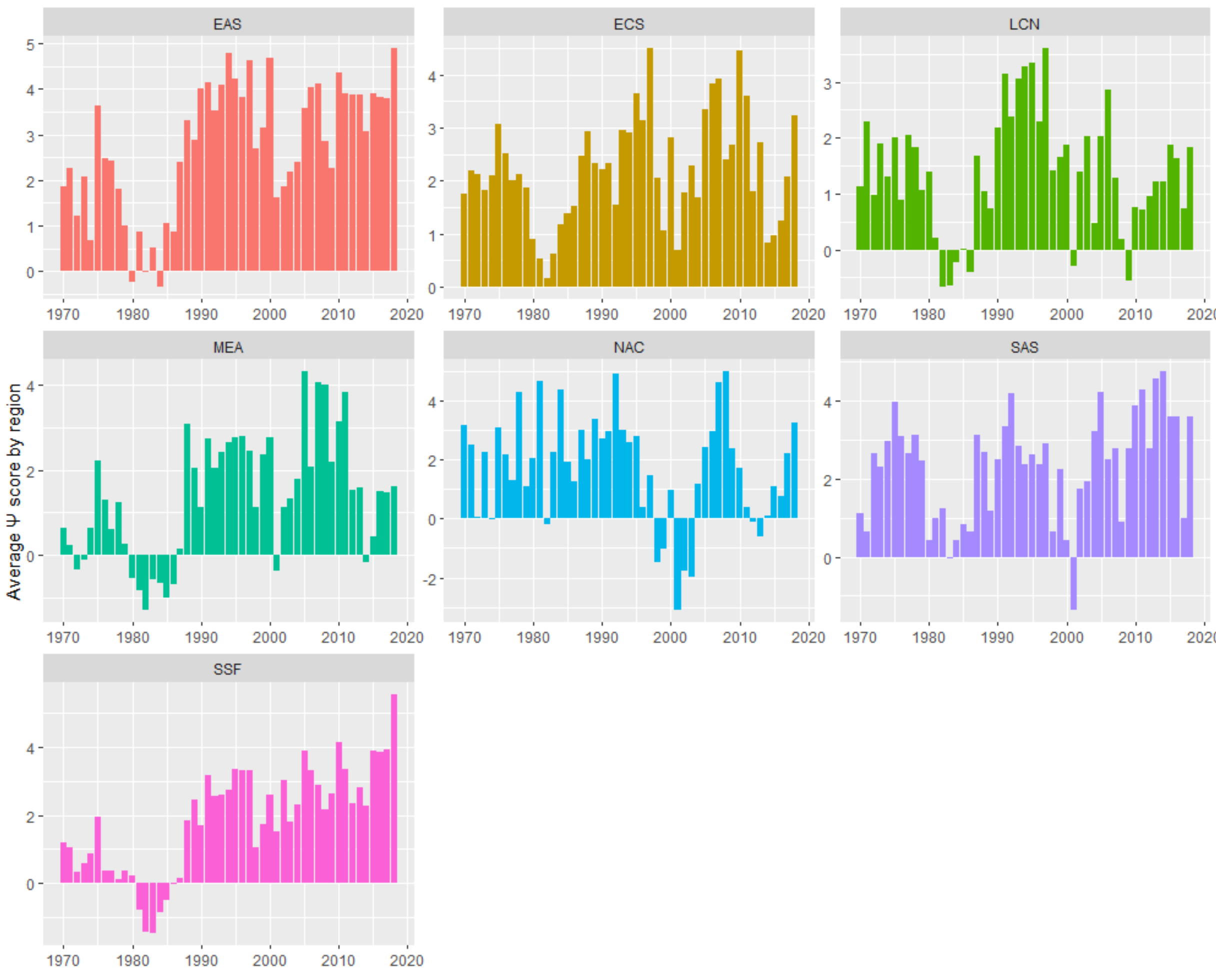
In the aftermath of the September 11, 2001 terrorist attacks on the United States, the tone of US policy makers shifted as they prepared for the war on *terror*. Figure 5.1 shows how the tone of speeches changes through time. Notably, UNGA speakers tend to utilize more positive terms overall.[7] This 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 (2008) dictionary.

Another 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. During this era of generalized economic crisis for the Global South, sentiment scored overall dropped visibly. 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.

A targeted dictionary analysis can help reduce the vagueness of more general approaches like the ones described above. 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 section are the World Bank, the International Monetary Fund, regional Policy Banks (i.e the Inter-American Development Bank) and *ad hoc* multilateral initiatives that deal with debt restructuring issues and financial standards (i.e. the Paris Club and

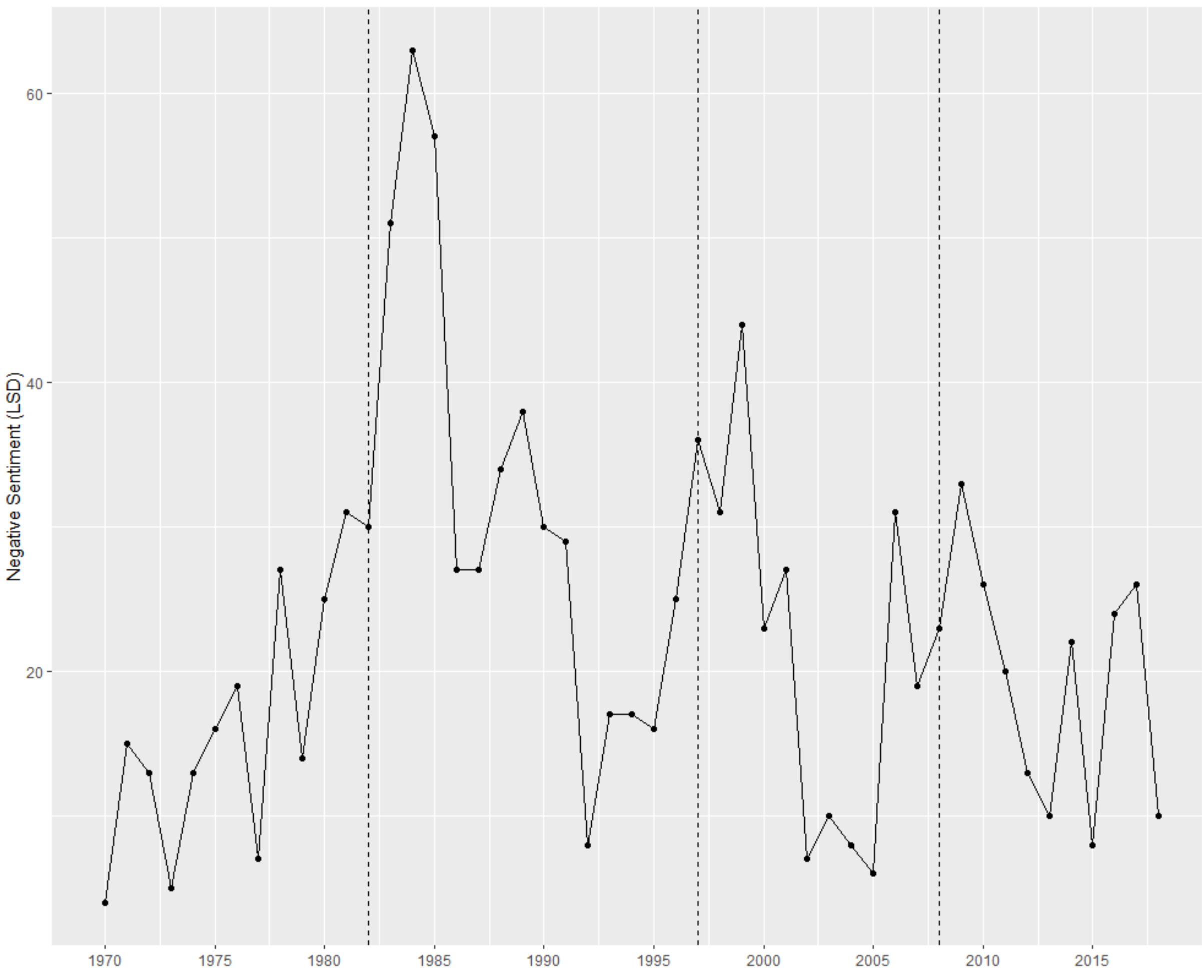
[7]Figure A.5, in the appendix, shows the top 20 positive and negative terms found across the entire corpus.

Figure 5.1: Average Sentiment by Region (Year)



Note(s): This was done using the R package TidyText [213], removing all *stopwords*, which consists of a pre-complied list of the most common words in the English language (i.e. prepositions) and attaching the positive-negative scores available in the built-in dictionaries. The figure displays the average ψ_t scores per region per year. Region and Income Group codes are detailed in table A.1 in the appendix.

Figure 5.2: Negative Sentiment towards the International Financial System



Note(s): This was done using the R package Quanteda [13], removing all *stopwords*, using the in LSD dictionary available with the package. Negative words in a window of 10 words before and after mentions of international financial institutions are considered.

the G20).[8] 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 [205] – and the US Federal Reserve (FED) are included in the dictionary.[9]

As expected, the 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 [13], which counts negative and positive words[10] in an n-length window[11] of pre-defined keywords, in this case international financial institutions. Figure 5.2 indicates only the total sum of negative terms that surround mentions of one of the international financial institutions throughout the corpus. There was however, also an increase in overall mentions of these institutions. This is expected as the financial system turns more salient during times of crisis leading to more mentions overall.

Though a more accurate portrayal of the tone of speakers regarding the international financial architecture, this general sentiment analysis metrics such as Lexicoder Sentiment Dictionary (LSD) scores or ψ_d 5.1 do not directly distinguish between the economic narratives advanced by UNGA speakers. Terms like *debt* and *crisis* are amply used during hard

[8]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).

[9]Institutions that are precursors to a latter one, or subsidiaries of another are coded the same. 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.

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

[11]For figure 5.2 n =10.

times by both supporters and detractors of the current, more market-based, system. To compensate, I rely on a dictionary of terms associated with the zero-sum narrative outlined in Chapter 2. Like *neoliberalism*, some terms are used as pejorative ways to describe – or rather *denounce* – the global financial architecture by highlighting its asymmetries. The terms in question are: neoliberalism, dependency, hegemony, technocracy, imperialism[12], casino[13], speculative and periphery in all their grammatical forms.

Given the generally positive tone of UNGA speeches, documents that contain at least two instances any of these terms are classified as zero-sum, and positive-sum otherwise. This classification is a binary score υ which equals -1 if any two instances of the terms mentioned above are present and 1 otherwise. The assumption is that, given the generally positive tone of diplomatic speech, speakers can be assumed to promote a positive-sum world view (of finance in this case) unless evidence of the contrary is explicitly found. Since it is a score based on a dictionary of terms associated with *economic* narratives, it requires the identification of speeches where this issue is most salient to be a robust indicator given the heterogeneity of items on the international agenda.

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) [233] 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 the Latent Dirichlet Allocation (LDA) model developed by Blei *et al.* (2003)

[12] This term is ignored if preceded or followed by the term *Soviet*.

[13] With the exception of Macau, the word is only used in combination with the term *capitalism* or *economy*.

[18]. This unsupervised machine learning algorithm is used to calculate a probabilistic distribution of *topics* for the documents in a corpus, as well as the terms that are likely to have been generated by a given *topic*.

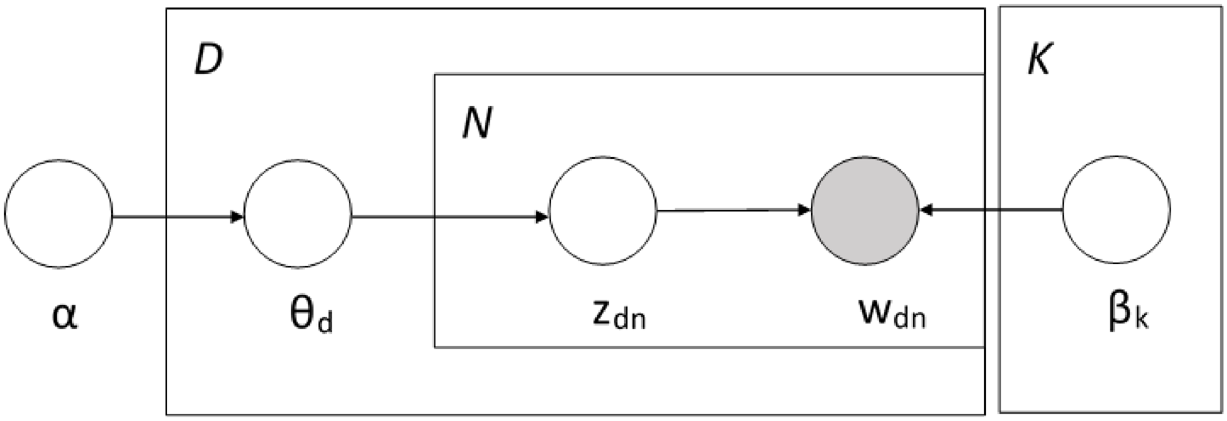
The LDA model makes certain assumptions about how a document inside a corpus is generated and attempts to retrace the process from the finished product. The first assumption about the nature of documents (d) is that they are composed of underlying (latent) topics (Z). In turn, topics are the made of 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. 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 given a pre-defined number of topics (K).

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) are chosen to fill the document from a probability $p(w_n|z_n, \beta)$ conditioned on the topic (z_n). The LDA model calculates the posterior distribution[14] $p(\theta, Z, \beta|w)$ 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 outlined in figure 5.3. The algorithm begins by randomly assigning a topic for

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

Figure 5.3: LDA parameters



Note: This figure is based on the LDA graphical model found in Blei *et al.* (2003) [18, 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}.

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 z_1, whereas document B can be 18% topic z_2 and so forth, this proportion is given by θ_d. In turn, certain words are deemed more likely β_w to have been generated by one of the topics.

There are, however, some limitations inherent to topic modeling in general and the LDA model in particular.[15] The first is that it assumes that the number of topics k is known beforehand as it demands that the researcher input a value of k. Though it is common practice to select an arbitrary number of topics [59,154,180,225], here the optimal value of k is calibrated by using the *ldatunning* R package [173] – see figure A.4 in the appendix.[16]

[15]For a discussion on the merits of semi-supervised topic-modeling see Watanabe and Zhou (2020) [245]. However, such methods require additional discretionary inputs by the researcher. To avoid bias, I rely on an unsupervised method.

[16]There is a trade-off for the increase of the number of topics in the model and their interpretability [39]. Thus, I select k = 50, as there are diminishing returns per each 10 increase in k.

Furthermore, the base-line LDA model does not consider different document covariates which might impact topic prevalence (θ) or their most probable (β) words. To account for this issue, I rely on the *structural topic model* developed by Roberts *et. al.* (2014) [195,196] 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 [37], Political Economy [59], Political Science [136, 153, 154] and International Relations [245].

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.

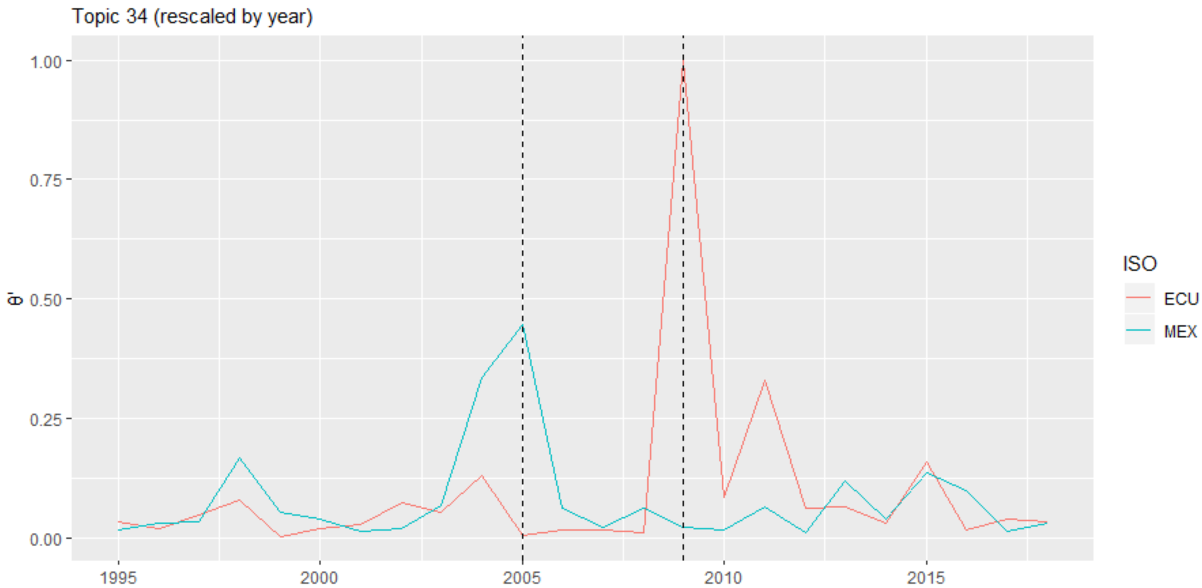
Of the 50 topics calculated by the STM model, Topic 34 was the one most evidently about the international financial architecture. The top 5 bigrams by frequency and exclusivity (FREX) for this topic are: *world-bank, international-financial, monetary-fund, financial-institutions and international-monetary.*[17]

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)[18] estimation available within the STM R package [195]. Figure 5.4 shows changes in the salience of the international financial architecture (Topic 34) for the two case studies

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

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

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.

considered in this thesis.

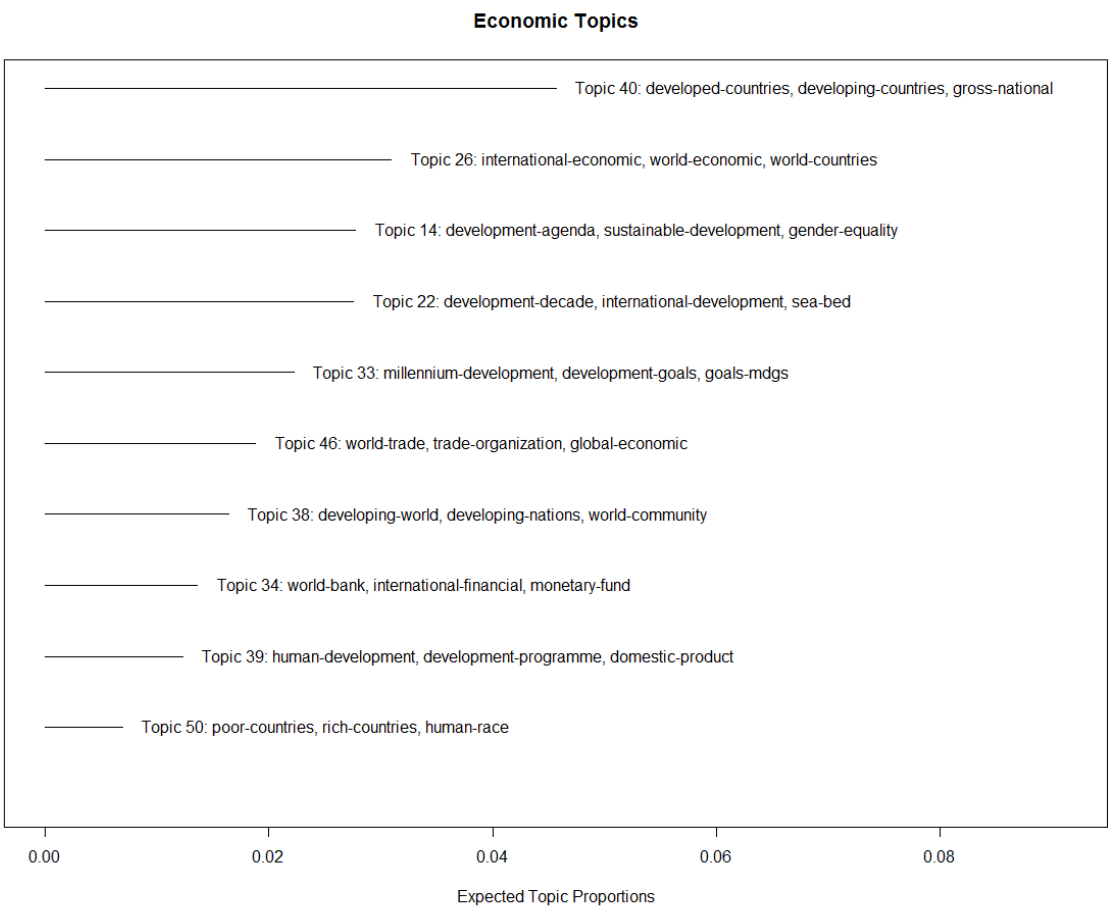
5.1.3 Prevalence-Polarity Measure

Following Larsen (2017) and Dybowski *et. al.* (2018) [59, 145], I construct prevalence-polarity indicator which considers the sentiment of a document $\upsilon_{d,t}$ – based on the zero-sum terms dictionary mentioned in section 5.1.1 – alongside the prevalence of a topic or set of topics. In this case, the sum of all topic-proportions associated with topic 34[19] in a document d is represented by $\theta_d^{econ'}$, shown in equation 5.2.

This year-normalized sum of all economic topics that are likely to appear in proximity to references to the global financial architecture $\theta_d^{econ'}$ is multiplied by the document's sentiment score $\upsilon_{d,t}$. This results in a λ score – equation 5.3 – which is directly proportional

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

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.

to the salience of the selected topics regarding the financial architecture, and whose sign (+/-) is determined by the sentiment score υ [-1,1].

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

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

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 zero-sum narrative.[20]

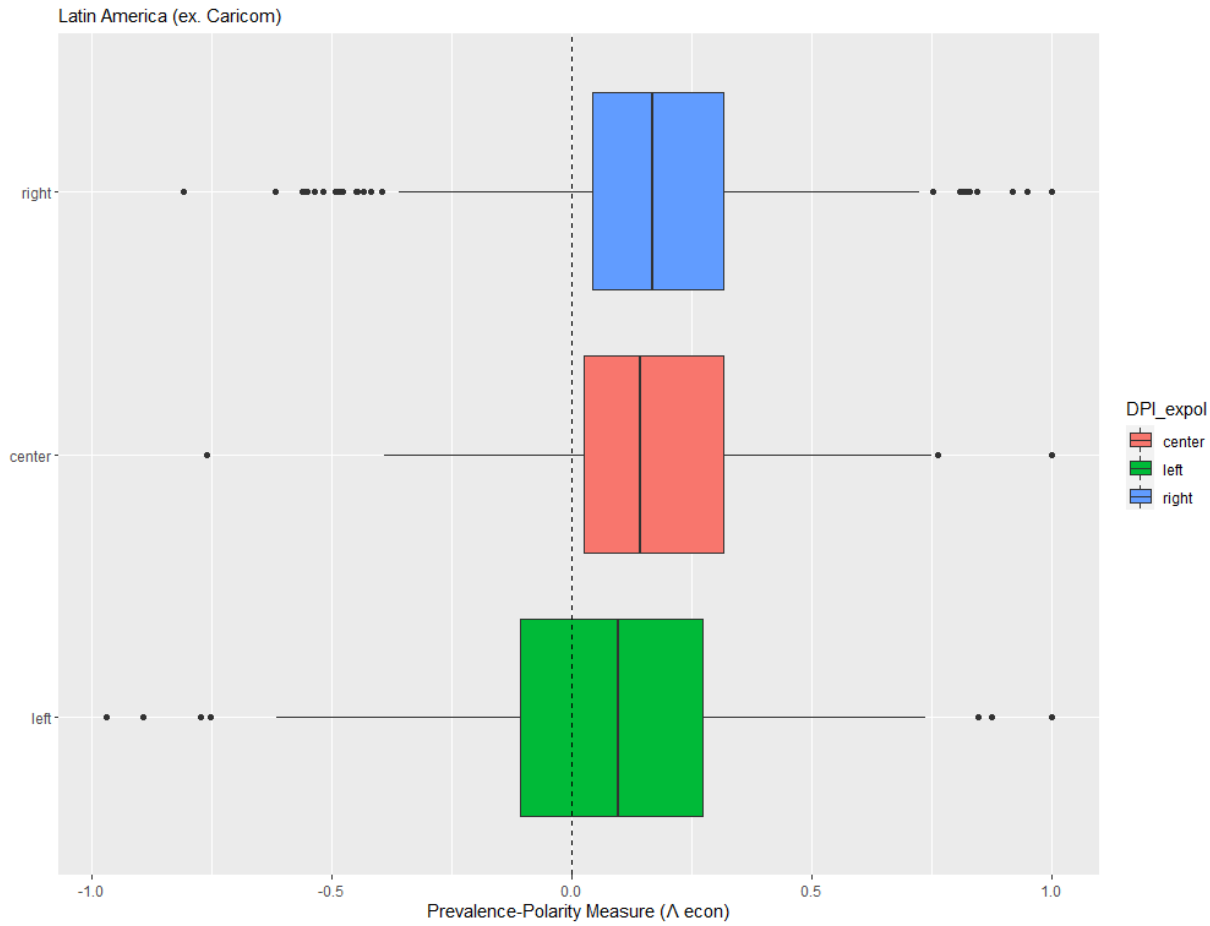
Figure 5.6 shows the pooled λ^{econ} distributions for Latin American countries by the orientation of the chief executive's party. This suggests that when these countries' leaders discuss topics in cluster $\theta^{econ'}$, their tone tends to be more negative if they are left-wing. This is expected 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 – see section 3.3.

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

[20]Unlike $\psi_{d,t}$ which refers to document-wide sentiment, including non-economic topics, υ is tailored to terms specifically associated with a negative view of the financial system.

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



Note(s): The orientation of chief executive party is taken from the Database of Political Institutions [52]. Countries that are full members of the Caribbean Community (CARICOM) are excluded. There is a higher tendency for left-wing parties to frame the international financial architecture as a zero-sum game.

topic coherence and optimizing traditional quantitative assessment and parameter adjustment tools – 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" [39, 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" [39, p. 3]. Notably, CTA tools are meant to enhance, but not replace in-depth human reading and evaluation of texts.

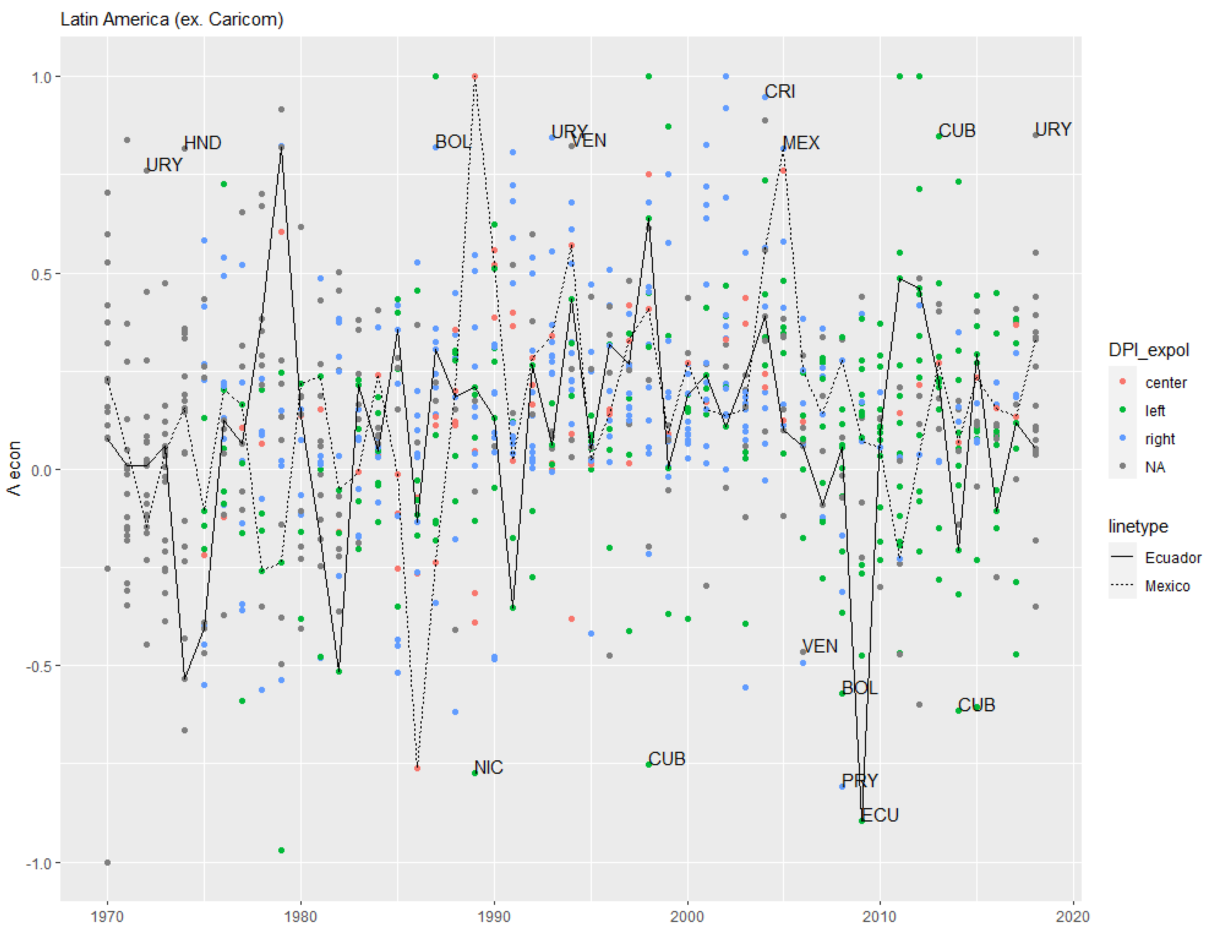
Table 5.2: High Salience Speeches (LCN)

Year	Country	President	$\lambda^{econ}_{i,t}$	Debt Stocks
1987	Bolivia	Víctor Paz Estenssoro	0.82	146.67
2008	Bolivia	Evo Morales	-0.57	35.32
2004	Costa Rica	Abel Pacheco	0.94	32.18
1998	Cuba	Fidel Castro	-0.75	N/A
2013	Cuba	Raul Castro	**0.84**	N/A
2014	Cuba	Raul Castro	**-0.61**	N/A
2009	Ecuador	Rafael Correa	**-0.89**	21.82
1974	Honduras	Oswaldo López	0.81	34.42
2005	Mexico	Vicente Fox	**0.81**	19.88
1989	Nicaragua	Daniel Ortega	-0.77	1233.09
2008	Paraguay	Fernando Lugo	-0.80	53.29
1972	Uruguay	Juan María Bordaberry	0.76	9.95*
1993	Uruguay	Luis Alberto Lacalle	0.84	21.78*
2018	Uruguay	Tabaré Vázquez	0.84	50.54*
1994	Venezuela	Rafael Caldera	0.82	65.34
2006	Venezuela	Hugo Chavez	-0.46	27.07

List includes all countries in Latin America (excluding CARICOM) where $\theta^{econ'}_{i,t}$ & $\theta^{t34'}_{i,t}$ were in the 95th percentile of all speeches for year t. Speeches highlighted are discussed below. Debt stocks are expressed as a percentage of GNI and taken from the International Debt Statistics database. When not available, [*] debt stocks represent central government debt as a percentage of GDP and is taken from the IMF's Global Debt Database [128].

In order to assess the proposed prevalence-polarity measure (λ^{econ}), I consider the

Figure 5.7: λ^{econ} Time Series



Note(s): Speeches that are in the top 95th percentile – see table 5.2 – are highlighted. The black lines show the salience of the financial architecture for the case studies over time. The orientation of chief executive party (point color) is taken from the Database of Political Institutions [52]. Countries that are full members of the Caribbean Community (CARICOM) are excluded. As shown by the cases of Cuba 2013/14, political orientation is not always determinant of narrative choice.

Figure 5.8: Polarity Cloud of High Salience Speeches

Note(s): This word cloud was built by joining all Latin American speeches (excluding CARICOM) where $\theta_{i,t}^{econ'}$ & $\theta_{i,t}^{t34'}$ were in the 90th percentile of all speeches for year t. These selected documents are collapsed into a a two document corpus made up of zero-sum (negative λ^{econ}) and positive-sum (positive λ^{econ}) combined speeches.

speeches from Latin America[21] where the economic topic cluster $\theta_{i,t}^{econ'}$ *and* the financial architecture topic $\theta_{i,t}^{t34'}$ were in the 95th percentile of year-normalized prevalence for all speeches. Table 5.2 shows the speeches considered, their λ scores and the Presidents in office at the time.

I find that the speeches outlined in Table 5.2 with a negative λ^{econ} are more critical of the international financial architecture and *vice versa*. The use of language in these high salience speeches frames the financial system as either a *zero*-sum or *positive*-sum game, as outlined in Chapter 2. In other words, that they emphasize the need for deeper South-South cooperation and depict the financial system as extractive in the case of the

[21] 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.

former. For the latter, North-South cooperation is more prevalent and criticisms tend to be centered around the lack of fulfillment of commitments rather than the institutional framework itself. Figure 5.8 shows this trend by highlighting the top terms used by the top zero-sum and non-zero-sum classified speeches.[22]

5.3 Discussion

In the aftermath of a large-scale financial crisis, international financial institutions are mentioned more often and with more negative tone. Likewise, the general sentiment of speeches decreased significantly throughout the 1980s, and more markedly so in regions that experienced protracted external debt crises. However, world leaders may be more likely to express themselves with less constraint 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.

These limitations notwithstanding, the CTA methods employed in this chapter are use-

[22]Figure 5.7 highlights the speeches described in table 5.2 with the rest of Latin America over time and color coded for Executive political party orientation when available.

ful 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; CTA 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 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 throughout this chapter 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*

> "Let Pharaoh proceed to appoint overseers over the land and take one-fifth of the produce of the land of Egypt during the seven plentiful years."
>
> Genesis 41:34

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" [111, p. 95]. Decades later, 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 as an alternative to the proliferation of *ad hoc* advisory committees made up of private lenders to deal with the waves of emerging market defaults since 1970s.

However, such attempts to reform the system have not materialized.

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 [33].

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 Institutional Revolutionary Party (PRI for its Spanish acronym) 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 (CACs) in 2003 and the 2002 Monterrey Consensus were the continuation of this policy of openness and *good faith* cooperation with external creditors. Furthermore, they were 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 CACs 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

For 70 years, the PRI dominated politics in Mexico. Its origins can be traced back to the Mexican Revolution (1910), ensuring 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, when 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) began gaining ground [1]. Under this 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-off 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 paradigm 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-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 development 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 [141] 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 dissipated abruptly throughout 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 with 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 legal and institutional frameworks of the financial system. Following a lapse in fiscal and financial discipline in 1985, the peso took a sudden loss of 20 percent of its value following 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 the 1985 currency crash led to a fiscal overhaul, the path towards central bank independence begun after the 1987 devaluation and was consolidated throughout the

1994 exchange rate crisis. This marked a doubling-down on the adoption of market-based solutions to crisis management [31, p. 2].

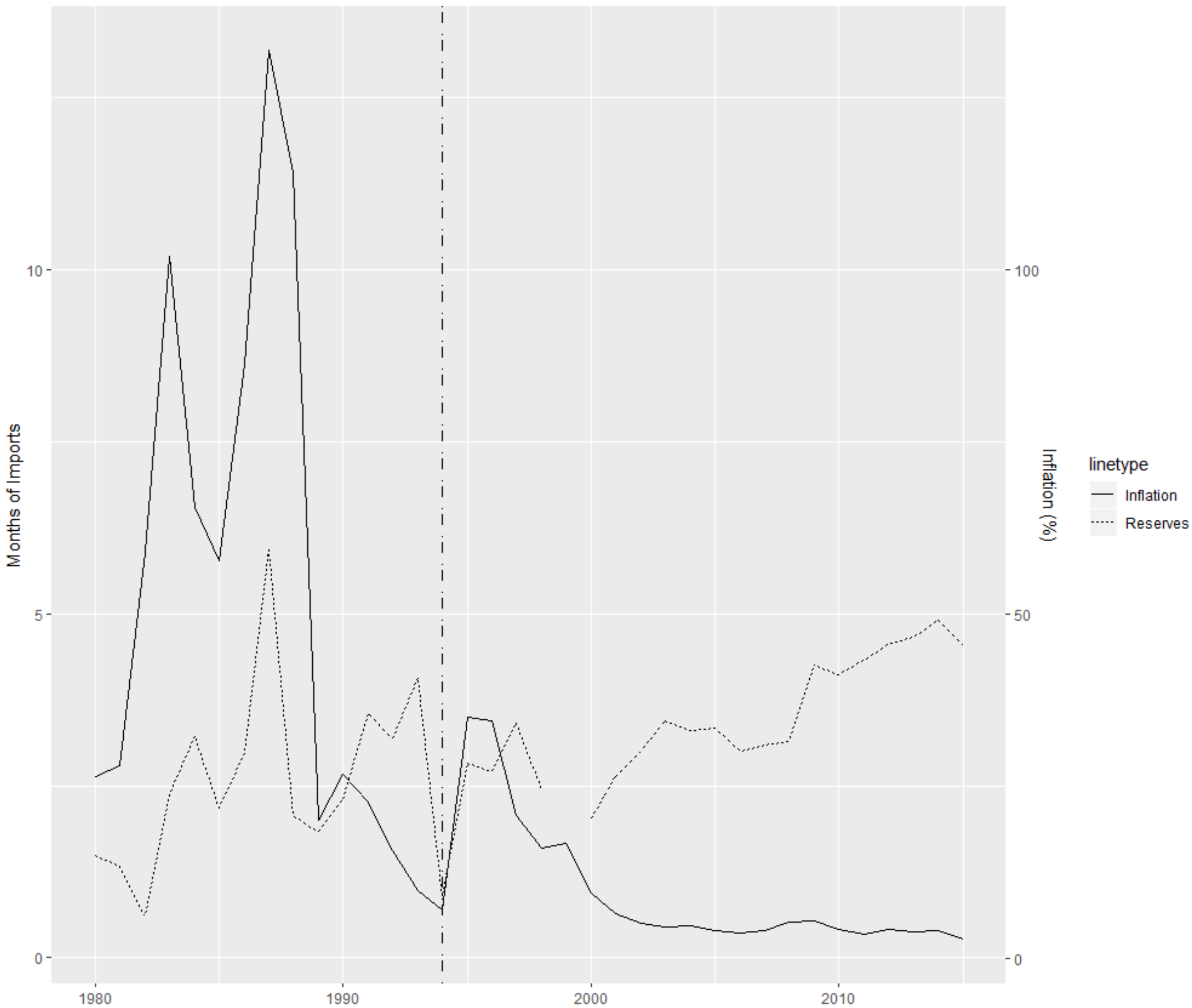
On December 20th 1994, a 15% increase in the exchange rate band effectively translated into a devaluation by that same amount. In two days, approximately 50% of international reserves exited the country, a total of 4.6 billion USD. Most of the fleeing capital was Mexican. Many national businessmen had 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 following 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. 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-majority-owned institutions went from 18% to 81%, well above the OECD average [224, 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

Figure 6.1: The December Error



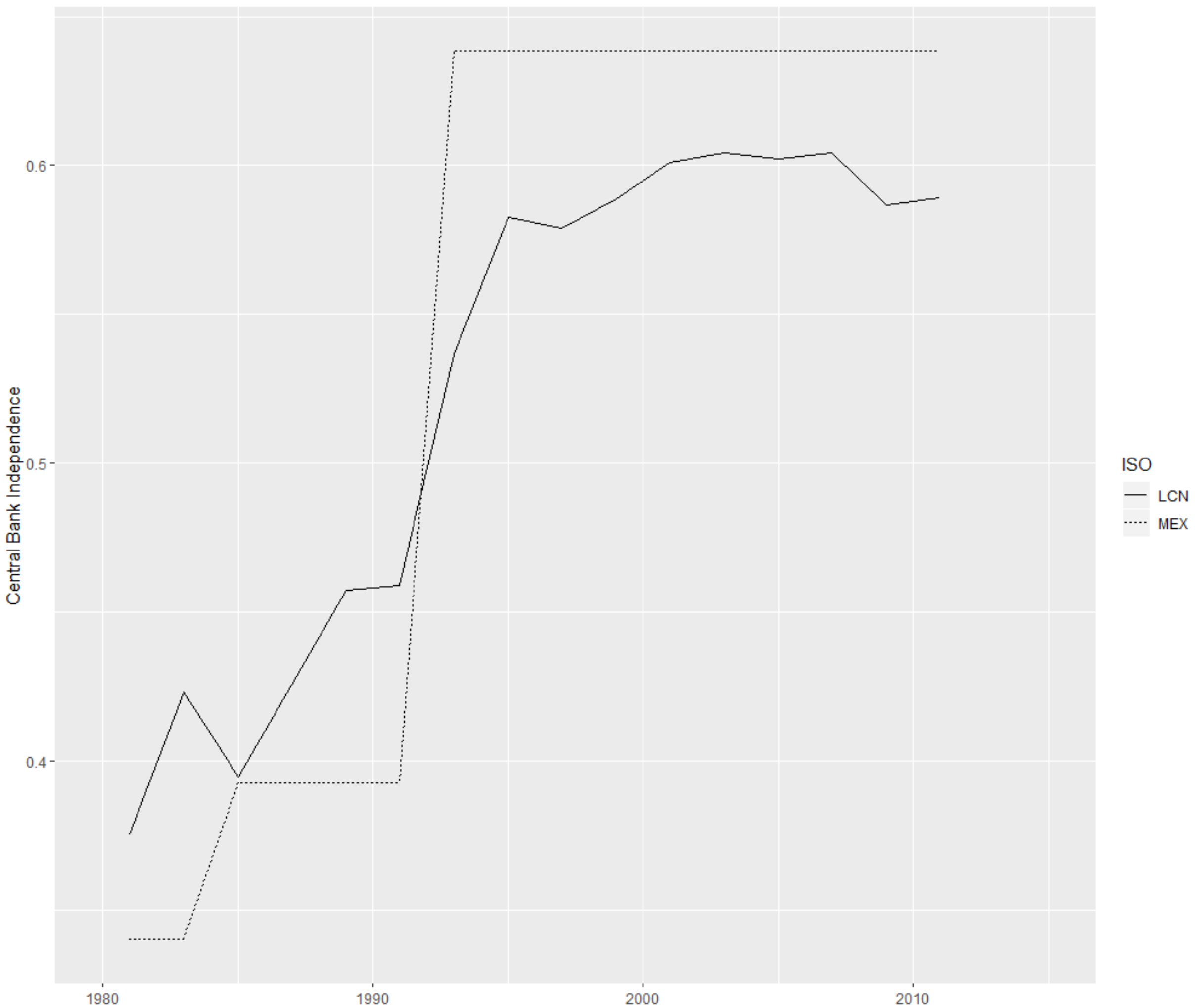
Note(s): The y axis on the left represents international reserves in months of imports (represented by the dotted line). The right hand y axis represents inflation by consumer price index (solid line). The vertical dashed line shows the sudden drop in reserves and rise in inflation that occurred after 1994. Data is taken from The World Bank [227] and the International Monetary Fund [126].

price stability and barred it from directly financing government spending. This legislative change transferred emission and exchange rate prerogatives from the federal government to BANXICO and handed its administration over to an independent Governor and board [23]. Though BANXICO was created in 1925 and had gone through various periods of relative autonomy [236], it was not until the 1993 reforms that its independence from the executive branch 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 political 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 with 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 to implement a fully floating exchange rate regime [235, 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 plots the change in central bank independence in Mexico, contrasted with the regional average. The constitutional reforms which gave BANXICO the capacity to formally enact an inflation-targeting strategy allowed it to recuperate market actor confidence by stating credible long-term inflation objectives and providing the information required to monitor and evaluate its behavior. It thus reduced the information asymmetries between the government and its would-be creditors by consolidating an independent third party. The benefits over the short and medium terms were evident in the form of increased portfolio diversification and the creation of a derivatives market for the national

Figure 6.2: Central Bank Independence Index



Note(s): The CBI data is taken from Garriga (2016) [83] and shows changes in the *de jure* independence of the monetary authority by identifying statutory reforms that increase or decrease the level of government influence in its administration. The index oscilates between 0 (least independent) and 1 (most independent). During the mid 1990s, Mexico went from being well below the Latin American (LCN) average to well above it.

currency. Furthermore, it placed a hard constraint on fiscal profligacy, as previous semi-fixed rates created a 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.[1]

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 [31]. 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 economic start 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 [174] over the way in which banks were bailed out after the 1994 crisis, falling levels of inflation and the re-ignition 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*!

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.

[1] An example of this were the short-term peso-denominated *tesobonos* bonds emitted by the Salinas administration with a guaranteed repayment in USD to compensate for a lower yield.

F. Ruiz Massieu led to a protracted political crisis. Though the replacement 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 of the country, with the PRI even loosing a state governorship for the first time.

By the time Vicente Fox arrived became prominent on 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 National Action Party (PAN for its acronym in Spanish). Having entered politics 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 [leftist opposition] 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's 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" [57, p. 2]. Survey data[2] from the run-up to the July of 2000 presidential election indicate that, though voters had a positive image of the Zedillo's handling of the economy, the issue became secondary to that of political alternation.

At the start of the campaign, "the PRI had trouble convincing voters that it stood for either *change* or *democracy*, though it clearly understood that voters were demanding both" [27, p. 123-124]. Fox's campaign targeted centrists, the urban middle classes and young voters, placing higher importance on the political over 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" [27, p,142]. In fact, 66 percent of voters claimed that they cast their ballot for Fox for *change* compared to 28 percent declaring 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) [155, 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 withheld control over the legislative from the PAN. "Mexican citizens were ready to try

[2]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" [57, p. 12].

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" [57, 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, 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.[3]

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.

[3]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% [229]. 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. Whereas *Tesobonos* represented merely 3 percent of government obligations issued within the country in January 1994, 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 [75]. The support of the Clinton administration to its new NAFTA partner was crucial. The Zedillo administration received a 50 billion USD bailout in 1995, placing the economy back on track.

6.3 The Monterrey Consensus

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 [203].[4] 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

[4]He resigned in January of 2003.

engaging with to the fullest.

Throughout the Fox era, there was a continuation in both macroeconomic policy and the importance allocated to a good relationship with Washington from 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 [35]. Sovereignty was a recurring theme in this new foreign policy, as exemplified in the Fox 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 [14, 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 at the disposal of each nation to influence its own destiny in an international system in which, increasingly, local affairs turn national and national ones, global" [36, p. 53]. In the realm of financial governance, this view was put into practice as Mexico began to pursue a larger role in the international system.

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" [214, p.35]. This was later considered a great success for Mexican diplomacy as a consensus emerged regarding the appropriate financing mechanisms for achieving the millennium development 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

Figure 6.3: Fox administration UN speeches

Note(s): This word cloud represents the top bigrams found in UN speeches delivered throughout the Fox administration (2001-2006). Common English *stopwords* and the bigram *United-Nations* were removed. Aside from concepts related to issues high on the international agenda such as international terrorism and peace; terms that reflect a positive-sum view of international relations were amply used. These include concepts such as *collective-decision*, *ensure-compliance* and *firmly-committed*.

– 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. [12]

The speech reflected the Fox government's overall *positive*-sum view of the international financial architecture – see figure 6.3 – as an avenue for development. This rhetoric was also accompanied by policy innovations within the sphere of sovereign debt restructuring; its 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

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 – see Chapter 3. 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; pleas from (mostly) U.S. based creditors notwithstanding.

Helleiner [110, 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". 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 to agree to any proposed amendment. This made restructuring for sovereigns particularly challenging. "[N]o law and no judge [could] override the will of the bondholders" [84, p.86]. Each bondholder essentially held veto rights over negotiations regarding restructuring. Unlike specialized banks (securitization notwithstanding), bondholders had little long-term interest in the economic well-being of the debtor country. 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 negotiations between the borrowing nation and 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 [237], 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 to 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.

As detailed in Chapter 4, 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 [193], and on the other a statutory approach under a multilateral framework [101]. 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" [190, 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.[5] 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 [124] – as "Mexico's bond issue in February 2003 rendered the debate between bankruptcy and CAC solutions a thing of the past" [246, 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 [...]. [85, p. 1641]

In study consisting of 100 interviews with participants, Gelpern and Gulati [85, 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

[5] 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 [209].

marginally useful in managing risks associated with default" [85, p. 1711]. Rather, they stated that the reason for the adoption of CACs was to send a message to the market and 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 [86]. 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" [84, 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.

The two following adminsistrations – Calderon and Peña – 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 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 was 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" [156, 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. 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.

6.5 Legacy

The legacy of the Zedillo administration was a solid platform from which the developmental potential of the country could be deployed.[6] The Fox administration did not deviate from this strategy of *good faith* but rather sought to deepen it. 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 [15]. In 2003, and amid a series of blunders [203] 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.

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.

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

[6]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" [100, p. 298-9].

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, sitting 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.

As an example, chapter 33 of the United States-Mexico-Canada Agreement (signed by Obrador) 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.[7] Despite 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.

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 enjoyed high levels of popularity at the start of his presidency, financial reform was not salient domestically nor internationally. However, as the covid19 pandemic threatens to drag the world into a debt crisis, it is yet to be seen if the Obrador administration will transform its *denunciations* into *defiance*.

[7] 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.

Chapter 7

Ecuador under Correa: *In Defiance*

> "And if you lend to those from whom you expect repayment, what credit is that to you? Even sinners lend to sinners, expecting to be repaid in full."
>
> Luke 4:34

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 [82]. In addition, he constantly derided foreign creditors – even dubbing them *real monsters* [159] – and referred to the

[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 [72].

economic policies of his predecessors as the causes of a "[author's translation] long and sad neoliberal night" [49].

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" [49, p. 110]. Though this piece was written when Correa was already in power, it reflects a long-standing attitude towards global financial markets: a starkly zero-sum view. 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 as it disproportionally benefited external creditors, in detriment of national interests [148, 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 Dollarization

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 [48]. 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 [198]. 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 [71]. 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 USD and millions of Ecuadorians lost their savings following 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 [68].

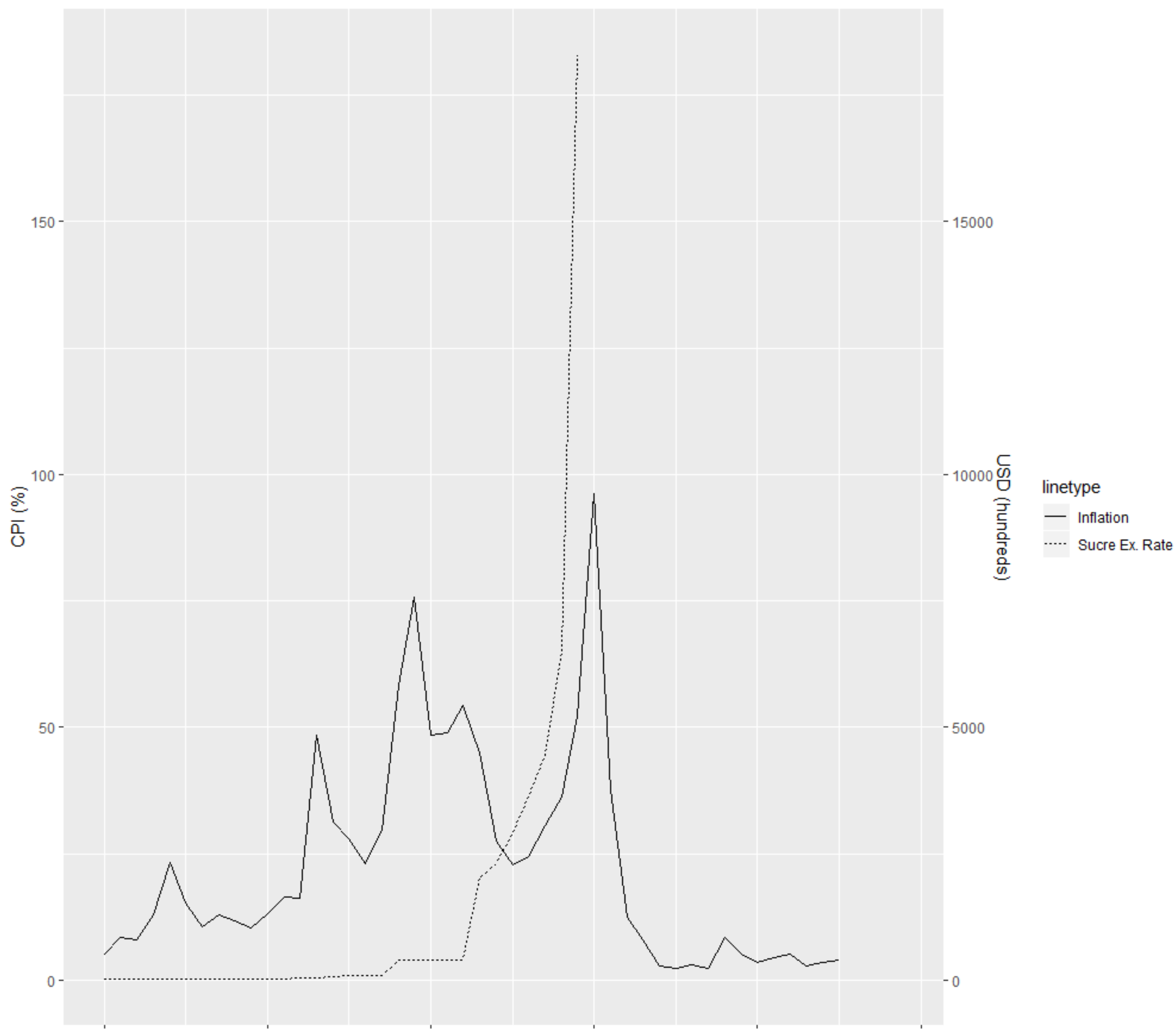
As is often the case with bank holidays [54], the Ecuadorian case revolved around the fear of a generalized run on banks thought to be insolvent. The catalyzing event was a rumor that one of Ecuador's largest banks, *Banco del Progreso*, would no longer be able to service its depositors. Such rumors 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 [70]. 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% [208, 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 these devaluation trends since 1970. 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 21st, the new government was unable to reverse the process and Congress approved the Economic Transformation of Ecuador Law on February 29th [208]. 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

Figure 7.1: Sucre and Inflation



Notes(s): Made with data from The World Bank and *Banco Central del Ecuador* [10]. The left axis represents inflation by consumer price index (%) and the right the official exchange rate in hundreds of USD. 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.

lending was reignited [163]. This measure reduced economic uncertainty as financial institutions, severely hit by the crisis, were less reluctant 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 [47, 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 concluded with a critique of what Correa denominated *the dogma of stability*, which he argued would control inflation only at the expense 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" [47, p. 89]. Dollarization was – in his view – 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.

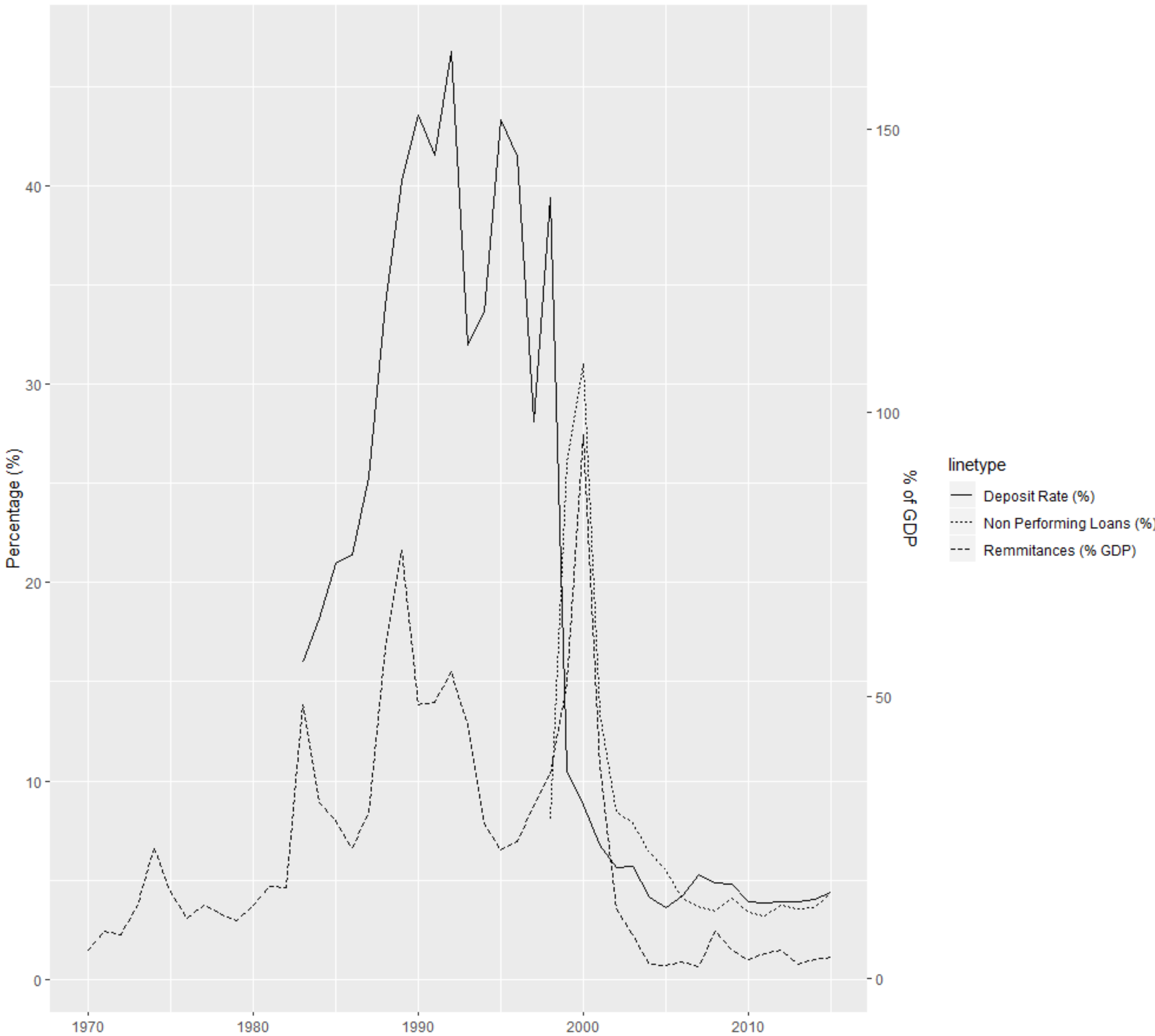
This denunciation and association with public malaise were not entirely unfounded. The monetary stabilization strategy had broad distributional effects, debtors in Sucre saw their obligations reduced to a fraction of their initial value while pensioners and low income workers took a large hit to their standard of living [32]. In turn, support for dollarization in Ecuador rested on concerns over transparency. The fear of rampant inflation pushed Quito into relinquishing control over the printing press for the sake of stability: political and economic alike.

Its many critics not withstanding, fifteen years later, the policy still enjoyed broad support among 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%" [66]. Figure 7.1 shows how inflation levels – by consumer price index – decrease sharply with dollarization and have remained well below the levels of the Sucre era.

Nevertheless, 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 into the struggling economy, still recovering from a series of armed conflicts over territorial disputes with Peru [170].

Though these measures were intended to make the financial system more efficient, poor investments and sometimes outright corruption led to a massive and sudden increase in interest rates on deposits in commercial banks and unrealistic guarantees from the

Figure 7.2: Loans and Remittances



Note(s): Made with data from the World Bank [230]. The left axis represents total percentage of non-performing loans, as well as the deposit rate. The former increased sharply in 1999 and the former declined from over 305% that same year; signaling the collapse of the unsustainable state of affairs. The right axis shows remittances as a percentage of GDP, nearly tripling after the crisis.

monetary authority. Figure 7.2 shows the evolution of deposit interest rates, reflecting a phenomenon similar to what Hyman Minsky (1986) [167] 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 due to historically high passive rates, evidencing 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 the level of 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; 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 memory of 1999 would keep the issue of debt and finance a salient.

7.2 Pink Tide

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 [28, 73]; 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 [34, 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 pose challenges not only to the political elite, but also to its values. It is in many ways a *rhetorical* revolution led by a charismatic leader that can connect with the popular base in ways that the discredited elite cannot, often 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" [34, 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 [171] 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 denouncing the of subservience of his predecessors to foreign interests is 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. More 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. 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 nation's resources" [40, 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]

Correa fashioned himself in the image of Simón Bolivar, the liberator of South America.

[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 [69].

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*" [48] 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 [82, p. 253]. Support for Correa was particularly high in the eastern mountainous 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 this political project, a new constitutional order was deemed necessary. Like the previous constitution – in place at the time of the election –, 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 [11].

By December 2008, the referendum for a new constitution had garnered 63.9% of popular support. Among the changes was the possibility of presidential re-election [232]. Likewise, articles 289 to 291 of the new constitution placed limits and guidelines on the indebtedness of Ecuador [45]. The *Citizen's Revolution* had not only triumphed, but also amassed considerable political capital. Capital which the new administration was quick to deploy to the benefit of its 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. 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] This 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. [165, p. 37]

Political backlashes against the highly unpopular IMF conditionalities and economic liberalization programs were common in Ecuador 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 administrations, unwilling and unable pursue a *proactive* foreign economic policy. The new constitution also meant a new foreign policy vision for the country, one which would be

[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 [130, 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.

taken further throughout the Correa presidency. Among its new principles was the promotion decent living standards or *Sumak Kawsay*, a concept taken from the pre-Columbian Quechan people of Ecuador.

Article 416 of the new constitution stated that Quito was bound to the promotion of multilateralism, 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" [130, p. 150]. An ambitious mandate that was clearly a reference to the then recent experience with the adjustment policies demanded by the IMF.

Non-intervention, selective economic protectionism and commercial rapprochement with Iran, Russia, China and Venezuela became staples of Correa's foreign policy [247, p. 48]. Critics of the administration have pointed out that such policies undermined the democratic order and concentrated a disproportionate amount of power in the presidency [181]. Regardless, 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 [158]. This strategy of South-South cooperation and distancing from the Global North turned relations with international financial institutions 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. In his words: "[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" [49, 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. As do many like-minded leaders and individuals, Correa expressed a deep skepticism on the benefits that global markets have had for economic development in Latin America. In 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 *narrative* became relevant given the favorable political and economic *contexts* that his country enjoyed at the start of his tenure. With the opposition in shambles after the 1999-2000 crisis – Correa was 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 thus 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 Unprecedented Stability

As stated directly by the government in Quito at the time, Ecuador's 2008 default was a product of Rafael Correa's sovereigntist agenda, and not the result of economic hardship. This assertion, however, requires ample scrutiny. After all, Ecuador has been a serial defaulter, with 3 sovereign defaults between 1970 and 2010 [192]. Similarly, as an oil-dependent, small, un-diversified economy with no independent monetary policy and weak institutions; it is particularly vulnerable to global economic 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 (to date).

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 – see Chapter 3. 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 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. 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 [229]. 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 (34.37 & 97.63 respectively). In fact, debt levels were not just historically low by 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 ratios 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 of 116% of GNI in 2000 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 [230]. 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 expected. 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, which reached 3.69 in the year prior to the default. Though the economy remained 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 by the time Correa took office. 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

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

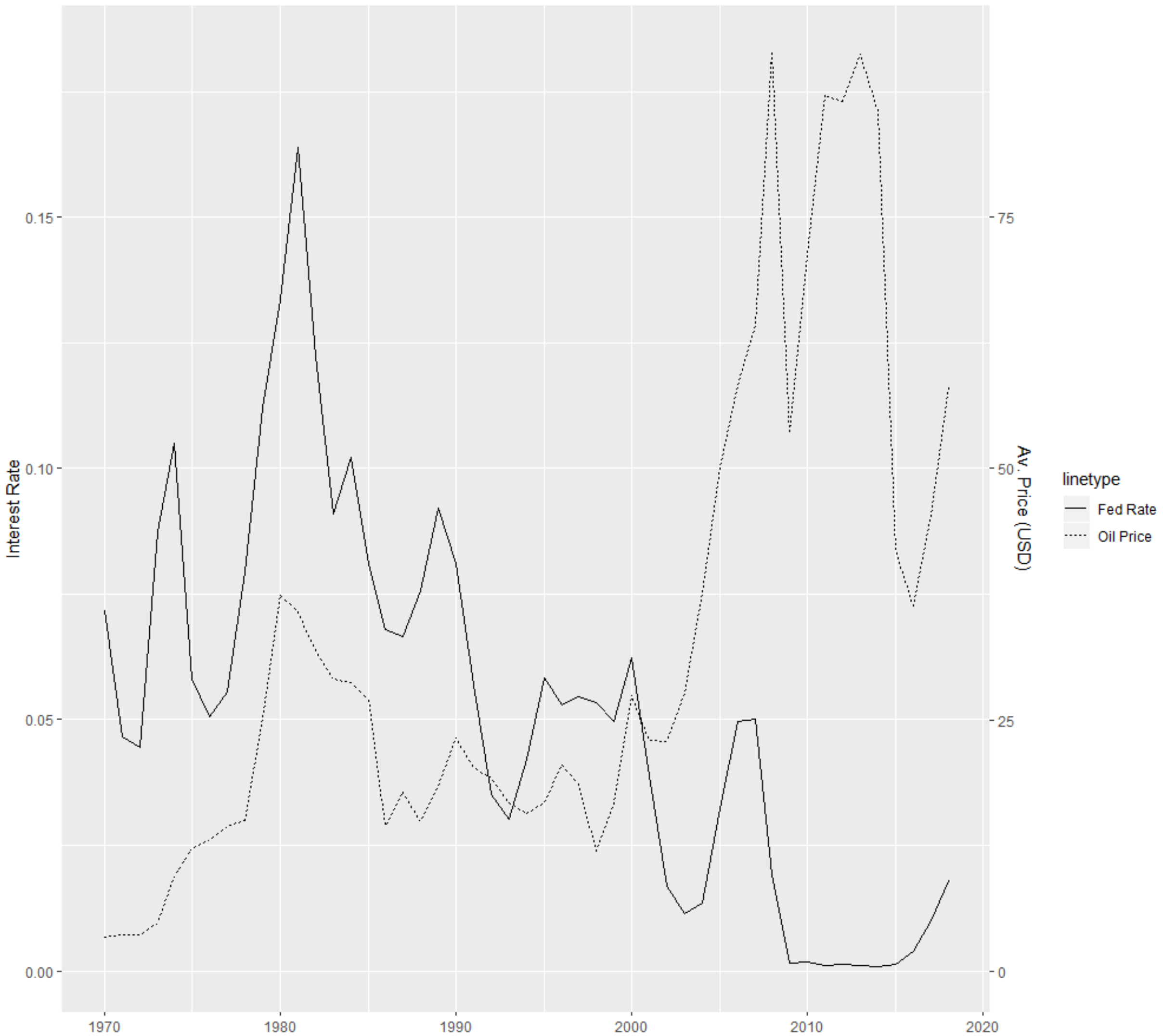
power of Ecuadorians rose along with the increase in global oil prices throughout the 1970s. Measured by purchasing power parity, GDP per capita doubled between 1970 and 1980. Growth in Ecuador began to flounder in the mid-1980s with a sharp decrease in the real price of oil barrels, and it remained stagnant throughout the 1990s [22].

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 [77]. 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 [78, p. 18]. In 2007, Ecuador rejoined OPEC and 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.

Figure 7.3: Interest Rates and Oil Prices



Note(s): With data from the World Bank and the IMF [162]. The left axis represents the average interest rate on short-term US treasury bonds, one of the anchors of global interest rates. These climbed sharply in the late 1970s, leaving many countries in the Global South unable to roll-over their debts. The right axis shows the average yearly price of barrels of oil (in USD). These rose significanlty in the early 2000s, benefiting many exporters of the commodity such as Ecuador.

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 as the Global North slid into the most severe financial crisis since the Great Depression (to date) and oil prices stood 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

In his direct addresses to the international community at the UN General Assembly, Correa called the international community to reform the global economy in general, and the financial system in particular – see figure 7.4. Such calls for reform went largely unheard beyond Ecuador's left-leaning Latin American allies, but nevertheless reflect his administration's zero-sum view of the international economic order. Among the most radical proposals devised throughout his administration were the dissolution of the IMF and an extension of the Highly Indebted Poor Countries (HIPC) initiative.

Fander Falconi, Ecuador's minister of Foreign Affairs, delivered his country's most Topic-34-centric – see section 5.1.2, figure 5.4 – speech in 2009. This speech reflected 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

Figure 7.4: Correa administration UN speeches

Note(s): This word cloud represents the top bigrams found in UN speeches delivered throughout the Correa administration (2007-2016). Common English *stopwords* and the bigram *United-Nations* were removed. Aside from concepts related to issues high on the international agenda such as human rights and climate change; references to the international financial architecture were abundant (particularly in negative connotation). References to Latin America, Bolivia and South-South cooperation were also prominent.

> 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. [12]

The speech highlighted 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 Public Credit Auditing Commission 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. [30, 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 [197]. 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 [226].

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 difference is that the structure of its obligations changed, with the percentage of loans from

[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 [24].

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% [231]. 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. 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. It is, however, unclear whether these performance results would have been achieved without Quito reneging on its obligations.

Ecuador reentered the private debt markets in 2015, at a modest premium [207]. While being locked out of access to private credit markets, Quito became one of the Latin American countries most indebted to China [191]. As is the case for many countries throughout the Global South in a similar position, the long-term consequences of this new state of affairs remain unclear [205].

7.5 Legacy

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" [67]. 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 constrained the economy as was left unable to devalue its currency to increase the competitiveness of its exports [169]. 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. 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.

The 2008 default did not come out of necessity, Ecuador was more than able to continue to service its debt payments, it was rather a *political* decision. One that came from the confluence of several factors: a strong domestic position for the government, economically and politically along with a favorable economic juncture which allowed the government to keep its access to hard currency, and the salience of external debt in domestic politics as well as abroad due to global financial crisis. These factors fueled the willingness of the Correa administration to take the risk and defy the *status quo*.

The decision to default on certain tranches of its sovereign debt cannot be dissociated from the internal politics of Ecuador, nor from the economic narrative of its leader at the time. It was framed by Correa 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 proactive stance in the global financial arena came about in the aftermath of a severe economic crisis and subsequent changes in the political system. However, in contrast to what occurred in Mexico, Correa and his economic team held views that denied the efficiency of global financial markets and categorized them as means of extraction from a periphery to a core: a zero-sum view on the system.

Correa's successor, Lenin Moreno, opted not to follow his predecessor's path of defiance and began to gradually adopt more conciliatory measures towards the United States and the global financial system. On October 14th, 2019, Moreno reached a deal with protesters who briefly took over the streets of the capital demanding the reinstatement of fossil fuel subsidizes.[8]

[8]As of this writing, Correa has been tried *in abstentia* for over corruption charges. He has vowed to challenge the conviction in international courts.

Chapter 8

Bubbles of Agency

> "Turning and turning in the widening gyre
> The falcon cannot hear the falconer;
> Things fall apart; the centre cannot hold"
>
> William Butler Yeats

I began this thesis by asserting that narratives of finance are narratives of morality. Specifically when it pertains to fairness. Opposing perspectives on fairness – as either proportionality or equality – have resulted in the development of two mutually exclusive financial narratives in Latin America: a positive-sum and a zero-sum view. Both narratives provide blueprints of how to build a better world. One emphasizes the need to protect society from despots and cheaters. The other warns about the rise of oligarchs and abusers. Alas, these narratives tend to clash rather than converse; resulting not only in political tensions, but also economic costs. A deeper understanding of the opposing views that move world leaders to act in either *good faith* or *defiance* towards the global financial architecture can help reduce such costs.

Most studies on sovereign debt have concentrated on the dynamics of the financial system during hard times, recognizing shifts in the creditor-debtor balance. These imbalances have been recognized by both critical and mainline International Political Economy

(IPE) scholars, but in very different ways. Furthermore, this focus on hard times has left a significant gap in the analysis of emerging market agency, as it is precisely when debtors – especially those in the developing world – are most constrained. In this thesis, I have focused on the behavior of sovereign debtors when they find themselves less constrained by circumstance.

In Chapter 1, I proposed an analytic framework for the study of foreign economic policy in Latin America 1.3 based on three factors: a) economic narratives (N), b) context (C) and c) salience (S). As derived from this NCS framework, provided the salience of a global economic issues is high, there are four possible outcomes – see figure A.1 in the appendix – dependent upon the strength of a government and the economic narrative of its leadership.

The first dimension of this analytic framework (N) – discussed in Chapter 2 – regards the micro-level of IPE: two mutually exclusive and internally coherent narratives of finance held by individuals across the Latin American political spectrum. These are a zero-sum and a positive-sum view of the contemporary international financial architecture. One characterized by increasingly open capital accounts, the prevalence of market-solutions to economic problems and a monetary order with the United States currency at its apex. Under the positive-sum narrative of finance, this system protects the rights of creditors and ensures the efficient flow of information required by market participants in order to keep each other accountable. As such, the financial system is a potential avenue for development insofar as free-riding and cheating are kept in check. When resolving debts that become unpayable, it is of utmost concern to limit the *moral* hazard of creating incentives to cheat in the future. By contrast, the zero-sum view of the system sees it as a vehicle for upholding power asymmetries; one which should be met with increased cooperation at the margins to balance out the influence of those at the center.

These narratives of international finance exist at the intersection of visions on international politics, the economy and morality. They reflect opposing views on a) the desirability

– and viability – of changing the international system through South-South cooperation, b) the ideal role of the State in the allocation of the resources of society and c) fairness as proportionality or equality. They express deep and – to varying degrees – nuanced worldviews, while reducing competing narratives to caricatures.[1]

The second dimension of the framework is context (C), which is discussed in Chapter 3. In contrast to the micro-level dimension of narratives held by individuals, the context is a function of their place within the system. It constitutes the macro level, which varies not across individuals but among groups and capacities and positions relative to others. The groups in question – in this thesis Latin American economies – occupy a non-central place within the international monetary system as none can issue reserve currencies and few are able to substantially contract external debt denominated in their own legal tender. Their bargaining power thus ebbs and flows, as they are more vulnerable to systemic changes in commodity export prices and reversals in the availability of credit.

Furthermore, I follow Minsky and Kindleberger in their observation that financial good times and hard times follow a cyclical logic, where too much of the former sets the stage for the advent of the latter. Whereas during good times absolute capacities and gains take preference; during hard times, relative capacities and gains matter more. Developing countries are not at the center of global finance and thus tend to behave as rule-takers, more so during crises. Attempts to reform global finance from the bottom up thus face an uphill battle as there are coordination issues among developing countries, these become more pronounced insofar as there is divergence between the economic narratives of the system's central elements and those of would-be reformers.

As outlined in Chapter 4, the third and final component is issue-salience (S). This constitutes the meso level, bridging the narratives held by individuals with coalitions within

[1]As the salience of finance increases (typically during hard times), simpler – more extreme – forms of each narratives increase their social virality.

the broader international financial system. Like context, there are different logics at play during good and bad times. The appetite for reform increases during hard times, leaving the developing world at a greater disadvantage to enact reforms. As global financial reform becomes more salient, discussions follow the logic of appropriateness over those of consequentialism. As the global spotlight shines on the issue, it becomes more politicized and divisive, falling across the narratives explored in Chapter 2.

During good times, international financial reform becomes less salient and enters the latent dimension of international politics, where discussions are technical and under low levels of public scrutiny. Yet, during hard times calls to address systemic issues, such as the renegotiation of sovereign debt, proliferate and receive greater attention. Such proposals have advocated for market solutions and *ad hoc* mechanisms on one hand, and greater state intervention and multilateral forums on the other. The former have been supported mainly by creditors and (mostly) developed nations, expressing concern over disrupting the strategic balance in favor of debtors and decreasing fairness in terms of proportionality. The latter have been advocated by debtors and (mostly) the developing world, who stress the importance of economic and development rights and denounce market-mechanisms as unfair insofar as they are constraining. This has resulted in two different strategic blueprints for advancing global financial reform under the current, more market-based, system: one of *good faith* and another of *defiance*.

Different issues compete for the world's attention. In Chapter 5, I analyzed the salience of the global financial architecture relative to other topics on the international agenda by tracing the prevalence of the topic in UNGA speeches using Computational Text Analysis (CTA) methods. These speeches discuss the issues that world leaders find most important in a given year (1970-2018) and their format provides the flexibility for them to frame issues as they deem most appropriate. Thus, they provide a window into the choice of economic narratives that world leaders may hold. Combining the use of dictionary analysis and

Table 8.1: Conceptual Summary

Levels	**Good Faith**	**Defiance**
	Directed towards the market-based, US-led global financial system.	
Narratives	a) North-South cooperation to *improve* the system b) Preference for limited state involvement in the economy c) Concern over *expropriation by repudiation*	a) South-South cooperation to *revise* the system b) Preference for greater state involvement in the economy c) Concern over *accumulation by dispossession*
	Salience increases during hard times, with it concerns over fairness.	
Salience	a) Assumes *Debtor*-favorable balance b) Moral hazard as free-riding and cheating incentives c) Reducing information asymmetries (proportionality)	a) Assumes *Creditor*-favorable balance b) Moral hazard as socializing private losses and exporting austerity c) Reducing power asymmetries (equality)
	Hard times follow good times, relative capacities matter more in the former.	
Context	a) Central bank independence b) Securing regular access to international credit markets c) Mostly *Right*-wing parties	a) Sovereign monetary policy b) Limiting dependence on external creditors and policy conditionality c) Mostly *Left*-wing parties

Note(s): The table summarizes the main elements of the Good Faith / Defiance strategic blueprints at all levels of the NCS analytic framework – see Section 1.2.1 – proposed in this thesis. Each level contains a stylized fact about its dynamics (in italics).

topic modeling, I found a topic for the international financial architecture and identified the speeches that discuss it the most on a yearly basis. Subsequently, I traced the use of words associated with a zero-sum view of the international economic system.

As expected, the overall salience of the international financial architecture increases during global hard times and the content of high-salience speeches reflects the two opposing economic narratives, falling broadly but not categorically across Left-Right partisan lines. Yet partisanship is not necessarily a reliable proxy for economic narrative, which is both subject to change and highly contextual. To assess this last element (C), I considered two exceptional cases in which countries in Latin America have pursued pro-active policies towards the international financial architecture with lasting consequences for both the market and themselves.

In Chapter 6 I presented the case of Mexico and the role of the Fox administration in the promotion of Collective Action Clauses in sovereign contracts. This action entailed the – modest – risk of a small penalty from lenders for being perceived as more likely to default given the update in provisions. It was a stance taken as part of a broader context of North-South rapprochement and engagement with the rules of the global community which followed Mexico's democratic transition. This act of good faith took place during a period when Fox's political position and the country's economy were strong, and when the financial architecture was salient in the aftermath of the Argentine 2001 default – one of many.

At the other side of the narrative spectrum, I presented the case of Ecuador under Correa and its 2008 hostile restructuring in Chapter 7. The cost of this default is difficult to calculate, but it did involve exclusion from private capital markets for several years. Once again, this action came about within a highly favorable context for Ecuador's economy and for Correa politically. The salience of international finance was high both at home and abroad and Quito took the opportunity to promote parallel South-South financial arrangements to mitigate Washington's influence. Though there is a strong correlation between high salience and hard times; these case studies show that under favorable contexts and with enough attention garnered, *bubbles of agency are possible even at the margins*.

Countless books and articles have been written on the so-called paradox of sovereign debt. However, depending on the paradigm adopted by the researcher, this paradox takes the form of one of two questions. For those that assume that the debtor has the advantage in the exchange, the point of interest is why creditors would lend to them in the first place. Yet for those that assume that the advantage is held by creditors, the question is rather why distressed sovereigns continue to service their debts, thus fully accepting the burden of adjustment, during times of hardship. In other words: what leads to the special circumstances of either *good faith* or *defiance*. By adopting a narrative approach to IPE, I have sought to bridge this divide within the field in order to better understand these opposing world views on their own terms but under a unified framework of analysis.

According to Minsky (1986): "[d]istasteful as inequality and inefficiency may be, there is no scientific law or historical evidence that, to survive, an economic order must meet some standard of equity and efficiency (fairness)" [167, p. 5-6]. Yet as shown throughout this thesis, fairness – in both of its manifestations – is central to our discussions about finance, international or otherwise. The global financial order might not need be fair to survive when the spotlight does not shine on it; but when it does, perceptions of unfairness can chip away at its structure. Enduring stability thus requires acknowledging the legitimacy of *both* call for prudence during good times and redemption during hard times.

Appendix A

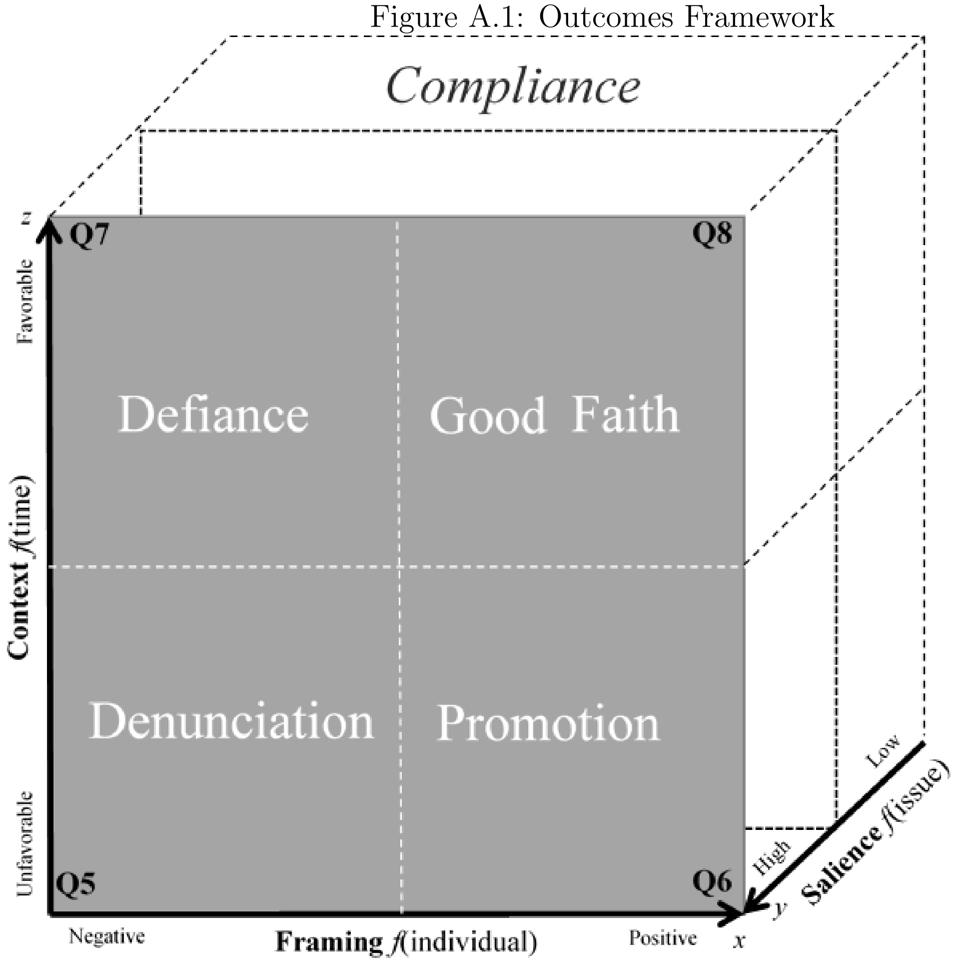
Appendix

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		

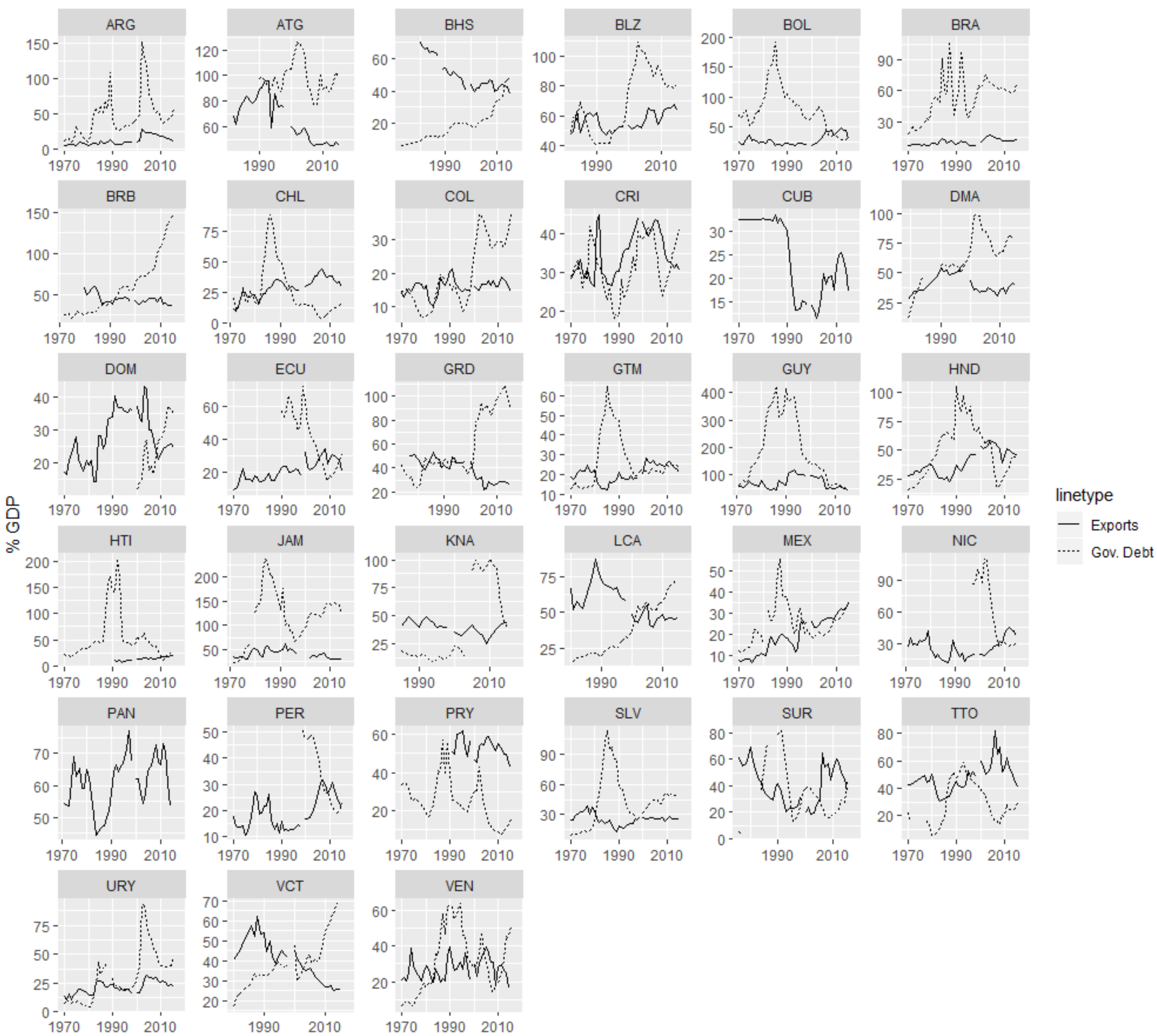
Note: The codes and group classifications are taken from the World Bank Development Indicators (2019) [231]. Classification by Income Group begins in 1987 and considers year-to-year changes in income group based on the thresholds set by the World Bank for each period. Countries that ceased to exist are 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* [118]

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 Document-Term Normalization

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 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.[1]

[1]This was calculated using the R package *TidyText* [213], removing all *stopwords*.

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.

A.0.2 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*" [172, 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.[2]

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*.[3] I expect that the vectorized texts of the abstracts can be classified using a binomial logistic regression into American and British school journals.[4]

Figure A.3 suggests that the vectorized pre-processed[5] texts of the abstracts are a good

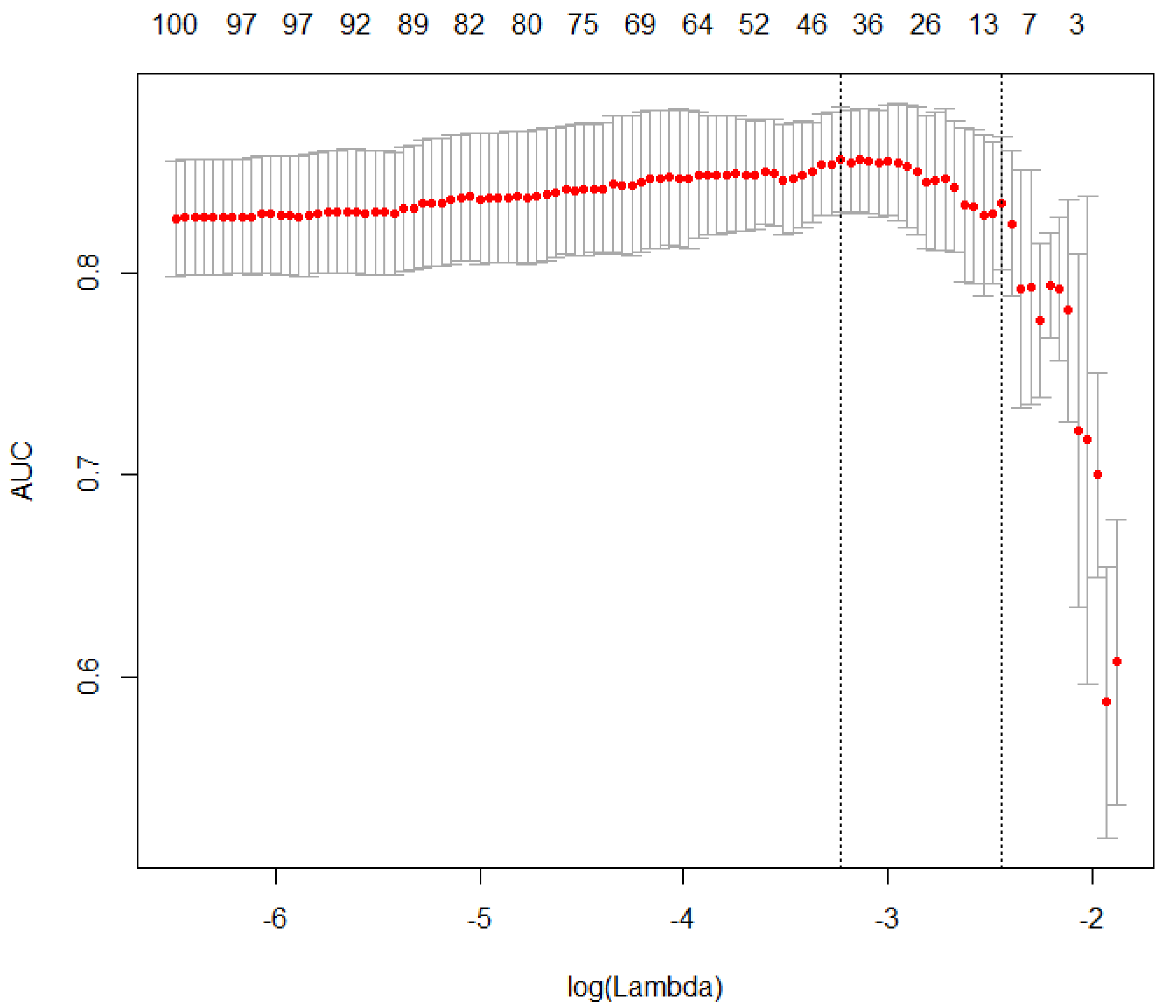
[2]Murphy and Nelson (2001) rely to a limited extent on key term analysis and find that the term *Harvard* is more prominent than terms associated with measurement and science within the IO articles [172, p. 403]

[3]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*

[4]There are several other methods of text classification that rely on both supervised and unsupervised machine-learning such as *Wordscores*) and (*Wordfish*) respectively [146, 215]. However, for the sake of simplicity and given the relatively small size of this corpus, here I rely on logistic regression.

[5]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 R package *glmnet*. 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.

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 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.[6]

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.

[6]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)

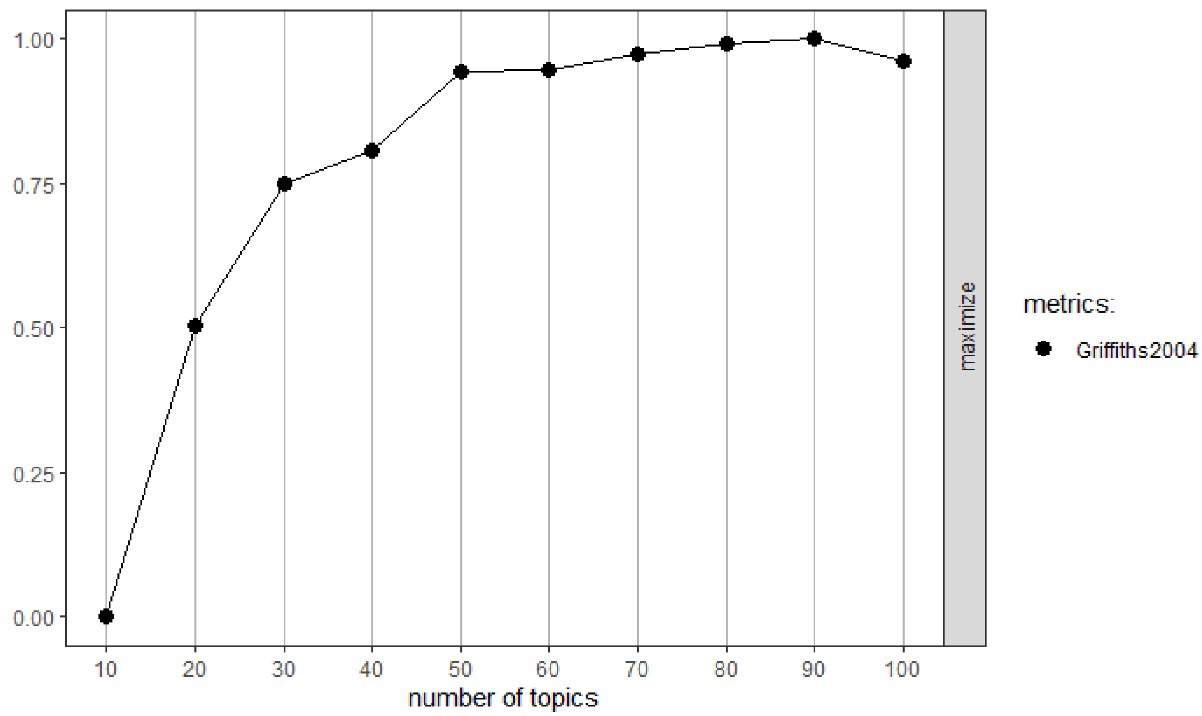
Name	Code	Name	Code
International Monetary Fund	IMF	World Bank*	WB
The Paris Club	TPC	The London Club	TLC
China Development Bank	CDB	European Central Bank	ECB
Bank for Int. Settlements*	BIS	International Inv. Bank	IIB
G-20/8/7*	GTT	European Monetary Union*	EMU
Institute for In. Finance	IIF	Islamic Development 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)

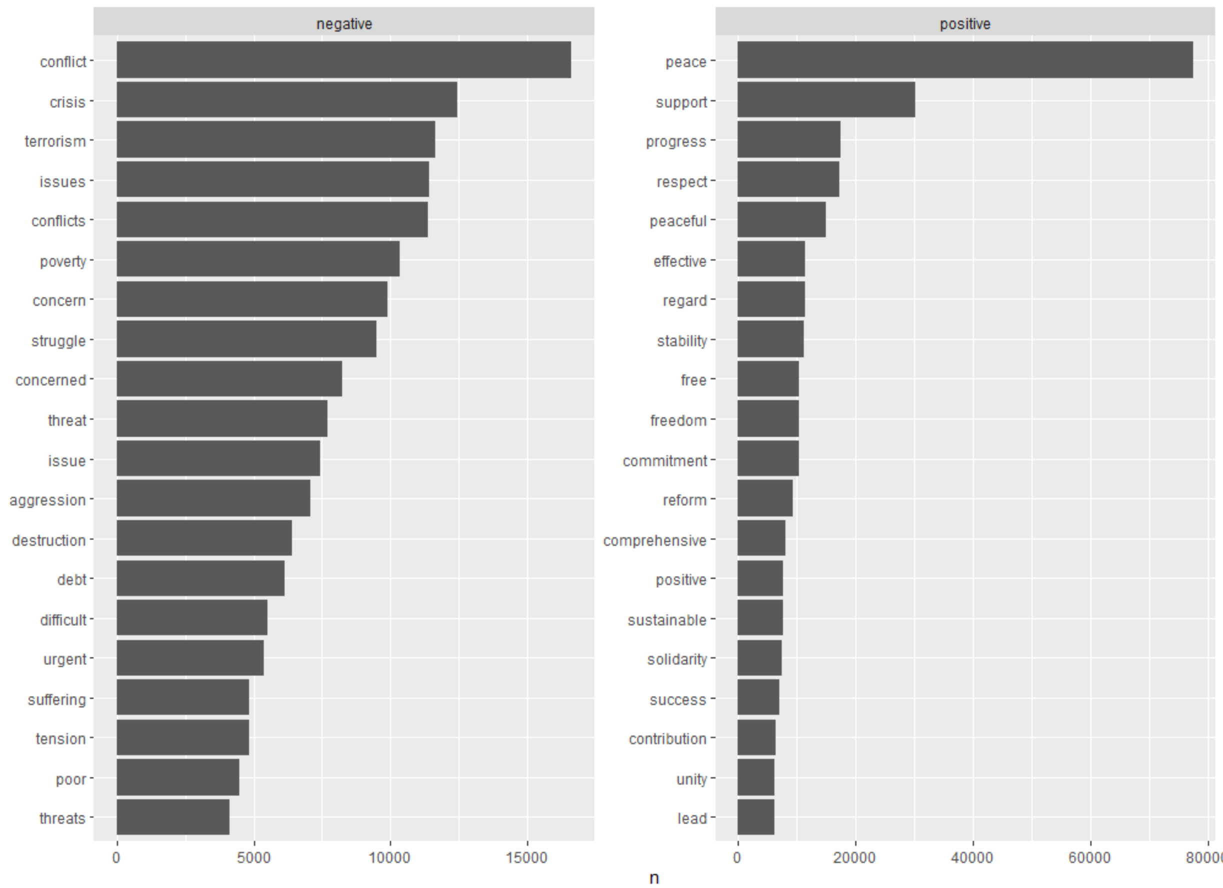
Region	N	Mean	St. Dev.	Min	Pctl(25)	Pctl(75)	Max
ALL	7,471	715.120	250.456	126	527.5	870	2,168
EAS	1,016	663.557	226.045	139	499	796	1,591
ECS	1,838	667.697	240.703	160	488	829	1,658
LCN	1,379	755.322	253.226	145	574	908.5	2,168
MEA	901	747.893	241.518	126	572	881	1,669
NAC	92	829.902	231.542	279	676.2	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



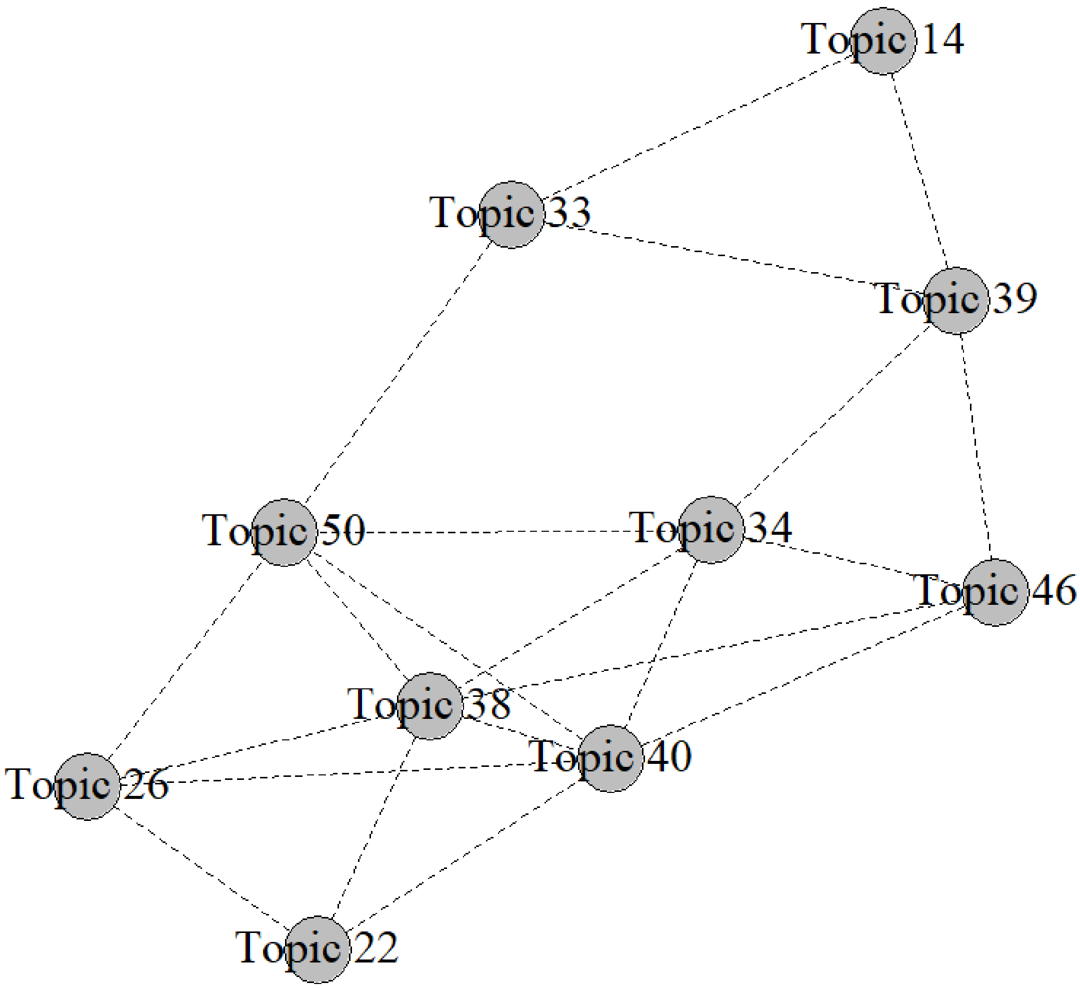
Note(s): This was calculated using the R Package *ldatunning* developed by Murzintcev (2019) [173]. Its maximization methodology was derived from Griffiths and Steyvers (2004) [96]. I selected k = 50 as the Griffiths metric shows diminishing returns for an increase in topics thereafter. This was calculated from a 10% sample of the document-frequency matrix and [10:100] range by 10 interval.

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



Note(s): The Bing (2008) [55] dictionary is included in the *TidyText* package. The dictionary includes words classified as either positive or negative. The most common positive connotation words counted throughout the UNGA corpus were peace, support and progress. The term debt is classified as a negative word by this dictionary and found more than 5,000 times throughout the corpus. This shows the limitations of applying general purpose dictionaries for more specific analyses such as identifying economic narratives.

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] Dragoslav Avramovic, Shahid Husain, Jan de Weille, Johan Froland, J. P. Hayes, and Hans Wyss. *Economic Growth and External Debt.* The Johns Hopkins Press, Baltimore, 1964.

[9] Cornel Ban and Mark Blyth. The BRICs and the Washington Consensus: An introduction. *Rev. Int. Polit. Econ.*, 20(2):241–255, 2013.

[10] Banco Central del Ecuador. Tipo de Cambio Historico: Sucre-USD, 2001.

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

[12] 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.

[13] 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.

[14] José Luis Bernal Rodríguez. Política Exterior y Promoción Económica Internacional: Hacia una Nueva Diplomacia Económica. *Rev. Méxicana Política Exter.*, 62/63:7–27, 2001.

[15] Enrique Berruga Filloy. La Política Mexicana de Cooperación Internacional. *Rev. Mex. Política Exter.*, 61:248–267, 2000.

[16] Carlos Berzosa. Raúl Prebisch y la Economía del Desarrollo. *Rev. Econ. Crítica*, 21:131–134, 2016.

[17] Stephanie Blankenburg and Jose Gabriel Palma. Introduction: the Global Financial Crisis. *Cambridge J. Econ.*, 33(4):531–538, 2009.

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

[19] Joseph Blocher and Mitu Gulati. A Market for Sovereign Control. *Duke Law J.*, 66(4):797–843, 2017.

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

[21] 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.

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

[23] Francisco Borja Martinez. El Nuevo Régimen del Banco de México. *Comer. Exter.*, pages 12–19, 1995.

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

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

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

[27] 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.

[28] Miguel A Buitrago. El Significado de la Llegada de Evo Morales al Poder en la República de Bolivia. *Iberoamericana*, VI(22):159–164, 2006.

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

[30] CAIC. Final Report of the Integral Auditing of the Ecuadorian Debt. Technical report, Internal Auditing Commission for the Public Credit of Ecuador, Quito, 2008.

[31] 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.

[32] Angel Calderón Mayorga. La Dolarización Ecuatoriana, nov 2011.

[33] Charles W. Calomiris and Stephen H. Haber. *Fragile by Design: the Political Origins of Banking Crises and Scarce Credit*. Princeton University Press, Princeton, 2014.

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

[35] Jorge Castañeda. Política Exterior de México: Principales Ejes de Acción. *Rev. Mex. Política Exter.*, 62-63:139–144, 2001.

[36] Jorge G. Castañeda. El Nuevo Activismo Internacional Mexicano. *Rev. Mex. Política Exter.*, 64:43–53, 2001.

[37] Paola Cerchiello and Giancarlo Nicola. Assessing News Contagion in Finance. *Econometrics*, 6(1):1–19, 2018.

[38] 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.

[39] 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.

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

[41] 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.

[42] Stephen J Choi, Mitu Gulati, and Eric A Posner. Political Risk and Sovereign Debt Contracts. 2011.

[43] Joel Tomas Citron and Gerald Nickelsburg. Country Risk and Political Instability. *J. Dev. Econ.*, 25(2):385–392, 1987.

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

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

[46] 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.

[47] Rafael Correa. Dolarización y Desdolarización : Más Elementos para el Debate. *Iconos, Rev. Ciencias Soc.*, (20):84–89, 2004.

[48] 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.

[49] Rafael Correa. Ecuador: De Banana Republic a la NO República, 2009.

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

[51] 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.

[52] Cesi Cruz, Philip Keefer, and Carlos Scartascini. Database of Political Institutions 2017. *Inter-American Dev. Bank*, 2017(February), 2018.

[53] Gábor Csárdi and Tamas Nepusz. The igraph Software Package for Complex Network Research. *InterJournal*, Complex Sy:1695, 2006.

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

[55] 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.

[56] Nigel Dodd. *The Social Life of Money.* Princeton University Press, Princeton, 2014.

[57] Jorge Domínguez and Chappell Lawson. *Mexico's Pivtoal Election: Candidates, Voters, and the Presidential Campaign of 2000.* Stanford University Press, Stanford, 2004.

[58] Edgar J Dosman, editor. *Raúl Prebisch: Power, Principle, and the Ethics of Development.* IDB-INTAL, Buenos Aires, 2006.

[59] 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.

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

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

[62] Jonathan Eaton and Mark Gersovitz. LDC Participation in International Financial Markets. Debt and Reserves. *J. Dev. Econ.*, 7(1):3–21, 1980.

[63] Barry Eichengreen. Restructuring Sovereign Debt. *J. Econ. Perspect.*, 17(4):75–98, 2003.

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

[65] 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.

[66] El Comercio. 15 Años Después, el Dólar Tiene un 85% de Popularidad en el País, jan 2015.

[67] El Comercio. Ecuador Seguirá Dolarizado Pese a Difícil Situación Económica, dice Correa, aug 2015.

[68] El Comercio. Los Hechos que Marcaron el Derrocamiento de Jamil Mahuad, jan 2016.

[69] El Telégrafo. Campaña Presidencial de Rafael Correa es Reconocida Internacionalmente, apr 2014.

[70] El Telégrafo. Créditos Vinculados Fueron Parte de la Crisis Bancaria, jan 2014.

[71] El Telégrafo. Con Mahuad, Ecuador Sufrió la Peor Crisis Económica y Social de su Historia, nov 2016.

[72] El Telégrafo. El Retorno de la Democracia: Historias Electorales, 2016.

[73] 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.

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

[75] 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.

[76] Albert Fishlow. Lessons From the Past: Capital Markets During the 19th Century and the Interwar Period. In Miles Kahler, editor, *Polit. Int. Debt*, pages 37–94. Cornell University Press, Ithaca, 1986.

[77] Guillaume Fontaine. Sobre Bonanzas y Dependencia: Petróleo y Enfermedad Holandesa en el Ecuador. *Iconos, Rev. Ciencias Soc.*, 13:102–110, 2002.

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

[79] Milton Friedman. Neo-liberalism and its Prospects. *Farmand/humanevents*, (February):89–93, 1951.

[80] Milton Friedman. *Milton Friedman on Economics: Selected Papers.* University of Chicago Press, Chicago, 2007.

[81] Francis Fukuyama. *The End of History and the Last Man.* MacMillan, New York, 1992.

[82] 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.

[83] Ana Carolina Garriga. Central Bank Independence in the World: A New Data Set. *Int. Interact.*, 42(5):849–868, 2016.

[84] Anna Gelpern and M. Gulati. Innovation After the Revolution: Foreign Sovereign Bond Contracts since 2003. *Cap. Mark. Law J.*, 4(1):85–103, 2009.

[85] Anna Gelpern and Mitu Gulati. Public Symbol in Private Contract: A Case Study. *Wash. UL Rev.*, 84(7):1627–1715, 2006.

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

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

[88] 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.

[89] 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.

[90] Google. Ngram viewer, 2020.

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

[92] 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.

[93] Ilene Grabel. Not Your Grandfather's IMF: Global Crisis, 'Productive Incoherence' and Developmental Policy Space. *Cambridge J. Econ.*, 35(5):805–830, 2011.

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

[95] Michael Graetz and Olivia Briffault. A "Barbarous Relic": The French, Gold and the Demise of Bretton Woods. In Naomi Lamoreaux and Ian Shapiro, editors, *Brett. Woods Agreements*, chapter 6, pages 121–144. Yale University Press, 2019.

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

[97] 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.

[98] 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.

[99] Mitu Gulati and Mark Weidemaier. The Relevance of Law to Sovereign Debt. *Annu. Rev. Law Soc. Sci.*, 11:395–408, 2015.

[100] Ángel Gurría. Principios, Objetivos y Estrategias de la Política Exterior de México en los Años Noventa. *Rev. Mex. Política Exter.*, 46:284–301, 1995.

[101] 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.

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

[103] Johnathan Haidt. *The Righteous Mind: Why Good People are Divided by Politics and Religion.* Penguin, London, 2012.

[104] 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.

[105] Stephen Hansen and Michael McMahon. Shocking Language: Understanding the Macroeconomic Effects of Central Bank Communication. *J. Int. Econ.*, 99:S114–S133, 2016.

[106] David Harvey. *The Enigma of Capital and the Crises of Capitalism.* Oxford University Press, Oxford, 2010.

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

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

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

[110] Eric Helleiner. The Strange Story of Bush and the Argentine Debt Crisis. *Third World Q.*, 26(6):951–969, 2005.

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

[112] 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.

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

[114] 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.

[115] Alfredo Hernandez Sanchez and Julius Horvath. Sovereign Debt Crisis: Euro Reality. In Rajmund Mirdala and Rosaria Canale, editors, *Econ. Imbalances Institutional Chang. to Euro Eur. Union*, chapter 18, pages 431–429. Emerald Publishing Limited, Bingley, 2017.

[116] 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.

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

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

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

[120] Michael Hudson. *Super Imperialism: The Origin and Fundamentals of U.S. World Dominance*. Pluto Press, second edition, 2003.

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

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

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

[124] IMCA. Collective action clauses, 2014.

[125] International Monetary Fund. Strengthening the Contractual Framework to Address Collective Action Problems in Sovereign Debt Restructuring. (October), 2014.

[126] International Monetary Fund. Central Government Debt, 2020.

[127] International Monetary Fund. COFER, 2020.

[128] International Monetary Fund. IMF Executive Board Approves Immediate Debt Service Relief for 25 Eligible Low-Income Countries, 2020.

[129] International Monetary Fund. Private Debt, Loans and Debt Securities, 2020.

[130] 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.

[131] William James. *The Will to Believe and Other Essays in Popular Philosophy.* Project Gutenberg, 1912.

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

[133] Miles Kahler. Politics and International Debt: Explaining the Crisis. *Int. Organ.*, 39(03):357, 1985.

[134] Miles Kahler. Conclusion: Politics and Proposals for Reform. In Miles Kahler, editor, *Polit. Int. Debt*, pages 245–272. Cornell University Press, Ithaca, 1986.

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

[136] 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.

[137] Charles P. Kindleberger. *Manias, Panics, and Crashes: A History of Financial Crises*. Wiley, New Jersey, fifth edition, 2000.

[138] 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.

[139] Stephen D. Krasner. Structural Causes and Regime Consequences: Regimes as Intervening Variables. *Int. Organ.*, 36(02):185, 1982.

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

[141] Enrique Krauze. La Presidencia Imperial: Ascenso y Caida del Sistema Politico Mexicano (1940-1996), 2002.

[142] Anne O Krueger. A New Approach to Sovereign Debt Restructuring. Technical report, International Monetary Fund, Washington D.C., 2002.

[143] 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.

[144] Ranjit Lall. From Failure to Failure: The Politics of International Banking Regulation. *Rev. Int. Polit. Econ.*, 19(4):609–638, oct 2012.

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

[146] 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.

[147] David a. Leblang. The Political Economy of Speculative Attacks in the Developing World. *Int. Stud. Q.*, 46(1):69–91, 2002.

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

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

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

[151] Friedrich List. *The National System of Political Economy*. Longmans, Green and Co., London, 1909.

[152] 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.

[153] 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.

[154] 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.

[155] 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.

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

[157] Aaron Major. Neoliberalism and the New International Financial Architecture. *Rev. Int. Polit. Econ.*, 19(4):536–561, oct 2012.

[158] 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.

[159] Naomi Mapstone. Ecuador Defaults on Sovereign Bonds: President Labels Bondholders 'Real Monsters', 2008.

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

[161] Walter Mattli and Ngaire Woods. In Whose Benefit? Explaining Regulatory Change in Global Politics. In *Polit. Glob. Regul.*, pages 1–43. 2009.

[162] S Mbaye, M Moreno-Badia, and K Chae. Global Debt Database: Methodology and Sources. 2018.

[163] Paúl Mena Erazo. Diez años de Dolarización en Ecuador, jan 2010.

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

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

[166] Camelia Minoiu and Javier a. Reyes. A Network Analysis of Global Banking: 1978–2009. *J. Financ. Stab.*, 9(2):168–184, jun 2013.

[167] Hyman P. Minsky. *Stabilizing an Unstable Economy.* McGraw-Hill, United States, 1986.

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

[169] Valeria Moy. Ecuador: ¿La Siguiente Crisis de Endeudamiento? *Foreign Aff. Latinoam.*, February, 2016.

[170] Pabel Muñoz López. Ecuador: Reforma del Estado y Crisis Política, 1992-2005. *Hist. Actual Online*, 11(Fall):101–110, 2006.

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

[172] 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.

[173] Nikita Murzintcev. Ldatuning, 2019.

[174] 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.

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

[176] Carl Nordlund. Power-Relational Core–Periphery Structures: Peripheral Dependency and Core Dominance in Binary and Valued Networks. *Netw. Sci.*, 6(3):348–369, 2018.

[177] 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.

[178] Maurice Obstfeld. The Global Capital Market: Benefactor or Menace? *J. Econ. Perspect.*, 12(4):9–30, 1998.

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

[180] Steffen Osterloh. Words Speak Louder than Actions: The Impact of Politics on Economic Performance. *J. Comp. Econ.*, 40(3):318–336, 2012.

[181] Simón Pachano. Ecuador: el Nuevo Sistema Político en Funcionamiento. *Rev. Cienc. Polit.*, 30(2):297–317, 2010.

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

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

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

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

[186] Katharina Pistor. A Legal Theory of Finance. *J. Comp. Econ.*, 41(2):315–330, may 2013.

[187] Katharina Pistor. Transnational Regulatory Regimes in Finance: A Comparative Analysis of their (Dis-)Integrative Effects. In László Bruszt and Gerald A. McDermott, editors, *Leveling Play. F. Transnatl. Regul. Integr. Dev.*, chapter 12, pages 294–312. Oxford University Press, Oxford, 2014.

[188] Katharina Pistor. *The Code of Capital: How the Law Creates Wealth and Inequality.* Princeton University Press, Princeton, 2019.

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

[190] 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.

[191] Rebecca Ray, Kevin Gallagher, Andres Lopez, and Cynthia Sanborn. China in Latin America: Lessons for South-South Cooperation and Sustainable Development. 2015.

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

[193] Lex Rieffel. *Restructuring Sovereign Debt: The Case for Ad Hoc Machinery.* Brookings Institution Press, Washington D.C., 2003.

[194] Pietra Rivoli and Thomas Brewer. Political Instability and Country Risk. *Glob. Financ. J.*, 8(2):309–321, 1997.

[195] Margaret E. Roberts, Brandon M. Stewart, and Dustin Tingley. Stm: An R Package for Structural Topic Models. *J. Stat. Softw.*, 91(2), 2019.

[196] 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.

[197] Vivianne Rodrigues and Andres Schipani. Ecuador Returning to Bond Market After 2008 Default, jun 2014.

[198] Carlos Rojas. Las 9 Claves para Entender la Crisis de 1999 y la Caída de Mahuad, may 2014.

[199] Jerome Roos. *Why not Default? The Political Economy of Sovereign Debt.* Princeton University Press, Princeton, 2019.

[200] 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.

[201] 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.

[202] John Gerard Ruggie. International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order. *Int. Organ.*, 36(02):379, 1982.

[203] 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.

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

[205] Henry Sanderson and Micheal Forsythe. *China's Superbank: Debt, Oil and Influence— How China Development Bank Is Rewriting the Rules of Finance.* Bloomberg Press, Singapore, 2013.

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

[207] Andres Schipani and Robin Wigglesworth. Ecuador Repays Debt and Makes History, dec 2015.

[208] Kurt Schuler. El Futuro de la Dolarizacion en el Ecuador. 2002.

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

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

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

[212] Andrei Shleifer. Will the Sovereign Debt Market Survive? *Am. Econ. Rev.*, 93(2):85–90, 2003.

[213] Julia Silge and David Robinson. *Text Mining with R: A Tidy Approach.* O'Reilly, United States, 1 edition, 2017.

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

[215] 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.

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

[217] Susanne Soederberg. The Politics of Representation and Financial Fetishism: the case of the G20 summits. *Third World Q.*, 31(4):523–540, 2010.

[218] Injoo Sohn. Toward Normative Fragmentation: An East Asian Financial Architecture in the Post-Global Crisis World. *Rev. Int. Polit. Econ.*, 19(4):586–608, 2012.

[219] Robert Solomon. *Money on the Move: the Revolution in International Finance since 1980.* Princeton University Press, Princeton, 1999.

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

[221] Susan Strange. Cave! hic Dragones: a Critique of Regime Analysis. *Int. Organ.*, 36(02):479, 1982.

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

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

[224] Carlos Tello. *Estado y Desarrollo Económico: México 1920-2006.* Universidad Nacional Autónoma de Mexico, Mexico D.F., 2011.

[225] 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.

[226] The Economist. Ecuador's Winning Strategy, jun 2009.

[227] The World Bank. Country Data: Mexico, 2017.

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

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

[230] The World Bank. Country Data: Ecuador, 2019.

[231] The World Bank. World Development Indicators, 2019.

[232] Lourdes Tiban. Las Enmiendas Constitucionales en Ecuador: El Gobierno Intenta Permitir la Reelección Indefinida, nov 2015.

[233] 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.

[234] 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.

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

[236] Eduardo Turrent Díaz. Las Tres Etapas de la Autonomía del Banco Central en México. *Análisis Económico*, XX(43):47–80, 2005.

[237] Lars Udéhn. Twenty-five Years with The Logic of Collective Action. *Acta Sociol.*, 36:239–261, 1993.

[238] UNGA. Towards the Establishment of a Multilateral Legal Framework for Sovereign Debt Restructuring Processes. Technical Report Sixty-eight session, United Nations, New York, 2014.

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

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

[241] Yanis Varoufakis. *Adults in the Room: My Battle with Europe's Deep Establishment*. Farrar, Straus and Giroux, New York, 2017.

[242] William Vlcek. Power and the Practice of Security to Govern Global Finance. *Rev. Int. Polit. Econ.*, 19(4):639–662, oct 2012.

[243] Pedro Vuskovic. Raúl Prebisch y su Teoría del Capitalismo Periférico. *Comer. Exter.*, 37(5):409–413, 1987.

[244] Kohei Watanabe. Measuring News Bias: Russia's Official News Agency ITAR-TASS' Coverage of the Ukraine Crisis. *Eur. J. Commun.*, 32(3):224–241, 2017.

[245] 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.

[246] Mark Weidemaier and Mitu Gulati. A People's History of Collective Action Clauses. *VA. J. Int. Law*, 54(December 2012):51–95, 2013.

[247] Galo Yépez Holguín. La Actual Política Exterior del Ecuador y su Relación con la Nueva Constitución. *Rev. AFESE*, 52(December):37–54, 2009.

[248] 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.