CREDITOR GOVERNMENT INTERVENTION IN SOVEREIGN DEBT CRISES

Sarah Yuan He

A dissertation

submitted to the Faculty of

the department of Political Science

in partial fulfillment

of the requirements for the degree of

Doctor of Philosophy

Boston College
Morrissey College of Arts and Sciences
Graduate School

April 2023

CREDITOR GOVERNMENT INTERVENTION IN SOVEREIGN DEBT CRISES

Sarah Yuan He

Advisor: David A. Deese, Ph.D.

Abstract

For centuries, debt has been an important financing vehicle for governments around the world, and ever since the liberalization of cross-border capital movement that started in the US in 1974 and spread quickly through the rest of the West in the second half of the 1970s, states have been borrowing billions of dollars in the international private capital market. All governments are not willing or able to pay their debts at all times, however, and when they are not, a sovereign debt crisis is born. Unlike domestic bankruptcy proceedings, there is no standard default resolution mechanism in sovereign debt, leaving the debt restructuring process ad-hoc, highly unpredictable, and extremely susceptible to political influence. This dissertation studies the behavior of creditor governments—the home governments of private creditors who have lent to foreign states—during such crises and how they step in to intervene in the process of crisis resolution and sovereign debt restructuring.

It turns out that creditor government intervention can vary greatly from case to case, and it varies mainly in two dimensions: whether the creditor government compels the debtor state to repay debt (and, in order to do so, commit to structural economic reforms and fiscal austerity), and whether the creditor government uses its own public funds to provide temporary but immediate financial relief to the distressed debtor (known as a "bail-out"). This dissertation argues that the variation in creditor government behavior can best be explained by two factors in the creditor country: the interest of finance and public sentiment against foreign bailout. Strong, concentrated interests of big players in finance causes the creditor government to demand full debt repayment from and impose austerity demands on the debtor. Strong public opposition to foreign bailouts, driven by ongoing economic

recessions in the creditor country itself, constrains the creditor government's ability to tap into public funds to provide bilateral finance.

This dissertation tests the theory using a mixed-methods research design, exploiting both quantitative and qualitative data to test three hypotheses proposed in support of the theory. It presents an original data set that comprises over 700 observations of creditor government intervention from 1981 to 2016, and uses structured comparisons of study cases to uncover causal mechanisms between the interest of finance, public sentiment, and creditor government behavior.

To Tony

No particular reason

I’m just saving it for the next time I screw up and he’s really mad at me

In which case

You are the most awesome human being there ever is!

But seriously

You are better than the best companion I could ever dream of

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

INTRODUCTION

In 1337, when King Edward III of England was running short of money to finance his expensive war to invade France, he turned to the wealthy banking families of Florence, most notably the Peruzzi and the Bardi families, for a loan. He obtained loans of quite large amounts—600,000 and 900,000 gold florins from the two families respectively—with steep interest rates. Had Edward III been successful at his war with France and his claim to the French throne, he would have had no problem repaying the debt. However, Edward did not become the King of France as he wished, and he reneged on first the interest payments, and then the principal, of his debt due to those Florentine families.

Edward III was not the only King, or government, that has borrowed money. Debt financing has been a crucial way for governments to fund themselves, and can serve as an alternative to other ways of raising revenue, i.e. raising taxes. At times, a government may find itself in a situation where its tax revenue cannot cover its spending, and debt financing allows it to avoid raising taxes or cutting spending. This financing instrument is especially valuable during economic recessions, when cutting spending or raising taxes will only further deepen the recession. In fact, governments often cut taxes and increase spending during economic downturns, a measured known as counter-cyclical fiscal stimulus, to boost demand and help the economy recover sooner from recessions.

Additionally, governments may also borrow to drive long-term growth and development, quite like how a private company borrows to expand businesses. This reasoning is particularly relevant to the less developed countries in the world, whose economy will benefit enormously from capital investment but lack sufficient domestic savings to make those

investments. The logic behind development borrowing is simple: the borrowed money will be invested to propel economic growth, so that in the long run the loan will generate enough extra wealth in the country and extra government revenue (through taxation) to pay for itself. Governments borrow to build roads, bridges, power plants, high-speed internet, among other physical infrastructure, as well as invest in non-tangible goods such as public education and healthcare, hoping that these investments will lead to more productive citizens and an enlarged tax base to enable them to pay back interests and principal. King Edward had a similar plan: when he becomes the King of France, with the help of the loan from Florentine banks, he would have a much larger tax base to extract from and no problem paying his debt.

However, sovereign borrowing is not without risks. Just like Edward III did not conquer France, many things could go wrong in sovereign borrowing: maybe the government has stimulated the economy too much (or not enough), or maybe it has spent the borrowed money unwisely, and instead of building roads and bridges it bought Rolls-Royces and Ferraris for the family members of the President. If the debt does not generate enough productivity growth, the government will sooner or later be unable to pay its debt. Moreover, in modern days, a government may suddenly be pushed to the brink of default by matters completely out of its own control (Marichal, 1989): most governments nowadays who borrow externally in the international market have short- to medium-term loans, with floating interest rates, and the loans often denominated not in their local currency but an international currency, usually the dollar or euro. This means that any change of tide in the international capital market, such as an interest rate hike by Central Banks in major countries, recessions, natural disasters, exchange rate fluctuations, can dramatically affect the cost and availability of capital to sovereign borrowers. An interest rate hike by the Federal Reserve, for example, could mean a drastic increase in debt servicing cost for Mexico; an economic recession in the US could lead to an international liquidity drought, making it harder and more expensive for sovereign borrowers to find new loans to pay for old,

maturing ones.

Still, despite all these risks and fickleness of international investors, sovereigns continue to borrow large sums from them, because of the many unparalleled advantages of the international private capital market: first and most important of all, the international market is large and has an abundance of capital, compared to the domestic market of the borrowing country, which may have very limited savings and therefore high borrowing cost and limited capital availability; second, the loan money comes with few strings attached, compared to IMF loans that are conditioned upon numerous policy adjustments and World Bank loans that are dedicated to specific developmental projects picked by the organization; the money also involves no equity claims, unlike foreign direct investment (FDI) which take up official ownership in businesses and projects in the destination country; lastly, the borrower can shop for the best terms (in terms of interest rates, repayment schedule, and restrictions associated with the loan) in the market, compared to official loans whose terms are often hard to negotiate. Overall, debtor countries enjoy much freedom by borrowing from the international capital market, and since the 1970s, with the loosening of cross-border capital control and the influx of petro-dollars into western banks, sovereign borrowing in the private market soared and soon overshadowed official loans from states and international organizations (the Economist, 1981).

But there are grave consequences when it doesn't all go according to plan. And this is where sovereign borrowing departures from the borrowing by individuals and companies: unlike the default of private individuals and companies domestically, sovereign default is governed by nothing. Sovereign states exist in an international structure of anarchy, and there is no bankruptcy law, no Chapter 11 for states/national governments. So instead of an orderly process of default, during sovereign defaults various stakeholders scramble and meet other stake holders at the negotiation table to try to figure out what to do and what will happen next—how much the debtor is willing to pay, on what timeline, where and how much can it obtain fresh capital, how much of the debt would have to be forgiven,

etc. Creditors may also choose to act unilaterally—they will try to rush to the exit door before the official onset of default, hoping to liquidate their debt obligations while they still hold value before everybody else does, triggering a run on the country's debt and further worsening the situation.

This chaotic, nerve-racking, and highly unpredictable process, aka sovereign debt crisis and crisis resolution, has attracted scholarly attention from multiple fields in the social sciences, especially economists and political scientists. They focus on various aspects of sovereign debt: the terms of borrowing and repayment (Eichengreen, 1991; Tomz, 2007), the interest rates and the risk factors (Eaton and Gersovitz, 1981; Edelstein, 1982), development finance and GDP growth (Dani and McMillan, 2011; Robinson and Acemoglu, 2012; Sachs, 2001), the default and the restructuring negotiation (Reinhart and Rogoff, 2009; Tomz and Wright, 2013), etc. This dissertation joins this conversation by focusing on the politics of sovereign debt restructuring, the difficult process through which creditors and the distressed debtor renegotiate debt obligations and repayment schedule. In particular, it examines the role played by the home governments of private creditors—creditor governments—in sovereign debt restructuring.

Inevitably, when sovereign borrowers default on their debts, creditors will suffer losses, sometimes insurmountable losses, as in the case of Edward III's default: it directly led to the collapse of both Bardi and Peruzzi families' banks in 1345 and their replacement by the Medici as the most powerful banking family in Florence. Similarly, defaults by large or multiple sovereign borrowers can be detrimental to the financial solvency, even survival, of their creditors. Although creditor governments do not appear to be direct stakeholders in sovereign debt defaults (assuming the defaulted debt is borrowed from the private international market, not state-to-state lending), they are nevertheless impacted by such crises. First, the crisis may have a cascading effect on the regional, and sometimes even global, economy, and turmoil in one economy can spill over, through trade, financial, and other economic associations, to others. Second, in modern days, private creditors, espe-

cially large, international banks, may be systemically important in their home countries' economies ("too-big-to-fail"), and the losses they suffer from sovereign defaults overseas threaten their financial survival and hence the stability of their home countries' economies. Last but not least, large crises expose the vulnerability of the existing international financial architecture, and every crisis may be an opportunity to revise this architecture. Creditor governments are key stakeholders in the current regime, and therefore any potential amendment to it naturally concerns them.

And history is full of episodes when creditor governments intervene in the resolution of sovereign debt crisis and the restructuring of the debt. Notably, creditor government intervention is not a new phenomenon: its earliest manifestations are widely observable in military excursions and colonial control, such as when the British military occupied Egypt in 1882, or the French colonized Tunisia in 1881. Over time colonialism and overt military occupation have subsided and their utility diminished, but creditor government intervention has not died, but rather evolved into new forms: diplomatic engagement, inducement, punishment, and most recently through multilateral institutions like the International Monetary Fund (IMF). The resourcefulness and power of creditor governments give them great leverage in influencing the behaviors of debtor states and private creditors alike, and although it has changed in form, creditor government intervention remains remarkably effective in the world we live in today.

This dissertation examines creditor government intervention since the early 1980s to date. It turns out that creditor governments act in very different ways in different cases: sometimes they issue swift bilateral bailout loans for the distressed debtor, sometimes they press the debtor country to go through dramatic economic policy reforms, sometimes they encourage private creditors to take losses, sometimes they insist that the debt needs to be paid in full, and sometimes they don't do anything at all and intentionally refrain from intervening. This dissertation probes into the divergent behaviors of creditor governments and find explanations for them. It establishes what goes into the decision-making of creditor

governments when they respond to a foreign sovereign debt crisis, and what factors are the most influential in this process.

I am greatly indebted to my dissertation advisor, Professor David Deese, as well as to my two readers, Professor Jonathan Kirshner and Professor Robert Murphy, without whose generous help and invaluable insights I cannot finish this work. I have also been blessed to be a member of the political science department at Boston College, and I am deeply grateful to the faculty members for the wealth of knowledge, guidance, and wisdom they imparted to me through courses, projects, seminars, and countless conversations in the office, over lunch, in the hallway, and at various events and meetings. Addtionally, one of the best perks of studying and living in Boston is that there are so many great institutions around town, and I have often hopped on the green line train to go to classes, seminars, and events held at Harvard, MIT, and Boston University, all of which have enriched my PhD career and offered inspirations to what eventually evolved into this dissertation. Last but definitely not least, I cannot overstate the importance of the unwavering support of my family and their faith in me, without whom I would never be able to finish, or even start on, this journey of pursuing knowledge and truth.

1.0 CHAPTER 1. SOVEREIGN BORROWING AND DEFAULT

"Countries don't go bust."

— Walter Wriston

"The investor has no remedy, none whatever against (sovereign) default. Defaults are worldwide and frequent."

— John Maynard Keynes

The enforcement of contracts between sovereign borrowers and their private creditors has long intrigued social scientists. On one hand, Walter Wriston, the most prominent banker of his day and chairman of the Citibank from 1967 to 1984, asserts that "countries don't go bust" (Buckley, 2009) because they have vast resources and means to extract from their population, resulting in an unlimited debt servicing capacity. On the other hand, John Maynard Keynes, one of the most influential economists of all time, observes that countries default on their debts all the time and that contracts with sovereigns are fundamentally unenforceable, because sovereigns exist under anarchy, don't need to abide by any rule of law, and are free to do whatever they choose. Therefore, when sovereign states lack the will to honor any contract, they simply don't have to (Keynes, 1924).

The life cycle of sovereign debt is similar to any other borrowing, at least formally: the sovereign borrower and lenders agree on a contract of terms in the beginning of the loan cycle, which stipulates the principal, interest rates (or how interest rates are to be determined if floating), maturity timeline and payment schedule. Unlike foreign direct investment, the lender only participates in the giving and repaying of the loan, not how the loan proceeds is to be used and the profits it is to generate. The lender is hands-off, holds no equity, and

is not concerned by how effectively the loan is used. States have borrowed from external sources for centuries, both from other states and from private lenders. After WWII, under the newly established Bretton Woods system, states only borrowed conservatively and for a limited number of reasons: to finance cross-border businesses, to fix temporary trade imbalances, to fund large developmental projects, etc. They borrowed, however, mainly from other states and international financial institutions like the IMF and World Bank, because the international market of private capital was extremely small, almost nonexistent, since capital flow was restricted under the Bretton Woods system (Ruggie, 1982). More recently, ever since the capital liberalization in the 70s, sovereign borrowing from the market—from private investors—has shot up significantly, even starting to overshadow borrowing from the IMF. In 1978, for example, only 4% of current account deficits in developing countries were financed by the IMF, so that the Economist, in 1981, called the IMF's role "helpful, steadying, and very marginal" (the Economist, 1981). Unlike multilateral development banks that only fund specific projects they have chosen and the annoying, controlling IMF that stipulates for a wide range of conditions and economic policies and targets to be met, loans from the private international market come with little strings attached. This freedom, along with the abundant availability of private capital in the 70s (made possible by the "Petrodollars"—dollars paid to oil-exporting nations and then deposited in Western banks), made it highly popular, especially among developing countries that are capital scarce and hungry for more. Within a decade, sovereign states, especially middle-income countries, have accumulated an enormous amount of debt, sometimes more than 100% of their GDP.

The whole debt cycle is presented in the diagram below (Figure 1): as is shown, a state can borrow from other states, International Organizations (such as the IMF or multilateral development banks), or from the private capital market (in the form of bank loans or bonds). Once the debt matures (when the time of repayment comes) and a state decides not to pay—or is on the verge of declaring such intention—it sets up a sovereign debt default crisis. Parties, especially direct creditors but also other foreign agents with valuable assets

in the debtor country, scramble to make sense of the situation and try to save their investment and minimize loss. With possible imminent default, both creditors and the debtor country have incentive to sit down at the negotiation table to work out a solution—a debt restructuring deal. Creditors may agree to push back some repayment deadlines, reduce interest rates or even the debt principal; the debtor country may commit to a new repayment schedule, fiscal prudence, or even dedicate a percentage of GDP to debt servicing in the years to come. If a deal is agreed upon by all parties promptly, a default can be avoided; otherwise, the debtor country will miss payment deadlines and be in effective default status, regardless of whether it officially declares to be. This dissertation studies the phenomena in dotted circles—sovereign states who borrowed from the private international capital market and in danger of not repaying on time and therefore in need of restructuring—and the thesis theorizes about the purple triangle—creditor government intervention during sovereign debt restructuring negations. The negotiation is often strenuous, intense, and can last years (which is not optimal, obviously), and the difficulty in reaching a deal not only results from different parties' positions and demands, but also invariably points to the perennial paradox between a sovereign's unlimited ability to pay (meaning that it should never default) and its complete lack of incentive to pay (meaning that it will default every time).

The reality, of course, is somewhere in between. Sovereign states do pay their debts sometimes, but not always. In fact, in the field of IR where the most fundamental tenet is anarchy of the international structure and the intrinsic impossibility of credible commitment by sovereign states, the percentage of instances where countries do honor their debt obligations—more than 90 per cent of the times throughout human history (the actual number varies depending on coding method and aggregation of events: some record fewer defaulting events with longer duration, others more events each with shorter duration) (Tomz and Wright, 2013; Arteta and Hale, 2008; Reinhart and Rogoff, 2004)—is probably considered surprisingly high. This percentage becomes even more remarkable considering that there have been a few episodes in human history that resulted in large group defaults:

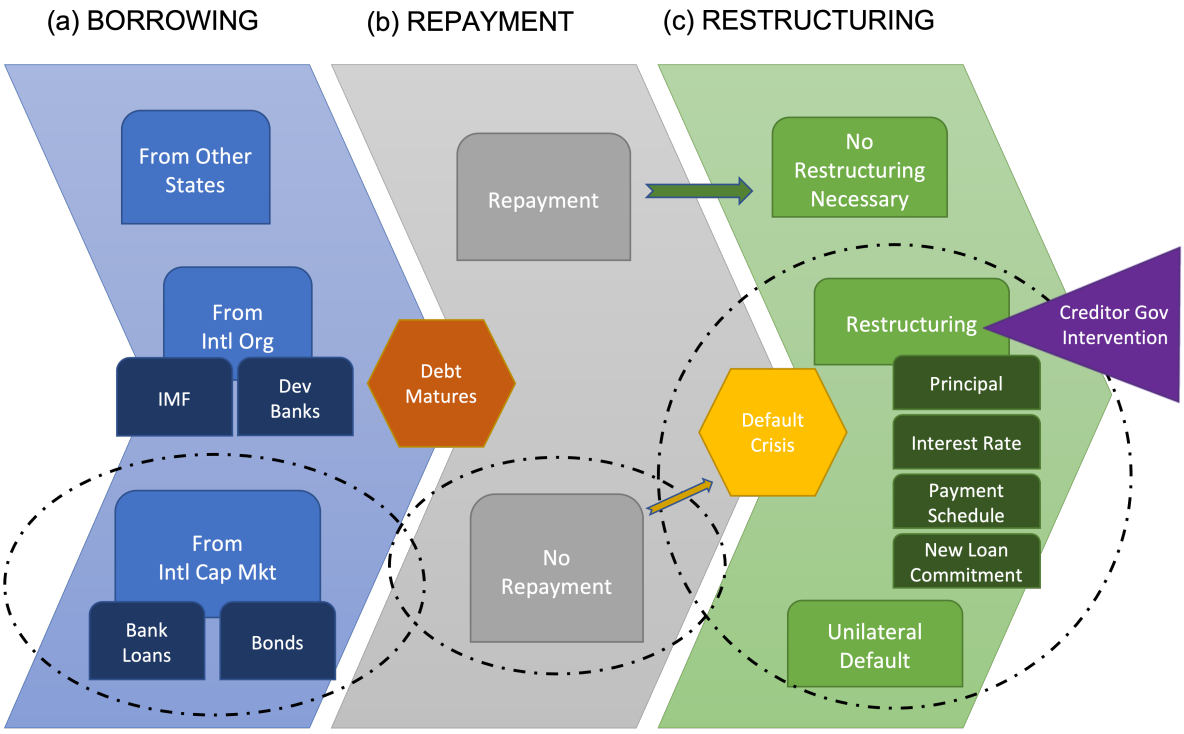


Figure 1: The Life Cycle of Sovereign Borrowing

natural disasters, famine, war, and the Great Depression (for example, about a third of the world's countries defaulted on their debts during the Great Depression and WWII) (Tomz and Wright, 2013).

Apart from dramatic world events like war and natural disasters, numerous things can influence the debtor government's balance sheet and trigger a sovereign debt default crisis: a country's currency exchange rate could deteriorate suddenly, and since most countries' external debt is denominated in the dollar or Euro, large drops in one's currency value increase a sovereign's domestic cost of servicing external debt; the private sector can accumulate much debt and systemic risk, and a government's decision to rescue (bailout) its private sector by guaranteeing or directly taking over private debt could dramatically increase its own debt burden, hurt its sovereign debt rating, and result in difficulty in debt paying. Many other causes—speculation, capital flight, interest rates fluctuation in major economies, contagion from a neighboring country, liquidity draught in the outside world—

all could lead to substantial change in a sovereign's debt burden and debt servicing cost and become a catalyst for sovereign debt default (Claessens and Kose, 2013). At times, even simply the cyclical changes in international interest rate (which largely depends on the US Fed interest rate and its British counterpart, the LIBOR, London Interbank Overnight Rate) and capital availability can become too destabilizing for vulnerable debtor countries, especially given that emerging market economies face particularly volatile and highly counter-cyclical interest rates (Neumeyer and Perri, 2005; Uribe and Yue, 2006).

In fact, sovereigns are often put in sudden, unexpected debt situations because of factors completely beyond their control. Capital flight, for example, can be a result of the Fed raising short-term interest rate in the U.S., making investment in the U.S. more attractive and elsewhere less so. Speculative attack on a currency can occur overnight and spread swiftly, producing a vicious self-fulfilling prophecy. It is therefore rather remarkable how sovereign countries, even under tough conditions, facing adverse shocks, and bearing enormous costs, are still more likely to continue debt repayment than choosing default.

Scholars have come up with numerous theories explaining this phenomenon, with one thing obvious on the subject matter of sovereign debt: unlike private borrowing, the capacity to pay is not so relevant as the will to pay, motivating the key question about sovereign debt—what motivates sovereign borrowers to pay their debts? Existing answers to this question all point to some explanations that sovereign states don't actually go unpunished if they default on their debt: true, sovereign states live in an anarchic space, but their actions still have consequences. They may be punished by the market (Eaton and Gersovitz, 1981), by their own citizens (who may very well also hold their governments' debts), or by other states, often more powerful ones, who would *really* like to see those debts repaid (Lipson, 1992).

The majority of existing scholarly writing about sovereign debt views debt repayment and default as an interaction and bargaining between two parties: the borrower and the lender, or more specifically, the debtor country government and private creditors. There-

fore, both groups are relatively well-studied and understood: their preferences, motivations, and the economic, political, and social constraints they face. Economists, as well as political scientists, have done extensive research on the bargaining dynamics between debtors and creditors (Aguiar and Gopinath, 2006; Arellano, 2008; Crawford, 1987; Eaton and Gersovitz, 1981) and the political conditions that affect a borrowing state's willingness to honor debt obligations (Lienau, 2014; Roos, 2019; Tomz, 2007). However, it is the last group of actors—other, more powerful states—that has been largely neglected, or at least under-explored, in the current scholarly discussion, without the understanding of which, I believe, we cannot fully explain or predict the outcomes of past and future events of sovereign debt crisis.

Hence there comes the focus of this dissertation. Specifically, the actors that this dissertation examines are creditor governments—the home governments of private investors who have lent overseas. Creditor governments have intervened on behalf of their citizens and firms frequently in commercial transactions with foreign states, particularly when the foreign sovereign borrowers are on the verge of default. Creditor government intervention has been documented to be a powerful factor in determining debtor country and private creditor behavior: from military coercion to diplomatic influence through international institutions, Charles Lipson (1992) shows how creditor governments have successfully intervened to the benefit of private investors; McDowell (2016) reveals the role of the US as the only true international lender of last resort (LOLR), which it leverages to influence the resolution of all types of financial crisis across the globe. More recently, Kamlani (2008) shows that creditor government action turns out to be the single most important factor in determining how a sovereign default crisis is resolved. When the creditor government intervenes forcefully in favor of their private creditors, debtor countries seldom default and are compelled to implement economic reforms and fiscal adjustment to ensure debt servicing capacity; when the creditor government extends an emergency bilateral loan to the distressed borrower, it can avert imminent default and large losses for private investors; when the creditor govern-

ment does not intervene on behalf of lenders, private lenders are left in the world described by Keynes: they have no remedy, no leverage whatsoever against sovereign borrowers and have to accept large losses.

Although statistically most sovereign debts are repaid on time, in the past few decades so many sovereign states borrow so much that even a fraction of these debts that have gone into default comprise a big collection of default events, giving the impression that sovereign defaults happen frequently. Moreover, a bad, badly executed, or prolonged restructuring can result in years (even decades) of recession in the debtor country and the struggling and impoverishment of millions of people. Meanwhile, a timely and effective restructuring can spearhead economic growth for years to come, bringing the debtor country back on the track for growth and investment, sustainable debt level, and quick reentry into the international capital market. The actions taken by creditor government is a crucial determinant of how a sovereign debt crisis is resolved because it has tremendous influence over the incentive structure faced by debtor countries and private creditors and therefore their actions during the crisis and renegotiation of debt. However, existing literature on modern day debt restructuring has largely overlooked creditor government intervention. Charles Lipson's book, *International Debt and National Security* (1992), was probably the last book written on creditor government intervention, and in the past thirty years, in IPE the study of creditor government reaction to sovereign debt default has taken a back seat to that of international institutions, which have an obvious and undeniable role in sovereign debt cycles but nevertheless cannot and do not have the same power and resourcefulness of creditors' home states. Meanwhile, existing scholarly analysis of sovereign debt restructuring has primarily focused on the direct stakeholders of the negotiation: the debtor country and the lenders (private creditors). It is natural to model debt restructuring as a bargaining between the two parties, but the third party—creditor government—though it may not be a direct stakeholder, is nevertheless always at the table.

Take the Eurozone Crisis as an example. In 2009, when it was revealed that the Greek

government had been heavily underreporting the country's debt, which was calculated to be €300 bn, or twice of the eurozone's limit of 60% of the GDP, it sent chills down the investors' spines and led to the downgrading of the country's credit rating which further increased the cost of debt servicing and diminished Greece's ability to raise new capital. As Greece was driven to the brink of default, other eurozone countries, as well as the IMF and ECB, were forced to take actions to avoid a disastrous crash of the Euro and even disintegration of the eurozone. Greece demanded debt restructuring and reduction, while investors insisted on enforcing existing terms. The IMF and ECB initially provided two rounds of massive bailouts, totaling more than €550 bn, which were still not enough to stop the deterioration of the situation or mitigate its threat to the European economy. In the end, a third agreement was reached in 2011, which expanded the bailout to a trillion euros and required a 50% investor haircut.

Although there were much sound and fury from many stakeholders surrounding the three resolutions, Germany was clearly the elephant in the room. No resolution, no bailout package, no agreement with investors can be made without first convincing Angela Merkel that this is the best thing to do (and Merkel convincing her coalition in government that it is the best thing for the country and *for them*). In particular, the debate over whether Greece's debt level is sustainable (a requirement for any IMF involvement) is never a technical discussion, but a political one. Greece's sovereign debt was never at a sustainable level throughout the crisis, but the IMF had no option but to grant bailout funds in the first two rounds of resolution because Germany insisted on full repayment of debt. In the third round, it was also the German government that compelled debt reduction (haircut) by investors and organized further increase of bailout money (Bechtel et al., 2014).

It turns out that large, powerful creditor countries do intervene in sovereign debt crisis resolutions frequently, but sometimes in surprising ways: Bill Clinton's administration decided to extend an unprecedented $20 bn bilateral loan to Mexico in response to the 1994 Peso Crisis, against the advice of his own political advisors (Summers, 2015), while his

successor, George W. Bush, not so subtly snubbed the IMF and the international finance community who were calling for a bailout for Argentina in 2001, even encouraging Argentina to rebel against IMF orthodoxies and default unilaterally (Helleiner, 2008). These individual events have intrigued researchers, who provide reasons of why a creditor government has chosen to bailout or not bailout a distressed sovereign borrower during a single crisis, but so far there has been no systemic analysis of creditor government intervention as a recurring theme in sovereign borrowing. Moreover, creditor government intervention also deviates from other forms of state behavior in international politics that political scientists have studied for ages (to reinforce national security, strengthen alliances and allies, weaken opponents and competitors, etc), because the fundamental motivation for many state behaviors above—national interest—is much vaguer and harder to define in the realm of international economic crisis management.

This dissertation fills the void by providing a systemic examination of creditor government intervention. It argues that those individual episodes of creditor government intervention, some expected and some seemingly surprising to observers, actually form a pattern of behavior that holds true across countries and time, and this dissertation uncovers this pattern of behavior. It explains the different ways a creditor government can intervene in a foreign sovereign debt crisis and what factors have strong influences over how it will intervene. Even the seemingly deviant, unexpected, and extreme cases—such as Bush's snub to the IMF and investors of Argentine sovereign bond in 2001, Clinton's eager and swift bailout of Mexico in 1994, or the Reagan administration's change of mind on the Latin American debt crisis during the 1980s—are actually a part of this general pattern of behavior by creditor governments.

The pattern also applies regardless of the root cause of the default crisis. As introduced previously, numerous events in the international or local market can trigger a sovereign debt crisis, but the root cause does not matter as long as it has pushed the sovereign to the verge of defaulting on its external obligations, whether or not the debtor government is to

blame or even has any control over the deeper problem. Creditors and creditor governments are driven by the same set of political and economic incentives without consideration for the origin or root cause of the crisis. Creditor government intervention, although it may seem erratic, ad-hoc, and spontaneous, proves to be remarkably consistent and subject to the influence of only a few factors.

This dissertation is, to the author's best knowledge, the first work to systemically examine creditor government intervention in modern sovereign debt default crises. Main contributions are summarized as follows:

- It examines past creditor government responses to foreign sovereign debt default crises and categorizes their responses into four groupings along two dimensions: whether a creditor government compels debt repayment and structural adjustment by the debt country and whether a creditor government uses its own public resource to financially assist ("bailout") the distressed debtor. It shows how each type of creditor government intervention leads to a different debt restructuring outcome for debtor states and their creditors.

- It theorizes that creditor government intervention is determined by political factors in the creditor country and proposes three hypotheses about causes of creditor government behavior. The main factors behind creditor government behavior are: the interest of domestic finance and strength of public opposition against foreign bailout. Furthermore, the interest of finance depends on the type of financial actors involved in the crisis, the size of their exposure, and the concentration of interest. Public sentiment is a reflection of the level of economic anxiety in the general public, which intensifies during economic recessions. Together, the interest of finance and public sentiment determine what kind of action a creditor government will take in response to sovereign debt defaults or near-defaults abroad.

- It uses empirical evidence, both quantitative and qualitative, to test the hypotheses,

establish causal inference, and uncover causal mechanisms of main determinants of creditor government intervention. The quantitative analysis is conducted based on an original data set compiled by the author. The qualitative analysis contains two structured comparisons of cases that are otherwise similar except for differences in the key independent variables proposed in the theory.

- It gathers original data from official communications, internal documents of financial institutions, and financial news reports to create a new data set, built upon previous works and available macroeconomic data from international institutions, that describes creditor government intervention from 1981 to 2016. The data set has 728 observations, of 7 creditor governments during 104 sovereign debt default crises. It includes original data entries on creditor government's imposition of economic conditionality on the debt state, exposure of the entire banking sector and that of major banks in the creditor country to the crisis country, and main vehicle of debt, and builds upon existing data and methodology on the extension of bilateral finance and debt reduction rate calculation.

This dissertation will start examining creditor government intervention with chapter two, which reviews existing literature on sovereign debt, default, crisis resolution, creditor government behavior, and the making of foreign economic policy in general. It reviews the history of creditor government intervention and the various versions it has evolved through: from overt, coercive use of force and colonial occupation to diplomatic engagement and more covert forms of mediation, creditor government intervention has changed in form but never died down. Explanations for modern styles of intervention, however, has been ad-hoc, unsystematic, and incomplete: the chapter introduces explanations that have been proposed, including macroeconomic stability, foreign policy goals, and domestic political factors, and discusses their deficiencies. This chapter then dives into the two subject fields that are crucial to the overarching argument of this dissertation: the role of business, particularly finance, in politics and the influence of public opinion on a government's

decision-making process. By reviewing existing literature on these two topics, it lays the foundation for theory building in the next chapter.

Chapter three presents the theory—the core logic behind creditor government intervention. It first examines the dependent variable, creditor government intervention, and the two dimensions in which it varies. It then introduces the two main independent variables, the interest of finance and public opposition against foreign bailouts, how they vary and are measured, and how they affect creditor government behavior. Along the way, this chapter also presents three hypotheses in support of the theory.

Chapter four, five, and six use empirical evidence to test these three hypotheses and show how the theory takes effect in real world applications. Among them, chapter four conducts a large-N quantitative analysis of creditor government intervention in the past thirty years based on an original data set. It explains how data are coded, their sources, and the statistical model and robustness test used to produce rigorous, scientific analysis of observational data.

Chapter five and six each conducts a structured comparison of two cases that are otherwise similar, except for very different creditor government behaviors, to demonstrate how the factors proposed in chapter three have led to those differences. Chapter five discusses the responses to the Latin American debt crisis throughout the 1980s, led by the U.S. but also participated by other major creditor governments in Europe and Japan. It shows how creditor government intervention changed from the Baker Plan early in the crisis, which emphasizes debtor country adjustment and new credit commitment, to the Brady Plan, which encourages debt reduction with official guarantees, and how the shift in the interest of finance and public sentiment propelled such changes.

Chapter six studies another pair of sovereign debt default crisis: the Mexican Peso crisis of 1994 and the Argentine Crisis of 2001, which prompted opposite reactions by their shared major creditor government: the United States. The stark contrast in US responses to these crises further testifies how finance (and different types of economic agents within

the financial industry) and public sentiment affect the behavior of creditor governments.

The concluding chapter provides a brief recapitulation of key findings, discuss their implications for the study of sovereign borrowing, economic foreign policy, international cooperation and beyond, and then offers some reflections and directions for future research. It also briefly discusses cases that are not closely examined in the empirical chapters and how they might contribute to the understanding of creditor government behavior during foreign sovereign debt default crises. Last but certainly not least, it explores new and rising trends in sovereign borrowing, including the increasing popularity of litigation (both in state-to-state official loans and private market debt) and the emergence of China as a major player in the international capital market, especially of sovereign borrowing, which has the potential to bring profound changes to the role of the state in the functioning of the private capital market.

2.0 CHAPTER 2. LITERATURE REVIEW

2.1 DEBTOR STATE BEHAVIOR

Scholarly interest in sovereign debt has mostly focused on debt repayment and the puzzle why (or why not) sovereign states decide to honor their debt obligations to private creditors. So far, political scientists have proposed three broad categories of reasons: costs, beliefs, and interventions by other (more powerful) states.

In the first category, various cost-and-benefit analyses are introduced to explain debtor state behavior, demonstrating that debtors often face high economic and political costs if they renege on their debt, therefore disincentivizing such behavior. The economic costs are generally associated with exclusion from the international capital market: when a state defaults on its debt, everybody in the market will learn about the incident and stop lending to it, denying it future access to the international capital market, harming its ability to raise funds, finance trade, or even do simple business transactions. Since Eaton and Gersovitz (1981)'s seminal work on the future economic cost of debt repudiation, many economists have followed this line of reasoning and propose various analyses of debtor and creditor behavior based on the assumption of maximization of long-term financial utility in long-term credit relationships (Aguiar and Gopinath, 2006; Arellano, 2008; Crawford, 1987; Tomz and Wright, 2007).

Empirical evidence for the economic cost argument, however, is at best ambiguous. During the Great Recession and in the aftermath of WWI, for example, more than a third of indebted countries defaulted on their debt, but their borrowing cost did not rise signifi-

cantly more than those that didn't default. This is corroborated by Alessandro et al. (2011)'s observation that a defaulted sovereign is typically only excluded from the capital market for an average of four years, meaning that the economic cost of default is much less than traditionally thought to be, since countries regain access to capital fairly quickly. In fact, evidence suggests that some lenders may even have incentives to take advantage of a recent default or debt forgiveness, which leaves the debtor country in relevant good financial health with little debt, by rushing to lend to the recently defaulted country (Bunte, 2018). All these empirics show that even in the long run, sovereign default isn't as costly as many scholars have imagined, bringing doubts about the economic incentive of countries to serve their debts. Citing the flaws in the existing financial cost argument, Tomz (2007) gives a refined version of the cost and benefit analysis of sovereign debt repayment by introducing the concept of reputation: he argues that while defaulters aren't typically excluded from the international capital market for long and economic sanctions are applied only selectively, sovereigns are still motivated to pay their debts because of reputation, namely that sovereigns only suffer large economic costs from default if it damages their reputation: if the market views the default as a consequence of war or natural disaster, the country's reputation won't change much and default will not increase future borrowing cost. It is only when a country's default surprises the international community, leading to a drastic change in its reputation, that default imposes large costs.

Tomz's book is profoundly influential on how economists and IR scholars think about sovereign debt crises, inspiring more scholarly discussion on the economic cost of sovereign default. However, a new line of theory argues that a state chooses to pay its debt not because it as a unitary actor finds continued debt servicing most beneficial to its aggregate welfare, but because policymakers are more attuned to and influenced by the welfare of certain domestic groups than others. Therefore, sovereign debt default is not explained by state-level costs and benefits, but by the distributional consequences of foreign debt service and domestic political competition among different groups that have different interests and

preferences.

Roos (2019) is the first political scientist to make such an argument of domestic distributional politics on sovereign debt repayment. He suggests that when states face the choice between short-term exclusion from the international capital market and the long-term costs incurred by fiscal austerity (cutting government spending and/or increasing taxes to raise net revenue) that are often necessary to continue debt servicing, different domestic sectors are affected by these two options differently, therefore have diverging preferences, and will use their resources to swing government behavior to their favor. The domestic banking sector, wealthy elites who invest in their own government bonds, as well as other sectors dependent on the inflow of foreign capital, are the most ardent supporters of continued debt repayment, whereas the working class, whose economic activities are mostly domestic and reliant on generous government welfare, is badly hurt by austerity and public spending cuts and often demands that domestic economic goals be prioritized over foreign debt servicing, which would require debt restructuring, reduction, or outright repudiation. Roos does not deny the economic cost of sovereign debt default, but rather argues that the costs are spread unevenly across the population in the debtor nation and that a country's behavior during a debt crisis reflects the contour of its domestic politics (such as the composition of the political elite or the ruling coalition). In the past 30 years, as Roos argues, the globalization of financial markets, the increasing dependence on foreign credits by developing nations, and capital mobility have all elevated the structural power of finance and dis-empowered social groups who may champion more heterodox policy responses, contributing to the internationalization of debtor discipline in borrowing countries.

All of the works above look at sovereign debt default as a strategic decision made by political actors facing various costs and rewards, while Lienau (2014) challenges this structure- and agency-based premise. Lienau first questions the ability of international creditors to impose costs and argues that whether creditors are consolidated or competitive plays a significant role in determining the costs faced by default nations. In fact, Lienau

attributes the downward trend of sovereign debt default in the past few decades partly to an increasingly consolidated international banking sector, one that is more likely to form a ”united front”. This idea is not news: many discussions of sovereign debt pay attention to the collective action problem of creditors, namely the fact that although all creditors are better off by forming a collective front and negotiating with the borrowing state as a group, each individual creditor has the incentive to hold out, in the hope of receiving full repayment through litigation or other means (e.g. American Vulture funds that held Argentine bonds, the Russian government that holds Ukrainian bonds). Nevertheless, Lienau's central contribution to the puzzle of why states repay their debt is an ideational factor: a state's identity and the concept of sovereignty, and she attributes the current framework of sovereign debt thinking to a broader ideological shift in international politics and finance. She notes that states often can and do repudiate debt after a dramatic political revolution, and repudiating foreign debt is one aspect of the new regime assuming an identity that is completely different from, and often the exact opposite of, the previous regime. Moreover, the prevailing concept of sovereignty also affects the decision to default: if a state subscribes to continuity of sovereignty even under regime change, it is more likely to accept debt continuity, even if it views the previous regime as illegitimate. Lienau uses these two aspects of state identity to explain Soviet default on the Tsar's debt and why some other revolutionary regimes (such as Iran and more recently, Tunesia) didn't default.

Besides exclusion from the capital market and identity, the third reason why debtor countries pay their private creditors—intervention by the creditors' home governments—is discussed primarily when intervention is conducted through the use of force: gunboat diplomacy in debt collection and colonial economic control. The Hobson-Lenin theory of imperialism traces colonial control to the protection of financial assets and enforcement of commercial contracts. Hobson's theory argues that imperialism was driven by the search for profitable investment opportunities and the need to protect foreign assets (Cain, 1985), while Lenin's Marxist interpretation of Hobson's theory directly connects imperialism to

capitalism, whereby the colonial exploitation sustains profits for oligopolies in the developed countries, which they leverage to influence politicians to preserve the existing social and economic order in their home countries (Lenin, 1939). Although Lenin's writings are polemics instead of rigorous scientific research and are not supported by the facts, they do point to the relationship between military conflict and international investment. Much attention has followed to study military action as a form of creditor government intervention when private creditors' foreign assets are in danger.

In the old times when gunboat diplomacy was still an acceptable practice, it was not a rare occurrence that the Royal Navy would use force to compel repayment and the inability to pay would result in partial or full takeover of economic control of the borrowing state by the lender (Mitchener and Weidenmier, 2010). In fact, "militarized debt collection" was regarded as common practice in the 19th century, either as a goal in itself or as part of a more comprehensive foreign policy, until the Second Hague Peace Conference in 1903 (Finnemore, 2004). Although the days of colonialism and gunboat diplomacy are long gone, it appears that the use of force in sovereign debt collection is something analogous to the use of nuclear weapons in international security: its utilization is deemed morally abominable and practically unthinkable but the existence of such possibility is the constant backdrop of all activities in international monetary relations or international security. Jeffry Frieden (1994) further dives into the relationship between international investment and colonial control (to enforce cross-border property rights) and argues that foreign investments in primary production are especially strongly associated with colonialism, compared to other forms of investment in general, because rents in primary production are the easiest to seize or protect unilaterally.

Instrumental to Frieden's theory is that creditor collective action is a crucial element in cross-border contract enforcement, and there exists an inevitable tie between creditor collection action and creditor government intervention: collective action, which is often the most effective way to protect creditor property rights, is best achieved if the creditor

government would get involved and coordinate it. And Charles Lipson (1992) shows that the most successful creditor collective action does often involve the creditors' home governments. In his book, Lipson traces the tools private creditors have utilized to protect their investment in foreign countries throughout the 19th and 20th centuries: from militarized intervention to peaceful diplomatic engagement to international institutions, creditor government is involved in every form of private creditor action to protect foreign investments.

2.2 CREDITOR GOVERNMENT INTERVENTION: A THING OF THE PAST?

Since Charles Lipson's book, however, creditor government intervention has become largely overlooked in contemporary literature, probably because gunboat diplomacy and colonial control have passed into history and would never come back. Therefore, there is a tendency to treat creditor government intervention as a thing of the past. In reality, however, as Lipson's book has pointed out, creditor government intervention hasn't ceased to exist, but simply transformed into other, seemingly less coercive forms, mainly bilateral diplomatic engagement and mediation through international institutions.

State intervention in sovereign debt has a long history, not just in the default stage, but throughout the whole life cycle of debt. Home governments often influence international lending of their private creditors, encouraging or even requiring big private banks to lend to a certain country or project, so it is no surprise that when the loans go bad private creditors will seek the support from their capitals. One reason why governments encourage private lending to certain countries is that capital export is regarded as a form of power projection overseas, a practice with long traditions among European countries and is perhaps being revived in modern Chinese state lending. For example, the political supremacy of Great Britain in the 19th century was closely associated with London's position as the financial center of the world (Carr, 1939, 125), and it was not alone in using capital export as a

projection of influence. France also used loans to Tunisia and Morocco as a way to extend its sphere of influence in North Africa, while Germany financially backed its continental ally, Austria-Hungary, while competing with Great Britain in capital export to a number of periphery states (Lieberman, 2018b, 24-26).

A second reason for state intervention in lending is the maintenance of export and trade relations, also rather prevalent among European powers. They competed via loans to gain concessions in developing states that are in need of capital goods and services in order to expedite industrialization. To help domestic companies compete for lucrative railways, power plants, and other large developmental projects overseas, European governments coordinated loans from their countries' biggest commercial banks as a part of their bid to win over large contracts (Lieberman, 1989, 116-27). Even when direct intervention was absent, governments can still significantly influence (international) lending behavior of their banks through credit-equity ratios, export credits, home market protection, and whether home regulation applies abroad. As Wellons (1985) has noticed, in the early 1980s Mexico raised $20 billion in new debt, mostly from Japanese banks, not because the banks had a sudden surplus of credits or were ignorant of each other's excessive rise in lending, but because Tokyo decided to strategically strengthen its ties with Mexico after the second oil shock in 1979. The economic and strategic interest of the state prompts policies that encourage or even require private creditors to make loans to certain destinations, and banks, subsequently, expect home governments to help and play a stabilizing role should their developing country borrowers go into default (Committee", 1977, 67-68). Indeed, as Miles Kahler (1985) illustrates, the home governments' ability to influence private international lending through regulation and the implicit guarantee of stabilization in times of crisis (through a lender of last resort function) means that private lending, as well as the management of debt crisis, is ultimately affected by the domestic politics of both the debtor and creditor countries.

It is therefore clear that creditor government intervention is not a thing of the past but

rather alive and well, and most importantly, has evolved in form: from overt military action to diplomatic engagement and mediation to multilateral international institutions like the IMF and the World Bank. Mitchener and Weidenmier (2010) report that 64% of defaulting debtor countries during the gold standard period (1870-1913) experienced military pressure or political control. Military interventions are particularly common for small Central American countries (Costa Rica, 1911; Guatemala, 1913; Nicaragua, 1912; Santo Domingo 1905–13; and Venezuela 1902–3), prompting severe backlash in these countries, to the point that Luis Mario Drago, then Argentinian Secretary of State, formulated a non-intervention doctrine in December 1902, "the public debt cannot occasion armed intervention nor even the actual occupation of the territory of American nations by a European power" (Drago and Nettles, 1928).

Since the beginning of the 20th century, overt military actions died down while other forms of creditor state reaction emerged, including the appropriation of custom revenues (Fishlow, 1992), economic control (Suter and Stamm, 1992), and trade sanctions (Mitchener and Weidenmier, 2010). Moreover, creditor governments assisted national bondholder committees (such as the Corporation of Foreign Bondholders in England and various equivalents in continental Europe). In England, the Corporation coordinated collective action among individual bondholders and "brought the weight of the City of London to bear on a sovereign debtor in default, as well as encouraging diplomatic representation from the foreign office in difficult cases". This practice was soon emulated in Europe, where various bondholder committees also leveraged their national governments and diplomatic pressure in seeking most favorable outcomes in settlements [1]. These patterns—cooperation between creditor governments and private investor committees—continued to this day, meaning that sovereign debt crisis is still solved on a case-by-case basis and coalitions formed around the home state. Occasionally, creditors from different countries, who have different debt structures and terms, may even form competing coalitions to advance their interests aided

[1] CFBH, First Annual Report, 1873, p. 18, reviews the refusal of the London, Amsterdam, Brussels, and Antwerp exchanges to quote loans for Greece, long in default

by home governments. The Brazil rescheduling, where French banks and Swiss banks had different priorities between the interbank market and medium-term, sovereign-risk market, was one example (Wellons, 1985, 470).

Come the 1990s and early 2000s, multilateral international institutions such as the IMF and the World Bank started to take a more prominent role in facilitating the resolution of sovereign debt crisis and acting as Lender of Last Resort, which give an appearance of being politically "neutral". For this reason, much of the recent scholarly attention to sovereign debt crisis resolution has focused on these international institutions, most notably the IMF. Established as a modest organization to smooth out international currency exchange, coordinate macroeconomic policies, and provide short-term lending to cover temporary trade imbalances, the IMF has since expanded its role to financial crisis resolution and stabilization. It has played a front-seat role in all of the largest financial crises since the 1970s, providing loans and demanding the now-notorious "conditionalities" (Steinwand and Stone, 2008). In existing IPE scholarship, there are three approaches to analyzing IMF actions: the functionalist approach by Robert Keohane (1984), the structural approach by Krasner (1985), and the constructivist approach by Barnett and Finnemore (1999). The first two approaches view international organizations as a vehicle, a tool to serve certain functions and achieve state actors' objectives. The third approach views international organizations as independent actors, with some degree of self-defined principles, objectives, and decision-making autonomy. However, in all accounts, international institutions are hardly politically neutral, and in the realm of IMF action in sovereign debt crisis resolution, empirical evidence strongly suggests that IMF behavior is a reflection of the wish of powerful state actors, not internal principles or rules. First, IMF rules on when to provide loan packages keep changing with the emergence of new crises, rendering its crisis response largely ad-hoc, not a series of consistent, rule-based behavior (Sgard, 2016). In addition, IMF's decisions are highly influenced by a few of its most powerful members, as is the ECB (Rogers and Vasilopoulou, 2012). In fact, the absence of a sovereign debt restructuring mechanism

at the international level, despite obvious demand for it from almost all debtor countries and the efficiency gains to be had from it, is a showcase of how the support of powerful members of the IMF is crucial for IMF decisions (Helleiner, 2008). Last but not least, the IMF's lending capacity (or that of any international institution) falls far behind what is necessary for a true international lender of last resort, meaning that IMF lending alone, without the help of national governments of the G-7 who enjoy the power of seigniorage, is always too little and too late (McDowell, 2016).

Of course, no discussion of modern sovereign debt crises is complete without examining the actions taken by the IMF and other multilateral financial institutions (such as the Bank for International Settlement, BIS, in Europe). However, given the evidence on IMF behavior on sovereign debt renegotiations, this dissertation will certainly take into account IMF actions but as an auxiliary to, and a reflection of, creditor government action and preference.

To sum up, creditor government intervention has a history nearly as long as sovereign borrowing itself, and its form has evolved overtime from outright military coercion to softer forms of diplomatic pressure and, more recently, under the auspices of the troika of multilateral and international institutions (the ECB, the European Commission, and the IMF). Notably, it is worth mentioning that all creditor governments do not react to defaulting foreign states in the same way all the time: they can pressure debtors to pay their debts or punish those who don't; they can also intervene in favor of the borrower state by pressuring lending banks and bondholders to accept reductions of debt obligations; they can also provide generous finance to the borrower, effectively bailing out both the debtor and their private investors (Bernal et al., 2010). For example, one particularly intriguing creditor government reaction was the support by US policymakers for the Argentine government's tough stance on debt renegotiation in the early 2000s, which led to a 70% haircut of debt value taken by investors, an episode described by Eric Helleiner (2005) as a "strange story of Bush and the Argentine debt crisis". The specific stances a creditor government can

take, i.e. the variation in the dependent variable of this dissertation, will be presented in full detail in the next chapter.

2.3 DETERMINANTS OF CREDITOR GOVERNMENT BEHAVIOR

Creditor government action is a significant determinant of how sovereign debt renegotiations play out: when creditor government intervenes forcefully on behalf of private creditors, debtor countries are coerced into economic adjustment and devotion of more revenues to debt full repayment; when creditor government allows for or encourages substantial restructuring and reduction of debt, debt principals are often reduced, interest rates are lowered, and maturity extended. As demonstrated by Kamlani (2008), of the four factors examined by the authors, coercive power demonstrated by creditor governments is the most significant and decisive variable that, when applied, leads to full repayment of debt. It is based on this observation that this dissertation examines the question of sovereign debt: since creditor government intervention is the single most significant determinant of debt renegotiation outcome, what determines how creditor governments intervene? What considerations influence their decisions every time there is a sovereign debt crisis in a foreign country where their domestic investors have money at stake?

Although the phenomenon of creditor government intervention is underexplored in the existing scholarly debate, it is not entirely overlooked. To my knowledge, Schneider and Tobin (2020) are the first to deal specifically with the question of creditor government involvement. Their paper identifies three factors that influence the likelihood of a creditor government providing a bilateral bailout package to a government in sovereign debt crisis: economic exposure (measured by the amount of debt held by banks in the creditor country and trade volume), political exposure (indicated by alliance pact, regime type resemblance, and UN General Assembly voting ideal distance), and domestic political con-

straints (measured by the imminence of the next election and the number of domestic veto players in the creditor state). Their data set includes 25 years of G7 countries providing bilateral bailouts and found that economic and political exposure increases the likelihood of a bailout, while domestic politics works against these bailouts. In a different paper, Schneider and Slantchev (2018) examine German Chancellor Angela Merkel's delay in response to the Greek debt crisis through a formal model of domestic electoral incentives. Their model demonstrates that a government known for its internationalist leanings cannot credibly signal to its voters that the Greek crisis is serious enough and convince voters to support German assistance. Paradoxically, a nationalist government, on the other hand, is in a better position to convince voters that bailing out the Greeks is beneficial to Germany's own economy and long-term welfare. Schneider and Tobin's works provide an important foundation for the analysis of creditor government behavior, but have three significant limitations: 1) by limiting their dependent variable to bilateral bailouts, they only examine one form of creditor government intervention but not others, such as creditor governments pushing for creditor loss. In fact, even bilateral bailout can have different conditionalities attached to the money and therefore different meanings. Their rather narrow view of creditor government behavior therefore leaves many questions unanswered, especially that of interpretations or implications from their conclusion. 2) Their paper assumes that bilateral bailouts are unpopular with voters and therefore negatively affected by the imminence of elections and the power of legislative bodies. However, public opinions can fluctuate from time to time and individual to individual, so many factors, such as individual economic well-being, production profile, and ideological beliefs, can all influence public opposition to bilateral bailouts and therefore the constraint faced by creditor governments. 3) Their overall examination of "domestic political constraints" is overly simplistic in that it only considers electoral popularity and the veto power of legislative bodies. In reality, many more influential actors participate and can deeply impact the advancement of agendas in domestic politics, including but not limited to financial institutions and epistemic commu-

nities, as well as political institutions such as government-business networks. All of these factors are unexplored in both papers, leaving room for future research.

Meanwhile, McDowell (2016) adopts a different angle in studying creditor government behavior in international crises by focusing on the U.S. and its actions as the international lender of last resort (ILLR), coming to the conclusion that the US, through currency swap lines and the Exchange Stability Fund under Treasury, effectively acts as the international lender of last resort during financial crises, but it does so selectively: the US provides liquidity to crisis countries when the systemic financial risk is high and when US banks' exposure to the crisis country is large. McDowell, therefore, argues that the US intervenes in foreign financial crises to protect American financial interest and macroeconomic stability. McDowell's research can be taken further into two directions: 1) whether the American behavior he identifies is generalizable to other major economies, who also have considerable financial resources to intervene during crises, and 2) McDowell attributes American intervention as the ILLR to two motivations: the sectional interests of banking and "public interest" in macroeconomic stability. While the banks' interest in international bailouts is easy to measure, US public interest is less tangible and more problematic for his theory and empirics. McDowell equates the public interest with "macroeconomic stability", a vague term that encompasses preventing a financial meltdown, the collapse of the dollar, massive recession, unemployment, and even widespread real estate foreclosures, among many more. However, the public interest is hard to measure or even distinguish, both theoretically and empirically, from the survival of US banks that are "too big to fail". It is therefore necessary to have indicators of sectoral and general public preferences that are observable, measurable, and defined a-priori, in order to determine what factors are actually the causes of creditor government behavior.

Although Schneider and McDowell's examination of creditor government intervention are too narrow and flawed, they make significant contributions to the understanding of creditor government in times of crisis and both point to a promising direction of further

research: domestic politics in the creditor state. In fact, domestic politics have already demonstrated the most explanatory power in explaining debtor country behavior, following the trail blazed by Roos (2019): for example, the domestic distributional consequences of sovereign debt default means that there are different economic and political incentives of agents under different political regime types. Notably, the conventional wisdom that democracies tend to better implement the rule of law, keep their promises, and are hence less likely to default and more creditworthy is seriously challenged. While it is true that creditors are more likely to lend to democracies than autocracies (or that democracies can borrow at a lower rate) (Beaulieu et al., 2012), such decisions might be misguided because the political establishment in democracies may face a higher political cost from debt servicing (Roos, 2019). The complex incentive structures under different regime types are further explored by Nelson (2009), Enderlein et al. (2011), and Ballard-Rosa (2016). Ballard-Rosa (2016) argues that the survival incentive of the political establishment in autocracies makes it particularly susceptible to the threat of urban unrest, a point supported by the empirical finding that, in autocracies, urbanization and reliance on imported food are robust drivers of sovereign default. Nelson combines the domestic and international levels of analysis to make a two-level game argument: that high domestic political costs of adjustment result in favorable debt restructurings. In particular, she finds that mixed regimes are particularly fragile and pay higher costs of adjustment than either full-fledged democracies or autocracies. As a result, creditors provide favorable restructuring terms to mixed regimes. On the other hand, Enderlein et al. (2011) provides reasons why democracies bargain more aggressively with foreign creditors, measured by their coerciveness during debt restructuring. What these mixed findings reveal is that domestic politics and institutions do influence a government's decision to default on debt obligations, but the effects are complex and sensitive to specific political conditions, instead of a simple democratic or authoritarian advantage.

It is reasonably expected that domestic politics also play a profound role in creditor

government behavior, but before diving into these costs and benefits and incentives for political actors, the author wishes to first discuss a frequently cited motivator of any foreign economic policy: foreign policy and security goals. Clearly, in the making of foreign economic policies, countries will give allies preferential treatment and are more generous with assistance. Supporting allies and propping up friendly regimes abroad are at the center of economic statecraft (Baldwin, 1985; Blanchard et al., 1999), so it is reasonable to expect that creditor governments will give better treatment to allied debtors when they run into trouble repaying their debts. However, a closer look at economic statecraft through financial assistance reveals that while governments do pursue foreign policy and security goals in economic policies, these goals are more often achieved through preferential trade agreement and direct state-to-state lending or aid disbursement. Specifically in the realm of sovereign borrowing, great powers have long used finance to maintain the balance of power or the independence of newly created or fragile states that are strategically important to them: Britain's loan guarantees to Egypt, France to Morocco, and most recently America's 20 years of regular shipment of cash to Afghanistan until the Taliban retook control of the country in 2021 (Davidson and Talley, 2021). Bilateral official lending has been a significant source of credit for the developing world, particularly allies of the West, and debt reschedulings usually happens through the Paris Club, a group of Central Bankers from OECD countries who convene regularly to deal with official debt repayment difficulties of developing countries, whose behavior is heavily influenced by foreign policy and security goals of their home governments (Brooks et al., 2014). Indeed, the Paris Club has offered most debt relief to countries that have close alliance and trade relationships (Blackmon, 2014, 2017; Cheng et al., 2018), as exemplified by the restructuring (even outright debt forgiveness) received by Egypt in 1991, Jordan in 1994, Russia from 1993 to 1999, and Pakistan in the aftermath of the 9/11 attack. More recently, Chinese SOE direct investment and loans to the developing world also demonstrate a similar strategy, for their money closely follows the country's strategic goals in securing primary resources (especially en-

ergy) and geopolitical influence (Cabré et al., 2018; Li et al., 2020).

While economic and financial assistance are often a part of a larger foreign policy and security strategy, these goals are often and best achieved through official state-to-state lending, where debt renegotiations, and even forgiveness, are not uncommon. Lending by private investors and the rescheduling of private debt in times of crisis, on the other hand, appear to be less dependent of such influence. Still, in the empirical chapters of this dissertation, especially the case studies, foreign policy goals will definitely be considered and examined in detail.

The analysis of distributional consequences and politics of creditor government intervention in sovereign debt crises is built on a fundamental understanding of domestic political actors in economic policy making: that politicians would like to keep their jobs. Since the incumbent has strong incentives to stay in office, they must therefore respond to a variety of domestic demands from groups and individuals who can influence electoral outcomes (Chaudoin et al., 2015; Milner, 1997). Voters clearly form an important factor, for they are the only agents to directly determine election results. Apart from voters themselves, businesses, especially as key stakeholders in the realm of sovereign debt crises, also wield significant resources and influence over the electoral success of political actors. The rest of this chapter will review existing literature on the influence of business in politics and public opinion on creditor government intervention, especially on the use of public resources in the resolution of foreign sovereign debt crises.

2.4 THE ROLE OF BUSINESS IN POLITICS

The power of businesses to influence politics is well documented in both the field of American Politics and the politics of other democracies. It has generally been categorized into two types: instrumental and structural. The instrumental power of business highlights

how firms wield resources to influence political actors and their behaviors through lobbying, campaign donations, and privileged access to policy-making bodies and procedures (Culpepper, 2010; Lindblom, 1982; Miliband, 1969). The structural power of business, on the other hand, stresses the fact that because businesses are inherently economic agents in a capitalist society, big businesses have strong impacts on the allocation of resources and the general well-being of the economy (stability and growth). Scholars therefore have characterized the democratic state as structurally dependent on capital, and states adopt policies that promote the interest of businesses without business leaders' asking (Przeworski and Wallerstein, 1988; Swank, 1992).

Although there is little scholarship focusing specifically on how businesses affect government interventions in foreign sovereign debt crises, the instrumental power of businesses in government bailouts in general is poignantly demonstrated in existing literature on the bank bailouts in the 2007-08 financial crisis, not just in the United States but also in England, Germany, France, and many other advanced economies. Bell and Hindmoor (2015) show that the government bailed out the banks because they enjoyed privileged access to Washington's policymakers, while Hacker and Pierson (2010) and Igan et al. (2012) examine the Washington-Wall Street axis that the banks have built over the years by donating so much money to Republicans and Democrats, so that both parties work in the interest of large financial institutions. Similarly, Braun and Raddatz (2010) note that the banks' special influence is further reinforced by the notorious revolving door, which circulates policymakers into lucrative jobs in the banking sector and bankers into public office.

The structural power of businesses, on the other hand, may seem automatic since it stems from the banks' resources and impact on the economy, but scholars have found that it is far from constant. Hacker and Pierson (2002) find that the structural power of the banks varies over time and institutional design, while Culpepper and Reinke (2014) emphasize that it varies depending on the asymmetry in state-business codependence. This codependence reveals a key attribute of the structural power of firms in a free market econ-

omy and democracy: financial firms may exercise influence over state authorities through the flow of capital within globalized financial markets, but those firms also depend on states to create the conditions for a stable investment environment and the enforcement of laws that allow markets to function properly and effectively.

In sovereign debt crises and renegotiations, the structural power of finance, i.e. the power of being able to withheld capital, has often been cited as a primary force that shapes the outcomes of sovereign debt negotiations (Guzman et al., 2016), quite similar to the economic cost argument made by Eaton and Gersovitz (1981) that stresses the costs imposed on defaulter by a "creditor boycott". However, more recently, the instrumental power of finance in sovereign debt crises has also received some scholarly attention. For example, Kalaitzake (2017) demonstrates the power of the institution of finance, formed through financial sector collective action, during the Greek debt crisis, where major European banks were able to shape government policies and debt restructuring agreements mainly through the Institute of International Finance (IIF), the leading voice of the global financial industry. Notably, Kalaitzake (2017) traces the source of IIF's power not only from the material resources controlled by its members (and subsequently their ability to impose costs by withholding the resources), but also the expertise, connections, and the business-government network that enable the IIF to steer government policy toward their favored outcome, albeit a suboptimal outcome for all economies in both the debtor and creditor countries.

Guzman and Kalaitzake's analyses follow a rich tradition in IPE scholarship of regulatory capture by international finance. Ever since the rise of private actors in global financial flow in the 1970s, much has been written about the rise of their influence in financial governance, most of it focusing on how private actors influence international institutions, through its massive resources and access to regulatory processes, which render them immense lobbying power in the decision making of international financial institutions like the IMF, BIS, and multinational development banks. Most notably, private actor preferences has since dominated the representation of interests in global financial rulemaking (Underhill

and Zhang, 2008), and the prevailing view in IPE is that this domination is the main reason leading to the weakening of regulatory standards in global financial governance (Young, 2012, 666). In particular, the regulatory capture of public agencies and public policy by leading banks has placed faith in the banks' internal risk models, led to pro-cyclical behavior, allowed for and even encouraged excessive risk taking, a main factor leading to the 07-08 financial crisis (Baker, 2010). Furthermore, the reforms following the crisis, both domestically in the U.S. and internationally through Basel III, a set of proposals to govern the international banking system drawn up by the Basel Committee on Banking Supervision, have also fallen far short of what is required to correct the root cause of the crisis and enhance global financial stability, also due to private actor capture of the process of drafting Basel III (Lall, 2012). Moreover, the formation of "clubs", such as the Group of Thirty, a "part-think tank, part-advocacy group" and a hybrid organization whose members are active in both the public and private sectors, makes it even easier for private agents to impact the making of global financial rules (Tsingou, 2015, 225).

All of the literature above demonstrates the influence of businesses in global financial crisis solution through international channels. This dissertation complements this literature by examining the other, more direct and more powerful, mechanism through which private actors influence global financial governance: by influencing the governments of powerful states, because the governments of powerful states are the fundamental drivers of policies made at the international level and in international institutions, as shown previously in the discussion on the IMF. Therefore, this dissertation goes to the root of sovereign debt crisis resolution, although creditor government intervention can be achieved through either bilateral or multilateral means.

In the US, one aspect of the influence of finance and businesses on government policy making has received strong scholarly attention: the negotiation of free trade and investment treaties. The negotiation of NAFTA, for example, was very heavily influenced by US multinational companies (MNCs), whose representatives were officially in the U.S. delega-

tion in NAFTA negotiations (Dreiling and Darves, 2016, 120-131). Moreover, groups like the International Chamber of Commerce, an U.S. European corporate lobby group, and corporate representatives on the State Department's Advisory Committee on Transnational Enterprises initiated the U.S. bilateral investment treaty (BIT) program in the State Department in the 1970s (Vandevelde, 1988, 1992) and used their connections both through Congress and through federal agencies to implement the BIT framework in the financial services chapter of NAFTA (Liss, 2019; Smythe, 2000; Walter, 2001).

In other parts of the world, financial firms also wield considerable influence over their governments, sometime even more than that of US firms, because firms in Europe and the UK are relatively less dependent on their domestic markets and more on the international (North American) market, creating an asymmetrical interdependence between firms and their home governments (Culpepper and Reinke, 2014). In Germany, financial institutions installed principles of fiscal prudence and suppressed government intervention by influencing its Central Bank and promoting the concept of central bank independence (Rademacher, 2021). By establishing price stability as the primary objective of the Central Bank (which remains true even today [2]) and insulating it from the influence of other branches of government and the vacillations of democratic politics, financial firms helped the Bundesbank achieve a balance of power against the German government and directed policy orientation toward fiscal austerity—balanced budgets and limited intervention. Rademacher's argument makes an important addition to existing explanations of the international popularization of neoliberal economic policies that are based on globalization/international competition (Genschel, 2002) and a neoliberal ideological shift (Blyth, 2013): he cracks open the state to identify diverse interests and actors within the state, and provides an important inspiration to this dissertation.

On the other side of the globe, the Japanese government responses to the two Mexican crises in 1982 and 1994, respectively, also illustrate the influence of Japanese banks on their

[2] See Fed Chairman Powell's speech on 08/26/2022, https://www.federalreserve.gov/newsevents/speech/powell20220826a.htm, Accessed 09-15/2022

government: through the government-private sector nexus, which is identified as a distinct attribute of the Japanese model of economic development (Evans), the banks facilitated the Japanese government's ambition to strengthen diplomatic ties with Mexico after the second oil shock of 1979 and the government assisted the banks' full withdrawal (and took responsibility for a large portion of financial losses) in 1989 (Katada, 1998; Unal et al., 1993).

In addition, finance's influence can sometimes even go beyond the realm of foreign economic policy making and affect defense policies, when the interest of finance directs their home government away from war even when aggression is warranted from a pure security standpoint. As Kirshner (2007) demonstrates through cases such as the US before the Spanish-American War, interwar Japan and France, and the U.S. during the early Cold War, bankers' preference for financial stability and predictability, which is central to their profitability, makes them war-averse, and their influence explains why states sometimes pursue appeasement that seems illogical, suboptimal, or undermining national security. Of course, as Kirshner admits, finance with their preference for stability doesn't always win and get their most favored policy (since war does happen, a lot), but his book sheds light on the nature of "national interest" or what it is perceived to be in the process of national policy making: that it is not an objective property of a state or a simple aggregation of individual interests within the state. Instead, national interest, in both economic and foreign policy making, is formed out of complex domestic bargaining between groups and individuals that have divergent, even opposing, interests and preferences, a fundamental understanding that motivates this dissertation to crack open the state to look for factors that determine creditor government intervention.

2.5 PUBLIC OPINION

Compared to the interest of finance, public opinion's impact on policy making has more mixed evidential support. Especially on the topic of foreign policy, there is little agreement among political scientists on what the public thinks and thinks about, what factors influence its opinions, or whether and how those opinions actually impact government policy making. What further complicates the case for public opinion is that it can be both a causal and caused variable: unlike the interest of finance—profitability—which is a-priori and exogenous to political interactions, public attitudes toward foreign policy issues are often influenced by politics itself, most notably by elite messaging and mass media. Still, public opinion has never been completely dismissed. In fact, it has occupied the minds of some political scientists since as early as political science became an independent academic subject. In particular, the importance of public opinion in the policy making of democratic societies has a central role in the theory of democratic peace, a largely discredited, problematic argument with various empirical and theoretical flaws but still a deeply influential concept in the liberal tradition of IR studies (Doyle, 1986; Russett and Oneal, 2001).

The prevailing counterpoint to the importance of public opinion in any policy making process is that it is volatile, lacks coherence (Almond, 1950), and easily manipulated by elite messaging (Lipset, 1966). The large information gap between political elites and the mass does not help either (Holsti, 2004): it seems the public does not know or care much about foreign policy, and when they do, they acquire opinions mostly in a top-down fashion, following political leaders and their messages. More recently, however, some researchers have examined the development of public views from the bottom-up, with tools borrowed from cognitive sciences, which shows that the public is in fact able to hold coherent views on foreign policy and apply them in electoral decisions. Although the public has a vast informational disadvantage when it comes to foreign policy issues, individuals compensate for it by employing heuristic cues and relying on the social context these issues are em-

bedded in, allowing them to make reasoned judgments with small amounts of information and apply democratic pressure on elected policy makers (Aldrich et al., 2006; Kertzer and Zeitzoff, 2017). This theory of bottom-up formation of public opinion is corroborated by a body of research that demonstrates public opinion as a constraining factor on foreign policy, particularly the policy space of the President/the head of the executive branch (Baum, 2004; Canes-Wrone, 2010; Sobel, 2001).

Most relevant to this dissertation, it appears that there exists a clear distinction in the public's information level and strength of preference between general foreign policy matters and crisis and conflicts. Crises and wars, which often receive disproportional airtime in mass media coverage and draw tremendous public attention, especially when they last long enough, allow the public to overcome the information asymmetry with political elites, form coherent views, and act on them to influence their government's behavior (Baum and Potter, 2008). Studies show that public opinion did influence American foreign policy on crisis situations like Nicaragua (Sobel, 2001), Somalia (Klarevas, 2002), and Iraq (Larson and Savych, 2005). Moreover, Broz and Hawes (2006) have shown that lawmakers' voting behaviors reflect the preferences and interests of their constituencies on high-profile foreign policy, especially foreign economic policy issues, such as the negotiation and ratification of NAFTA .

It seems that the existence of crises or high-profile international incidents is a key determinant in the formation and impact of public opinion in government policy making: the public is much more attentive, informed, rational, and effective in influencing government policy on crises than general foreign policy matters. This phenomenon may also provide a path to reconcile conflicting evidence in existing IPE scholarship on public opinion on economic policies, in particular trade and globalization: on one hand, Chaudoin et al. (2015) find that Congressmen and women do reflect the economic interests (production profile) of their constituents in their voting on trade agreements; on the other hand, Mansfield and Mutz (2013) and Rho and Tomz (2017) find that individual-level preference on trade and

globalization does not reflect personal economic interests, especially among those without college degrees. Mansfield and Rho's findings are understandable, since their surveys are conducted with generic questions about trade and globalization, not embedded in settings that are more high-profile, urgent, and closer to individual well-being, such as a trade war or rising inflation. In fact, there exist other researches to show that in situations with higher, imminent, and personal stakes, constituents do tend to vote according to their economic self-interests, such as Icelandic voters during their national debt repayment referendum in 2011, where reliance on unemployment benefits and investment assets in the Icelandic currency were identified as strong factors to predict voting behavior (Curtis et al., 2014). This survey shows that the intensive mass media coverage, lengthy and active engagement by economists and experts on the effects of different debt repayment options, and lengthy debate in public discourse before the referendum have educated the public, facilitated the development of coherent and rational views, and motivated the public to apply their preferences in electoral procedures.

Because sovereign debt crises, including those in major foreign countries, tend to be high-profile issues in creditor countries, it is logical to expect that public opinion should matter for creditor government behavior. The high sensitivity of the public to any form of government "bailout", both domestically and internationally, can make it a substantial constraining factor for creditor government's using of its own public resources to intervene in crisis situations. In reality, American public discourse is never short of public animosity against government bailout, mainly for two rationales: 1) foreign sovereign debt crises are perceived to be debtors' and the banks' creation and therefore their problems and their responsibilities, and 2) more importantly, the moral hazard that government bailouts create for the future. The moral hazard refers to the lack of incentive for private economic agents to control risks because they are protected from taking full responsibilities for bad consequences (Holmström and Tirole, 1998). In bank lending, when the creditor governments tap into public funds to assist troubled borrowers and repay their creditors, taxpayers are

paying for the consequences of unwise lending decisions made by a selected few banks, creating perverse incentives for banks, as well as borrowers, to take on excessive risks that are both morally unfair and ex ante inefficient. Public opinions are therefore consistently negative on the issue of government bailout throughout the history of opinion poll taking, although the strength of public opposition varies from time to time, a phenomenon the next (theory) chapter will examine and provide possible explanations.

Another issue relevant to the topic of creditor government intervention, one that also has received consistently negative public views, is foreign aid. Even the Marshall Plan, extolled for its strategic foresight and lasting success, originally had an uphill battle in soliciting support from the American public and Congress. Secretary Marshall, a bona fide war hero with an impeccable record of nonpartisanship, travelled throughout the country, appearing before labor groups, business associations, churches and universities. The State Department established a high-level bipartisan committee that issued an overwhelming number of reports with facts, figures, and analysis on the need for a European recovery and its impact on the American economy, for both Congress and the American general public, and even then, Gallup polls showed a lukewarm public attitude of around 50 per cent approval rate for the Marshall Plan (Gallup Organization, 1948) when it started in 1948.

Post-Marshall Plan, American public view on foreign aid has vacillated, primarily with the perceived Soviet threat, as aid was considered both as a moral and strategic tool in influencing the developing world under the bipolar international structure, until it hit rock bottom and never truly recovered when one thing happened: Vietnam. A massive investment of American aid (more than $28.5 billion of economic and security assistance, and at one point more than 25 per cent of USAID's entire global staff) poured into Saigon and achieved none of the objectives it was proclaimed to do. Ever since the early 70s, public polls have revealed consistently negative views on foreign aid, or that the U.S. spends too much on foreign aid, among around 60 to 70 per cent of the American public. The 9/11 attack provided a temporary rally-around-the-flag effect to allow the Bush administration

to expand spending, but the effect proved transient and the subsequent scandals and bad executions in Afghanistan and Iraq certainly were of no help (Norris, 2017; Gallop, 2002).

In general, quite similar to public opposition to government bailouts, American public opinion on foreign aid in the past few decades also remain negative, although the strength of it has fluctuated from time to time. Major historical events do often provide a temporary shock. Moreover, foreign aid receives particularly strong oppositions when pitted against domestic priorities (such as tax cuts and fighting inflation), a phenomenon that will also be examined in detail and theorized in the next chapter.

3.0 CHAPTER 3. THEORY

Given that creditor government intervention clearly matters for sovereign debt renegotiation outcomes and that a creditor government can respond in different ways, what motivates a creditor government to intervene in a specific way? What factors can best explain the actions of a creditor government in response to a foreign sovereign debt crisis? This chapter first introduces the dependent variable, creditor government intervention, and the various forms it can take, and then examines the two main independent variables that explain variation in creditor government behavior: the interest of finance and strength of public opposition to government bailouts. Along the way it proposes three hypotheses, to be tested by the next three empirical chapters, as well as a discussion of methodology on data collection, case selection, and analysis of both quantitative and qualitative evidence.

3.1 THE DEPENDENT VARIABLE: CREDITOR GOVERNMENT INTERVENTION

From gunboat diplomacy and colonial control to diplomatic engagement to intervention through international organizations like the IMF, although the form of creditor government intervention has evolved overtime from overtly coercive to seemingly cooperative and inclusive, the nature of creditor government intervention remains unchanged: a creditor government will use its influence to change the behavior of the debtor state and private investors and subsequently the outcome of sovereign debt crisis resolution. Creditor gov-

ernments achieve such influence mainly in three ways: 1) by providing financial incentives to debtor states through short-term loans or acting as lender of last resort, helping debtors avoid imminent default; 2) by providing financial incentives to creditors to agree on debt restructuring deals (commonly known as deal "sweeteners", such as guarantees on new bonds or permissive regulatory environment for foreign assets), and 3) by moral suasion and the establishment of standards of acceptable behavior for debtor states, nudging debtors to conform to a set of behaviors that are deemed acceptable and supported by creditor states.

Of course, creditor governments don't always act in the same way, and their different responses to foreign sovereign debt crises have led to divergent outcomes of those crises. There are two dimensions in which creditor governments behavior varies: whether they pressure the debtor country to honor debt obligations in full, which can only be achieved through sweeping economic reforms (such as market liberalization and privatization) and fiscal austerity (raising tax revenue and reducing spending, both to shore up debt servicing capacity), and whether they use their public (taxpayer) money, in the form of bilateral loans, to facilitate debt renegotiation and restructuring agreement. The first dimension determines who—among the debtor state and private creditors—would shoulder the burden of adjustment cost in a sovereign debt default crisis, and the second dimension pertains to how much the default risk is nationalized in the creditor state.

When creditor governments do both, debtor states are usually compelled to agree to go through macroeconomic reforms, balance the budget (how much they actually achieve, of course, is anyone's guess), and maintain the original loan amount (i.e. no debt reduction), which means that the majority of the adjustment cost is shouldered by the borrower. However, the use of public resources by the creditor government also means that the debtor state will receive temporary relief and avoid outright default, and that creditors will be incentivized to agree on some debt restructuring with lowered interest rates and extension of maturity timelines, because the creditor government is using public resources to (at least partially) compensate for their losses in the restructuring.

When the creditor government pressures the debtor into economic reforms but does not use any of its own resources to smoothen the debt renegotiation, there is, as in the previous scenario, also no debt reduction or reduction of the total debt servicing burden. Moreover, because private creditors cannot recover some of their losses from their home governments, they are more likely to join their governments in demanding drastic reforms and budget surpluses, leading to harsh austerity measures in the debtor country which often result in pro-longed recessions, high unemployment, dwindling of social spending, and continued level of unsustainable debt.

When the creditor government doesn't impose austerity on debtors and does provide financial assistance using its public resources, this "bailout" of both the borrower and the private creditors can provide instant relief of debt burden and the transfer of financial risks from private to public hands in the creditor country. The debtor state often can negotiate for some debt reductions, return external debt to sustainable levels and lower interest rates, and regain access to international capital market rather quickly, while private creditors get paid by the official funds made available by the creditor government. What happens after that, however, can vary a great deal: sometimes the debtor country repays their new official lenders promptly by borrowing in the international capital market (under more preferable terms) (e.g. the Mexican Peso Crisis), while at other times the official debt becomes a bad asset for the creditor government, with many strenuous renegotiation episodes to come in the future (e.g. the Greek Debt Crisis).

Last by not least, when the creditor government does not intervene in any way at all, the debtor country and private creditors are left alone to renegotiate. Without the help, mediation, or guarantee from creditor governments, private investors usually do not have much leverage on their borrowers to honor any obligation or enforce any contract, leading to large debt reduction and investor losses. Moreover, without the material incentives provided by creditor governments for private investors to participate in debt restructuring deals, investor participation is completely voluntary and varies greatly, often leading to a prolonged pro-

cess of crisis resolution and unequal outcomes for different lenders who choose to pursue different strategies.

While on the subject, this dissertation makes no claim over which of these debt resolution outcomes is better or fairer or more justifiable. Obviously, different stakeholders in the crisis have different preferred outcomes: debtors prefer to reduce their overall debt burden and maintain enough domestic investment to spur economic growth; creditors prefer to not lose money and recuperate as much principal and interests as possible; the public in creditor countries prefer not to socialize the default risk; and nobody wants a full-blown regional or even global crisis. Besides, even from an efficiency standpoint, what is ex ante efficient (optimal level of lending and borrowing) is drastically different from what is ex pose efficient (optimal level of debt reduction for the borrower to return to sustainable debt levels and lender to manage bad assets). Which way the creditor government will act, as this dissertation is to show, depends not on the efficiency of resource allocation, nor fairness, but the political calculations of domestic actors and the ability of various domestic agents to impact their government.

3.2 INDEPENDENT VARIABLE 1: THE INTEREST OF FINANCE

As reviewed in the previous chapter, finance can strongly influence their home government's policy-making through two kinds of mechanism: instrumental and structural. For the instrumental, finance leverages their resources to lobby, organize collective action, make campaign donations, and take advantage of privileged access to policymakers through specialty advisory committees and revolving doors between the public and private sectors (Culpepper, 2010; Lindblom, 1982; Miliband, 1969). On the other hand, the structural power of finance stems from the indispensable role of large financial institutions in an advanced capitalist economy due to their asset sizes and deep entanglement in a huge volume

of economic activities and actors (Culpepper and Reinke, 2014; Hacker and Pierson, 2002; Przeworski and Wallerstein, 1988; Swank, 1992). In sovereign debt crises, as McDowell (2016) has demonstrated, the structural power of finance stems from the fact that large, multinational banks are "too big to fail": because the financialization and securitization of the economy, failure of these banks would trigger a chain of dangerous reactions in the real economy and start severe economic recessions with real productivity drops. Due to their sheer size and weight, large banks' survival is inevitably linked to macroeconomic stability and general social welfare, meaning that governments are compelled to make policies friendly to these giants, especially in times of crisis to ensure their survival.

In a sovereign debt crisis, a financial actor's interest is best measured by exposure to the crisis country (or zone): the value of loans it has in the crisis country. This exposure indicates how much stake an actor has, or how much money it could lose in the crisis. Obviously, the bigger the exposure, the stronger the financial actor's interest is in persuading its home government to intervene and pressure the debtor state to honor debt obligations. Moreover, sometimes it is not just the existing financial exposure that determines a financial actor's interest in a foreign state, but also its ambition to expand businesses and the size of business opportunities it wishes to seize, especially if creditor government intervention would push for financial liberalization in the debtor country. Mexico in 1994 is an excellent example of the latter kind: US multinational banks were not just motivated by their existing businesses in Mexico, but the lucrative opportunities that a liberalized Mexican financial sector could bring, in their hard-fought campaign to convince the Clinton administration to defend the Peso and thwart a total Mexican economic collapse (more on this in chapter 7).

The interest of finance in a sovereign debt crisis is rather clear cut—to protect its own financial interest and seek full repayment of debt. Therefore, financial actors will support and actively advocate for creditor government intervention that pressures the debtor state to continue debt service, honor full debt obligations, and take painful fiscal adjustment to run a primary surplus (the most direct indicator of debt servicing capacity). The ability of any

actor to successfully convince their home government to do so, however, depends on two attributes of the financial actors involved: how powerful they are, and how concentrated their interest is.

Powerful actors are more capable of obtaining favorable policies from their home government than less powerful ones. Here, "powerful" is defined by the resources under a private actor's control, whether they are bank capitals or net assets of other kinds of financial institutions and investment funds. Logically, the more resource a financial actor has, the more power it has over the decision making of the home governments, both instrumental and structural. The instrumental power comes from resources that can be used to lobby, to organize collective action, and to provide lucrative future job opportunities for government employees in the private sector out of the revolving door, while the structural power stems from a financial actor's ability to affect macroeconomic stability in the real economy, which is directly correlated to the actor's size. This logic chain gives rise to the first hypothesis with regard to the power of finance in influencing creditor government intervention:

H1. The more powerful the private financial actors involved in a sovereign debt crisis are, the more likely creditor governments will intervene to pressure debtor states into pro-market reforms and fiscal austerity, and the higher the debt repayment rate.

Besides having enough resources, the success of any attempt in influencing creditor government behavior also depends on how financial actors are able to act in a concerted fashion to advance their interests. Collective action and the many structural impediments to its realization is well documented in the study of both economics and political science, and it has been recognized as an extremely pervasive problem that significantly influence whether rational agents adopt cooperative or competitive strategies (Camerer, 2011; Kagel and Roth, 2020; Ostrom, 2010; Sandler et al., 1992). In particular, sovereign debt restructuring contains what can be encapsulated into a prisoner's dilemma: the troubled sovereign borrower owes money to multiple creditors, and while it is beneficial for all creditors to

coordinate and negotiate a deal with the borrower, it is advantageous for each individual creditor to "exit" early or hold out on restructuring offers and pursue other means (such as litigation) that may generate higher rewards. However, if every creditor chooses what is individually beneficial to themselves, all creditors will suffer from a chaotic default process and larger financial losses than what would come out of an orderly debt restructuring (Sturzenegger and Zettelmeyer, 2007). Besides, in addition to incentives for free-riding and defect from collective action, creditors may also face pure communication and coordination failure, which impede their ability to effectively influence government decision-making, too (Rogoff and Zettelmeyer, 2002).

The importance of creditor collective action means that the power of finance in shaping home government intervention is affected by whether the interest of finance is concentrated or dispersed. Concentrated means that the number of actors involved are few, the interest of each individual actor is strong, and the pool of creditors is relatively homogeneous with strong internal connections and easy communication. Dispersed means the opposite: that the actors involved are many, heterogenous, scattered in physical location, and each with small exposure in the borrower state (although the aggregate exposure is large). The ease and likelihood of collective action among private investors give rise to the second hypothesis below:

H2. The more concentrated the interest of finance in a sovereign debt crisis is, the more likely creditor governments will intervene to pressure debtor states into pro-market reforms and fiscal austerity, and the higher the debt repayment rate.

In reality, the two key components recognized in these two hypotheses—powerful actors and concentrated interest—are first and foremost reflected in the form of debt vehicle, which can be either bank loans or sovereign bonds. Bank loans are usually arranged through a syndicate—a group of banks with a lead lender that performs duties such as underwriting and administrative tasks—and therefore have large, powerful private investors and concentrated interest. Bondholders, in comparison, and smaller in size, many in num-

ber, dispersed in location, and anonymous in nature. Unlike syndicated bank loans that typically stay on the books of a lender until repaid, sovereign bonds are freely bought and sold in the secondary market, meaning that virtually any investor can hold them at any time and they switch hands quickly, so the group of bondholders is ever-changing, anonymous, and impossible to track. Moreover, small retail investors often participate, sometimes without their conscious decision, because pension funds and sovereign funds often invest in foreign sovereign bonds because they are perceived as safer assets than other investment vehicles.

When crisis breaks out, international banks commonly work out proposals and solutions through the London Club, an informal but highly effective group for international private banks, similar to the Paris Club for state lenders. A typical syndicated bank loan involves anywhere between 300 to 500 banks, and under a potential sovereign default crisis, a smaller working group, usually of a dozen major banks, will be formed to lead the negotiation with the debtor state. While 500 banks may seem a large number, it is nowhere near the number of bondholders typically involved in sovereign bond vehicles: the Argentine bond which the country defaulted on in 2001, for example, had more than 180,000 holders in Italy alone (Mander, 2016), and Icesave, Iceland's investment program that went bankrupt in 2008, had more than 300,000 British and 125,000 Dutch retail investors (BBC, 2010). Although various committees of bondholders have been established to coordinate creditor action and lead negotiation, these bondholder committees are never officially recognized by the debtor state, nor able to represent a substantial proportion of creditors, rendering them largely ineffective in organizing collective action. Therefore, the fact that syndicated bank loans are more likely to receive creditor government intervention than sovereign bonds provides the heuristics that underlie how concentrated interests of finance are better able to influence government decision making.

3.3 INDEPENDENT VARIABLE 2: PUBLIC SENTIMENT

Existing literature on the impact of public sentiment on government policy-making suggests that such impact is inconsistent but substantial under crisis conditions. The public develops coherent views on international economic policies only when it is attentive to the issues, and it pays attention to high-profile world events such as wars, hostage situations, and economic crises. It is therefore reasonable to expect that sovereign debt crises, particularly those that spread across national borders as they often do and impact a large number of domestic stakeholders, can make news headlines, attract public attention, and trigger responses in major creditor countries. In particular, when a creditor government proposes to use its own public funds in an emergency loan package to the distressed debtor (commonly known as a "bailout"), the domestic public's reaction to such behavior shall act as a constraining force to the creditor government's ability to offer such bilateral loans.

Public opinion on the use of taxpayer money to rescue foreign economies and intervene in foreign sovereign debt crises has always been negative, as suggested by the pejorative name "bailout", mainly for the following reasons: 1) the bailout involves a transfer of sovereign default risk from private to public hands and may incur losses of taxpayer money. Although the long-term financial impact on taxpayers varies from case to case and bailouts may, in the end, earn a profit for the government, taxpayers cannot know it in advance and the profit may not be worth the high risk involved. Many of the U.S. government's 2008 bailouts—of Bear Sterns (Maiden Lane, 2018), AIG (Congressional Research Service, 2017), Fannie May and Freddie Mac (Congressional Research Service, 2019)—end up with profits with full principal and interest payment, but the profits did not stop public outcry against these enormous expenditures (Scott, 2020). 2) The bailout diffuses responsibilities and consequences and is often regarded as the poor mass subsidizing a few rich. Because the recipients of bailout funds are structurally important to the economy and too-big-to-fail (which is the reason why they have to be bailed-out in the first place), the

preferential treatment of the largest businesses, which often already enjoy monopolistic competitive advantage, makes it even more unpopular among taxpayers and voters. Moreover, bailout decisions can also be viewed as ad-hoc and political, when companies are not too large, but "too connected to fail", because their executives or shareholders have extensive connections with the funding government agencies (Johnson, 2009). 3) The bailout creates perverse incentive structures that encourage reckless risk taking in the future. The fear of moral hazard is probably the strongest argument against bailouts. The presumption of government-funded rescues makes risk taking behavior a one-sided bet (Calomiris, 2007), where risk takers expect to enjoy the rewards but not bear the losses. Multiple efforts in the U.S. and the European Union have been made, especially in the aftermath of the 2007-08 financial crisis, to reign in the moral hazard by establishing various financial activity taxes to be used as emergency funds when bailouts are needed (e.g. "Tobin Tax") and holding executives and shareholders of failing institutions responsible even with a government bailout (by replacing executives and requiring bail-ins from long-term investors so that they have incentives to monitor risks), but none have become law. As a result, the moral hazard remains a fundamental concern over government bailouts. 4) Last but not least, bailouts may not work. Especially for developing countries with high, unsustainable debt, bilateral bailouts may not prevent systemic collapse or boost lending to these countries. The two rounds of failed bailouts of Greece by the European Financial Stability Fund (EFSF), of €440 bn and €500 bn respectively, are the perfect illustrations of how even an enormous sum of bailout money can fail to restore financial stability in a relatively small but deeply struggling economy.

Although consistently negative, the strength of public opposition to bilateral bailouts can vary a great deal. For the purpose of examining creditor government intervention, the variance in public opposition is best studied between time periods rather than individuals. The economic model of foreign bailouts suggests uncertain distributive consequences for the creditor country, and empirical evidence also shows little correlation between an indi-

vidual's economic self-interest (or production profile) and their preference on international bailouts (Bechtel et al., 2014). On the other hand, existing literature on public opinion suggests that the social and economic context in which a policy proposal is embedded in is key to the development of coherent, strong views by the public, so different social and economic contexts, or environments, at different time periods should make the most difference in the strength of public outcry and hence its constraining effect on bailouts by creditor governments. In particular, a public that is already made sensitive to domestic economic matters should oppose bilateral bailouts more forcefully and consistently. Indeed, historical poll data show that American public opposition to spending on foreign aid, for example, is stronger when the use of public resource on foreign countries is pitted against domestic economic agenda, such as tax cutting or social spending increases (Pew, 2019), and voters in donor countries place a lower priority on foreign aid during economic downturns, prompting politicians to respond by cutting aid (Heinrich et al., 2016). Admittedly, bilateral bailout for distressed foreign sovereign debtor is not strictly foreign aid, since the finance package is not free money and more often than not has strict conditions, policy prescriptions, and sometimes outrageous interest rates attached to it. However, consistent and reliable data on public opinion polls on the specific subject of bilateral bailout during foreign economic crises do not exist, and bailouts are regularly perceived in the public discourse as a form of aid. Therefore, it is not too far-fetched to use public opinion on foreign aid as a stand-in for their opinion on emergency bilateral bailout and assume a positive linear correlation between the two. The social and economic contexts that impact public perception of aid should have similar effect on that of foreign bailout.

And economic recessions provide the perfect social and economic context to trigger economic anxiety and strong public opposition to foreign bailouts. During economic recessions, when the public already has low confidence in and high sensitivity to the economic trajectory of the country and ranks the economy high on the list of their concerns for their countries, public sentiment against bailouts will be the strongest. The developed world had

a few episodes of recessions in recent decades: from 1980-82, in the aftermath of the Iranian Revolution and energy crisis of 1979 and coupled with Paul Volcker's tight monetary policy to control inflation in the US; 1990-91, as Saddam Hussein invaded Kuwait and triggered an oil price shock; 2001, with the collapse of the dot com bubble and the 9/11 attack in the US; and of course 2007-08, which started as a subprime mortgage meltdown in the US and spread quickly to banking, insurance, and every corner of the real economy.

Poll data show both a deep pessimism about the future and a high ranking of the economy on the public's list of concerns for their country during these recessions. Notably, even brief recessions (like the one in 2001, which only lasted a few months) can cause deep worries in public opinion while they are still ongoing. Minor recessions don't have much of an effect on draining public resources (especially that of the Treasury's Exchange Stabilization Fund, ESF, or the Fed Reserve) but elevate the salience of domestic economic issues in public opinion, strengthening public opposition to foreign bailouts.

The specific mechanisms through which public engagement affects creditor government policy-making may be difficult to systemically observe because opposition in public discourse is often anticipated and incorporated into the government's decision making process (Summers, 2015). However, one particularly observable means through which public opposition puts pressure on their government over foreign economic policy is when such opposition is channeled through legislators or members of the governing coalition. For example, in 2012, Angela Merkel's political ability to lead a timely and appropriate response to the Greek debt crisis was undercut by members of her coalition pressured by the German public's opposition to further increase of bailout money (Bechtel et al., 2014). Similarly in 1994, Clinton's Mexican rescue, which was originally supported by leaders of both the Democratic and Republican parties in both chambers of the legislature, quickly fell through Congress because in both parties, a large number of representatives were compelled to break from their leadership to oppose the rescue plan due to public outcry in their constituencies over the astonishing price tag of the proposal.

Based on the rationale for public opposition to foreign bailouts and how it grows stronger during economic recessions in creditor countries, a third hypothesis is presented below:

H3. Economic recessions at home lead to stronger public opposition to foreign bailouts and therefore constrain the use of public resources by the creditor government and subsequently leads to less use of bilateral bailout by the creditor government.

3.4 THE THEORY

Based on the three hypotheses proposed so far, this dissertation presents a theory as follows. During a sovereign debt crisis, the interest of finance and public sentiment are the two main factors that determine creditor government intervention in two dimensions: finance is primarily interested in preserving the value of their foreign financial assets and therefore will try to convince their home government to pressure debtor state to continue debt servicing and honor debt obligations in full. Strong interest of finance, with powerful actors involved and concentrated interest, therefore leads to smaller debt reduction in the restructuring agreement and more economic and fiscal adjustment by the debtor state. On the other hand, ongoing recessions in the creditor country sour public sentiment on the economy, trigger economic anxiety, and harden the public's opposition to the use of taxpayer money to bail out troubled borrowers and their private investors, meaning that economic recessions in the creditor state constrain the creditor government's ability to tap into public funds as a part of its intervention in sovereign debt crises. The variations in these two independent variables generate four outcomes in the dependent variable, as demonstrated in table 1.

When the interest of finance is strong (with powerful actors and concentrated interest)

Table 1: The Impact of Finance and Public Sentiment on Creditor Government Intervention

		The Interest of Finance	
		Strong	Weak
Public Sentiment	Strong	Debtor Country Adjustment (the Baker Plan 1985)	No Intervention, Bail-in / Investor Losses (Argentina 2001)
	Weak	Creditor Government Bailout (Mexico 1994)	Debt Reduction with Public Guarantees (the Brady Plan 1989)

and public opposition to bail-outs also strong, the creditor government is likely to assist the private creditors in enforcing contracts—demanding full repayment of debt, but unlikely to pledge any public money in the resolution of the sovereign debt crisis. Therefore, all the burden of adjustment will be placed on the debtor, and the creditor government will pressure the debtor state to undergo pro-market reforms and fiscal austerity to ensure debt servicing capacity, like the Baker Plan designed for Latin American debtor states in 1985.

When the interest of finance is strong and public opposition to bailouts weak, the creditor government will also intervene on behalf of private creditors to ensure contracts and seek full debt repayment, but can tap into public funds to help with the process, often resulting in a quick bail-out of the debtor state with official loans and guarantees. The debtor state will use the new official loans to payoff old, private debt, and the sovereign debt is transferred from private investors to creditor governments. This is what happened to in the Mexican Peso crisis of 1994-95, when the Clinton administration provided $20 billions in loan guarantees to Mexico to help it avert default and further slumping of the Peso.

When the interest of finance is weak, either because not many powerful actors are involved or that they are dispersed and can't organize effective collective action, but public opposition strong, the creditor government will likely refrain from intervening in the crisis,

because it lacks both the political incentive and viability to do so. It will leave the crisis for the debtor state and private investors to work out a resolution. Since private investors, without assistance from their home governments, really do not have much leverage to enforce cross-border contracts, the nonintervention by creditor government often results in large debt reduction and investor losses.

When both the interest of finance and public opposition are weak, creditor government doesn't have to exert strong pressure on the debtor state to go through rigorous austerity programs to repay external debt and can make use of public resources to smoothen debt restructuring between parties. It will most likely help reach an eclectic outcome, with some debt reduction and lengthening of maturity deadlines and public resources to back the new agreement and "sweeten" the deal for private investors, like in the Brady Plan of 1989. Notably, this is the scenario where the creditor government has the most policy space: it is not under strong pressure from either finance or the public to do or refrain from doing anything, so policy makers have more freedom and can be influenced by secondary factors such as ideology, perceived legitimacy of action, and legislative interference.

In particular, although creditor government intervention is primarily decided in the executive branch—the President, the Treasury, and the Federal Reserve which is of course independent but more closely resembles the executive branch in how it responds to sovereign debt crises, when the executive doesn't face strong pressure from either finance or the public, it opens up possible intervention to secondary decision-making bodies such as the legislature.

Broz and Hawes (2006)'s research reveals that legislators' voting behavior on international financial intervention is mainly determined by their constituents' interests and preferences, which include their economic self-interests (production profile and relative position in the world economy) and cultural ties to the debtor nation (ethnicity), and sources of campaign contribution (the preference of donors). In the U.S., Congress can use legislation to limit the executive branch's authority to use the ESF freely and impose Congress su-

pervision, making such use more procedurally difficult, time consuming, and high-profile, increasing the political risk of such use. Of course, such actions are often ex post and reactive, meaning that they do not influence creditor government intervention in current crises but future ones. One example is Congress's reaction to Clinton's Mexican bailout, when it passed legislations that require lengthy communications with Congress by the Executive branch in the use of the Treasury's ESF, which at least partly contributed to Clinton's no bail-out decision for Thailand, an important US ally, in the Asian financial crisis. After such requirement lapsed, the Clinton administration provided financial assistance to Indonesia and South Korea, so legislative interference played a possible role in these different responses.

3.5 METHODOLOGY, DATA COLLECTION, AND CASE SELECTION

This dissertation follows a mixed-method approach to the analysis of empirical evidence, given the strengths and shortcomings of each method. A large-N, quantitative analysis has the advantage of including as many empirical cases as possible and producing generalizable results, but may neglect the specific details of how a causal mechanism works or specific conditions for the causal relationship to hold true (Angrist and Pischke, 2009); on the other hand, case studies allow for in-depth analysis and process-tracing that can unearth causal mechanisms, not just causal connections, between events, but face concerns over case selection bias, generalizability, and degree of freedom problems (King et al., 2021). The dissertation therefore incorporates both quantitative and qualitative data to best test the theory and underlying hypotheses and maximize the robustness of empirical analysis.

The empirical section of this dissertation starts with chapter 4, which conducts a large-N study to test the three hypotheses presented in the previous section, using an original data set, built upon Schneider and Tobin (2020)'s existing data on creditor government bilateral

loans, Reinhart (2016)'s data set on financial crises in the world, Cruces and Trebesch (2013)'s evaluation of investor haircuts in debt restructuring, and Dvorkin et al. (2021)'s data on sovereign debt maturity extension (another important determinant of a debt obligation's net present value besides the face value). It also introduces new independent variables that measure the interest and power of finance and public sentiment in each crisis. The data set includes all sovereign debt crises since the early 1980s and responses by G7 countries, which are where most private investors of sovereign debt reside. A fuller explanation on the selection of independent variables, measurement, coding, and statistical model choice will be presented in that chapter.

Following the large N study, chapter 5 and 6 present two structured comparisons of study cases that demonstrate how the two main independent variables—the interest of finance and public opposition—explain the difference or changes in creditor government behavior in otherwise very similar situations. Structured comparisons, although they do not entirely escape the problem of external generalizability and unobserved variables, provide focused, theory-oriented case studies that enable some level of standardization. The criteria for case selection in these two chapters prioritize the degree of freedom problem, arguably the biggest issue in small-N studies: that there are too many variables and too few cases, making it impossible to tell which variable is making the real difference. Therefore, the two pairs of case comparisons in these chapters, the Baker Plan of 1985 vs. the Brady Plan of 1989 and the Mexican Peso crisis of 1994 vs. the Argentine Crisis of 2001, seek to use cases that match in as many control variables as possible—the debtor country, the ruling parties in major creditor state (the U.S. in all cases), foreign policy priorities, and the general world order—to isolate the effect of variables that do vary between cases.

Selecting cases that are similar except for the few key independent variables generates the most explanatory leverage for the independent variables in the study cases. However, admittedly, the methodological choice to prioritize matching of control variables in case comparisons has some obvious drawbacks: first and foremost, all of the cases are from

Latin America and took place in a span of 20 years, making the selected cases quite a homogeneous group and leading readers to ponder how well the theory tested in these cases travels to other places, times, and circumstances. In case selection, there seems to be an inevitable trade-off between case heterogeneity and degree of freedom, since the more cases differ from each other, the more variables they have that differ from each other. This dissertation has chosen a more homogenous group for case studies, with the hope that the deficiency in case diversity may be compensated by the existence of the large-N study, which does include all observations available in the past 35 years.

Overall, the objective of having both quantitative and qualitative analyses is to establish causal relationships that are both widely applicable to all cases and identifiable in specific case studies. Although the selected cases are primarily focused on Latin America, which offers the most number of sovereign default incidents to study, the theory should travel well in the developing world, including Africa, East and Southeast Asia, and Eastern Europe, because the focal point of the theory is the creditor government and forces that influence it, and the geography of debtor countries alone does not affect how the two independent variables—finance and public opposition—work in domestic politics. Moreover, with the current international financial structure being exceptionally resilient and enduring, the findings discovered in this dissertation should apply for both the past thirty years and the foreseeable future, as long as the world of international finance continues to revolve around New York (and, to a lesser extent, London) and much of international capital flows and transactions remain dollar-denominated.

4.0 CHAPTER 4. QUANTITATIVE STUDY: THIRTY FIVE YEARS OF SOVEREIGN DEBT CRISES

4.1 SUMMARY

Fortunately (and unfortunately for citizens of borrowing countries), modern history has no shortage of sovereign debt default crises. Crises have occurred on all continents, at all times, and to countries large and small, rich and poor, providing ample episodes of debt renegotiation and restructuring with divergent outcomes. The substantial variations in both the independent variables (such as debt vehicle, debt terms, creditor composition, and the economic environment in creditors' home states) and the dependent variable (creditor government action), as well as the large number of events, naturally call for a systematic and statistical analysis of these past events, the objective of this chapter. This chapter seeks to test the hypotheses presented in Chapter 3 using empirical evidence on sovereign debt crises and restructuring in the past 35 years, from 1981 to 2016. In particular, it tests two causal relationships central to the determination of creditor government behavior as theorized in the previous chapter: between the power of finance and the imposition by creditor governments of adjustment costs on the debtor (instead of investors/lenders), and between public opposition to foreign bailouts in the creditor country and the creditor government's provision of official bilateral finance.

Statistical analyses in this chapter find that there is a strong positive relationship between the debt exposure of large, multinational banks in the creditor country and the creditor government's support for the imposition of economic conditionality, including pro-

market reforms, liberalization of industries and markets, fiscal austerity, and occasionally non-economic conditions. There is a strong negative relationship between such exposure and debt reduction rate as the outcome of restructuring negotiations. These two discoveries are consistent with Hypotheses 1 & 2, which expect that more powerful actors and concentrated interest in the financial industry of the creditor state would lead to creditor government intervention that puts the majority of the burden of adjustment onto the shoulders of debtor countries, making them accept stricter policy reforms and repay a higher proportion of debt. Meanwhile, this chapter also finds a strong negative relationship between ongoing economic recessions in the creditor country (sluggish GDP growth and high unemployment rate in year t and $t-1$) and the extension of official bilateral finance. Because the most likely causal pathway for recessions to impact bilateral bailout is through the way recessions trigger economic anxiety and therefore public opposition to foreign bailout spending, this discovery shows that public opposition to foreign bailouts, which intensifies during periods of recession, lowers the chance that a creditor government will intervene in a foreign sovereign debt crisis by offering bilateral finance. Overall, the findings are congruent with the theory that the interest of finance and public opposition have strong influence over two distinct dimensions of creditor government intervention, and they work through different channels. For example, although finance (especially powerful actors that are too-big-to-fail) has a strong influence over the imposition of structural reform and minimization of debt reduction, it doesn't have much effect on bilateral bailout, meaning that finance's influence over creditor government behavior is powerful but limited to selected policy arena. Besides, recession also has a borderline negative effect on the terms of debt restructuring: ongoing recessions in creditor countries slightly lowers the haircut obtained by debtors in crisis, the reason for which will be more extensively discussed in the following subsections.

These statistical analyses are conducted on an original data set, built upon existing ones, which introduces new independent variables that are central to the theory of this dissertation, a key contribution of the dissertation and hopefully will be useful to future research

endeavors. This chapter will first introduce the data set, sources of data, the dependent and independent variables, and measurement of key variables. It will then explain methodology and model choice, and present regression results. Lastly, it will provide interpretation of the statistical results, discuss alternative explanations, and address endogeneity concerns, as well as other concerns about the establishment of casual inference from observational data analysis.

4.2 DATA COLLECTION AND MEASUREMENT

Government debt is among the most elusive of economic time series, especially for less-advanced economies. So far, the most comprehensive data comes from the Organisation for Economic Co-operation and Development (OECD), which provides time series on general government debt since 1980, but the OECD data set focuses mostly on developed economies and a few emerging markets, making it unfit for the purpose of this dissertation which focuses on developing world debt. The International Monetary Fund (IMF) and the World Bank (WB) also have their own data: the World Economic Outlook (WEO) database by the IMF and Global Development Finance (GDF) by the WB. The WEO, however, is too limited to be useful in this study, for it does not expand well beyond G-7 countries and information for many countries don't start until the 1990s. The World Bank's GDF, known previously as the World Debt Tables, appears to be the best source on sovereign debt, not only because it starts in as early as the 1970s but also because it focuses exclusively on public external debt, the focal point of this dissertation.

While data from the World Bank's debt tables provide general background information on external debt levels, ratios, sustainability levels, payment, and the occurrence of debt payment crises, it only makes available data on the aggregate level, not on any specific creditor-debtor relationship, so information on the specific dependent and independent vari-

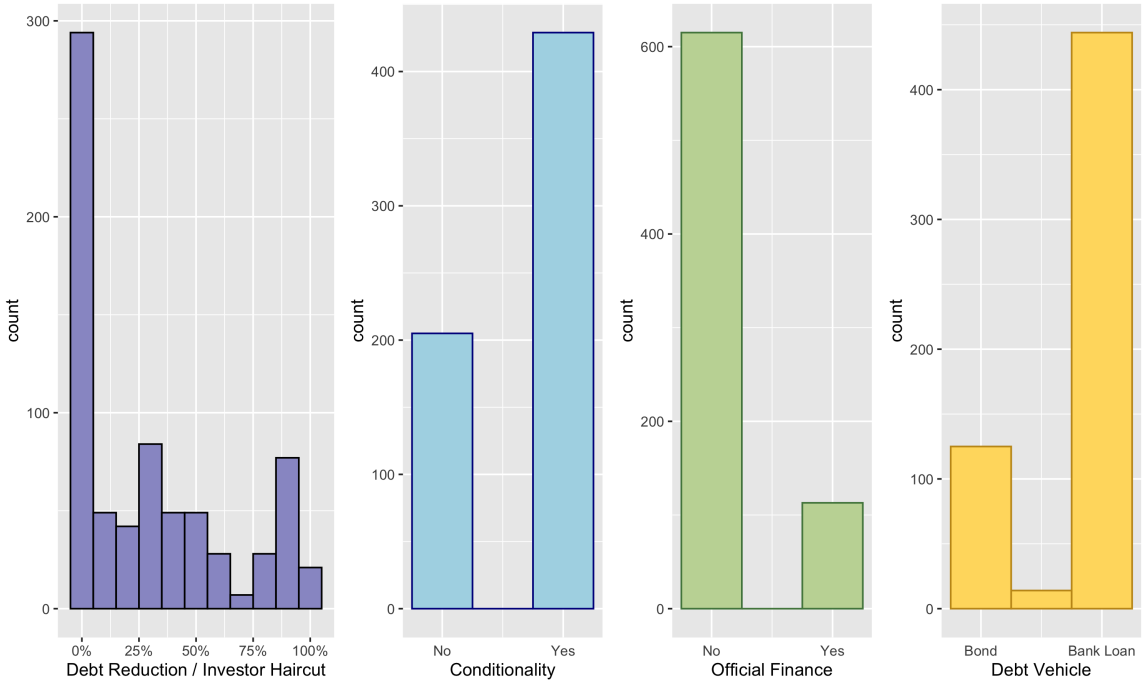
ables in this dissertation has to be collected from other sources. Among existing data sets and papers in International Political Economy, two are of great value: Schneider and Tobin (2020)'s work on bilateral finance provided by advanced economies in financial crises and Cruces and Trebesch (2013)'s work on the calculation of true debt reduction rate in sovereign debt restructuring.

Schneider and Tobin (2020)'s data focus on bilateral bailouts: financial rescues from governments to governments in financial crises, which is also a key component of creditor government response studied by this dissertation. Their data set includes all financial crises between 1975 to 2010, and my new data set selects the data points that reflect sovereign debt crises, extends the timeline to 2016 (cross-referenced with Reinhart's dataset of economic crisis (Reinhart, 2016), the most exhaustive list of economic crises around the world and quite an authority on the subject matter of crisis), and makes a few corrections where new information has emerged about the extension of bilateral finance. Just as in Schneider & Tobin's original data set, official bilateral finance is coded as a binary variable, indicating whether a creditor government has used its own public (taxpayer) money to rescue a foreign debtor in crisis through bilateral loans or loan guarantees. Loans and loan guarantees are the two most common vehicles for bilateral bailouts, although occasionally creditor government departments other than the Treasury/Ministry of Finance and the Central Bank can also intervene with their own resources, providing trade credits, advance payment for future energy and agricultural product sales, or other types of credits, all of which are also considered as bilateral finance.

Cruces and Trebesch (2013)'s work provides another key component of the outcome variable that this dissertation is interested in: the outcome of sovereign debt renegotiation during a crisis (either after a default or under the shadow of default)—the rate of debt reduction (aka investor "haircut"). Full debt repayment has been shown to be a directly consequence of strong creditor government intervention (Kamlani, 2008), so it is reasonable to believe that the extent of debt reduction—a continuous variable instead of a dichoto-

mous one—also reflects creditor government stance. It signifies how forcefully a creditor government has acted to pressure the borrower country to honor more of its existing debt obligations. Unsurprisingly, in the date there exists a strong negative correlation between debt reduction and the imposition of conditionality: as explained in the theory chapter, a creditor government's intervention on behalf of private investors to urge debt repayment usually involves demands for economic reforms and austerity in the borrowing country, while when it doesn't much care for debt repayment, the creditor government won't have the incentives to impose economic conditionality on debtors.

While debt reduction is in principle a rather straightforward concept, the complexity of debt restructuring deals often eludes the real rate of debt reduction, which is far different from simply the reduction of the face value of debt. Usually, the debtor countries will make offers of multiple options for creditors to choose from: a par bond with same principal but reduced interest rates, a discount bond with discounted principal and higher (closer to market level) interest rates, direct debt buy-back with steep discounts, new money options, the list goes on (IMF, 2002). Moreover, debtor offerings can have all sorts of treatments of interests accrued while debt payment had been in arrears. All these complications create challenges for economists and political scientists to evaluate the extent of debt reduction, and many have come up with measurement methodologies. So far, Cruces and Trebesch (2013) provide the most convincing measurement: instead of the traditional present value loss measure which compares the present value of the new debt contract to the face value of the old debt (a measure used by the IMF and credit rating agencies), Cruces and Trebesch use a more sophisticated measure which compares the present value of the new debt obligations to the present value of the old debt. By discounting debts both old and new, Cruces and Trebesch's method has the advantage of reflecting the increased debt servicing capacity as a result of the restructuring itself, providing a more accurate calculation of default risks (measured by "exit yields") and hence the value of a debt package. Besides, this method also accounts for changes in the maturity and interest structure, which are very



(a) (b)

Figure 2: Histograms of key variables

common in debt renegotiations nowadays. Cruces and Trebesch have hence created a list of 187 distressed sovereign debt restructurings with external private creditors (banks and bondholders) occurring between 1970 and 2013, for which they have collected the data on the amount of debt restructured and computed the haircut rate as a result of the restructuring, both of which are incorporated into my data set. Figure 2a shows a histogram of debt reduction rates in the data set.

Apart from bilateral finance and debt reduction outcome, one additional dependent variable is crucial to testing the theory and hypotheses from the previous chapter: whether the creditor government has intervened in the macroeconomic policies of the debtor country and impose conditionalities, either attached to bilateral finance packages or as stand-alone requests. Most of the times, conditionality revolves around economic reforms (market liberalization, privatization of SOEs, loosening of export/import/capital controls, reduction of subsidies and other forms of protectionism), macroeconomic austerity measures (tax increases and spending cuts to balance the budget, commitment of a percentage of GDP or

government revenue to debt servicing, and inflation targets), and transparency standards for public book keeping and the domestic banking sector. Occasionally, other types conditionality can occur, such as narcotic policing (Bolivia 1986) and rain forest protection (Madagascar 1990).

The imposition of conditionality is coded as a binary variable, indicating whether a creditor government has made demands on the debtor country to implement domestic economic (and occasionally social) structural reforms. Sources of data come from the IMF's country economic outlooks, which usually provide extensive details of economic reform programs undergoing in a country. Supplementary sources include news articles from reputable international press, with the financial press given priority to ensure quality and consistency of data.

Several independent variables are introduced in the data set to describe the proposed causes of creditor government intervention: the power of financial actors involved and economic recessions that affect public sentiment in creditor countries. For financial actors, first a binary variable is introduced to specify the main vehicle of debt: whether a debtor country is having trouble repaying and trying to renegotiate syndicated bank loans or sovereign bonds. This information is rather easily attainable from existing studies and archives of financial news outlets[3]. If the main debt vehicle is bank loan, two more variables measure the exposure of banks within a creditor country to the debtor in crisis: total banking sector exposure and the exposure of the few largest institutions within the creditor country. As hypothesized in the previous chapter, the ability of financial actors to influence their governments' decision making relies on their size (and therefore systemic importance), resourcefulness, eagerness to act, and ease of organizing collective action. All these factors suggest that the exposure of the few largest financial institutions should matter for creditor government behavior more than simply the total national exposure, for when push comes to shove, it is the largest, most powerful actors who are likely to make the most difference

[3]the main source of information on debt vehicle is the archive of the Financial Times, queried from Factiva (https://global.factiva.com/sb/default.aspx?NAPC=S)

in impacting government behavior.

To operationalize these concepts, of course, requires more decisions and judgement calls to be made. Data on the total exposure of the banking sector comes from two sources: the Bank for International Settlements (BIS), which publishes quarterly the geographical and currency composition of banks' assets and liabilities. The BIS reports are a particularly reliable source for G-7 country bank exposure because, unlike the World Bank or IMF that rely on country-reported data which are often intentionally misrepresented or inaccurate simply because many low-income countries don't have the accounting capacity, BIS collects their data from creditors–how much money each bank is owed from what countries [4]. Besides the BIS, US bank exposures are published biannually by the US Bank Country Exposure Surveys, done by the Federal Financial Institution Examination Council (FFIEC), an economic survey that breaks down all lending by U.S. banks and other financial institutions to foreign sources according to various categories. FFIEC is an interagency body of the U.S. government made up of several U.S. financial regulatory agencies. Their survey started in the 1970s, which luckily coincides with the start of the time series in this dissertation's new data set, and is known as the FR 2036 report before 1984 and the FFIEC 009 report since 1984[5]. Unsurprisingly, there is some disparity between the BIS data and FFIEC: it appears that exposure reported by the BIS is consistently lower than that by the FFIEC for the same category. Without better, more comprehensive data source, this dissertation uses the FFIEC for U.S. exposures and BIS reports for other creditor countries, while introducing creditor country fixed effect in statistical models to account for systemic reporting errors (under-reporting) in creditor states other than the U.S..

In addition to total banking sector exposure, the FFIEC reports also have separate data on the nine largest US banks, or sometimes called the nine Money Center Banks, regarding their exposure to foreign countries. This grouping, which includes all major international

[4] data can be queried at https://stats.bis.org/statx/toc/LBS.html

[5] this survey can be found at https://fraser.stlouisfed.org/title/e16-country-exposure-lending-survey-333?browse=1970s for data between 1977-1997 and https://www.ffiec.gov/e16.htm from 1997 to present

banks such as Citigroup, JP Morgan Chase, Bank of America, Wells Fargo & Co. and etc, reflects FFIEC's categorization of systemically important banks in the US and is used in the data set to represent the largest and more powerful financial actors in the US. Beyond the United States, however, scant data exist to systemically record the exposure of the largest institutions, so this dissertation decides to follow the example of FFIEC and identify large actors in finance in other creditor countries by picking out the ones with the largest asset sizes. In the data set, 3 UK banks (HSBC, Barclays, and Lloyds banking group), along with the French BNP Paribas and the German Deutsche Bank, are considered in the group of "large financial institutions", since they have the largest market capitalizations in their respective countries. Figure 2b presents a histogram of the distribution of conditionality demands, official finance, and main debt vehicle, while figure 3 presents descriptive data on banking exposures (both total national exposure and exposure of the largest few) of the G-7 countries in all the sovereign debt crises in the data set.

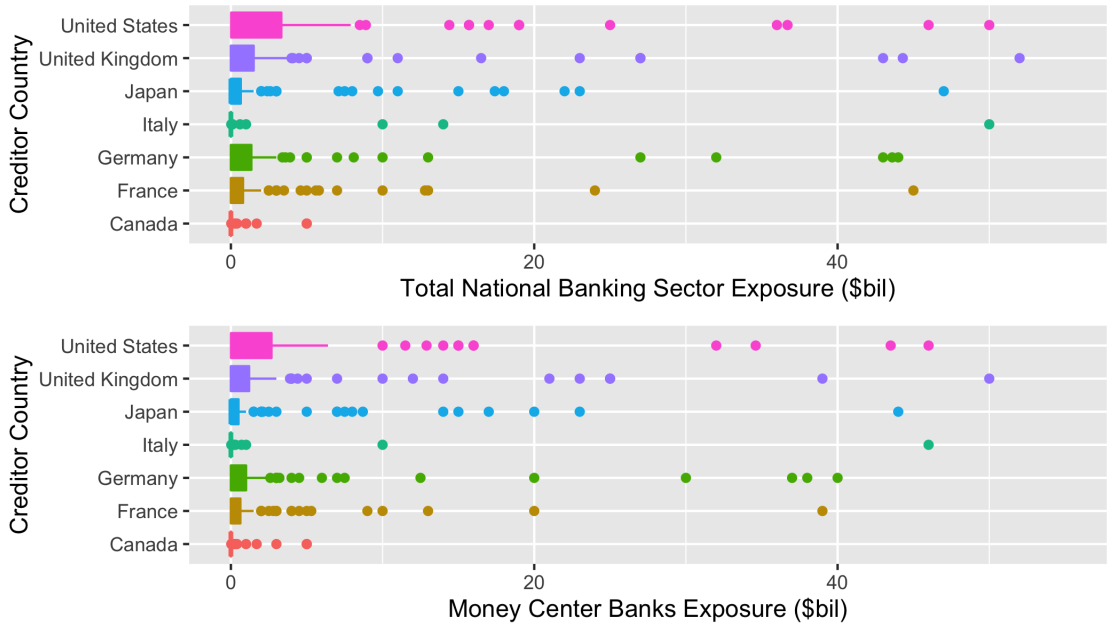


Figure 3: Descriptive data on bank exposure by creditor home country

On the other hand, data on public opinion on foreign bailouts, especially outside of the U.S., are incomplete and inconsistent, making it challenging to directly measure. However, as the theory chapter has explained, public opinion on foreign bailout spending largely

tracks the general economic environment and outlook in the creditor country: the more distressed and pessimistic the public is about their economy, the more negative their opinion becomes on foreign bailouts (Pew, 2019), and severe economic recessions provide the perfect social and economic context to trigger anxiety and hence strong public opposition to foreign bailouts (Heinrich et al., 2016). Therefore, in this part of the study, economic downturns are used as the indicator of public opposition and is determined by two metrics: GDP growth rate and unemployment in the creditor country at the time of debt restructuring. Negative GDP growth is the most commonly used indicator for economic recessions, while unemployment can better capture how the recession is felt among the population. A continuous, index variable with range [0,1] is therefore constructed to reflect a combination of both measurements, where greater values represent more severe recessions in the creditor country (values closer to 1: severe recessions; values closer to 0: no recession). Alternatively, GDP growth rate alone is used as the recession indicator, with no significant influence on regression results.

In addition, the extent to which recessions at home lead to strong public backlash against the use of taxpayer money for foreign bailouts should depend on the political opportunity, in the creditor country, of opposition parties to politicize the bailout and gain electoral advantage over the incumbent. In fact, many studies have shown that elected officials are extra sensitive and therefore susceptible to the influence of public opinion in election years (Chowdhury, 1993; Ito and Park, 1988; Kayser, 2005; Roy and Alcantara, 2012), and Schneider and Tobin (2020) argue that incumbents that are electorally vulnerable—facing general elections in the same year—are less likely to bailout foreign countries under financial crisis. While anecdotal evidence suggests that electoral popularity is *always* on the minds of incumbents (Summers, 2015), the timing of elections is nevertheless a potentially influential factor, in that during election years, when the opposition party is more likely to capitalize on any foreign bailout, the impact of economic downturns should be even more pronounced than non-election years. As such, economic recessions, along with the interac-

tion of recessions and election timing, are used to indicate the strength of public opposition against foreign bailouts.

Admittedly, the use of any indicator as a proxy for public sentiment is sub-optimal to directly measuring public sentiment itself. However, due to the scarcity and inconsistency of historical poll data, direct and consistent measurement of public opinion on foreign bailouts is quite impractical. One concern that naturally arises in the construction of a proxy indicator is whether there are other logical pathways through which the observed indicator can have an effect on the outcome variable, besides its connection to the independent variable it is supposed to represent. If so, the existence of other causal mechanisms between the observed indicator and the outcome will inevitably confound the causal relationship between the independent and dependent variables. In this case, a plausible connection between recessions and bilateral bailouts is that ongoing economic downturns in the creditor country may generate a public resource constraint and limit the amount of finance available for the use of foreign bailouts. However, this argument is unlikely to hold true, mainly for two reasons: first, the amount of bilateral finance, while it may appear to be a huge sum of money (in the billions), is nevertheless still a very small percentage of the creditor government's annual budget. The biggest bailout by the U.S., for example, of Mexico in 1994, which had a whopping price tag of $16 billion, still accounted for less than 1 per cent of the federal budget. Therefore, the reduction in bilateral bailout does not free up resources that would have been significant enough for domestic policy objectives. Second and more importantly, government spending in OECD countries in the past 30 years has been largely countercyclical (Perotti, 2005; Égert, 2010), as fiscal stimulus, aided by loose monetary policies, has become the orthodox response to economic slowdowns in advanced economies (Fatás and Mihov, 2009). Even Ronald Reagan, the enthusiastic small-government advocate and deficit hawk, led the recovery from the 1980 recession (quite successfully) by increasing government spending (Bivens, 2016). Therefore, the fundamental assumption of budgetary constraint during recessions is unsupported by empirical evidence, leaving the political ef-

fect of recessions in changing public opinion, through their politicization by opportunistic opposition parties, the most viable causal pathway.

4.3 MODEL SPECIFICATIONS AND MISSING DATA

To generate an estimation of the likelihood that a creditor country will demand structural reform by the troubled debtor country, conditionality, a binary variable, is analyzed through binomial logistic regression with (country) mixed effects and robust/Heteroskedastic and Autocorrelation Consistent (HAC) standard errors. The main independent variables are 1) the main debt vehicle (whether the majority of a debtor country's defaulted/near-default debt is syndicated bank loans or sovereign bonds), 2) the total exposure of a creditor country's banking sector to the distressed debtor, and 3) the total exposure of the few largest banks (as specified in the previous section) in the creditor country.

In addition to these three variables of interest, several control variables are introduced because they may have a confounding effect on the association between conditionality and the key independent variables: most importantly, IMF loans are usually accompanied by the conditionality of macroeconomic reforms, and the existence of IMF requirements can make it easier for a creditor government to "tag along" and second the demands. Indeed, a collinearity test does show that IMF instrument increases the average number of creditor governments that will impose macroeconomic conditionality on any debtor country, making IMF involvement an important covariate to include. Therefore, the estimation will include the logged amount of IMF loan in millions of US dollars as a covariate.

In addition, alliance has long been regarded as a major determinant of state-to-state behavior. Although as the previous chapter has explained, allied favoritism in sovereign lending is normally expressed through official bilateral lending, not commercial transactions, alliance relationship is included in the model as a binary variable. Of course, the

existence of official alliance pact may not cover the full extent of the relationship between the creditor and debtor states, so in an alternative model, a measurement for democracy for debtor countries is introduced. Since all of the creditor countries in the data set (G-7) are democracies, this measure captures the difference between having an official alliance relationship and simply being like-minded countries.

Last but not least, two more control variables are introduced as alternatives to each other: total financial exposure (including both banking and non-banking) and total trade exposure. Both of them measure the general economic connectedness between the creditor and debtor countries, focusing on slightly different aspects of the relationship. The more intertwined financially and economically the creditor and debtor countries are, the more likely an economic crisis in the debtor state will spillover and create negative externalities for the creditor country's economy, directly impacting investors, exports, and sectors that rely on imports of raw material and intermediate goods from the debtor and possibly spreading to other sectors, employers, workers, and consumers. Therefore, it is reasonable to expect that these two indicators of economic enmeshment may have an confounding effect on the causal relationship between the variables of interest.

Besides the potential effect of above-mentioned control variables on the key causal relationship between bank exposure and the imposition of conditionality, it is possible that one creditor government's decision to intervene is endogenous to another creditor government's behavior. Creditor countries, especially the G-7 in the data set, are close allies and consult each other regularly on their international economic policies, so it is highly likely that some of them would act in concert and adopt similar policies toward debtor countries in a major crisis event. On the other hand, it is also possible that one creditor government's activism lifts the burden off of other creditor governments so that they don't feel the necessity to act as strongly. Instead, creditor governments would free ride on others' intervention. This logic could apply not only to conditionality but also, perhaps even more so, to the extension of bilateral finance. The extent to which creditor governments' actions are

influenced by each other depends on how close economically they are. Hence, to account for the interdependence of creditor government behavior, a matrix Δ_j is introduced, following Plümper and Neumayer (2010)'s example of spatial dependence, based on the action of another creditor government k and the economic exposure between creditor countries k and j.

$$\Delta_j = \sum_{k \neq j} \delta_{jk} \lambda_{ki}$$

where δ_{jk} is the weighting matrix that determines the weight creditor j places on the behavior of creditor k over crisis country i and λ_{ki} is the contemporaneous value of the dependent value equal to 1 if creditor country k demands economic conditionality from (or, in Model II, gives a bilateral bailout to) i.

Inevitably, not all financial data for debtor countries are available for the time period in this new data set, and data quality varies from country to country and year to year. To deal with these problems, multiple imputation (multivariate imputation by chained equations, aka MICE) is employed to fill in for missing data, a widely used method in social science research that relies heavily on observational and incomplete data (Honaker and King, 2010). Unlike list-wise deletion, which will make the data set bias against poorer and smaller countries (since it is these countries that are more likely to have missing data), multiple imputation avoids the biases and allows for the imputation of binary variables using logistic regression and continuous variables using ordinary least square. In the analysis, ten sets of simulated values are used to replace missing data, with the use of R package Amelia II and simulations combined using Rubin's rule (Rubin, 2004).

Overall, there are 728 observations, with 104 events of sovereign debt default crises and 7 creditor governments. And for a total of 634 observations for the analysis of conditionality (dependent variables are not imputed), there are 31 and 59 data points missing and imputed for total banking exposure and major banks exposures, respectively, relatively small amounts compared to the size of total data. Admittedly, the "missing-at-random"

assumption is not perfectly met: earlier episodes of crises tend to have more missing data (and probably poorer data quality, too), as is the nature of data collection. However, given that there is no clear correlation between the year of the crisis and any of the main independent variables, the author considers the bias in missing data tolerable and imputation an adequate method to deal with imperfect data availability.

The estimation model for the imposition of conditionality can therefore be formally expressed in the following logistic regression function:

$$Pr(Cond.|\mathbf{X}_{ijt}, \theta) = logit^{-1}(\beta_0 + \beta_1 \mathbf{X}^{it}_{vehicle} + \beta_2 \mathbf{X}^{ijt}_{totalexp} + \beta_3 \mathbf{X}^{ijt}_{mainexp} + \beta_Z \mathbf{Z}^{ijt} + \gamma \Delta_j) \tag{1}$$

Where the left side of the equation is the predicted probability of the imposition of conditionality, debtor countries are indexed with i, creditor countries are indexed with j, the years indexed with t, β denotes the coefficients for their respective parameters, Z denotes a vector of covariates aforementioned including creditor country fixed effects, and Δ_j denotes the matrix of inter-creditor dependence specified above.

The second dependent variable of interest, official finance, also a dichotomous choice, is analyzed with logistic regression, too. In addition to the index variable that indicates recession in the creditor country, which the theory predicts to be the main determinant of official bilateral bailout, banking sector exposure and the set of control variables in the first model are also included as covariates. In addition, as previously explained, the effect of recessions should be amplified during election years because the opposition party is more likely to exploit the opportunity to politicize the event and gain electoral leverage. The interaction between election timing and recessions naturally gives rise to an interaction term to capture this effect. The timing of elections is represented by a binary variable to account for whether a general election is held in the creditor country in the same year as the execution of intervention. Similar to equation (1), a matrix of Δ_j is also introduced to

account for whether other creditor countries have extended bilateral bailout packages to the same debtor country i.

The estimation of likelihood of official finance can therefore be expressed as the following:

$$Pr(OF|\mathbf{X}_{ijt},\theta) = logit^{-1}(\beta_0 + \beta_1\mathbf{X}^{jt}_{recession} + \beta_2\mathbf{X}^{jt}_{recession} * \mathbf{X}^{jt}_{election} + \beta_2\mathbf{X}^{it}_{vehicle} + \beta_3\mathbf{X}^{ijt}_{mainexp} + \beta_Z\mathbf{Z}^{ijt} + \gamma\Delta_j) \quad (2)$$

The third dependent variable, debt reduction, is a percentage. The values are relatively evenly distributed between 0 and 1, apart from a heavy concentration of zero per cent. Therefore, two models are used to analyze debt reduction percentage: logistic regression and a two-limit tobit model. For logistic regression, the y variable has to have the range of [0,1], forcing the drop of negative debt reductions, where there are only two and very small in value (-0.05%). In this analysis, the output from the logistic regression represents the predicted debt reduction percentage, instead of predicted probability. Alternatively, the percentage can also be treated as a censored continuous variable and analyzed with a two-limit tobit model that estimates linear relationships (Long, 1997). Given the distribution of the dependent variable, a linear function cannot be ruled out and may even have better predictive accuracy. Hence, the two models can be expressed in the following functions, respectively:

$$Pct(DebtRed.|\mathbf{X}_{ijt},\theta) = logit^{-1}(\beta_0+\beta_1\mathbf{X}^{it}_{vehicle}+\beta_2\mathbf{X}^{jt}_{recession}+\beta_3\mathbf{X}^{ijt}_{mainexp}+\beta_Z\mathbf{Z}^{ijt}) \quad (3)$$

$$
\begin{aligned}
y^*_{ijt} = \alpha + \beta_1 \mathbf{X}^{it}_{vehicle} + \beta_2 \mathbf{X}^{jt}_{recession} + \beta_3 \mathbf{X}^{ijt}_{mainexp} + \quad & \beta_Z \mathbf{Z}^{ijt} + \epsilon_{ijt} \\
Y(DebtRed.)_{ijt} = y^*_{ijt} \qquad if \qquad & 0 \leq y^*_{ijt} \leq 1 \\
Y(DebtRed.)_{ijt} = 0 \qquad if \qquad & y^*_{ijt} \leq 0 \\
Y(DebtRed.)_{ijt} = 1 \qquad if \qquad & y^*_{ijt} \geq 1
\end{aligned}
\tag{4}
$$

In the fit tests, the logistic regression model fits the data better, but both results will be presented in the result section.

4.4 EMPIRICAL FINDINGS AND INTERPRETATION

Regression results from models 1-3 and 4 are presented in table 2 and 3. Overall, the results are congruent with much of the expectations from this dissertation's theory on the power of finance and public sentiment on the economy with high statistical significance, while providing some additional interesting insights. On the imposition of conditionality by creditor governments, it is highly influenced both by the type of debt vehicle (bank loans vs bonds) and the exposure to distressed debtor countries of major banks, as shown in the results from Model 1. Aligned with the predictions of Hypotheses 1 and 2, syndicated bank loans are 3.13 times more likely to trigger creditor governments to demand structural reforms in the debtor country. Moreover, exposure of major banks (largest 9 in the U.S., largest 3 in the U.K., and largest in France and Germany) also positively impacts the likelihood of the imposition of conditionality. Holding other covariates at their mean, figure 4 (left) demonstrates the substantive effect (with 95% confidence intervals) of exposure of major banks on the likelihood of conditionality through simulation. First and foremost, it can be seen from the graph that demands for structural reform are very common in sovereign debt crisis resolution: in fact, there are 429 conditionalities imposed, compared to 205 cases where they are not. Still, major banks' exposure, when it reaches

Table 2: The impact of debt vehicle, banking exposure, and recession on creditor government intervention behavior

	Dependent variable:		
	Conditionality	Official Finance	Debt Reduction
	logit mixed-effects	*logit mixed-effects*	*logit mixed-effects*
	Model 1	Model 2	Model 3
Debt Vehicle	23.100^{***}	1.054	-1.620^{***}
	(5.750)	(1.341)	(0.451)
Total Banking Exposure ($bil)	-2.890	0.034	
	(1.750)	(0.068)	
Major Banks Exposure ($bil)	5.030^{*}	0.014	-0.044^{*}
	(2.170)	(0.082)	(0.021)
Recession (Creditor State)	-2.120	-6.655^{**}	-0.064^{*}
	(2.720)	(2.1210)	(0.028)
Election Timing (Creditor State)		0.297	
		(0.933)	
Recession x Election		-2.128^{***}	
		(0.724)	
Total Financial Exposure	0.236	0.637^{**}	-0.061^{***}
	(0.360)	(0.214)	(0.011)
Democracy	-0.286	0.039	0.116^{**}
	(3.710)	(2.000)	(0.040)
Alliance	-0.806	0.993	0.025
	(3.290)	(1.020)	(0.046)
IMF Loan	0.802^{*}	-0.170	0.002
	(0.356)	(0.225)	(0.005)
Observations	634	728	728
Log Likelihood	-32.300	-94.700	19.000
Akaike Inf. Crit.	84.600	209.000	-18.100
Bayesian Inf. Crit.	121.000	246.000	
Note:			*p<0.05; **p<0.01; ***p<0.001

Table 3: Model 4. Debt Reduction (2-limit Tobit)

	Estimate	Std. Error	z value	Pr(>|z|)
(Intercept):1	0.790	0.080	9.930	0.2
(Intercept):2	-0.879	0.059	-15.000	0.2
Debt Vehicle	-0.380	0.063	-6.040	0.016
Major Banks Expo	-0.006	0.004	-1.400	0.062
Recession	-0.098	0.058	-1.690	0.092
Total Financial Expo	-0.053	0.011	-4.920	0.087
Democracy	0.006	0.056	0.110	0.912
Alliance	-0.051	0.079	-0.649	0.516

the 10 billion USD mark, raises the chance of conditionality to 95%, up 20% from the baseline, and when major banks exposure is exceptionality large (more than 20 billion USD), it is almost certain that the creditor government will intervene on behalf of its investors to demand macroeconomic structural reforms by the debtor country to improve debt servicing capacity.

A somewhat surprising but understandable finding revealed in these tests is that the creditor country's total banking exposure, regardless of whether major banks exposure is also included in the model, does not demonstrate an even marginally significant effect on any of the dependent variables. It doesn't demonstrate a direct effect on whether the creditor state will bailout the debtor, or impose economic conditionality, or influence the eventual debt reduction rate whatsoever. The effect of total banking exposure can be eclipsed by the inclusion of total financial exposure as a control variable, since the two can have a positive correlation. However, this isn't likely the case, since their collinearity isn't strong and in some analysis the two variables have different signs in their coeffecients. The insight to be gained is therefore that the total exposure, or the aggregate financial interest in a debtor state, doesn't really matter, and it is the specific landscape of exposure—the type of debt vehicle, the concentration of interest, and the power of major actors involved—that effectively influences creditor government behavior.

Model 2 demonstrates the impact of the recession index on the likelihood of bilateral

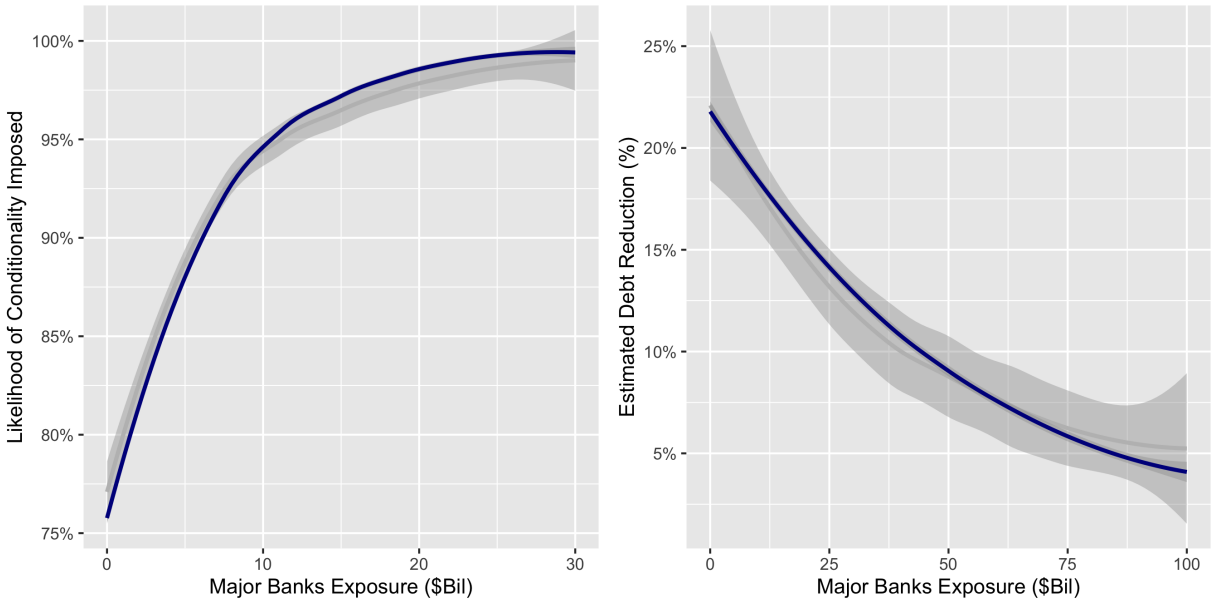


Figure 4: Interpreatation: the impact of major banks exposure on conditionality and debt reduction

bailouts, which is strong and negative, meaning that an economic recession in the creditor country, which dampens public sentiment on economic outlook, decreases the chance that a creditor government will tap into its public purse to finance a rescue of the distressed debtor. While election timing by itself isn't a significant factor for bailouts, its interaction with recessions show that the effect of recessions is amplified during election years. This finding is congruent with Hypothesis 3, which contends that recessions at home lead to stronger public opposition to spending on foreign rescues, leading to less bilateral bailout money. Figure 5 provides simulated illustrations of the impact, both during election and non-election years. As is shown in the graphs, with a perfectly healthy economy (recession index = 0), a creditor government on average offers bilateral finance more than 25% of the times, but the percentage drops precipitously to below 5 when the creditor country is experiencing a full-blown, severe recession.

Interestingly, model 2 also reveals that recessions in creditor states also slightly but but in a statistically significant way lower the expected debt reduction rates in sovereign debt renegotiations: this could be the result of private creditors being more reluctant to take on

losses while their main markets are in recession, or through the effect of recessions on official bilateral finance. In fact, official finance does demonstrate a significant and positive effect on debt reduction rate, meaning that the provision of short-term loans by creditor governments not only facilitates and expedites debt restructure deal-making but also moderately helps debtor countries to get slightly better outcomes with steeper discounts on debt obligations. While there exists literature on bilateral bailout and debt reduction as separate phenomena, the potential causal connection between the two can be an interesting subject for future research.

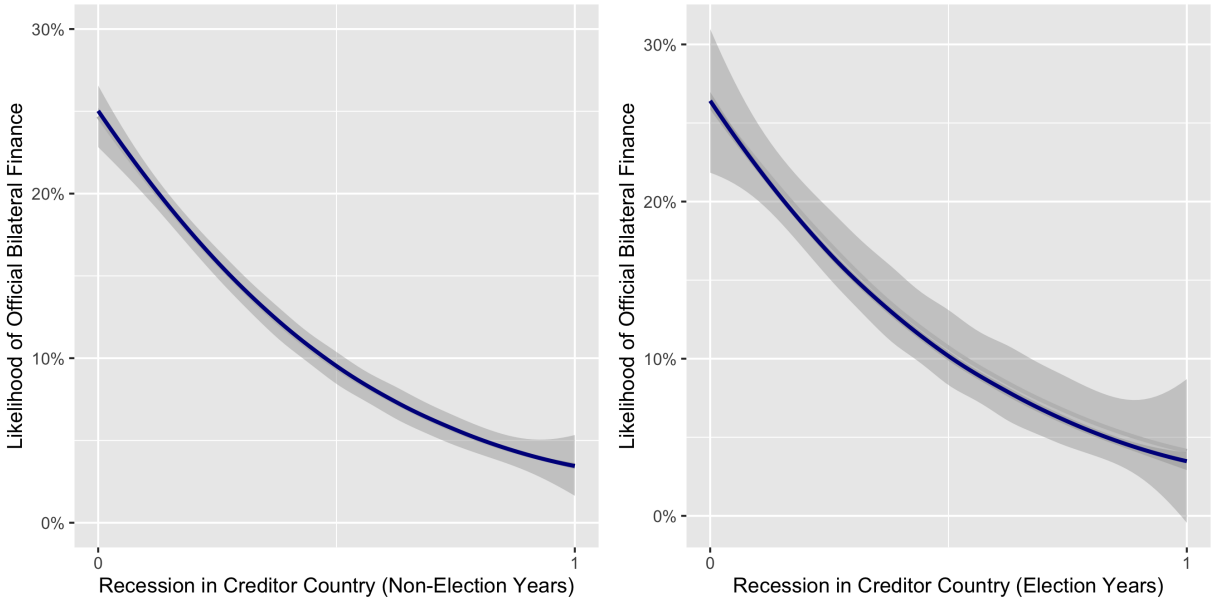


Figure 5: Interpreatation: the impact of recessions on bilateral bailouts

As for debt reduction, both the logistic regression (model 3) and 2-limit linear tobit model (model 4) indicate a strong impact of debt vehicle and negative impact of major banks exposure (although the linear model demonstrates only marginally significant results). As expected, sovereign bonds have much higher debt reduction rate than bank loans, as demonstrated by the significant negative values in both models. Besides, simply from the descriptive data analysis, bank loans have a median debt reduction rate of 11% and a mean of 21.8%, while bonds have a median of 56% and mean of 48.8%. Bondholders

take on average more than two times the haircut of bank lenders, while also exhibiting higher standard deviation, meaning that sovereign bonds' restructuring outcome is more volatile, unpredictable, and uneven across different creditors holding the same or similar instruments. This observation, on top of the regression results for debt reduction rate, provides further evidence for the effect of concentrated interest and ease of collective action: the fact that bondholders not only suffer heavier losses but also face more volatile and unequal outcomes demonstrate that bank syndicates receive much more favorable renegotiation outcomes because they are able to better coordinate and communicate, organize collective action, act with concerted strategy, and walk away with equal payoffs.

Figure 4 (right) provides the simulated illustration of the negative effect of major banks exposure on debt reduction rate, as predicted by the theory. An increase in the exposure of major banks from 0 to 50 billion USD leads to a decrease in the estimated debt reduction rate from more than 20% to lower than 10%, and exposure greater than 80 bn USD means the estimated debt reduction is less than 5%. The real effect of major banks exposure is probably even more severe than the simulation: first, the general debt reduction rates in the past thirty years of sovereign debt crises are very low. 38 out of the 104 cases with documented debt reduction rate has a reduction of 0 per cent, and in two cases the debt reduction rate was even slightly below 0 (meaning that the real value of debt increased after renegotiation). Moreover, in cases where at least one creditor country has more than 15 billion USD exposure in the troubled debtor country, the average debt reduction rate is only 7.3% when Greece (2012) is excluded.

Another interesting discovery from debt reduction analysis is that ongoing recessions slightly decrease investor haircut. It is possible that this is a side-effect of the lack of bilateral bailout: the extension of official finance can mitigate financial losses of lenders and help boost the market value of the new, renegotiated debt obligations (i.e. "sweeten the deal") (Kalaitzake, 2017), therefore making higher haircuts acceptable. Recessions, and the lack of official finance, hence have the opposite effect of reducing the haircut rate

that investors find tolerable. Meanwhile, this phenomenon may also be attributed to the possibility that creditors "bargain harder" and are more reluctant to take losses when they are at a low point in the business cycle (Asonuma and Joo, 2020)—they are financially more fragile and less able to afford large losses on the balance sheet.

To summarize all of the findings from the statistical analysis above, powerful financial actors (large, international banks) and their skin in the game drive creditor governments to push for economic reforms and fiscal austerity on debtor countries and lower debt reduction rate, both measures putting the bulk of adjustment cost squarely on the borrowing country. However, also notably, the power of finance does not control all aspects of creditor government behavior: the influence of finance (both total banking sector exposure and the exposure of the largest few banks) does not make a significant impact on bilateral bailout, although the country's total financial (and trade) exposures do (both indicators of how closely intertwined the creditor's and the debtor's economies are), in addition to the existence of economic recessions as expected in the theory. Besides, the timing of elections affect the extend to which opposition parties can exploit unpopular policies like foreign bailout for electoral gains. Therefore, recessions coinciding with election years trigger stronger, more negative public sentiment on bailouts and as a result lower chance of bilateral bailout.

It seems that creditor governments, when making decisions on using public money for short-term foreign rescues, are more heavily influenced by the preference of the wider public, instead of the narrow, sectoral interests of the financial industry. This is a fairly reasonable phenomenon, since bilateral bailout is often an high-profile move that can draw domestic political backlash, while the imposition of economic austerity on a foreign country is usually a quiet action that can pass without being noticed by domestic news cycles unless it triggered a large-scale protest, rebellion, and loss of lives (which still may not make the headlines). It turns out that although finance is rather powerful in influencing creditor government decisions, it is, after all, not omnipotent: its influence only applies in

certain policy areas but not all. Actors in the financial sector, especially large institutions, are successful in leveraging their home government's political power to pressure debtor states into debt repayment and economic reforms, but they can't successfully lobby for direct bilateral bailouts for foreign countries (and themselves). In the end, it appears that finance does not *always* get what it wants.

All the above aspects of creditor government intervention matter for the eventual crisis resolution outcome, albeit in different ways: the short-term nature of bilateral finance means that it is meant to only temporary alleviate stress and buy time for parties to renegotiate debt and come to an agreement, but the swift supply of official finance can often stop or reverse drastic, speculative market behavior, making the restoration of stability in the debtor country more achievable, less expensive, and longer-lasting. On the other hand, creditor government stance on debt reduction and conditionality directly impacts the distribution of adjustment cost among lending and borrowing parties. Moreover, the imposition of conditionality (aka structural reforms) have far-reaching consequences in not only the debt-servicing capacity of the debtor country, but also its long-term development and domestic redistribution (tax policies, public spending, investment, etc) (Forster et al., 2019). Overall, creditor government preferences are strongly respected and have significant influence over the sovereign debt restructuring process, and their influence can live on for years, even decades, in the domestic economic policies of the debtor country, impacting the lives and livelihoods of millions.

It is also worth noting that among the control variables, total financial exposure and trade exposure have similar effects in all models and do not impact the main findings. Congruent with (Schneider and Tobin, 2020)'s findings, these two indicators of economic enmeshment are positively associated with the giving of bilateral bailout. Alliance doesn't exhibit a significant correlation with any of the dependent variables, indicating the divergence between state borrowings from the international private capital market and official, state-to-state loans. Unlike official credits, which have been shown to closely reflect official

alliance relationships and the strategic and military importance of foreign allies quite like free trade agreements (**?**Blackwill and Harris, 2016; Gowa and Mansfield, 1993; Scholvin and Wigell, 2018), creditor government intervention on private loans is not significantly influenced by alliance membership or strategic considerations at large.

Last but not least and unsurprisingly, IMF instrument is positively related to the imposition of conditionality, but not other aspects of the debt restructuring process or outcome, particularly the debt reduction rate, demonstrating the limit reach of the IMF, which doesn't extend beyond the macroeconomic prudence orthodoxy it preaches. Essentially, while the IMF plays a key role in designing structural reform plans for near-default debtor countries and leverages its own lending ability and perception-shaping authority to compel debtor countries to adopt pro-market reforms and fiscal austerity, it doesn't have a significant effect on the overall debt burden of debtor states or how much haircut investors are willing to take, even though the IMF also participates in concerted lending to troubled borrowers. In a sense, the IMF may have taken on more credit or blame for the long-term debt sustainability of developing countries. While debt restructuring negotiations are held between debtor states, private investors, and strongly influenced by the preferences of creditor governments, the IMF has limited impact on core outcomes. Its supply of official credits plays an auxiliary, not a determinant, role in sovereign debt default resolution.

5.0 CHAPTER 5. CASE STUDY 1: LATIN AMERICAN DEBT IN THE 1980S

The series of debt crises in Latin America since 1981 were viewed by the creditor's home governments as two crises: a crisis of social and political instability, sometimes even violence, in the debtor country, and a potential contagion of banking and financial crisis in the creditor's home country. Averting crisis at home always takes priority over the crisis abroad, and a creditor government's response is the outcome of two forces pushing in different directions: the interest of finance and the public sentiment against large spending on foreign bailouts. Creditor governments therefore face the trade-off between answering to the demand of its domestic financial actors and the political viability of such actions. The Latin American debt crisis that started in 1982 provides an excellent opportunity to study creditor government intervention because it lasted for so long, and therefore allowed multiple opportunities for creditor government action under different circumstances.

In this chapter, the series of creditor government response to sovereign debt defaults and near-defaults in Latin America from 1981 to 1989 will be separated into three stages: the initial response, the Baker plan, and the Brady plan, each with a distinctive creditor government action and rationale, especially in the United States. A set of variables will be tested with regard to whether they have a significant impact on creditor government behavior, and only two variables turn out to be consistently significant: bank exposure to Latin American lending and domestic public sensitivity to government(taxpayer)-funded bailouts. In selected European countries, mercantilist export-promoting objectives also played a role in government intervention in debt crises. This chapter will then trace the way large multinational banks affect creditor government behavior through domestic political channels and

influence its decision making, and how creditor government behavior is the outcome of the influence of finance and public sentiment on government bailout, channeled through different government agencies that are more exposed to one source of influence or another. Last, it will consider alternative explanations and variables, including foreign policy goals, trade exposure to crisis country, ideological inclinations of the creditor government administration, considerations of moral hazard, and the technical distinction between a temporary liquidity drought and insolvency.

5.1 INTRODUCTION

On August 12th, 1982, when Mexico's Minister of Finance Silva Hertog informed his US counterparts that Mexico was unable to service its external debt of $80bn (FDIC, 1997), the US government acted swiftly to arrange bridge finance to Mexico to avert an official default, while facilitating Mexico's negotiation with the IMF to receive longer term IMF assistance in exchange for structural reforms. It was hoped that the pro-market reforms and temporary liquidity injection by both the public and private sectors to Mexico, as well as other Latin American countries, would be able to drive growth, reverse pessimistic market projections (which leads to capital flight), and ultimately allow the debtor countries to grow their economies enough to regain the capacity to service their external debts and restore creditworthiness, without having to restructure any of their debts. However, by 1985 it became clear that the debt servicing burdens of Latin America did not decrease at all as time passed by, and their debt servicing capacity did not grow; therefore, then U.S. Treasury Secretary James Baker proposed the Baker Plan, which included much larger and medium-term official and private loans, insurance on foreign equity investment, and even more structural adjustment, still aiming to reverse the capital outflow from Latin America and drive long-term growth. However, the Baker plan failed, too, in a few years, when it turned

out that both public and private lenders had fell short of the new money they had promised, and no one was willing to continue to lend to Latin America without fundamental change to its existing external debt and debt servicing burden. Subsequently, in 1989, the Brady plan was proposed and creditor governments, for the first time, encouraged sovereign debt reduction and incentivized private creditors to accept debt write-down. Overall, through the Brady plan, Latin American countries were able to renegotiate their debts and received on average a 30% debt reduction, returning their debts to sustainable levels.

The positions and actions of creditor governments played a crucial, if not the determinant, role in deciding the debt crisis solutions in the 1980s. During the first two phases, when creditor governments insisted that all debts shall be paid in full and debtor countries shall assume the full responsibility of debt service, all debtors in crisis agreed to accept IMF structural reform programs and continued debt servicing (after an initial 90-day standstill on interests). With the Brady Plan, when creditor governments encouraged lenders to take losses and used official resources to ”sweeten” debt reduction deals, debtor nations were able to reschedule their debts and drastically lower debt servicing costs. The creditor governments were able to exert overwhelming influence over the outcome for three reasons: 1) the financial resources they can provide to incentivize private lender participation in debt reduction, and 2) their ability to impact the creditworthiness, and hence the debt servicing cost, of borrowing countries, and 3) their successful use of moral suasion. First, in the Brady Plan, bank lenders that exchanged their loans for discounted debt country sovereign bonds received official guarantees on the new bonds, so even though their total loan amount went down, the new debt vehicles became safer, and hence the banks saw their loans' market value even increase slightly (Quint, 1989). Second, the psychological nature of creditworthiness (which directly impacts interest rates) means that big players in the international financial market have a dominant role in determining which countries are “creditworthy” and which are not, rendering creditor governments great power to prescribe economic policy reforms in debtor countries. Last but certainly not least, beyond influenc-

ing creditor and debtor behaviors with material incentives, creditor governments also use moral suasion to impact debt crisis resolution by defining "acceptable behaviors", particularly with regard to debt write-off. For example, at the start of "the Mexican weekend", Jacques de Larosière, Director of the IMF, convinced Mexican Finance Minister Silva Herzog that he "should not declare a moratorium on debt service, effectively a default. Instead, de Larosière and Paul Volcker, Chairman of the Federal Reserve, advised the Mexicans to seek a 'standstill' from the banks." (de Larosière, 2018) This seemingly minor difference between a standstill and moratorium is, however, much more than a choice of lexicon: by defining what is deemed acceptable and what is not, creditor governments are able to influence debtor countries' thinking and options for years to come.

Throughout the three phases, two aspects of creditor government behavior remained constant: 1) the insistence that debt restructuring and renegotiation be conducted on a case-by-case basis, reaching different, negotiated solutions for each country, and 2) economic reforms under IMF supervision (that any easing of the terms of the debt is contingent on structural reform), although how much reform was actually implemented by debtor countries depends on debtor countries' domestic politics, which is beyond the scope of this dissertation. The key change from the initial response and the Baker Plan to the Brady Plan is obviously the creditor government's stance on debt write-down and write-off. At first, all federal agencies, including the Treasury and the Federal Reserve, and the banking industry insisted that no debt reduction is necessary, while in 1989 they finally had to accept loan losses. The key factor in driving this change is the multinational banks' vulnerability to loan losses: at the onset of the crisis, the nine largest US banks had exposures that exceeded 100% of their capital. As the years went by, they were able to slowly reduce exposure while building reserves, so that when they had to write-down Latin American loans in 1989, it did not hurt their credibility or market value much. Congress, on the other hand, was much more skeptical of Latin America's ability to repay their debts in full from the beginning, and was very cautious in the use of public money even as bridge instruments because they

could be regarded in public opinion as "bailing out the banks". Over the years, however, public sentiment against the use of public money softened as Western countries grew out of the recession triggered by the energy crisis of 1979 and their economies enjoyed stable growth in the latter half of the 1980s. Improving optimism about the domestic economy and growing sympathy for the social and political turmoils in Latin America softened public opposition against the use of public funds in the resolution of foreign debt crises, providing a tolerant environment for finance ministers in the West (and Japan) to use public resources to facilitate debt renegotiation and reduction for Latin America.

5.2 THE ONSET OF THE CRISIS: 1982-1984

On August 12th, 1982, Mexican Finance Minister Silva Hertog travelled to the US to inform about its debt servicing difficulties. With international crude oil prices plateauing, interest rates increase in the US, and devaluation of the Peso, Mexico experienced a spike in debt servicing cost and was running out of foreign reserves. It subsequently placed a 90-day moratorium on principal payment on external debt. The response by the US government, and other creditor governments through the Bank for International Settlements (BIS), was to provide bridge financing to avert an immediate default and to buy time for Mexico to negotiate a financing package with the IMF. The bridge loans are limited, short-term, and includes various forms of collateral like oil pre-sales and agricultural export credits. Overall, the US provided about $3.5 billion in Federal Reserve Swap lines, Treasury funds, and funds from the Department of Energy and Agriculture, to be repaid in one year or sooner. Other creditor governments contributed roughly $1 more billion, and four months later, Mexico was able to reach a deal with the IMF to receive IMF funds in exchange for implementing austerity measures and reforms (Cline et al., 1995; Truman, 2021, 2020).

During this first stage of crisis response, 4 agencies in the US government participated

in the rescue package to Mexico: the Treasury, the Federal Reserve, the Department of Agriculture, and the Department of Energy. On the other hand, Congress had also been alarmed about US banks' exposure to developing country debt and sought to enact legislation and encourage regulations on foreign loan limit and loan loss reserve. The Treasury and the Federal Reserve insisted that no debt reduction is necessary, while Congress was skeptical of the sustainability of the debt. From the beginning, response to Mexico's pending default in the US was filled with a sense of urgency to prevent a banking crisis in the US. Of all government branches, the Federal Reserve was the most swift and decisive to respond: Paul Volcker, then Fed Chair, activated a $700 million swap line on August 4, a week before the Mexican Finance Minister officially informed the US and the IMF that Mexico had run out of foreign reserves. He also closely communicated and collaborated with Jacques de Larosière, then managing director of the IMF, and reached out to other G7 central bankers and organized a collective bridge loan of roughly $1 billion through the BIS (Volcker, 1982; Truman, 2020).

The Treasury tapped into the Exchange Stabilization Fund (ESF) to extend a one-year loan of $600 million, but what was special about US government response to the Mexican default risk was the participation of two more federal bureaucracies: the Department of Agriculture and the Department of Energy, which each extended around $1 billion of loans with specific concessional terms and collateral attached to them. The Department of Agriculture loan was given by the Commodity Credit Corporation, a state-owned corporation to "stabilize, support, and protect farm income and prices", effectively as export credits, which Mexico agreed to use to purchase US corn. The Department of Energy loan used future Mexican crude oil as a collateral, and was effectively a prepayment for future oil sales at the negotiated price of $28 a barrel (Lustig, 1997). These two loans were justified under mercantilist logics, aiming to promote US corn export and add to national crude oil reserves, and required difficult bargaining between American and Mexican officials. The bargaining became so heated that it was perceived by Mexican delegation as an exploitation

of Mexico's financial weakness and to a large extent "strained the relations" between the two governments (Leeds, 1987, 36).

All of the short-term loans above were organized in the expectation that Mexico was to reach a deal with the IMF and would use the IMF financing package to repay the bridge loans (Paul Volcker emphasized this point multiple times when questioned on the use of public resources). The US also increased its contribution to the IMF (IMF quota) by $8.4 billion in 1983, explicitly in support of the ongoing IMF programs to deal with the Latin American debt crisis, although not without some serious questioning by members of the Congress (Broz and Hawes, 2006; Farnsworth, 1983a; 98th Congress, 1983). Besides, it is also notable that pro-market reforms were entirely delegated to the IMF's supervision and were not a part of the initial bridge loans extended by creditor governments (Lustig, 1997), emphasizing the temporary nature of the initial response–it was not intended to solve Mexico's debt problem or even prevent the spread of the crisis.

On the other hand, debt renegotiation with private creditors was minimal during the first few years of the crisis: the creditors agreed to a 90-day standstill on principal payment in the beginning of the crisis, and made no other concession on the loan amount or interest rate. Gurría (1993) estimated that between September to December 1982, the Mexican government paid $8.7 billion in amortization and $2.6 billion in interest, totaling $11.3 billion.

Later, as a part of the IMF package, private lenders agreed to make new money available through "concerted lending", as a means to inject liquidity into the indebted countries, exemplified by a $5 billion new money loan to Mexico. The additional private lending was also strongly encouraged by creditor governments, especially regulators in the US, by waiving regulations on capital reserve for new loans. In 1983, Paul Volcker explicitly and adamantly objected to requiring loan loss reserves or an exposure limit to LDC (less-developed countries) debt to encourage more new money loans to Latin America, famously arguing that "credits should not be subject to supervisory criticism", an extraordinary and

highly controversial statement even then (Truman, 2020). However, the new bank loans were largely simply recycled to pay for interests of existing loans. For example, new loans for the three major Latin American borrowers, Argentina, Brazil and Mexico totaled $12.7 billion in 1983, or about 70 per cent of their interest payments due to banks that year and a similar amount in 1984 when the amount of concerted lending was slightly larger (Truman, 2021). Interest rates also increased, due to the downgraded creditworthiness of the borrowing countries, so that in the first few years in the 1980s, Latin American debt level and debt servicing costs actually went up, not down. Not surprisingly, Latin American debts did not return to normal, sustainable levels, capital continued to flee, the crisis continued, and in 1984 several countries, in particular Argentina, ran out of foreign reserves and faced imminent default again.

5.3 THE BAKER PLAN: 1985-1988

Continued rising inflation, heightened debt servicing cost, and falling economic growth rates since 1982 exposed the flaws of the West's initial response to the Latin American debt crisis, so in October 1985 US Treasury Secretary James A. Baker proposed the Program for Sustained Growth, also known as "the Baker Plan", at the IMF-World Bank annual meeting in Seoul. Although it may sound like a dramatic shift from the Reagan administration's laissez-faire attitude toward third world debt before, the Baker plan in fact introduced only mild modifications, not a drastic change, to the previous approach. The essence of the Baker Plan remains the same as before: to reverse capital outflow, to inject new liquidity into crisis countries, to have these debtors implement stricter and more comprehensive structural reforms to produce primary surpluses, and to restore their creditworthiness to regain access to international capital. At the foundation of the Baker Plan is still the belief that debt will come back to sustainable levels with adjustments by the borrowing coun-

tries and patience by creditors, that the crisis is one of illiquidity and not insolvency (99th Congress, 1986, 10).

The Baker Plan called for additional lending to the 15 crisis countries, both from public and private lenders. Commercial banks were asked to increase their total lending by 2.5% per year, amounting to $20 billion over the next three years, when there had been no voluntary lending since the onset of the crisis. The Paris Club, made up of central bankers representing industrialized countries, also agreed to reschedule official loans to stretch them over a more extended timeline. Multinational financial institutions, namely the IMF and the World Bank, were also asked to increase financial assistance to the 15 most indebted countries by at least $9 billion, in addition to streamlining and expediting their loan disbursement process.

Perhaps the most notable difference between the Baker Plan and the previous approach was its recognition that spearheading economic growth in the indebted nations was crucial in restoring their economic health and debt servicing capacity, and therefore a balance needs to be achieved between austerity and growth. Such growth-oriented economic reforms emphasize liberalization of the capital market and privatization, which later became the Washington Consensus (Williamson, 1990). To support these reforms, the Baker Plan proposed medium-term financing to replace the temporary, short-term bridge financing which was proven insufficient in the prior years. Moreover, the World Bank, along with other multilateral development banks such as the Inter-American Development Bank (IDB) and the International Bank for Reconstruction and Development (IBRD), was called on to assume a more significant role in lending to developmental projects in the debtor countries. Besides direct lending, to encourage equity investment from the private sector, the World Bank's Multilateral Investment Guarantee Agency (MIGA), which received US contribution of $222 million, provided guarantees for foreign direct investment and insured against currency and political risks. All of these measures were intended to encourage more capital flow into the debtor nations, either through equity or debt.

Meanwhile, creditor governments continue to reject writing down the principal of bank claims, although private lenders had started to sell their loans in the secondary market for discounted prices and through debt-equity swaps, a clear indication that the market value of the Less Developed Country (LDC) debt is only a fraction (around 40% on average) of the face value and that lenders are trying to reduce exposure to developing nations. Indeed, in the few years since 1985, private banks' exposure to LDC debt decreased moderately, the net transfer from the IMF was negative (the IMF received more money in payment from debt-ridden countries than disbursement to them), and the only institution that had a positive net transfer to Latin America was the World Bank(Cline, 1989). In short, neither the governmental institutions nor the private sector lived up to anywhere near their pledges of new money loan.

5.4 THE BRADY PLAN: 1989

Since 1982, Latin American countries did not receive any private voluntary lending, and concerted lending repeatedly fell short of the pledged amount by a large margin (Bogdanowicz-Bindert, 1986; Cline, 1989). Clearly the strategy that emphasized debtor country reform, new lending, and the stretching of time horizons had failed and wasn't enough for the debt-ridden LDCs to grow out of their debt servicing difficulties. In March 1989, US Treasury secretary Nicholas Brady, who had replaced Baker, proposed "the Brady Plan", which legitimized the concept of debt reduction, a sharp departure from previous official stances on Latin America debt. For the first time, permanent reduction of debt principal was brought onto the table, and creditors were urged to reduce the face value of debts in exchange for collateralized, more secure forms of debt obligations, therefore improving the value of their remaining exposure. For example, creditors were able to exchange, at a discount, their debts into "Brady Bonds", a form of sovereign bonds issued by debtor countries but backed

by 30-year, zero-coupon US Treasury Bills. At the center of debt reduction is the guarantee provided by creditor governments: debtor countries borrow from multilateral institutions such as the IMF and World Bank to purchase 30-year US Treasury bills, which they then use to back newly issued sovereign bonds ("Brady Bonds") that they use to exchange for existing debts. The guarantees provide an essential motivation for creditors to participate in debt reduction: although they suffer some losses on the face value of the principal, the securitization and public guarantees increase the likelihood that their remaining exposure will be paid in full, and in aggregate even increase the market value of their Latin America debt holdings.

Specifically, lenders were given a set of debt restructuring options to choose from:

1. Debt buyback, through which debtor countries buy back debt claims at a discount from creditors through cash payment, allowing the lenders to exit completely

2. Exchange for discounted bonds, through which creditors swap their debts for sovereign bonds with a lower principal value and longer maturity, but backed by US Treasury bills

3. Exchange for par bonds with reduced interest rate, where creditors swap their debts for sovereign bonds with equal principal value but fixed, lower-than-market interest rates, also backed by Treasury bills

4. Securitization of remaining debt obligations with new money loans or interest reduction

The exact composition of restructuring outcome is determined by the outlook and preference of individual banks, the support offered by creditor governments in the form of guarantees, and negotiated between lenders and debtor nations, but in total, 46% of debt claims was converted to par bonds, 28% to discount bonds, 17% through securitization and new loans, and 9% to cash buybacks (Clark et al., 1993, 6). Debtor countries received anywhere between 0% to 40% of debt reduction, and the Brady bonds also offered them much

longer time horizons and converted from floating to fixed interest rates. Of course, a prerequisite to participate in the Brady program for debtor countries is still economic reform, this time with an emphasis on free trade, lower tariffs and non-tariff trade barriers, and tax system reform.

Notably, the Brady program required large upfront financing for debtor countries to buy back their debts or guarantee instruments for their debt conversion to sovereign bonds. The financing comes from primarily the IMF and World Bank (and hence their donor countries), as well as debtor countries themselves, but the Japanese government also singularly contributed a significant amount through its Export-Import Bank. Mexico, the first country to successfully negotiated a Brady deal and the largest one, for example, received $3.7 from the IMF and the World Bank, $1.9 billion from the Japanese Export-Import Bank (Katada, 1998), and $1 of new money loans from commercial banks, and it contributed $1.6 billion by itself (Unal et al., 1993).

Apart from providing the finance to fund the debt-equity conversion and official guarantees, creditor governments also played a significant role in minimizing the collective action problem in debt restructuring under the Brady Plan: although all lenders may be motivated to restructure their debt to gain better market values, individual banks have the incentive the hold out because other banks' restructuring would have the same positive effect on the value of their own exposure, allowing them to "free ride" on other's debt reduction. The Treasury Department and Secretary Brady were essential in coordinating and convincing full lender participation and avoided free riding.

5.5 THE INTEREST OF FINANCE: BANK EXPOSURE

Creditor government attitude is clearly a major determinant of the three debt crisis solutions achieved between debtors and private creditors in the 1980s, but what explains the

change in creditor government attitude? Why did they, led by the American government, insist on full payment of debt obligations throughout much of the time but reversed course in 1989, and what factors influenced their understanding and decision-making? Upon review of evidence, two factors stand out because they have a major impact on the decision-making of Western creditor governments (including Japan): their private banking sector's exposure to indebted countries and domestic public sensitivity to foreign "bail-outs". Initially, the banks' high exposure and low capital reserve put high pressure on their home governments to protect the domestic banking industry and prevent the collapse of market confidence on the debtor countries from spreading to a collapse of confidence on the banks themselves. Hence, creditor governments adamantly rejected debt write-down and provided lax standards on the classification of nonperforming loans for the banks. On the other hand, the western public's animosity to "bail-outs", especially when they are experiencing a recession at home, precludes the use of public resources to assist debt rescheduling and restructuring. These two forces combined to produce the series of responses by creditor governments from 1982 to 1989: initially, debt write-down was rejected and debt-servicing capacity of borrowing countries was inflated to avert a collapse of confidence on the solvency of lending banks; public sentiment ruled out the use of large public funds as lender of last resort; stringent demands of debtor country adjustment and reforms were required to justify continued support for the IMF, and small and short-term bridge financing from creditor governments and limited medium to long-term financing by the IMF were provided. Over the years, these measures bought time for commercial banks to adjust their lending policies to the developing world, build loan loss reserves, raise capital, and reduce exposure through transactions in the secondary market. In 1989, the banks were ready to write down some debts without negatively affecting their income statements and balance sheets too much, and public sentiment on foreign rescues also softened as the West had enjoyed years of stable economic growth, providing a permissive environment for Brady's intervention, as demonstrated by the mildly positive reaction from both the financial market

and general public to the Brady Plan.

5.5.1 Lending to Latin America was highly concentrated

When the crisis broke out, LDC debts largely comprised of syndicated bank loans that started in the 1970s, recycling deposits made by oil-exporting countries to the developing world in pursuit of higher interest rates (Sachs, 1989). In 1982, private commercial banks hold 70% of Mexico's external debt (Lustig, 1997, 30), and the number is roughly the same for other LDCs (Mengle, 1992). These bank claims are heavily concentrated on the largest, multinational banks, based in either New York or London. Although eventually more than 500 banks participated in debt rescheduling and restructuring, the 9 largest US banks accounted for more than two thirds of all American bank claims, and the next 15 largest banks made up of almost all of the remaining third (98th Congress, 1983, 25-27).

In other parts of the world, particularly in Europe, banking lending to developing countries was even more concentrated (Mengle, 1992) because much of it was linked to aid the nations' geopolitical interests or supporting the nations' export industries and help them win big contracts overseas, and every major European creditor country has strong relationships with specific regions and countries: the Great Britain in Brazil, Southern Africa, and the Far East, Germany in Eastern Europe especially Poland, France in Eastern Europe and the Arab World, and Japan in Mexico. This also means that the creditor government has been involved in the beginning of the life of the debt: French Bank Crédit Lyonnais, for example, was compelled by its Finance Ministry to extend a credit of US$150 million in 1980 for seven years to the Yugoslavian Central Bank (which defaulted in 1982 and incurred heavy losses for the French bank) (Altamura and Zendejas, 2020), while a euro-dollar loan from British banks was an indispensable component of the development project of the electrification of the Steel Line in Brazil that would go to British contractors. In fact, "the contract would only become effective to the extent that the loans are forth-

coming, and the first drawing on the loan would be used the pay the down-payment under the contract" (Lieberman, 2018b). Such were the arrangements for develop projects such as Brazil's nuclear program, contracted to Siemens and financed by West German bank Dresdner and Deutsche, the railroad from the interior of Minas Gerais state to the coastal Vitoria, contracted to British industrial conglomerate GEC and financed by Rothschild of London, the Acominas integrated steelworks, contracted to the Davy Corporation of the UK and financed by London-based investment bank Morgan Grenfell, and copper mines and refineries, the list goes on (Andrew Whitley, 1985).

Hence, there was an implicit understanding among the European banks that the governments would come to their rescue and provide lender of last resort functions if these loans go bad, which they did (Altamura and Zendejas, 2020). Notably, because European bank lending was closely attached to government-support projects and export promotion, the European banks, which were just as exposed to Latin American debt as their American counterparts, were from the beginning more willing to debt write-down, since their loans are at least partly guaranteed by the home governments and central banks (Bogdanowicz-Bindert, 1986).

As proposed in Hypothesis 1&2, the fact that many of the most powerful banks in the West were seriously exposed to the sovereign debt crisis and the consolidated market landscape of bank lending to the developing world made collective action and coalition building among creditors easy to achieve. Shortly after the outbreak of the Mexican crisis in 1982, the 9 biggest multinational banks were able to quickly form a united front and convince regulators in the Federal Reserve, the Treasury, and (to a lesser extent) Congress to support their assertion that the Third World debt problem will be solved by new liquidity through "concerted lending" by the public and private sectors and they do not need to take losses or write down debts. Instead, they argue, debtor countries can, in addition to austerity and pro-market reforms, rely on the recovery and growth in the world economy and restore their creditworthiness and debt servicing capacity (98th Congress, 1983, 227).

5.5.2 Bank exposure was high, especially when compared to capital reserves, but it slowly decreased over the course of the crisis

Table 4: Bank Exposure to Non-Oil LDC Debt, 1982-1988

Year	Exposure to LDC debt ($bil)	Exp of US Banks ($bil)	Exp/Cap Ratio (US 9)	Exp/Cap Ratio (US Others)	Total Bank Capital (US 9, $bil)	Total Bank Capital (Others, $bil)
1982	268.3	98.6	287.7%	116%	29.0	41.6
1985			153.9%	55%	46.7	69.4
1988			108.0%	32.2%	55.8	79.8

Sources: Cline, W. R. (1989). "the baker plan progress, shortcomings, and future". International Economics Department, The World Bank;
Federal Financial Institutions Examination Council, "Country Exposure Lending Survey," April 25, 1983, April 24, 1987, and April 12, 1989;
International debt, Hearings before the subcommittee on international finance and monetary policy of the senate banking, housing, and urban affairs committee, 98th congress, February 14, 15, 17, 1983;
International Economics Issues, and their impact on the U.S. Financial System, Hearings before the Committee on Banking, Finance, and Urban Affairs, House of Representatives, 101st Congress, January 4-5, 1989

Both during the initial response and the Baker Plan, western stakeholders insist that what the Latin American borrowers faced was not insolvency, but illiquidity, a temporary problem that can be solved by the injection of more cash liquidity into their markets to restore confidence. They therefore draw the conclusion that no debt write-down is necessary, and that given enough time, all existing principal and interests will be paid in full. In reality, however, the real reason why lenders cannot accept debt write-down in the early to mid 1980s was that their exposure to the developing world lending was too large, sometimes multiple times of their capital reserves, so that a sudden large debt nonperformance was feared to seriously threaten to empty their capital and even trigger a banking crisis in the creditor countries.

Despite continued calls for new money lending and multiple pledges made by both public and private lenders, the actions of lenders demonstrate that they knew the level of

Latin American debt wasn't sustainable from the beginning: as a part of crisis solution, Fed chairman Paul Volcker and Treasury Secretary Donald Regan suggested that the banks increase their position on their lending to developing countries, but banks did not. Since 1982, banks had been quietly decreasing their exposure to LDCs, long before the official launch of the Brady Plan, as shown in table 4. At the same time, banks were not only reducing exposure but also building loan loss reserves to prepare for the day when debt write-down became inevitable (Cline, 1989). In essence, the first seven years in the crisis was a long process of buying time for lenders and prepare for losses to occur on their balance sheet. And they were quite successful at it eventually. Overall, American bank exposure to LDCs (or Baker-15 countries) dropped from 136% of bank capital in 1982 to 58% in 1988, and when the chairman of the Federal Deposit Insurance Corporation, William Seidman, appeared in front of the U.S. House of Representatives Committee on Banking, Finance and Urban Affairs in January 1989, his testimony clearly stated that "even in what surely could be considered a worst-case scenario, each of the nine money-center banks could write off 100 percent of their outstanding loans to these six [largest debtor] countries and, on an after-tax basis, each of these banks would remain solvent." (101st Congress, 1989, 316)

The banks reduced their exposure mainly through two channels: selling debt obligation on the secondary market at a steep discount (roughly 40%), or converting them into equity in the local markets. Particularly, the latter gained quite some momentum from 1985 to 1988 in Mexico and Brazil. By 1987, most of the major banks have set up debt conversion schemes through which foreign debt could be converted into local currency to make direct portfolio investment in the local economy. This type of "debt retirement" rose from a total of $3.7 billion in 1984-1986 to $4.7 billion in 1987 and $8.8 billion in 1988. Private creditors welcome these conversions because they are able to convert long-term, illiquid debt obligations into relatively liquid equity instruments, allowing them to divest debt without suffering too much loss on the face value; debtor countries welcome the conversions be-

cause they replace external debt with domestic debt, and because many deals are directly negotiated between corporations and their foreign creditors, alleviating the burden on the governments in guaranteeing the debts. However, as these conversions become popular and grow larger in size, their inflationary and balance-of-payment effects also become evident, leading many debtor countries to cool on such schemes (Clark et al., 1993).

Another effect of the banks' adjustment between 1982 to 1989 was that bank lending to LDCs became even more concentrated on the few largest multinational banks: as the crisis unfolds, smaller banks have chosen to dispose of their risky lending, either in the secondary market or through the Brady exchange, while it was the big banks that provided the bulk of new money loans to the region and remained in the business of international lending. Bigger banks also had greater access to debt-equity swap programs that were popular from 1985-1988, allowing them to stay invested, albeit as equity investors, in Latin America.

5.5.3 Banks are highly sensitive about preserving loans at face value on balance sheets and income statements

Another piece of evidence for the immense influence of the banking industry on creditor governments' policy making is how creditor government regulations and demands to debtor countries reflects the banks' strong sensitivity about preserving good ratings for their loans and avoiding large sudden losses on their balance sheets. The Federal Reserve classifies loans as substandard, which requires a much higher loan loss reserve, when interest and principal arrears exceed 90 days, and Fed Chairman Paul Volcker and IMF director Jacques de Larosière convinced Mexico to implement exactly a 90-day interest standstill and avoided a debt moratorium which would make Mexican sovereign debt substandard instantly, allowing the banks to continue to hold the vast proportion of the debt on their books at the original face value (Sachs, 1989). In Japan, beginning in 1982, Japanese banks pressured their Ministry of Finance for favorable policies regarding loan losses reserves by

making them tax deductible. In addition, they also urged the expansion of the Capital Recycling Program, which was extended from $30 million to $65 million in 1989, obviously for the Latin American debt restructuring, allowing Japanese banks to fully retreat from Latin American debt (Katada, 1998).

In fact, in the beginning of the debt crisis, banks appear willing, in the short term, to even increase their exposure to protect their balance sheet and avoid their Latin American debts becoming substandard, and they cooperated with regulators and creditor governments to achieve such objectives, effectively extending new loans so that the debtors could use them to continue to pay interests on older loans, and these deals are often made just in time for the quarterly-reporting requirement for large banks, a phenomenon that became obvious in 1984 (97th Congress, 1984, 55). Meanwhile, the many short- to medium-term financing packages negotiated between debtor countries and public and private financiers were mostly used to keep the debtors from halting interest payment to the banks, to avoid a precipitous change on the banks balance sheet and a banking crisis (Sachs and Huizinga, 1987).

Overall, creditor government policies throughout the 80s Latin American crisis reflected the interests and preferences of finance as they evolved. Creditor governments intially intervened on behalf of private investors to demand economic reforms and policy adjustment from debtor countries, and later financed debt-reduction deals to end the sovereign debt crisis.

5.6 PUBLIC SENTIMENT

5.6.1 Public opinion was consistently critical of the banks' imprudence and opposed the use of public funds to bailout foreign crisis countries

The core of the debate between bank regulators and Congress throughout the 1980s was the same as the core of the public debate going on in parallel: when, and how much, should banks take losses? And should there be any law or regulation limiting a bank's total exposure to developing countries and requiring capital reserves against such high-risk loans?

Since 1982, a prominent stream of public opinion is that the banks had made unwise lending decisions and debtors made unwise borrowing decisions, so these two parties should share the burden of whatever costs required to right the wrong: for the debtor countries, this means they should implement economic reforms, increase taxation, reduce public spending, increase export, among other things, to produce primary surpluses, all of which they were indeed required by the IMF to do. For the creditors, this means they should accept some losses. And the fact that the 9 largest US money center banks are so exposed to Latin American lending that their losses would trigger a banking crisis and threaten to shatter stability of western economies—recognized instantly as an epitome of moral hazard—deeply concerned the public and representatives in Congress.

Throughout the 80s, public opinion was overwhelmingly opposed to the use of government funds to help debtors countries "pay back debt" (CBS/NYT, 1989). This sentiment is reflected in Congress as a bipartisan proposal to put into action stricter regulation on the banking industry to enforce more prudence. The proposal targets three perceived "regulatory failures" and recommends steps to address them: 1) establish lending limits for foreign countries, 2) require special loan loss reserves for foreign sovereign lending that is deemed risky by the Federal Reserve, and 3) require that fees collected during debt rescheduling be

amortized over the life of the loan, rather than counting it as a one-time earning, effectively requiring banks to add the fees to the their capital reserves to offset potential losses in the future. While the third provision received some positive response from finance and the Fed, the first two proposals were adamantly rejected by both representatives of the finance sector and Paul Volcker, who warned of the danger of "overreaction" (Farnsworth, 1983b; 98th Congress, 1983, 238).

Lending limits and reserve requirements were anathemas to the banks because they mean less lending, and less business means smaller earnings. However, such regulatory guidelines are far from the harshest criticism on bank lending during the 1980s in public discourse: George Champion (1983), for example, famously argued that banks should get out of the business of lending to sovereign states all together, because banks cannot possibly enforce contracts with sovereign states. Champion's argument gained a great deal of traction and Congress was highly influenced by such sentiments; however, such action, although may seem reasonable and beneficial during regular times, would trigger a liquidity draught that can precipitate a banking crisis, which is exactly what creditor governments strive to avoid. "a comprehensive reduction of US bank exposures to these nations would precipitate the very credit crisis we seek to avoid" (98th Congress, 1983, 349), as is the reason Paul Volcker cited against an exposure limit (98th Congress, 1983, 247).

Because of the bad timing (which is an unfortunately perpetual issue for banking sector regulation: the crisis time, when there is the most political momentum for regulatory change, is also the worst time during a business cycle to raise capital reserve requirements, impose lending limits, or use any other measure that further drains liquidity in the market. Banking regulations need to be counter-cyclical, but there is never enough political momentum to do so when business is so good), the new regulations did not pass in Congress, but anti-finance sentiment did influence Congress's thinking in limiting its willingness to use public resources to resolve the developing world's debt issues, because it would be "bailing out the banks". Therefore, throughout the 1980s, the US could never take on the role of

the lender of last resort and could not make any large contribution to any debt rescheduling effort. Given the constraints from public sentiment and the pressure from multinational banks, supporting the IMF moderately to prolong crisis solution became the only option for the US government.

5.6.2 Public opposition to foreign bailouts softened as their domestic economies stabilized and returned to growth

The Latin American crisis started at a bad time for the world economy. In the US, the newly inaugurated Reagan administration faced high pressure to combat the ongoing recession that was triggered by the 1979 energy crisis. When he took office in 1981, the output gap–a widely used indicator that measures how deep a recession is by calculating the difference between where the economy is in the worst of the recession and where it would otherwise be–was 7.6%, even worse than the 7.1% of the Great Recession of 2001. Meanwhile, inflation was high: 13.6% in 1980 and 10.3% in 1981 (Bivens, 2016). The stagflation hence seriously limited policy options to promote growth and employment or combat inflation, because policies that do one could often worsen the other.

Reagan's presidential campaign was centered on economic policies of fixing stagflation by cutting government spending (although also supporting increasing defense spending), reducing tax rates, balancing the federal budget, and tightening money supply. Although he never achieved many of these targets above, his campaign messages and the expectations for "Reaganomics" restrained the federal government's capacity to use public resources to facilitate Latin American sovereign debt restructuring (Niskanen and Cato Institute (Washington), 1988).

Fortunately, the 1981 recession was relatively short-lived and the US, as well as Europe, was on the road of recovery and the famed Reagan economic boom. Merely 30 months after the lowest point of the recession, job supply in the US grew by 10 per cent (the 2008

recession took 80 months to hit the 10 per cent mark), inflation was back to between 3 to 4 per cent, and GDP growth was above 4 per cent again since 1983.

With the domestic economic boom, the American public became less antagonistic about foreign aid: from 1981 through 1985 to 1989, the percentage of Americans polled who believed that the US spend too much on foreign aid kept dropping (which, notably, was still above 50 per cent even at its lowest point in 1989) (Roper, 1982, 1986, 1989). Moreover, news of growing social unrest in Latin America, particularly the deadly riots in Venezuela in 1989 (the Caracazo), raised awareness among the Western public of the hardship endured by debtor countries in the past decade and motivated public approval for their governments to intervene and help solve the long-lasting predicament (The New York Times, 1989). In the end, the carefully crafted Brady Plan, which required the commitment of public resources as loan guarantees but not an ostentatious use of taxpayer money, received mild public reaction and no strong backlash (Media General/Associated Press, 1989).

5.7 SIMILAR CASES

The gradual change of position by creditor governments, particularly the U.S., on how to solve the Latin American sovereign debt crisis reflects underlying changes in the preference of finance and the strength of public opposition to bailouts in the creditor countries. Similarly, the Greek debt crisis and the three rounds of Greek bailout resemble this change of creditor government respond very much: from the initial insistence on debtor country structural reform and the provision of temporary liquidity in 2010 to the final acceptance of debt write-down in 2015, creditor governments allowed time for their heavily-exposed domestic banks to adjust capital structure, boost reserves, and build resilience (Reuters, 2015). Moreover, the initial lack of action by creditor governments among Eurozone members reflected domestic political pressure, when the public in creditor countries was highly

critical of a potential Greek bailout and local elections were imminent. The lapse of time allowed voters in creditor countries to process information, carefully assess the desirability of bailout policies and form preferences.

The behavior of Germany during the Greek debt crisis exemplifies this change of position and the factors that have strong impacts over it. As the biggest stakeholder and beneficiary of a stable Eurozone, Germany should have the strongest incentive to restore Eurozone solvency and credibility, much more than any other creditor government in Europe. However, it was the last country to sign onto the Greek financial rescue plan in 2010 and resisted large bailout funds while demanding stringent structural reforms and austerity by Greece. While this resistance can be interpreted as a tough negotiation strategy, a demonstration of resolve for a war of attrition, to extract better terms from the Greeks, the eventual rescue agreement for Greece far exceeded what the Greeks demanded in the beginning, and the crisis resolution costed more, for both German and Greek taxpayers, because of the delay. Germany's delay in intervention deepened and enlarged the crisis and the cost to restore stability, hurt the creditworthiness of other less developed Eurozone countries, and even threatened to dampen the future and viability of European economic integration, which was clearly against Germany's long-term economic and foreign policy interests. Germany's puzzling response can be attributed to two causes: the influence of finance (Kalaitzake, 2017) and the preference of a competitive domestic electorate (Schneider and Slantchev, 2018).

Kalaitzake (2017) traces the way large European banks achieved their priority in the Greek debt crisis resolution—"dramatically reduce the banking sector's exposure to Greek bond holdings, even if that meant accepting a large writedown"—through its influence on both national and European governing bodies. In particular, the structural power of financial markets, along with strong collective action organized among the largest European banks, (especially for Eurozone countries that are unable to cope with external shocks by devaluing their currencies) ruled out debt write-down in the beginning and convinced

policymakers that harsh internal devaluation—mainly through the reduction of labor cost and therefore wages—was the only path to regaining debt sustainability. In Kalaitzake's words, "the main reason behind the resistance to immediate debt restructuring was the massive level of direct exposure to Greek government debt experienced by other systemically important European banks". Later, as the first two rounds of bailout programs gradually shifted debt obligations from private into official hands, debt restructuring finally became acceptable to the European banking industry (IMF, 2013).

Schneider and Slantchev (2018) discuss the electoral incentives for Angela Merkel's government to delay the Greek rescue plan, which appears puzzling because the German government should be well motivated to act decisively to stabilize Greece for the following reasons: 1) Germany is obviously the biggest beneficiary of the European monetary union; 2) the German public is largely ideologically pro-European integration; and 3) because Germany is a clear winner from European integration, a bailout for Greece creates no clear distributional conflicts within the German economy (Bechtel et al., 2014). However, despite all these conditions, the German public was still deeply skeptical of a large Greek bailout at the outset of the crisis (Bröcker and Vollmer, 2010). Therefore, pending imminent and crucial local elections in May 2010 and facing deeply skeptical public sentiment, Merkel had to delay the first bailout until after the elections and allow the public to receive signaling about the nature of the crisis and that the rescue is beneficial for the German economy. Overall, quite like the American government's responses to the Latin American debt crisis in the 80s, the German strategy throughout the Greek debt crisis was also firmly rooted in domestic politics.

5.8 OTHER FACTORS

Foreign policy objectives are often cited as a top reason for economic policies made in the creditor government: the economic statecraft literature delineates ways that a state can use policies of trade, investment, currency exchange, and sanctions to achieve foreign policy goals. At first glance, it seems entirely reasonable that a creditor government will respond to a foreign economic crisis in a way that serves its broader foreign policy objectives in that country or region: propping up a friendly government, punishing a hostile one, sustaining a fledgling democracy, and precipitating regime change are some examples. However, creditor government responses during the 1980s Latin American debt crisis show that although creditor government behavior can have strong ex post impact on foreign relations with debtor countries, considerations of those relations don't affect the making of creditor government policies much. The foreign policy implications of creditor government intervention are a byproduct, not an important factor that shapes creditor government decision making.

From 1982 to 1989, the US government reacted to Latin American debtor countries rather uniformly, although the debtors have very different governments: some are new democracies, others military regimes. In 1989, although the social unrest, in particular in Venezuela, where more than 300 people died in riots in major cities in protest against austerity measures prompted by the debt crisis, may be seen as a motivating factor that drew US policymakers' attention and alarmed them about the destabilizing effect of prolonged suffering of the debtor nations, countries with more precarious social and political climate did not receive more preferential treatment from the US or other creditor governments, nor did US allies.

The first group to undergo Brady bond swaps consists of five countries: Costa Rica, Mexico, Philippines, Uruguay, and Venezuela, and they all received different levels of debt relief. The World Bank has estimated that Costa Rica's commercial debt after the Brady

program declined by a whopping 62% while Venezuela's only decreased by 4%. Uruguay saw a 33% debt reduction, while Mexico and the Philippines had 11% and 12% decreases, respectively. There is little correspondence between the deals these countries received and what foreign policy objectives the US may have wanted to achieve; the cash buyback component of the debt restructuring program appears to simply mirror the trading value of the debt in the secondary market. Costa Rica bought back half of its debt with cash payment at an 84 per cent discount from face value, reflecting the fact that the country's debt is trading at around 18 cents on the dollar in the secondary market (Berthélemy and Lensink, 1992, 37), while the Philippines and Venezuela had buybacks at discounts of 50 and 55 per cent, respectively, also on par with the market value of their debts at the time. Overall, there was no urgency in achieving foreign policy goals such as stabilizing democracies or allied governments reflected in the restructuring deals negotiated with debtor countries.

Trade exposure is another factor commonly brought up as a determinant of creditor government behavior, but it is only reflective of the extent to which a creditor government is already involved in the business of lending to a country and therefore the salience of debt crisis in public discourse and the urgency with which it will act, but not predictive of what specific measures it will take. It has been proposed that a creditor government may intervene in a foreign debt crisis to sustain trade relations and protect export markets, but in reality, during the first 6 years of the Latin American debt crisis, fiscal austerity measures imposed on debtor countries by the IMF and supported by creditor governments did the exact opposite—fiscal austerity requires specifically that debtor countries run a primary surplus in order to restore their external debt servicing capacity, and it directly oppresses imports (or for the creditor countries, exports to debtor countries).

One way in which foreign lending and trade are often interconnected is through export credits, and the effect of export markets on a nation's domestic economy overall. European governments appear to be more motivated by sustaining trade relations and export markets in their dealing with developing country debt, but it is a reflection of a greater extent of

collaboration and coordination between commercial banks and the state in Europe from the beginning of the life cycle of debts: commercial banks had lent based on their home governments' preferences, and the governments provide a lender of last resort function when their loans get into trouble.

On the other hand, in the US, the impact of foreign financial crisis on the American economy has regularly been brought up with regard to the effect on American trade. A faraway crisis may hurt American export is a reason commonly cited to convince a skeptical public that American intervention and assistance are necessary. However, as explained previously, austerity measures require debtor countries to run a primary surplus, limit the debtor nations' imports, and therefore hurt, rather than promote, American export. Hence, supporting trade relations and export is mainly a vague justification for creditor government involvement, and there lacks real evidence suggesting that creditor governments, during the Latin American debt crisis, are motivated by protecting their domestic export-oriented industries.

A third frequently cited reason for creditor government action is ideology. An ideological divide can be drawn in various ways, but the most prominent ones in politics revolve around the debate between cosmopolitanism vs. nationalism (in foreign and social policies) and neoliberalism vs. socialism/leftism (in economic policies). However, there is no clear partisan position on intervention in foreign debt crisis in American domestic politics, and coalitions are often built across the aisle. The Heinz-Proxmire Bill which sought to limit lending and impose capital reserve requirement on banks but didn't become law, for example, was co-sponsored by a Democrat and a Republican. Meanwhile, the two Reagan terms and his successor George HW Bush provided a consistency of conservative politics throughout the 80s, making the ideological leaning of the administration more of a constant than a variable during that time period, so ideology cannot be the variable that drove the change from the Baker Plan to the Brady Plan.

A side note: ideological has frequently been mistaken for a cause of behavior when

it is more of a reflection of preferences already formed and decisions already made. The debtor government guarantees on private debt serves as an excellent example: many scholars attribute the wave of capital account liberalization starting in the 1970s to the rise of neoliberalism, first in the US and UK, who then passionately preached the ideology to the developing world, an argument most prominently made by Mark Blyth (2013). However, the outset of the debt crisis in Latin America in 1981 shows that it is the financial interests of American and European banks, not the neoliberal ideology, that motivates the liberalizations in the developing world: although the private debts, between private Latin American companies and Western banks, were negotiated in the free, open market, the moment the private companies show signs of trouble servicing their debt obligations, the banks, along with their creditor governments, insist that the debtor country government should provide guarantees or sometimes fully assume the responsibility of continued debt service (Palma, 1998). This nationalization of debt is just another form of nationalization of private property, albeit in this case it is the liabilities, not the assets, of which the national government is taking ownership. There is nothing neoliberal about this process. In fact, it is the opposite of neoliberalism. It is socialism.

The socialization of private debt during the outset of the Latin American debt crisis, as well as the market interventions in the form of bail-outs that came later, demonstrates that neoliberalism is not a root cause, but an instrument and a means to the end for large banks that sought to maximize their financial interests. Of course, for instruments neoliberalism had been an extremely powerful one: it served the interests of banks well in the 1970s, opened up the highly lucrative capital market in Latin America, and maintained convertibility of currencies in debtor countries throughout the crises. However, the efficacy of the instrument shouldn't be confused with the true cause of financial liberalization in the developing world, which in this case is the excess of liquidity in the market and the pursuit of financial profitability by Western banks.

Similarly, the technical nature of the debt crisis—whether it is a liquidity or a solvency

problem—is also often debated as a part of what the proper solutions to the debt problems should be, but the illiquidity vs. insolvency debate also turns out to be mostly a political decision. The designation of the technical nature of the debt is not a determinant, but simply a reflection of preferences already formed and a justification for decisions already made. Technically, illiquidity is a temporary, cyclical difficulty when debtors are short of cash but have fundamentally sound economics and debt levels, while insolvency means debtors are fundamentally unable to continue debt servicing. The solutions to the two problems are drastically different: illiquidity can be addressed by more lending (usually by the official sector, at a low interest rate, as the lender of last resort) and the injection of new cash liquidity into the market, whereas insolvency requires bankruptcy and debt restructuring. In the first six years of the Latin American debt crisis in the 1980s, although creditor governments, the banking sector, and even the IMF and the World Bank all seemingly agreed that the crisis was one of illiquidity and therefore justified the new lending packages and resisitance to debt reduction, all parties reduced their exposure (including the IMF, which was a net taker of capital from 1986 to 1988) during that time, their actions speaking clearly and loudly counter to their words (Cline et al., 1995, 16). Later, as the IMF continued to evolve, it established specific rules (and debt sustainability tests) that only allow it to lend to debtors that are illiquid, but not insolvent, and yet time and again, from Latin America in the 1980s to Greece in 2009, the line between illiquidity and insolvency was extremely blurred, with no objective analysis to determine the solvency status of debtor countries (IMF, 2015a,b). In fact, the IMF has always had a mixed bag of lending criteria that are regularly violated by itself: victims of external contagion, no heavy government intervention to defend its fixed exchange rate, sound macroeconomic fundamentals, private sector contribution, lending into arrears to private and public sectors, among many more (Roubini and Setser, 2004, 187). When push comes to shove, political expediency and necessity overcome technical assessment.

6.0 CHAPTER 6. CASE STUDY 2: THE MEXICAN RESCUE AND ARGENTINE RESTRUCTURING

6.1 INTRODUCTION

By 1993, the 1980s crisis was over, at least in its original, Latin American, incarnation. Debt ratios and interest to export income ratios had fallen to credit-worthy levels, and there was a renaissance in net capital flows to Latin America, which had fallen from $41 billion in 1981 to an average of $10 billion a year in 1983-90, but then surged to an average of $50 billion a year in 1992-93 (Cline, 1995). Economic growth and, for most countries, price stability had also returned by the early 1990s, after the macroeconomic retrogression of the ”lost decade”. After more than a dozen countries participated in the Brady Plan and exchanged their existing debt with Brady bonds, Latin America's economy was on a trajectory to recover. However, the 1990s were extremely crisis-prone, and from Europe to Southeast Asia financial crises sprung up everywhere, spreading to countries with even good macroeconomic fundamentals. Two notable sovereign debt crises in Latin America, the Mexican Peso Crisis (aka the “Tequila Crisis”) of 1994-1995 and the Argentine Crisis of 2001, stand as stark contrasts to each other in the way they were resolved: while both are major economies in South America, Mexico and its investors received swift help and an unprecedentedly large bailout package from the US, prompting quick return to the international capital market, whereas Argentina officially defaulted on its debt and in the next few years restructured a large proportion of it, resulting in a shocking 70 per cent haircut of debt value for more than 92 per cent of investors and restoration of debt sustainability. The

actions taken by the US government during these crises played a central role in determining the outcomes: in 1994, the Clinton administration directly tapped into the Treasury's funds to bailout Mexico and its investors, so there was no debt restructuring or reduction necessary and Mexico regained access to the capital market shortly after, although it also had to make concessions on liberalizing its domestic economy, particularly the financial sector, while in 2001, the Bush administration did not intervene at all and was tacitly encouraging Argentina to reach a restructuring deal with investors. Without the help from creditor governments, investors had to accept large losses or engage in litigation that lasted more than a decade (although the "holdout" investors won their cases eventually and were rewarded handsomely) (BBC, 2016; Gallagher, 2013; Guzman, 2020).

The difference in US government responses to these two crises exemplifies how the two main factors identified in this dissertation–the interest of finance and the strength of public opposition–affect creditor government behavior. The banking sector in the US is much more interested in Mexico than Argentina: they have more businesses and want more eagerly to further expand their businesses in Mexico than in Argentina. Therefore, the financial actors involved in the Mexican crisis are much more powerful and concentrated, compared to the bondholders of Argentina who are numerous, anonymous, and dispersed. On the other hand, public opposition to foreign rescues, at least initially, was weaker in 1994, when the US domestic economy was faring rather well, compared to the year of 2001 when the US was having a minor recession. Of course, in addition to these two main determinants, two other factors played a role as well: Clinton's political prestige invested in the success of NAFTA and George W. Bush's economic conservatism. In particular, the Clinton administration's staunch support for NAFTA through the ratification process makes it unusually swift and decisive in extending an unprecedented amount of loan guarantees to Mexico, and the ensuing backlash in Congress shows that American public sentiment against foreign bailouts exists even in periods of growth, whereas Bush's conservative ideology makes him highly reluctant to use public funds to intervene in the private market,

similar to his initial inaction in response to the 2007-08 financial crisis at home.

6.2 THE MEXICAN PESO CRISIS AND AMERICAN RESCUE, 1994-1995

Long before the crisis broke out in 1994 in Mexico, systemic risk had been brewing in the country's economy, particularly in the oligopolist and under-regulated banking sector. The fundamental cause of the Mexican crisis was high systemic risk in its banking sector, as a result of the poorly executed privatization of the banks from 1991-1992 and inadequate regulation. Mexico's banking industry was highly concentrated: the largest four banks dominate the business, effectively making it an oligopoly. These banks, after they were acquired by new private owners through auctions between 1991-92, were poorly managed, engaged in high lending as credit became less scarce compared to the preceding decade, and raised funds internationally at floating interest rates to continue to grow their business, which severely exposed them to interest rate and exchange rate volatility (Lieberman, 2018a). What enabled such excessive risk taking was improving macroeconomic performance of Mexico, making it an attractive destination for international capital, and Mexico's permissive regulatory environment: to maximize auction prices for its banks, Mexico reduced banking regulation to almost non-existence, for example, first reducing bank reserve requirement in 1989 and then abolishing it entirely in 1991 (Negrin, 2001, 33). Moreover, foreign investment also contributed to the availability of massive liquidity in the early 90s in Mexico: over $32 billion USD in FDI were invested in Mexico between 1988 and 1994 and even more portfolio capital surged into the country in the same period (BID/IRELA, 1998). These portfolio capital funds were highly volatile and as soon as the US interest rates increased, significant amounts of money left the country chasing higher returns.

The influx of international capital and lax banking regulation encouraged excessive

lending and risk taking by Mexican banks, and since privatization total Mexican debt grew steadily. Total external debt rose from $95 billion in 1989 to $142 billion in 1994 (Lieberman, 2018a, 199), and the short maturity structure of much of the debt further made the economy more vulnerable to liquidity problems and hence more default prone (Cole and Kehoe, 1996). In fact, by 1994 Mexico's $64.6 billion short term foreign debt accounted for more than 50 per cent of total debt due, and was 5 times as high as national reserves, a key data point that precipitates the drop in investor confidence and capital flight (Radelet et al., 2000).

Along with Mexican's total foreign debt the nonperforming loans of Mexican banks were steadily growing, too. As shown in figure 6, the non-performing loan problem was masked by poor accounting standard set by Mexican regulations, whereby only the interest portion, and not the principal, is counted as nonperforming in balance sheets, while the principal in arrears is allowed to be rolled over, an abnormally in the banking world (Haber, 2005, 2329-30). Therefore, although the nominal non-performing loan rate was kept low, the effective rate was well over 10 per cent and kept growing from 1991 to 1994 before reaching the crisis point.

Along with the fundamental problem of high systemic risk due to low regulatory standard and easy access to credit, some scholars have also identified imbalances in Mexico's macroeconomic policies that contributed to the crisis (Dornbusch et al., 1994). For example, Vasquez (2002) emphasizes an "unresolved monetary trilemma due to inconsistencies in monetary and exchange rate policies", namely that Mexico was pursuing expansionary fiscal and monetary policies while pegging the Peso to the US Dollar. Therefore, the central bank has to rely on foreign reserves to defend the Peso's peg by issuing dollar-denominated public debt. When, eventually, reserves ran out the Peso could no longer be defended and therefore allowed to float, it triggered a currency crisis that turned into a banking crisis and sovereign debt crisis.

Still, some scholars believe that Mexico's overall economic health and debt level was

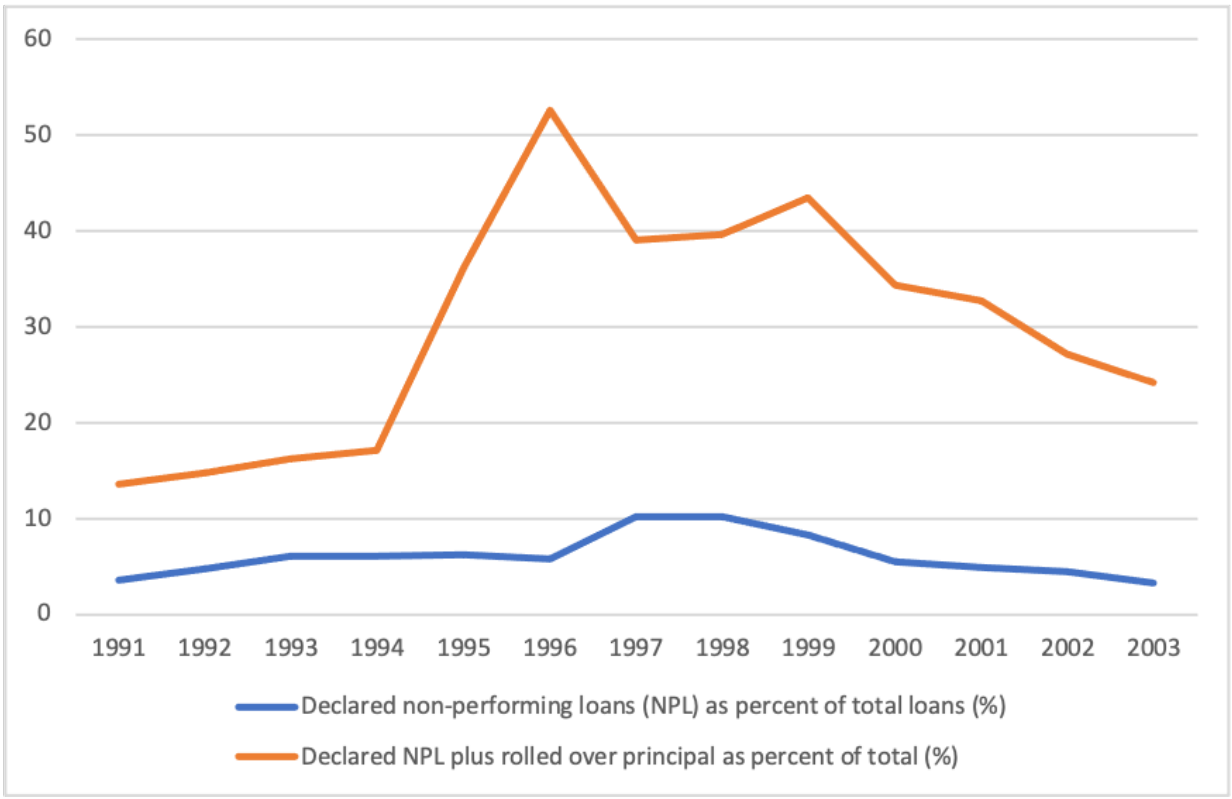


Figure 6: Total Non-Performing Loans (NPL) as a Percentage of Total Loans in the Mexican Banking System, 1991-2003. Source: Haber, S. (2005). Mexico's experiments with bank privatization and liberalization, 1991-2003, table 2

far more sanguine in 1994 than 1982, making the crisis a result of volatile speculation and temporary illiquidity while Mexico was still fundamentally solvent and therefore a prime candidate for official support from the international community. Meza (2019) notes that Mexico had had primary surplus for years before the crisis and no large trade or budget deficits, and Cline (1995) observes that the debt ratio and fiscal balances were far better than in 1981-82, with debt to export ratio at around the conventional 200 per cent and inflation under control.

So before the crisis in 1994, Mexico had generally manageable debt levels and macroeconomic policies, but two major vulnerabilities: growing non-performing loans in the banking sector and the growing pressure to defend its fixed exchange rate with a dwindling foreign reserve. Political violence, the Zapatista uprising and the assassination of Presidential candidate Luis Donaldo Colosio (the hand-picked successor of the incumbent Carlos Sali-

nas de Gortari) in 1994 put pressure further on the Peso and increased investor's perceived risk premium on investment in the country (Mannsberger and McBride, 2007), and the trigger to the crisis finally came when the Central Bank ran out of reserves to defend the Peso and therefore was forced to let the Peso depreciated. Meanwhile, in December 1994, Mexico had $6 billion of reserves and $17 billion in dollar-denominated tesobonos maturing before the end of 1995, and the gap fueled speculations of default and therefore capital flight, which put even greater downward pressure on the Peso (Bratsiotis and Robinson, 2004).

Besides the need to defend the overvalued Peso, Mexico's high deficit in 1994 was also a result of unusually high government spending, a typical eletion-year practice of the ruling party, the Institutional Revolutionary Party (PRI), seeking to extend its uninterrupted 65-year rule of Mexico. However, in 1994, the assassinations of its original candidate, Luis Donaldo Colosio, the Zapatista uprising, and the plummeting approval rating for the incumbent prompted insecurity for the PRI party, which launched a spending spree before the election that translated into historical government budget deficit (Hufbauer and Schott, 2005). The budget deficit, along with Mexico's current account deficit, drained Mexico's reserve and triggered doubt about its ability to service government debt and overall macroeconomic prospect.

The speculative capital flight and Peso devaluation strained Mexico's already vulnerable banking sector: capital flight resulted in interest rate hikes, and higher interest rates paired with Peso devaluation drastically increased debt servicing costs for Mexican borrowers, and subsequently non-performing loans jumped (Musacchio, 2012). A banking crisis was in full bloom.

In face of the banking crisis, the Mexican government implemented massive economic stimulation and bailed out its domestic banks in full, by providing liquidity, capitalization, and guarantees (Vasquez, 2002): it provided blanket guarantees on bank deposits and assumed liability for all non-performing loans in what became the most expensive bailout

up until then by a large margin. To prevent a bank run, the Savings Protection Fund (in Spanish, El Fondo Bancario de Protección al Ahorro, also known as Fobaproa) was used to provide guarantees for saving deposits. The Fobaproa also assumed outstanding debt to banks, which was roughly $552 billion pesos. In addition, in January 1995 the Procapte (Programa de Capitalización Temporal or "Temporary capitalization program") was created, which allowed faster access to a higher volume of foreign capital and guaranteed the solvency of the banks. These measures were able to prevent a bank run but at a huge fiscal cost. By 2006, in the Final Report of IPAB prepared for the Mexican Congress, the total cost of the bank bailout was estimated to be at approximately 17 percent of the nation's GNP (Reforma, 2006). The tremendous burden on public finances remained a clear target of public resentment and frustration for a long time to come (Mannsberger and McBride, 2007).

The Mexican government was able to provide full and total bailout of its domestic banking sector because of the official financial support it received, organized by and mostly from the United States. Of the approximately $40 billion assembled in the eventual rescue package, $20 billion was contributed by the United States, $17.8 billion by the IMF, $1 billion by a consortium of Latin American nations, and CAD$1 billion by Canada. Other OECD countries (Europe and Japan) initially pledged $10 billion through the Bank for Internatioal Settlements (BIS), but the funds never materialized due to the extremely stringent conditions attached (Lustig et al., 1995, 20). Different from previous US engagements, the financial package provided by the US were not only unprecedentedly large but also medium-term (as opposed to the usual short-term, bridge financing), with fiscal and monetary conditionalities that were common in IMF packages but rare in bilateral bailouts (Lustig, 1997). As a result, Mexico had no debt default or restructuring, quickly gained reentry into the international capital market, although it also had to make many concessions about its macroeconomic policies and subsequently suffered a severe recession.

The process of finalizing on the provision of the $20 billion from the US was nothing

short of drama: after seeing its foreign reserves drop to $6 billion and unable to defend the Peso any longer, Mexico was forced to let the Peso float and devalue. Following the devaluation, the Mexican government had trouble issuing new debts or rolling over its tesobonos (dollar-denominated public debt), pushing the government on the verge of default on its sovereign debt. This prompted President Clinton to announce on January 11 that "the United States is committed to doing what we can to help Mexico through what is and should be a short-term crisis". The following day Clinton announced his initial proposal of a $40 billion loan guarantee to Mexico, with the support of all four Congressional leaders from both the Republican and Democratic parties (Henning et al., 1999, 63-64), but the size of the package resulted in a huge backlash in Congress, and opposition quickly grew from those who oppose NAFTA and are unsympathetic to Mexico to an overwhelming majority in both legislative chambers. It was soon clear that the Mexican Stabilization Act would not pass (Lustig, 2000, 179).

The Clinton administration therefore reluctantly approved an initially dismissed proposal to designate funds from the U.S. Treasury's Exchange Stabilization Fund (ESF) as loan guarantees for Mexico (GAO, 1996; Greenspan, 2007, 159). Although these loans eventually returned a handsome profit of $600 million and were even repaid ahead of maturity (Hufbauer and Schott, 2005, 10-11), they were overwhelmingly unpopular both in Congress and with the American public. Shortly after the unilateral action of lending $20 billion by the Clinton administration, Congress passed a bill, 407 to 21, that requires the White House to turn over files and reports with regard to Mexico's economy and economic dealing with the United States, with the support of a rare coalition between liberal democrats and conservative republicans (Bradsher, 1995). Moreover, although Congress could not stop the Mexican loan, it took numerous actions to limit future use by the executive branch of the ESF, mainly through amendments to Treasury appropriation bills that either eliminate or severely restrict the President's authority to utilize the ESF to provide loans to a foreign government or bolster any foreign currency. Most notably, the Senate

passed an amendment to the FY1996 appropriation bill that require the President to directly engage the Congress in the use of the ESF, which Clinton threatened to veto but eventually signed into law (The D'Amato amendment, Congressional Record, August 5, 1995: S11629).

6.3 THE ARGENTINE DEBT RESTRUCTURING, 2005 & 2010

Argentina experienced a severe economic recession from 1998 to 2002. It also had a high level of debt, twin deficits in fiscal and current accounts, and a fixed exchange rate that overvalued its currency. With falling GDP, rising unemployment, and a national poverty rate exceeding 40 per cent, the economic and social cost of debt servicing became unbearable, and in December 2001 Argentina defaulted on 93 billion USD of external debt, three quarters of which were owned to foreign investors and a quarter owned to domestic ones. Subsequently, capital flow into the country ceased, the fixed exchange rate regime collapsed, and the Argentine Peso devalued by 75 per cent (Krauss, 2001).

Argentina and its sovereign bond holders engaged in two rounds of debt restructuring, in 2005 and 2010 respectively, and was able to exchange its old bonds with new bonds with a roughly 70 per cent write-off in principal. After these two offerings, Argentina successfully restructured more than 92 per cent of its external debt, but the remaining 8 per cent continued to hold out and litigate in legal courts, in New York and Europe. Eventually the holdout investors were rewarded payment of principal and interests in full in 2015 (around $4 billion in total, or roughly 150–400% returns on their initial investment) (BBC, 2016), after which Argentina was finally able to regain full access to the international capital market (Guzman, 2020).

Just like many other economies in difficult times, Argentina had received multiple IMF packages and was on economic adjustment programs before the default. In fact, the IMF

was active in Argentina for much of the 1990s, and a new IMF program with $7.2 billion in loans was approved in March 2000. However, neither the new money nor the adjustment reversed the downward trajectory of the Argentine economy and by November it had to ask for additional loans. Another $6.5 billion was approved, and Argentina made a commitment to balance the budget (the "zero deficit plan") (Taylor, 2007, 78), but zero budget deficit was clearly difficult to implement and Argentina's debt level was unsustainable. By the end of 2001 riots, looting, and violence broke out in protest of the government's macroeconomic policies, the President, Fernando de la Rúa, resigned, and Argentina officially declared default on its sovereign bonds.

Argentina started to renegotiate with investors on defaulted debts in 2002, with the mediation of the IMF, and negotiations intensified as the next President (after a few interim ones), Néstor Kirchner, assumed office in 2003. After three years of searching in vain for a solution that is acceptable to both creditors and the debtor country itself, Argentina declared that the negotiation has reached an impasse and made a unilateral offer in a take-it-or-leave-it fashion (Hornbeck, 2013). This is highly unusual, since most debt restructuring happens through multilateral negotiations and only reaches a conclusion after being mutually agreed upon by creditors and debtors alike.

In fact, Argentina had already made a first unilateral debt exchange offer in 2003, the "Dubai Offer", which stipulated that Argentina would commit to running a primary surplus of 3% GDP and devote 1% GDP to service its debt, implying a write-down of 73 per cent on the eligible debt of $81.84 billion at a post-crisis interest rate of 5 per cent, and no recognition of due interest since the default. This offer was instantly rejected by investors. Two years later, in 2005, the second offer, the "Buenos Aires offer", was made. It provided slightly better terms, with GDP-linked warrants so that if Argentina enjoyed high GDP growth the investors would receive bonus payments on their new bonds. Moreover, this time Argentina also enacted a legislation ("the lock law") that prohibits future payment to holdout investors who didn't participate in this round of restructuring, threatening that

those who don't participate "will never see a dime of their investment" again. This time, a large proportion of Argentine bondholders agreed to the exchange and 76.15% of debt value participated in this round of restructuring (Miller and Thomas, 2007).

Despite having the lock law, Argentina still had $18.6 billion in debt owed to private investors after 2005 and opened a second round of debt exchange offering in 2010, with somewhat better deals than the first round: investors received slightly higher interest rates and smaller debt write-down, averaging about 40% debt reduction. Moreover, unlike the 2005 debt swap, due interest up until the restructuring was considered in the second round, and over 70% of the remaining debt value participated in this round of restructuring, bringing total participation rate to over 92% (Guzman, 2020).

Because most of the defaulted Argentine bonds didn't have collective action clauses, the restructuring process resulted in a large proportion of investors who took a hefty loss and a small proportion who held out for more than a decade, litigated fiercely, and were compensated generously in the end (a group of Italian creditors were paid 150% of their initial investment, while a handful of American hedge funds received a 400% return on their investment, since they bought defaulted bonds in the second market for cents on the dollar (BBC, 2016; Warnau, 2016)). Meanwhile, the existence of the small group of holdouts also delayed Argentina's return to the global capital market by a decade, despite having successfully renegotiated most of its external debt.

What was notable about Argentina's two rounds of debt restructuring was the absence of creditor government or IMF intervention. In fact, by the end of 2005, Argentina has repaid in full its debt owed to the IMF, specifically in order to rid itself of IMF influence. Argentina hence gained full autonomy and explicitly rejected IMF assistance and mediation in its debt renegotiation process. The Bush administration, at multiple critical times during the crisis and the subsequent debt renegotiation process, made clear that it would not use public resources for bailouts or intervene in the bargaining between Argentina and its creditors in any way (LA Times, 2002; Hakim, 2001). The lack of creditor government

or IMF participation means that, unlike previous debt restructuring deals like the Brady plan, there is no official funds that is contingent on the debtor country reaching a deal with private creditors, incentivizing the debtor to honor more of its debts to quicken agreement, and nor is there official backing on the new bonds or guarantees to "sweeten" the deal, incentivizing investor participation. The negotiation was completely voluntary and market-based, leading to large debt write-down for most investors, high inequality in the outcomes for different investors, and an extremely prolonged resolution.

US passivity during the Argentine crisis was not only reflected through its inaction in the negotiation between Argentina and its creditors, but also through its implicit rebuke of IMF intervention and tacit support for Argentina to conduct negotiations free of IMF influence. Then US Under Treasurer John B. Taylor, who was in charge of international affairs at the Treasury, even suggested to his Argentina counterparts that they repay the IMF ahead of schedule so that they need not worry about "IMF overprescribing" and admitted that the IMF "does not have a good record in Argentina" (Taylor, 2007, 94).

In this way, the US as a creditor government was not only practicing nonintervention during the Argentine crisis, but also in fact supporting and encouraging Argentine unilateral action and large debt reduction. Most notably, President Bush, in his meeting with President Kirchner, applauded his rebuke to the IMF and expressing sympathy in his anti-IMF stance (Helleiner, 2005). Adding such not-so-implicit snub to the IMF to the Bush administration's clear stance against increasing IMF quota, US government behavior severely limited the IMF's ability to intervene and influence the outcome of debt restructuring, and enabled Argentina to make bold exchange offers and adopt hard-line stances toward creditors.

6.4 THE INTEREST OF FINANCE

One key reason behind the opposite responses by the US government to the two sovereign debt crises was the interest of finance. Powerful actors in finance–American multinational banks–were deeply interested in the Mexican market, much more than they were in Argentina, and they invested much more resources to influence their government's decision making to bailout Mexico. In particular, US banks were able to leverage the rescue funds to achieve a critical objective that they weren't able to through the negotiation of NAFTA: concessions by Mexico to further open up its domestic financial services market. They also took advantage of the blanket bailout of the Mexican banks to acquire profitable businesses right after the crisis was resolved. In contrast, the private actors involved in the Argentine default were mostly bondholders, who were numerous in number and dispersed across the globe, making them less capable of building consensus on objective and strategy, let alone organizing an effective campaign to influence their home governments. As time went by, however, Argentine debt gradually moved from the hands of small investors to large, more experienced institutional investors, who were influential in legal courts and extremely risk-acceptant. These new creditors were able to execute a successful strategy to enlist the power of American courts and payment systems to their favor.

6.4.1 US banks was keen on entering the Mexican market, before and during the NAFTA negotiation

One of the most central demands of the US delegation in the negotiation of NAFTA, and a most controversial one from Mexico's point of view, is the liberalization of Mexico's domestic banking sector. Having nationalized all major banks during the 1982 crisis, Mexico privatized its banks in 1991-92 through auctioning, but only domestic individuals and firms were allowed to participate. The exclusivity of the banking industry was an anomaly for

the country: by 1989, Mexico has liberalized almost all of its domestic industries to allow for foreign investment and ownership up to 100%, but maintained very stringent limitations for foreign ownership of banks (Goldman et al., 1994): foreign ownership was not allowed for banks whose market capitalization exceeds 1.5%, and there were only two banks in the entire country that were under this threshold (Mannsberger and McBride, 2007). Therefore, before 1994, American banks were unable to invest or expand businesses in Mexico, but internal communications show that they were expecting such limitation and restrictions to disappear after NAFTA is negotiated (Newman and Szterenfeld, 1993, 241-51).

Indeed, a key objective of US negotiators in NAFTA was to include financial services into the free trade framework, and US negotiators wanted the financial services section in the agreement to be based on the U.S. Bilateral Investment Treaty (BIT), which has three key provisions: national treatment (no discrimination between domestic and foreign firms and investors), the right to pre-establishment (pre-investment) that gives American and Canadian companies unimpeded access to the Mexican market, and arbitration-based dispute settlement procedures (aka Investor-State Dispute Settlement, or ISDS) (Liss, 2018, 282).

From the drafting of the BIT to its application to the NAFTA agreement, the entire US negotiation objective and strategy were heavily influenced, if not completely driven, by American corporate representatives. First, business groups organized a massive lobbying campaign for NAFTA, starting from the fast-track authority of the President, which gives the executive branch the authority to negotiate trade deals and limit the ability of Congress to influence the process by requiring it to vote on the trade agreement with limited debate and no amendments. As US Trade Representative Carla Hills once explained, ”without the procedural advantage of fast-track authority, the practical impediments to negotiating a trade agreement would be all but insurmountable” (Kahane, 1996). And there was “a pan-business effort” to support the fast-track authority, as described by Calman Cohen of the Emergency Committee for American Trade, where “I’ve never seen a larger grouping from

the private sector", for a trade agreement that hasn't even been negotiated yet (Devereaux et al., 2006, 196).

After the victory at securing fast-track authority for President H.W. Bush, US business groups, especially multinational corporations (MNCs), continue to dominate US Trade Representative (USTR)'s negotiation of NAFTA, mostly notably through private sector advisory committees that have direct access to the USTR, which no other interest group (such as labor or environmental groups) enjoy. In particular, the Investment Policy Advisory Committee for Trade, a committee largely composed of representatives from U.S. MNCs, led the negotiation for financial services in NAFTA and demanded the BIT framework as the basis for U.S. negotiation objective. In addition, while business groups fiercely lobbied for the executive branch's fast-track authority to negotiate NAFTA, they were also not shy to leverage their influence in Congress to make demands in the negotiation process: for example, while the USTR was negotiating for investor rights provisions, especially Investor-State Dispute Settlement (ISDS) which allows for international arbitration and thus bypasses national courts, U.S. corporate lobbies threatened to sink the entire NAFTA in Congress without the application of ISDS to financial services (Cameron and Tomlin, 2000, 84).

Clearly, this American objective was very far from the Mexican point of departure who were keen to protect their domestic banking industry from American competition (Liss, 2018, 299). After American representatives made the threat that "without a financial services agreement there would be no NAFTA", Mexico made some concessions by agreeing to all of the core investor rights from the U.S. Model BIT in the NAFTA investment chapter, which is a big departure from Mexico's long-standing practice, but still maintained multiple limitations for foreign ownerships of financial institutions: US and Canadian investors cannot own more than 30% of a Mexican bank's capital, and for the entire Mexican financial market foreign ownership cannot exceed a 15% market share, with a six-year transitional period that allows American and Canadian investors to gradually increase their holdings.

Moreover, the agreement also allowed the Mexican government the right to freeze the purchases of Mexican banks by US and Canadian groups if they controlled more than 25% of the market (Murillo, 2002, 35).

So various and severe limitations on investment in the Mexican banking sector persisted, even after repeated and strenuous negotiations at NAFTA, and the oligopolies in the Mexican banking sector were assured that they would not have to compete with foreign banks. However, as the Peso crisis loomed larger and the entire country was to be short on cash, this was all about to change.

6.4.2 The Mexican bailout removed restrictions for foreign investors in the banking sector

In 1994, the NAFTA agreement allowed US and Canadian investors to acquire Mexican banks whose capitalization does not exceed 1.5 per cent market share, of which there were only two. However, as the Peso collapsed and defaults on bank loan rise sharply, the Mexican government became cash-starved as it tried to defend the Peso and bail out domestic banks. In February 1995, as President Clinton signed a rescue package of $20 billion in loans and guarantees, Mexico lifted the cap from 1.5 to 6 per cent, so that all but the three largest banks in Mexico can now be acquired by American and Canadian investors.

Clinton's $20 billion rescue package entailed other conditionalities about how Mexico would reform its economy that are rare in bilateral loans but more common in IMF packages: raising interest rates to curb inflation and attract capital inflow, slashing government spending, cutting back deficits, and capping public sector wages. These conditionalities aimed at taming inflation and restoring solvency, but said nothing about macroprudential standards in bank lending, a provision that American banks didn't wish to see as they prepare to acquire or build businesses in the Mexican market for banking and financial services.

And Mexico gradually gave up restrictions on foreign ownership in banking, a principle that they have held on to for so long. Of course, besides American pressure, Mexico also needed foreign investment as it alleviates the burden to recapitalize the banks after the Peso crisis. In December 1998, the Mexican administration removed all restrictions on banking FDI; this, combined with the fact that most of the bank restructuring was by then completed, accelerated the entry of foreign banks (Steinfeld, 2004).

6.4.3 Mexican banks were given fresh starts after the crisis

The American banking sector had supported the bailout of Mexican banks from the start. Before the crisis, they stressed the importance of exchange rate stability and the necessity to defend the Peso; during the crisis, they supported the Mexican government's rescue plan for its banks, which turned out to be one of the most generous rescue plans conducted by a government on a domestic sector in history. Through the exchange of bad loans with 10-year government bonds, the Mexican government assumed liability for all bad loans, while spreading the cost in ten years. Under such plan, the banks have no incentive to minimize non-performing loans because they could simply pass on these bad loans to the government and receive interest payment as usual (Rubio and Rubio, 1999, 13-61).

The total and blanket bailout of the banking industry by the Mexican government resulted in a hefty price tag for the public purse ($104 billion, as estimated by Standard & Poor) (The Economist, 1999), but left the banks with little past-due debt, good asset quality, and therefore prime targets for foreign acquisition and recapitalization (Mackey, 1999, 187). Moreover, the bailout also kept the consolidated nature of the Mexican banking landscape intact, so the six biggest banks still enjoyed oligopolist statues after the crisis, which made them highly profitable (Mayer and Woodside, 2001; Lieberman, 2018a, 207-08).

By 1998, as Mexico abolished all restrictions for foreign ownership of financial insti-

tutions and bank loan restructuring mostly completed, foreign investors large and small began pouring capital into Mexico to purchase Mexican bank shares and to establish their own operations from scratch. The high interest rate and low credit-penetration in Mexico provided vast opportunities for investors to expand businesses and earn a profit margin higher than their US operations (Kraus, 1997). In a few years, by 2002, all but one of the six largest banks in Mexico are majority owned by foreign investors: CitiGroup (USA), BBVA or Banco Bilbao Vizcaya Argentaria (Spain), HSBC (UK), Scotiabank (Canada), and Grupo Santander (Spain). Banorte is the only major bank which is still controlled by Mexican investors (Mannsberger and McBride, 2007).

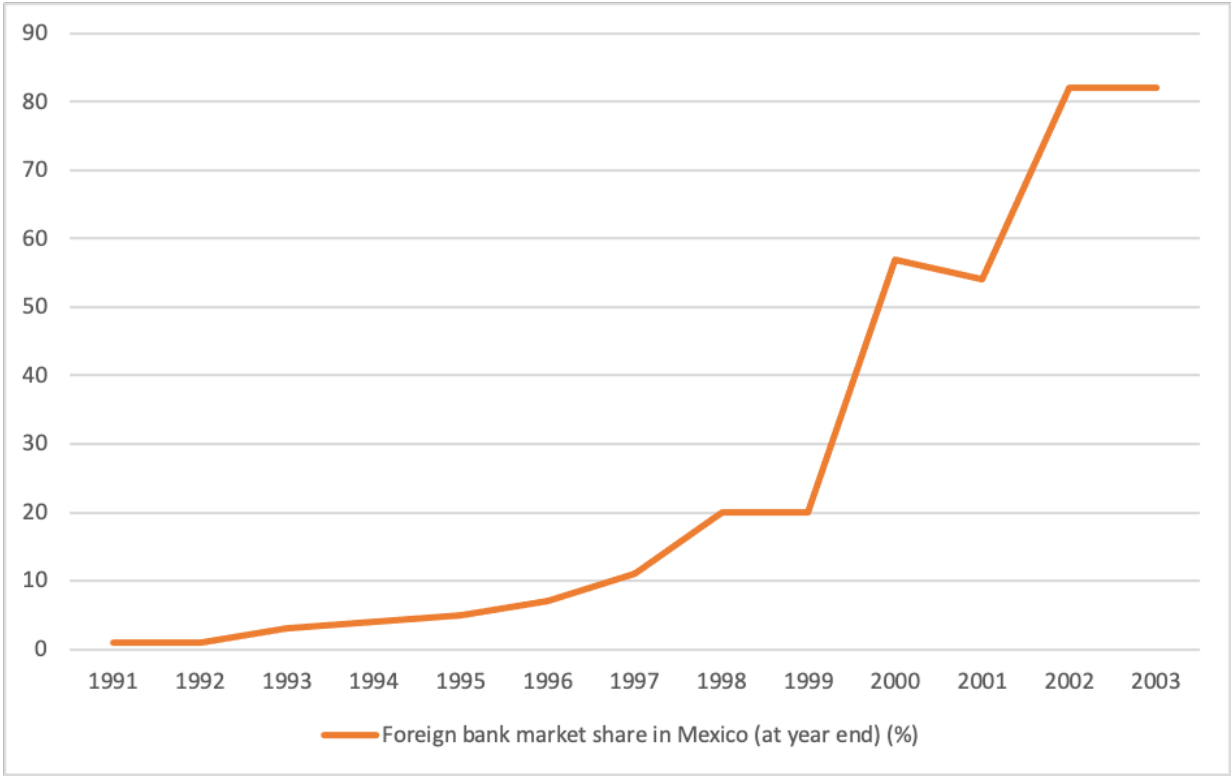


Figure 7: Foreign bank market share in Mexico, by percent of bank assets (at year end) (%). Source: Haber, S. (2005). Mexico's experiments with bank privatization and liberalization, 1991-2003, table 5

From 1995 onward, foreign FDI and foreign controlling interests in the Mexican banking sector both soared. As shown in figure 7 , foreign ownership of banks grew from a mere 4% in 1995 to a staggering 82% in 2003 (Haber, 2005, table 5). Hard to ignore was

the overlap of personnel involved in Clinton's Mexican rescue package and in the ensuing private investment in the Mexican banking sector. Robert Rubin, the Secretary of Treasury who argued that Mexican banks couldn't be left alone to fail and the chief engineer behind Clinton's $20 billion package and negotiator with Mexico on financial liberalization as a part of the deal in 1995, also led CitiGroup's acquisition of Banamex, Mexico's second largest bank, as CitiGroup's chairman (The Oklahoman, 1995; Weiner, 2001). His acquaintance with Mexican financial ministers and important private actors in the banking industry, as well as past interactions and transactions, is recognized as a major factor that smoothened the negotiation of the acquisition, which only took five weeks to complete, less than what it took this author to have her mortgage approved in the United States.

6.4.4 Argentina bondholders were numerous, dispersed, and unable to coordinate collective action

Unlike the previous decade, in the 90s and early 2000s sovereign bonds have overtaken syndicated bank loans as the primary vehicle for sovereign borrowing (Lienau, 2014), and this is particularly true for Argentina. In contrast to large bank loans that are long-term and tend to stay in the hands of the same creditor throughout the life cycle of the debt, bonds are very flexible and easily transferred in the secondary market, making them impossible to track. When Argentina defaulted on its debt in 2001, 75% of its external debt was owed by foreign investors, while 25% by Argentines. Global bondholders tried to organize into different committees to negotiate with Argentina, but as the IMF exited from the negotiation table and with the absence of creditor governments to represent their own creditors, these committees are small and have very limited influence. Among them, the largest one was the Global Committee of Argentina Bondholders (GCAB), established by some European investors, which claimed to represent about $40 billion of Argentina bonds (therefore about 27% of total Argentina debt value) and over 500,000 retail investors and 100 institutional

investors (Copelovitch, 2010; IMF, 2022). However, the GCAB was never recognized by the Argentine government or engaged by it in debt negotiations (Herman et al., 2010, 463), making it less of a representative of bondholders but simply an organization to share information and offer advice, which it did: the GCAB heavily criticized and recommended its members to reject Argentina's 2005 bond exchange offer (Thomson, 2005), but the exchange ended up having an over 75% participation rate, showing either the committee's weak hold on its members or that it was inflating its size. The lack of collective action among bondholders severely impaired the ability of investors to press their home governments for assistance in negotiation.

So unlike creditors of Latin American sovereigns in the 80s which were mostly powerful multinational banks with syndicated loans, Argentina bond holders in 2005 were numerous, diverse, anonymous, with significant information asymmetries, and difficult to coordinate into collective action, until they slowly became consolidated through transactions in the secondary market. Since the crisis broke out, retail and small investors started to exit and sell the Argentina bonds they held at a steep discount to institutional investors in the US. Overall, through this migration of defaulted debt from retail investors, particularly from Italy, to US institutional investors and distressed-debt specialists (Thomson, 2005), the interest of bondholders started to become more concentrated and their actions more strategic and successful. The biggest purchaser of distressed Argentina bonds, Elliott Capital Management, was no stranger to litigating against defaulted sovereigns: in the mid-90s, it bought up defaulted Peruvian commercial bank loans and used the pari passu argument (that all creditors must be treated equally) to collect on the debt. After several legal battles, Elliott won in a Belgium court, which blocked payment to other Peruvian creditors before it pays Elliott. In the end, Elliott spent just over $11 million on the Peruvian loans and walked away with about $60 million (Bases, 2014).

And Elliott and other New York hedge funds basically repeated the playbook on Argentina, this time with a longer timeframe, more hard-line debtor country leaders, higher

financial stake, but eventually the same outcome. For the majority of holders of Argentina bonds, however, they were unable to influence Argentina's exchange offerings or their home government, leaving themselves in a take-it-or-leave-it position as Argentina offered its restructuring deals.

6.5 PUBLIC SENTIMENT AGAINST FOREIGN BAILOUT

6.5.1 Economic outlook was more optimistic in 1994 than 2001

When the Mexican Peso Crisis broke out in 1994, the US economy was going exceptionally well. Everything was going in the right direction: bullish stock markets, declining federal budget deficit, near full-employment, and low inflation—a combination that was almost too good to be true and inspired enormous optimism. The signing and ratification of NAFTA further spurred rosy economic outlook (BBC, 1999), with the promise of GDP gains for all three signing countries according to economic analyses (Hufbauer et al., 1993). Public polls conducted at the end of 1994 and beginning of 1995 showed more people were feeling the economy getting better than worse by a large margin and a widespread approval of the economy at large (WSJ/NBC News, 1994a,b)

The general optimism about America's economy gave political capital and room to maneuver to President Clinton and the Treasury Secretary, Robert Rubin. Clinton had lowered federal budget deficit for consecutive years and was even on track to balance the budget for the first time in 20 years (U.S. Treasury, 2022). Most significantly, NAFTA was ratified in Congress in a truly bipartisan fashion: in the house, it passed with 132 Republican and 102 Democratic votes [6] ; in the Senate, it passed with 34 Republican and 27 Democratic votes [7]. The Republican support for NAFTA implied that Congressional support for Clin-

[6] https://www.govtrack.us/congress/votes/103-1993/h575
[7] https://www.govtrack.us/congress/votes/103-1993/s395

ton's Mexican rescue plan was feasible, at least initially, since he could reasonably expect to count on those in Congress who voted for NAFTA to support the Mexican rescue. The American general public also have a mildly favorable view of NAFTA, by a margin of 43% to 38%, (Times Mirror, 1995b). Indeed, initially the rescue plan did receive support from Congressional leaders of both parties: Clinton's January 12, 1995 speech, which affirmed commitment to restore confidence in the Mexican Peso and the overall Mexican financial market, was backed by majority and minority leaders in both chambers (Clinton, William J., 1995).

In contrast, 2001 was not as much a good year as 1994 in terms of macroeconomic indicators. Despite turning out to be a short-lived recession, the stock market downturn in March, 2001, the dot-com bubble burst, and the 9/11 attack infused uncertainty and fear of long-term recession on Wall Street as well as among the American public. Although Bush's tax cuts (U.S. Congress. "H.R. 1836 - Economic Growth and Tax Relief Reconciliation Act of 2001.") and the Fed's expansionary monetary policy (lowering interest rates) helped assuaged the recession (Wollscheid, 2012), and by December 2001 the recession was near the end, public sentiment about economic outlook for the country barely recovered (Fox News, 2001). In December, 2001, more than 58% of Americans believed that "the recession has not hit bottom yet" (Gallup/UBS, 2001).

6.5.2 Public sentiment against foreign bailout was stronger in 2001 than 1994

The different mood for economic outlook affected Americans' view on foreign financial assistance. Although a direct comparison of American public opinion on the Mexican rescue and a potential Argentine rescue isn't possible (because an Argentine rescue was never proposed), comparisons of public sentiment on foreign aid and economic policy priorities are useful means to show that public opposition to a similar sized Argentine bailout in 2001 would be much stronger than the Mexican bailout in 1994. The ongoing recession

in 2001 cast an overshadow on the public sentiment on government spending and foreign assistance. Fixing the economy (and unemployment) at home consistently ranked high on opinion polls as the number one problem or concern of the country, sometimes even surpassing fighting terrorism, in the latter half of 2001, whereas the economy ranked much lower as a concern for the public in 1994, when crime and violence were regularly the top concern (Times Mirror, 1994; Harris Interactive, 2001)

And concerns about economic outlook and ending recession dampened American public's view on foreign aid, although it had always been consistently negative. In both 1994 and 2001, more Americans think the US spend too much on foreign aid than too little, and more favor decreasing than increasing foreign aid spending. However, the sentiment was stronger in 2001 (except, of course, when the salience of uniting allies on the global war on terror was cued). 72% of the population polled thought the US spends too much on foreign aid in 2001, compared to 56% in 1994 (CNN/USA Today, 1994; Democratic Leadership Council, 2001).

However, it is notable that even under the bullish economy of 1994 it turned out that the $20 billion price tag was too large to be readily accepted by the American public, and in a matter of days it was apparent that Clinton's rescue proposal wouldn't pass in Congress and was opposed by the American public opinion (55% disapproved of Clinton's decision while only 30% approved) (Times Mirror, 1995a). The objection in Congress was even more overwhelming: although the rescue package didn't reach the house floor for an official vote, in March 1995 the house voted 407 to 21 in criticism of Clinton's use of the ESF and demanded the administration submit quarterly report to Congress on its financial dealings with the Mexican government, asserting Congress's position to oversee the public purse (Bradsher, 1995). The vote demonstrated an unusual coalition of liberal democrats and freshman republicans, and several additional bills ensued to attempt to restrict or even outright prohibit Presidential use of the ESF for foreign bailouts (H.AMDT.572, 104th Congress; H.AMDT.730, 105th Congress; H.AMDT.293, 106th Congress). Depending on

the severity of the restriction, these bills were voted on in both legislatures with varying outcomes, but the voting behavior of lawmakers reflected two aspects of their constituents' preferences: their production profile (and therefore how they would be affected financially by the Mexican rescue) and cultural ties to Mexico (through family and ancestry)(Broz and Hawes, 2006). Although these legislations occurred after Clinton's Mexican rescue, they were designed with the bailout in mind and were treated as a referendum on the Mexican bail. Higher dependence on export and stronger cultural ties to Mexico in a constituency resulted in higher likelihood of representatives voting for future bailouts, while lower dependence on export and cultural ties resulted in representatives voting against future bailouts. In general, constituents without strong business or familial ties to Mexico, which make up the majority of them, were against the Mexican bailout and supported future restrictions on the Executive branch's use of Treasury funds for foreign rescues.

To placate rising public sentiment against the rescue package, Clinton had to demand numerous conditionalities on Mexico's economic reforms, as well as high interest rates and collaterals in Mexico's future oil export, a sensitive issue for the Mexican side. The high interest rate prompted early repayment of the debt (as early as in six months), as soon as Mexico started to be able to borrow in the international market again, for it can borrow more cheaply in the market. Large, full, and early interest repayment in 1995 and 1996 vindicated Clinton's decision, and the political damage subsided, luckily before the next election cycle [8].

Public sentiment against foreign bailout, as it was influenced by the general well-being of the domestic economy, was stronger in 2001 than 1994 due to the minor recession in Bush's first year, a key reason that precluded the consideration of a large bilateral finance package. However, evidence also shows that although public sentiment can vary from time

[8]As then Deputy Treasurer Larry Summers recalled, when Clinton's political advisers first heard of the $20 billion price tag of the bail, they were appalled and instantly made the assertion that "if that money doesn't come back before 1996, you are not coming back to the White House". See interview in Conversations with Bill Kristol, "Larry Summers: An Economist in White House", https://www.youtube.com/watch?v=c39i8eM6nk0 [Accessed 08-28-2022]

to time, giving more or less room for leaders to tap into public funds to intervene in foreign sovereign debt crises, it is also quite a strong force that puts political costs on leaders who extend large financial assistance in foreign debt crises, even in good times. This political cost provides an explanation to why creditor governments prefer very short-term (6 months to 2 years) bilateral financing, as exemplified by Clinton's Mexican package, and rarely provide long-term bilateral loans. Long-term official lending has to be made through intermediaries like the IMF (Guzman et al., 2016) to minimize its chance of being politicized in the domestic political arena.

6.6 SIMILAR CASES

Although Clinton's $20 billion Mexican rescue seemed an astronomical number at that time, it was not a singular case. In a few years, Clinton's bailout would be eclipsed by Japanese intervention during the Asian Financial Crisis, where it spent more than $40 billion USD in emergency bilateral loans and trade credits to East Asian and Southeast Asian countries to prevent large-scale defaults on public and private debts in these countries. On the other hand, also during the same crisis, countries like Ukraine and Russia, whose external debt was mostly Eurobonds, received little creditor government intervention and restructured their external debt with 30-50% haircuts (in particular, Russia unilaterally defaulted on its sovereign bonds before reaching restructuring deals with investors, quite like Argentina) (IMF, 2002).

Japan's forceful intervention in Asia, quite like Clinton's in Mexico, reflects similar interests of the Japanese banking sector in Asia, while dealing with stronger public sentiment because by the end of 1997, Japan itself was inevitably mired in economic recession, too. High exposure and strong business interests of Japanese finance prompted the Japanese government to intervene decisively in the currency market, nationalize default risks, and

support IMF-led structural reforms, while Japan's own recession forced it to withdraw from more ambitious and expensive programs that it initially planned. Overall, the original plan for intervention that highlights Japan's ambition to establish a financial sphere of influence and build an Asian version of the IMF crumbled and was replaced by short-term loans to bailout its own banks with high exposure to crisis countries and conformity to IMF orthodoxy. The intervention by the Japanese government led to smooth exit of Japanese banks from distressed markets, drastic structural reforms in the debtor countries, and little to no debt reduction.

Japan's initial response to the currency crisis in Thailand was an ambitious proposal for an Asian Monetary Fund (AMF), modelled on the IMF. The AMF would start with 100 billion USD provided by the East Asian states (with the implicit understanding that Japan would provide the most of it) and have a financial surveillance mechanism and emergency lending facility similar to the IMF, while being more flexible in lending criteria and adaptable to debtor countries' developmental goals (Green, 2001, 247). It was applauded by many smaller Asian countries as a more desirable alternative to the harsh IMF conditionality and would dramatically promote regional financial cooperation with Japan at the center of it and the internationalization of the Yen, a priority of Japan's Ministry of Finance (MOF) at the time (Hook et al., 2002). However, in a few months, the proposal was dropped and Japan's intervention in the crisis conformed to the orthodoxy of short-term loans and supporting IMF-led structural reforms, for the following reasons.

First, Japanese finance was at best ambivalent about the AMF. Although it initially offered cautious support for the new organization based on how it would promote financial deregulation in Asian markets and the internationalization of the Yen, the priority of Japanese banks in the crisis was always retreating from distressed countries, reducing exposure, and protecting assets (Katada, 2001). Unlike other parts of the developing world which shifted to the international bond market in the 1990s, Asia was still primarily reliant on direct lending (FDI and bank lending) for their capital needs, resulting in high,

concentrated exposure of Japanese banks to the Asian markets. Meanwhile, Japan's manufacturing and trading sectors, which enjoyed much bigger political clout in the export-oriented Japanese economy than their Western counterparts, wanted the crisis resolution to be an opportunity for Asian countries to open up their markets and worried that the AMF as an alternative to IMF would reduce pressure on them to open (Shimbun, 1997). With finance's strong preference for immediate relief and industry's support for IMF-style, pro-market reforms, the Japanese government dropped the AMF and opted for short-term bilateral loans, stringent conditionality for debtor countries that presses for market liberalization and fiscal austerity, and minimized debt reduction. In addition to the liberalization of markets, Japanese credits also supported recipient country's procurement from Japan to support Japanese industry, another indication of the influence of industry on the Japanese government's crisis response (Katada, 2001, 286).

Second, the onset of Japan's domestic economic crisis in the last quarter of 1997 made the price tag for the AMF, which neared $100 billion USD, unrealistic and politically infeasible. Facing criticism that it was inadequately stimulating its own economy, the Ministry of Finance had to divert resources and adjust priorities to mitigate the effect of a worsening domestic recession and also intervene in the currency exchange market to prevent the Yen from sliding further (WuDunn and Kristof, 1997). Besides, Japan faced international structural constraints for its ambitious framework for the AMF, where the opposition by the US, its most important and long-term ally, and China proved too strong to be overcome (Cohen et al., 1997).

Overall, Japanese intervention in the Asian Financial Crisis also reflects the impact of domestic finance on the creditor government's attitude on the distribution of adjustment costs between debtor countries and creditors and the constraining effect of domestic economic recessions on foreign rescue spending. Meanwhile, the Japanese case differs from US government behaviors, in that the influence of business sectors other than finance (manufacturing) is more pronounced in the Japanese government's decision making, especially

when it has non-identical preferences to finance, signifying a more resourceful, systemically important, and therefore political powerful export-oriented sector.

6.7 OTHER FACTORS: NAFTA EXCEPTIONALISM AND BUSH'S ECONOMIC CONSERVATISM

Although NAFTA was largely negotiated and signed by predecessor George H.W. Bush, President Clinton put much of his political prestige behind NAFTA and enthusiastically advocated for its ratification in Congress. And in December 1994, it was widely agreed within the Clinton administration that if Mexico could not stabilize its currency, the banking sector, and the economy overall soon, NAFTA would be dead [9]. In additional to President Clinton, many lawmakers who supported the Mexican bailout did so because of their support for NAFTA, while those who opposed NAFTA also opposed the assistance to Mexico on similar grounds. In particular, the liberal democrats who objected to NAFTA specifically cited the Mexican Peso crisis as evidence that NAFTA did not deliver the economic benefits it claimed (Bradsher, 1994).

Apart from being a part of Clinton's political record, NAFTA was also invariably connected to Clinton's finance package because NAFTA already contained a bilateral swap line of $6 billion, meant to stabilize the three north American economies (but in particular Mexico) in times of financial market turbulence. As the $6 billion didn't turn out to be enough, President Clinton extended it in what he called NAFTA plus to $18 billion on January 12, 1995 (Lustig, 1997, 54), and the subsequent loans and guarantees continued to flow in under the same mechanisms established by NAFTA. The conditions attached to the new loans and guarantees were also a continuation of US negotiation objectives under NAFTA: it demands further privatization and marketization in the Mexican economy, but

[9] Also see Larry Summer's interview, "Larry Summers: An Economist in White House", https://www.youtube.com/watch?v=c39i8eM6nk0 [Accessed 08/28/2022]

particularly emphasizes capital market liberalization (Lustig, 1997).

The salience of NAFTA is also demonstrated by the fact that only the US and Canada responded to the Mexican crisis with urgency and large financial assistance, while other OECD countries sat and waited, a contrast to how they collectively responded to the pan Latin American crisis a decade ago. While European countries, through both the IMF and BIS, active interfered and contributed resources to the resolution of debt crises in the 1980s, their response to the Mexican Peso crisis in 1994 was slow, cautious, and weak. After repeated calls by the US (particularly on Germany and Japan) to contribute to the Mexican rescue plan, the BIS made pledges to assist Mexico in stabilizing its currency and economy, but the stringent conditionalities attached to the BIS funds made it basically unusable (Lustig et al., 1995), and it did not materialize in the end. Japan also showed little interest in intervening in 1994: while it was a major actor in the Baker and Brady Plan in the 1980s, Japan had no intention to get involved, largely because all Japanese banks took the exit option under the Brady plan and by 1994 Japanese investment in Mexico was down to almost zero (Katada, 1998; Unal et al., 1993).

In this regard, Mexico was somewhat a special case for the U.S.. NAFTA reinforced what the American response would have been under the influence of big finance and buoyant public mood on the domestic economy, making America's intervention stronger and exceptional in its size, speed, and farsightedness, both among other creditor governments and in America's own history of reaction to foreign sovereign debt crises. In addition to NAFTA and the prospect of close trade relations, Mexico's vicinity to the US and worries of illegal immigration were also often cited by the Clinton administration to justify the unprecedented rescue package and probably played a minor role in influencing US government decision (Keefe, 2009).

On the other hand, George W Bush's ideological subscription to economic conservatism and firm belief in free market capitalism without government interference resulted in a general inclination toward less government bailouts and more debt restructuring, which

contributed to his administration's response to Argentina. The Bush administration even initially supported a universal Sovereign Debt Restructuring Mechanism (SDRM), spearheaded by then Treasury Secretary Paul O'Neil and IMF deputy managing director, American economist Anne Krueger (Brooks, 2020). With the support of the US, Krueger announced the ambitious goal of establishing an international SDRM, which would serve functions similar to a domestic bankruptcy law and solve the ad-hoc, chaotic sovereign debt restructuring problem once and for all, in 2001, and the proposal for a time gained tremendous momentum and traction both within the Fund and the global financial policy circle. In 2003, detailed plans of the SDRM were developed (IMF, 2003).

However, by 2003 the staunch supporters of the SDRM within the Bush administration have fallen out of favor with the President, and O'Neil was ousted and replaced by John Snow. American official stance on sovereign debt crisis resolution also changed from steadfast support for the SDRM to a favor for Collective Action Clauses (CAC), a type of clause to be added to sovereign bonds that specify the majority threshold to legitimize a bond restructuring or exchange (Helleiner, 2008). The change from SDRM to CAC reflected the strong preference of American finance on the issue, who were highly critical of the SDRM and proposed the CAC as an alternative (Gelpern and Gulati, 2006). Without American support, SDRM soon lost momentum in the IMF and CAC became a standard practice in sovereign debt issued in the 21st century (Helleiner, 2008). This transition, again, showed the tremendous influence of finance in American and global financial policy making, which in this case was able to overcome Bush's ideological inclination toward standardized international bankruptcy laws and return sovereign debt crisis resolution to an ad-hoc process in which creditor governments can decide to intervene (or not intervene) freely, leaving room for powerful stakeholders to make their impact through domestic political channels.

7.0 CHAPTER 7. CONCLUSION

7.1 SUMMARY OF KEY FINDINGS

This dissertation studies a key component of sovereign borrowing that parties hope to avoid but nevertheless occur from time to time: when the sovereign borrower defaults (or nears default) on its external debt to international private lenders, triggering what is generally called a sovereign debt default crisis. The dissertation examines how creditor governments respond to sovereign debt crises in foreign countries, analyzes the various types of creditor government intervention, and looks for causes of these intervention decisions and factors that explain their differences. First, it establishes that creditor government intervention has a long history and although it may have changed in its form, from overt and military to subtle and diplomatic, it remains effective in influencing the behavior of borrowing countries and private creditors alike. Creditor government intervention clearly matters for sovereign debt crisis resolution and restructuring outcomes: when the creditors' home governments intervene forcefully on behalf of their private investors, debtor countries are compelled to agree to go through painful policy adjustments, implement fiscal austerity and pro-market policies, shore up debt repayment capacity, and accept low rate of debt reduction. On the other hand, when creditor governments refrain from intervening, or even subtly encourage debt restructuring, private investors have little leverage over borrowing states and often have no choice but to accept heavy losses. Moreover, when creditor governments pledge some of their own public money in the form of bilateral loan in the midst of the crisis, they can calm market speculation, restore currency and price stability which

is often the basis for normal economic activities to resume, make the tough negotiation between debtors and creditors smoother and a resolution quicker to achieve.

Two factors have strong impacts on how a creditor government would intervene in a sovereign debt crisis abroad: the interest of domestic finance and public opposition to foreign "bailouts". Finance, when its interest in the crisis country is strong, can prompt the creditor government to impose economic conditionality (pro-market policy reforms and fiscal austerity) on the debtor state so that it can improve debt servicing capacity and repay more debt. On the other hand, public opposition constrains the creditor government's use of the public purse in providing bilateral loans to distressed debtors.

And the interest of finance is strongest when their exposure to the crisis countries is large, the financial actors involved are rich, and interests (stakes) are concentrated on a few actors. Public opposition to bailouts with taxpayer money is strongest when the creditor country itself is going through a recession and economic anxiety among the public is high. Together, these two variables lead to four different outcomes in creditor government intervention, as depicted in the table below.

Table 5: The Impact of Finance and Public Sentiment on Creditor Government Intervention

		The Interest of Finance	
		Strong	Weak
Public Sentiment	Strong	Debtor Country Adjustment (the Baker Plan 1985)	No Intervention, Bail-in / Investor Losses (Argentina 2001)
	Weak	Creditor Government Bailout (Mexico 1994)	Debt Reduction with Public Guarantees (the Brady Plan 1989)

Empirical evidence, both quantitative and qualitative, largely supports the predictions made in the table above. In a quantitative study conducted on an original data set, among

a group of 104 cases of sovereign debt crisis since 1980, exposure of major international banks in creditor countries to debtor states significantly increases the likelihood that their creditor governments will demand structural reforms and fiscal austerity (conditionality) from debtors and lowers the expected debt reduction rate from rescheduling and restructuring negotiations. When major banks' exposure reaches 10 billion USD, it results in a 95% chance of conditionality imposed on the debtor country, compared to a 75% chance when major banks' exposure is small. Moreover, expected debt reduction rate goes down from more than 20% to below 10% when the exposure of major banks exceeds 50 billion USD. Recessions in creditor countries, in the meantime, accentuate the economic insecurity of the public and strengthen their opposition to bilateral bailout, making creditor governments more reluctant to tap into their public purse to provide temporary relief to distressed debtors. While there is a 25% chance that a creditor government will provide bilateral bailout to distressed debtors when the creditor country is enjoying strong economic growth, the probably drops to below 5% when the creditor country is itself mired in recessions.

The effect of finance and public opposition can also be observed in the evolution of the Western governments' stance and favored solutions to the Latin American debt crisis in the 1980s, from the Baker Plan to the Brady Plan. When the crisis first broke out in the early 1980s, exposures to Latin America by American and British banks were dangerously high, especially when compared to their reserve capital, and the advanced economies themselves were recovering from the economic recessions in the aftermath of the Iranian Revolution and the global oil supply crisis of 1979. The Baker Plan therefore emphasized economic reforms and fiscal prudence by debtor countries, as well as concerted new loans by the private sector, putting the blame squarely on the ill-advised spending of debtor countries and hoping that growth would soon restore debt sustainability and put these countries back on track to honor all external debts. As time went on, however, major American and British banks reduced their exposure, replenished reserve capital, and strengthened

resilience against sovereign debt default in high-risk countries; meanwhile, continued economic, social, and political turmoil due to protracted failure in restoring debt sustainability and growth in South America and sanguine economic outlook in developed economies softened the public's opposition to bilateral bailout. The Brady plan, as a result, advocated for reasonable debt reduction with public resources used as guarantees to "sweeten" the deal. The evolution from Baker's to Brady's intervention, from pure debtor country adjustment to a more even distribution of adjustment cost between debtors and creditors, reflects the weakening of the interest (and vulnerability) of finance in debtor countries and the softening of public opposition to using taxpayer money to facilitate crisis resolution.

The pair of cases on the other diagonal in the table—Mexico and Argentina—also demonstrates similar ways in which finance and public opposition make an impact on creditor government behavior. While Mexico in 1994 received swift and large bilateral bailout from the US (and Canada, to a less extent) that quickly calmed market speculation, along with stringent conditionalities and demands for financial sector liberalization, Argentina in 2001 did not receive any pressure from creditor governments to carry out any policy reform or repay debt. Instead, it even received subtle encouragement from the Bush administration to turn down IMF programs, renege on external debt obligations, and make the private investors bear the consequences of unwise lending decision. The intense interest of American banks in expanding businesses in Mexico and the dispersed, anonymous, and constantly shifting nature of sovereign bond (Argentina's main debt vehicle) was the key factor behind the contrasting actions by the US government. Besides, while Clinton enjoyed bipartisan support (at least originally) for his general policy orientation to strengthen economic ties with Mexico, Bush's economic conservatism and the ongoing recession in the US in 2001, which created a tumultuous policy environment, precluded the use of public funds as official financial assistance by the US.

Although the two case comparisons in this dissertation are both drawn from Latin America, the findings from the comparative analysis should travel well to other regions in

the developing world, including Southeast Asia, Africa, and Eastern Europe. The quantitative analysis doesn't demonstrate any causal chain unique to any specific region, and while Latin America was the first place where low- to middle-income countries seek to borrow capital in the international private market, other regions followed in similar patterns as they evolved into market economies and began to attract international capital. Notably, different regions tend to have varying borrowing patterns and main creditors, often depending on geographies: Japanese banks have most of their businesses in East and Southeast Asia, Germany in Eastern Europe, Britain in the middle east and Africa, and France in Africa. The pattern of creditor government intervention in these regions resembles the U.S. in Latin America in that it is heavily influenced by the activities of domestic finance and the political viability of official bailouts, although the interventions are usually smaller in scales.

Overall, the creditor government has a variety of options in its toolbox, and how it reacts to sovereign debt crises abroad can usually be traced back to the power and demand coming from its domestic financial industry and public sentiment. Notably, these two factors influence creditor government intervention in two largely separate policy arenas: finance has strong impact over whether the creditor government will impose economic structural reforms in the debtor country and pressure it to repay debt; public sentiment affects whether the creditor government will use its own resources as bilateral bailout for the distressed debtor and its creditors.

While different creditor government intervention leads to different debt restructuring outcomes, it is worth noting that no specific way of intervention is always objectively beneficial or good. As the statistical analysis has shown, bilateral finance, albeit short-term in nature, can calm market speculations, facilitate and expedite the renegotiation between debtor countries and private creditors, and lead to a moderate increase in debt reduction rate. However, bilateral finance often comes with many strings attached, including pro-market reforms, economic and financial liberalization, change in trade policies; moreover, bilateral loans also usually have higher than market (or even punishing) interest rates, in-

creasing debt servicing pressure down the line. President Clinton's 1994 Mexican bailout has been deemed a success, since it put a quick stop to the collapse of Peso's value and the general crisis in Mexico and the loan was repaid ahead of schedule. However, it also came with a hefty cost: the economic reforms imposed as a part of the loan and heavy debt burdens led to a severe recession, with high inflation, unemployment, and poverty. Economic productivity and poverty level in Mexico did not return to normal until 2001 (Pereznieto, 2010). On the other hand, with no intervention by creditor governments, the Argentine debt restructuring, which was abrupt, unilateral, and drastic, reduce debt burdens substantially and paved way for a relatively quick economic recovery. And yet Argentina's debt restructuring took more than a decade to be fully completed, delayed by lawsuits and prolonged negotiations between investors and several Argentine administrations. The unresolved debt infused uncertainty in Argentina's political and economic environment, barred Argentina from raising capital in the international financial market, and curbed investment and growth in the decade after 2001.

In the mean time, while creditor governments (and the IMF) condition their assistance on economic reforms to assure debt repayment, it is not even certain that the structural reforms improve a country's debt servicing capacity in the long run, since the foundation of good borrowing practice lies in growing a healthy, productive economy that is able to continuously attract investment and support debt repayment. Any prolonged economic recession and contraction of output is naturally detrimental to debt servicing ability. In fact, from past cases of sovereign debt crisis, debt restructuring and forgiveness are more likely to result in improvement of debt servicing and economic growth, just like bankruptcy in domestic laws—it is a part of a healthy and orderly economy, where the lenders and borrowers have both made some unwise decisions in allocating resources and they settle, take losses, move on, and hope to make better decisions in the future.

While this dissertation is meant to only be a positive inquiry, to observe, describe, explain, and establish causal relationship and not make any normative statement, the cases

documented in previous chapters clearly exhibit much inefficiency and bad macroeconomic policies that revolve around sovereign debt crises. Without question, creditor government intervention contributes to these inefficiencies, both by installing sub-optimal economic policies and misallocating public and private resources.

7.2 IMPLICATIONS

This dissertation has implications for and contributes to the scholarly understanding of sovereign borrowing, crisis resolution, cooperation, and international political economy at large in several ways. First, it suggests that sovereign borrowing is not a business simply done between the debtor state and private lenders, and state actions and their political motivations during sovereign debt default crises are a major component of crisis resolution. Second, it provides an important example where domestic politics have strong implications for interstate relations. Third, sovereign states honoring their external debt obligations is a form of international cooperation, in that sovereign borrowers cooperate by voluntarily following the rules of the international capital market, engaging in negotiations, respecting negotiated outcomes, and, most importantly, keeping its promises to repay debt as specified in contracts that are intrinsically unenforceable. Creditor government intervention turns out to be a key force in sustaining cooperative behavior under anarchy. Fourth, this dissertation has implications for the study of the international financial system and the structural constraints and advantages it grants different state actors. Last but not least, this dissertation has direct implications for the study of the sovereign debt restructuring mechanism (SDRM), why attempts to establish one consistently fail, what a future one could look like, and how it would change (or not change) creditor government intervention.

7.2.1 In crisis situations, political power, instead of economic cost, is the private lender's best bet on getting their sovereign debt repaid.

It turns out that Keynes was largely right about sovereign debt, with one key qualification needed: private investors indeed don't have much leverage whatsoever on sovereign borrowers to repay their debts, that is, unless the private investors can garner the support of their home governments to compel debt states to repay.

The importance of creditor government intervention means that existing literature on sovereign debt repayment, which either focuses on the debtor country's internal attributes or on the bargaining dynamics between sovereign borrowers and private lenders, miss an important player in the game. Especially during crisis times, sovereign debt default, restructuring, and repayment is an outcome of complex interactions between the debtor state, private actors, and creditor governments.

Existing scholarly accounts of sovereign default utilize a rich stock of data, both quantitative and qualitative, and offer explanations of state behavior based on agency, structure, and ideas. However, they share the same flaw of treating sovereign default as a unilateral decision and therefore attribute it to a set of fixed characteristics of the debtor state, whereas in modern times, sovereign defaults are the outcomes of dynamic interactions among states and private actors. After all, rarely does a state suddenly declare bankruptcy without any previous signaling or communication. States decide to default in the context of the global financial order and concurrent to interactions with private creditors and other sovereign states, meaning that simply studying the characteristics of the debtor country and its domestic politics is not enough to explain debtor behavior, especially during a sovereign debt crisis. Moreover, governments under sovereign debt distress do not face a clear-cut choice between default and perfect repayment, but a spectrum of options: from a concessional bridge loan from the IMF to the renegotiation of payment schedule and payment amount, sovereign debt crises involve bargaining among many actors who have stakes in regional

financial stability.

The significance of creditor government intervention also means that existing bargaining models between sovereign states and rational private lenders miss an important incentive structure, too. While the assumptions of payoff maximization for both the debtor state and lenders may hold, the creditor government can do much to change the payoff structure (the "rules of the game") of both borrowers and lenders. Especially under crisis situations, debtor countries are less motivated by maximizing long-term aggregate national income (or output or consumption) than the urgent need to stop the speculative attack on its economy, currency, bond yield, and most important of all, national reputation of creditworthiness, which is directly related to the debtor government's political survival. In crisis situations, powerful states have an overwhelming impact on the international financial market and market behaviors. Debtor states therefore cooperate with private creditors and creditor governments that have significant influence over their reputation and political survival.

7.2.2 Domestic politics and international relations

Second, creditor government intervention provides an example where domestic politics and international relations are entangled, whereby political objectives in one arena can be best achieved through actions in the other and where political incentives in one arena guide a state's behavior in the other. The nexus of domestic and international politics have attracted increasing attention from IPE scholars, since Robert Putnam's seminal work on the "two-level game" (Putnam, 1988), and this dissertation examines one scenario—sovereign debt restructuring negotiations—of state behavior that has domestic causes and international repercussions, hence contributing to the theorizing of state behavior that bridges international and domestic incentives.

It is well-known that statesmen can pursue domestic strategies to serve international purposes or international strategies to serve domestic political purposes (Christensen, 1996;

Gagnon Jr, 1994; Mastanduno et al., 1989). In the case of sovereign debt crisis, because creditor governments are often the bigger, richer, and more powerful state in the international financial system, they are privileged with options in both the international and domestic arena. Externally, creditor governments have the resources to intervene in the economic policies of the debtor state and incentive it, with both carrots and sticks, to change how the debtor handles its business and debts. Internally, creditor governments set accounting and other regulatory standards for financial institutions and use monetary policy levers that have ripple effects in both domestic and international economies. They may also pledge resources to mitigate collective action problems, ease negotiation and facilitate deal-making between lenders and borrowers, and provide contract enforcement mechanisms that are otherwise lacking in cross-border transactions. In the mean time, domestic political factors also constrain the creditor government's options, most notably when public opposition to foreign bailouts results in inadequate provision of liquidity or punishing conditionality attached to bilateral loans. Paradoxically, the more powerful a creditor government is, the less structural constraint it faces internationally, but the lack of international constraint also leaves the most room for policies to be politicized domestically, resulting in greater domestic political constraints for creditor governments on the making of foreign economic policies. The analysis of study cases in this dissertation highlights this phenomenon: the most internationally, structurally powerful state, the United States, has its crisis intervention policies most strongly influenced by domestic political factors, while slightly less dominant and powerful creditor governments, such as Germany and Japan, form their intervention policies under the combined influence of domestic politics and international objectives.

Overall, the duality of foreign economic policy is particularly well manifested in creditor government intervention. The domestic politics of creditor states and the political incentives of creditor governments studied in this dissertation shed light on the making of foreign economic policies and therefore a crucial aspect of interstate economic relations.

7.2.3 International cooperation: what sustains sovereign states' cooperative behavior and contract enforcement cross national borders?

Sovereign borrowing is a typical scenario of cooperation among states under the anarchic international system. Hence, this dissertation has implications over the fundamental question of what sustains voluntary cooperation and contract enforcement across independent, sovereign countries. Between neoliberal institutionalism that attributes inter-state cooperation to the absolute material gains that cooperation (in this case, good-faith sovereign borrowing) can bring (Keohane, 1984) and structural realism that emphasizes the ability of great powers to shape the international economy and force other actors to follow the rules by their design (Krasner, 1985), and between traditional state-centered theories and constructivist and other theories that appreciate the impact of private, non-state actors, market forces, ideology, and social norms (Blyth, 2013; Finnemore, 2004), sovereign debt crisis resolution offers an scenario to examine these different incentives at play. Through cooperation (and cooperative renegotiation of debt, in times of crisis), it is possible for all parties to emerge from the debt crisis better-off: the borrower state can receive some debt relief, stop capital flight or other types of speculative attack on its economy and reputation, regain access to the international capital market, improve creditworthiness and lower borrowing cost, and credibly commit to fiscal and monetary discipline and accountability to taxpayers that are beneficial for long-term growth, while the creditor government can prevent the cascading of financial distress, maintain access to overseas investment opportunities, and preserve regional financial stability and the existing international financial order that is largely beneficial to itself (Brooks et al., 2015).

Of course, even when cooperation is Pareto-superior to alternatives, distributional conflicts can still apply. As suggested by the varied outcomes of sovereign debt restructuring efforts, different restructuring outcomes entail different distribution of adjustment cost and future risk among debtors, creditors, and the home government of creditors. This disserta-

tion shows that creditor governments, which are often the most resourceful and powerful states in the international system, have a significant role in sustaining international cooperation by curbing unilateral sovereign defaults and mediating between sovereign borrowers and their creditors. Moreover, they also exert strong influence over the distributional consequences of international cooperation by impacting the specific terms of cooperation.

7.2.4 The international financial system

The current scholarship on the international financial system and its endogenous susceptibility to crisis has developed along three paths (Oatley et al., 2013): the determinants of domestic economic policy choice (Mosley and Singer, 2009; Helleiner and Pagliari, 2011), international institutional actors and global governance (Avant et al., 2010), and the historical and ideological development of the global financial system (Cohen, 2017; Strange et al., 1996). For all three perspectives, a common theme and key component appears to be the current global financial regime, one that is characterized by hierarchy and US centrality, as also demonstrated by a rising trend of network analysis applied to the international financial system (Oatley et al., 2013). Although this regime may have appeared vulnerable from time to time (especially during the 07-08 financial crisis which originated right in the center of this financial world), it has so far remained remarkably resilient and without viable alternatives in the foreseeable future. Indeed, the near-monopolistic dominance of the dollar as the only truly global currency has become inevitable to any analysis of the politics of international finance. Although this dissertation does not devote too much volume to this aspect, the centrality of the US (and US dollar) nevertheless forms the consistent background that underpins the behavior and incentive structure for all actors (debtor states, private creditors, creditors' home governments) in sovereign debt crisis resolution. Notably, domestic economic, especially monetary, policies in the U.S. can dramatically transform the availability of liquidity and cost of capital in the international market for

both private and state borrowers. They can bring out rapid shifts in international capital flow and the risk-taking tendencies of capital. Therefore, while American monetary policies are made to serve domestic macroeconomic objectives, such policies produce global externalities and have strong, often unintended ripple effects far beyond its border.

In addition, the centrality of the US dollar in the current global financial architecture also means that the U.S. government enjoys fewer international structural constraints than any other creditor government (such as Japan or Germany) as it intervenes in economic crisis situations overseas: it has nearly unlimited resources (although it may not have the political will to use any, of course) and is relatively free from concerns about opposition from allies or competitors. Japan, on the other hand, had to be mindful of American attitudes in its intervention during the Asian Financial Crisis and walk the fine line between sustaining regional cooperation in East and Southeast Asia and not overstepping its supplementary role to US leadership in the region.

In general, creditor government intervention in sovereign debt crises is both made possible by and reflects the contour of the existing international financial architecture. Sovereign borrowing is not only a market behavior, but also a political one, and the international financial system gives rise to incentives and constraints faced by both state actors and private ones. In this system, the dollar has a powerful and unique command, and the analysis of creditor government behavior shows a greater latitude for the U.S. government to intervene.

7.2.5 Toward a sovereign debt restructuring mechanism (SDRM)?

The sovereign debt restructuring mechanism (SDRM) is a formal international regulatory mechanism to facilitate sovereign debt restructuring, comparable to domestic bankruptcy laws, and the absence and repeated failure of the international financial community to establish such a mechanism among themselves has long been recognized as a most serious gap in the current international financial architecture. In a seminal paper written by Eric

Helleiner (2008) on why there still isn't an international SDRM and how little progress has been made after so many attempts, he names the "uncertain behavior of the private creditors' home states" as one of the key reasons behind the failures. (The other two reasons he identifies are: collective action problems on both the creditors' and debtors' sides and distributional conflicts that are intrinsic to any debt restructuring effort.) Now that this dissertation has shown that the private creditors' home states aren't so unpredictable after all, at least in terms of how they intervene in foreign sovereign debt default crises, it is reasonable to revisit creditor governments' behavior with regard to the SDRM, since it is so closely related, and can potentially bring fundamental and long-lasting changes, to how sovereign debt defaults are handled and resolved.

As Helleiner points out, the support by creditor governments is necessary for the creation of an international SDRM and its enforcement, and they can play a key role in overcoming the collective action problems on both the side of sovereign debtors and that of private creditors, another key challenge in the establishment of the SDRM. Moreover, creditor governments, through their intervention in the debt restructuring process, already heavily impact the distribution of adjustment cost in sovereign debt crisis resolution, so their preferences will likely play a decisive role in determining the specific details of the SDRM and how distributional conflicts are settled. However, policymakers in the West, especially in the U.S., have been historically fickle on the subject matter, wavering between a unified international bankruptcy law, watered-down alternatives (like collective action or pari passu clauses in sovereign bond contracts), and ad-hoc crisis resolutions from time to time (DeLong and Aggarwal, 2016). The key independent variables in this dissertation, the interest of finance and public sentiment on international spending in the creditor country, can provide helpful lenses into studying creditor government behavior and change on this issue, and may answer the question of why creditor governments are unwilling to consistently support the international SDRM and spearhead the difficult negotiations to establish it.

From another perspective, perhaps the answer is already given, since the direct result

of not having an international SDRM is obvious: its absence gives creditor governments maximum policy space to react to sovereign debt crisis in various ways on a case-by-case basis, change their minds half way through, and pledge new resources to new plans. Anarchy (the lack of formal rules) means that creditor governments have the freedom to device reactions according to their current political and economic conditions, and giving it all up and binding themselves to a set of rules (even rules set by themselves) may be too much to ask.

7.3 FUTURE RESEARCH DIRECTIONS

The findings of this dissertation can inform further research in several directions to explore how the causal relationship between creditor government intervention and domestic finance and public opposition may be applicable in a wider range of state behaviors in international economic relations. First, it renews the utility in studying the relationship between international institutions and their most powerful members (often the creditor governments studied in this dissertation), now that a clearer understanding of creditor government behavior is obtained. Second, creditor government intervention may go beyond sovereign debt crises to other types of financial crisis, although these other crises—banking, currency, or private sector debt—may very well involve additional key players that will seek to influence creditor government behavior. Third, there has been a rising trend of resolving disputes created by sovereign bond defaults through litigation in the jurisdiction where the bonds were originally issued, which are usually the few biggest financial centers in the world—New York, London, Frankfurt, etc. Since litigations invariably take place in creditor countries, examination of litigation and its enforcement mechanism would greatly complement the intervention mechanisms studied in this dissertation. Last but certainly not least, the rise of China as a global provider of capital and lender to sovereign states can potentially pro-

vide new observations on creditor government behavior that may challenge or complement existing understanding. Especially given China's unique state-dominant banking industry and state-led lending activity, its behaviors and causes will contribute a great deal to state intervention in the capital market and the role of the state in the international market in general.

7.3.1 Creditor government and international institutions

An accurate understanding of creditor government intention is the prerequisite for understanding how creditor governments go about to achieve what they want through multilateral institutions, a key theme in the study of international organization. This dissertation has provided this prerequisite, and a logical next step is to dive deeper into the specific tools that the creditor government wields to influence the debtor country and crisis resolution outcomes. This dissertation briefly probes material incentives and moral suasion in anecdotal cases, but a more systematic and scientific analysis is certainly worth conducting. Among many tools, a key mechanism for creditor government to carry out their mission is through international institutions, especially the IMF in the case of financial crisis resolution, which in itself is a topic of great interest to many researchers. The interaction between creditor governments and the IMF (and international organizations at large) will surely generate many more interesting insights.

The current understanding of the relationship between international institutions and their most powerful members range between the very realist argument that international organizations are simply tools (empty vessels) of the powerful states to the more constructivist, sociology-inspired, and more nuanced contention that these organizations have internal principles, objectives, processes, and, in short, agency. But now that we know that powerful states' intentions, at least during sovereign debt restructuring, vary from case to case, it brings new lights into the study on what motivates and determines the actions of

international institutions during these same events. For example, if international institutions always act in the same way, there must be forces, which are consistent and likely endogeneous to the institutions, behind their actions beyond the wish of powerful member states, which changes from case to case. On the other hand, if international institutions also vary in their reactions to sovereign debt crises, it would be interesting to study how the variation correlates to the intention of major states and whether there exists a strong causal relationship.

There are many questions to be asked about the relationship between creditor governments and international organizations: do international institutions always, or sometimes, reflect the preferences of creditor governments? What causes international bodies to serve and support the preferences of creditor governments, and to what extent? How do creditor governments intervene in foreign sovereign debt crises through international institutions, what tools, leverages, and mechanisms do they rely on, and what impacts the ability of creditor governments to influence international finance through influencing international organizations?

7.3.2 Beyond sovereign debt crises

The political dynamics between the debtor and creditor states is featured in this dissertation naturally because the state is at the center of a sovereign debt crisis—it is a government that has borrowed abroad and become unwilling to pay. However, it is possible, even quite likely, that such dynamics can exist during crises that do not revolve around sovereign debt default. Other types of economic crisis—banking, financial, currency—also inevitably involve the state in the crisis country, which often must do something to help out, even if the crisis stems entirely from the private economy. As explained in the introductory chapter, a sovereign debt default crisis can be a result of unwise spending, fiscal imprudence, or bad economic policies, but it can also be triggered by external events that completely out of the

control of the debtor state government (such as international interest rate fluctuation, contagion from neighboring countries, or economic earthquakes in the private sector). In fact, it is not unusual that a government makes the difficult decision to bailout its private sector, only to cause international confidence in the government's solvency to plummet, triggering capital flight, currency value collapse, and a crisis in the public sector. The private and public sectors become inevitably intertwined during severe economic crisis. Public guarantees on private debt practically socializes the debt and debt-servicing burden in the debtor country. Moreover, although fiscal austerity focuses on the national government's balance sheet, government spending, as well as other pro-market reforms, has a direct impact on national economies and investment and growth (which IMF-style structural reforms are supposedly designed to boost, although a large volume of existing evaluations show they do quite the opposite (Dreher, 2006; Hutchison and Noy, 2003; Przeworski and Vreeland, 2000)).

This dissertation covers sovereign debt default crises regardless of how the crisis is triggered, whether the root cause is mainly internal or external, which actors are to blame, and whether the catalyst is an exogenous shock or misconduct by state or private actors. It appears that once a sovereign borrower is on the verge of default, the same process of decision making occurs for creditor governments and private actors who seek to influence their behavior. However, of course not all economic crises are sovereign debt crises, but it is possible that the same factors explored here can have similar effects when there is an ongoing foreign economic crisis that does not directly involve sovereign debt default. For example, when the near-default borrowers are not foreign governments but in the private sector, private creditors that have large exposure to companies and residents in a foreign country may still appeal to their home governments to intervene on their behalf. So how well does the theory presented in this dissertation travel to other types of economic crisis? How does the power of finance and public sentiment in the creditor country impact creditor government intervention in banking, currency, or financial crisis, or even the failure a specific sector in a foreign country? In addition, how do business groups other than finance

and other social groups react to foreign economic crises, and how do they impact creditor government decision making? These are questions worth asking in the future and this dissertation presents a set of lenses to start probing them.

7.3.3 The Rise of Litigation in Sovereign Debt Default Resolution

A basic tenet that underlies scholarly understanding of sovereign debt is that the debt contract is intrinsically unenforceable, because there is no legal codes that apply across jurisdictions in the anarchic international system where states are fundamentally independent and enjoy sovereign immunity, meaning that states cannot be sued or forced to comply to legal decisions made in foreign courts without their own consent, depriving private entities any legal remedies to enforce contracts with foreign states. However, since the 1990s, the protection by sovereign immunity started to decline, and private creditors started to sue debtor states for full repayment, marking what is called a "hold-out" problem (Hornbeck, 2013). A hold-out creditor is one who refuses to accept the new, renegotiated debt restructuring agreements and instead sues in legal courts to demand enforcement of the original debt contract (i.e. full repayment of principal and interest). Because holdout investors refuse to sign onto the restructured debt agreement negotiated between other investors and the debtor country, the phenomenon accentuates the intra-creditor collective action problem in crisis resolution, on top of the traditional creditor-debtor distributional conflicts, making debt restructuring harder to achieve and implement.

Although not all holdout investors who sued obtained more favorable results than other creditors, the birth of the secondary market for sovereign debt and the arrival of distressed debt buyers (aka "vulture funds") on the scene gave rise to several famous legal victories of these vulture funds that purchased near-default sovereign debt with deep discounts and sued in court to demand full repayment (Schumacher et al., 2021). Elliot Associates, for example, successfully sued Peru to repay its non-performing debt prior to the Brady deal in

both American and European courts, eventually obtaining favorable decisions from appeal courts in both New York and Brussels in 2000[10].

Since the Elliot v. Banco de la Nación (Peru) case, many hedge funds have copied the strategy (including Elliot Associates itself) in suing sovereigns to repay their debt and won settlements that were far superior to other creditors, most recently in 2016 against Argentina. In the meantime, efforts to curb the use of litigation emerged, first when the IMF proposed a universal sovereign debt restructuring mechanism and then when it was replaced by a less comprehensive measure of adding collective action clauses to bonds issued in the jurisdiction of New York, which specified a threshold of creditor participation for restructuring and essentially blocked non-participating creditors from suing.

Since the litigations are brought in courts in jurisdictions where bonds were issued—mostly New York, London, Frankfurt, Brussels, etc—these actions inevitably involve the creditor governments, both their legal system (which is supposedly independent from other government branches) and other political offices that might influence the outcome of lawsuits. For example, the US government frequently filed briefs for creditors' lawsuits and has provided divergent, and even outright opposite, arguments for different cases. In Allied Bank International v. Banco Credito Agricola de Cartago (Costa Rica), the US government refuted debtor country's arguments and called the restructuring an "attempted unilateral restructuring", while in Elliot v. Banco de la Nación (Peru), it urged the court to reject the Elliots' demand for full debt payment on the grounds that "holdouts that had purchased debt in the secondary market should not be allowed to take a free ride on debt workouts agreed by a majority of creditor" (Panizza et al., 2009).

So it appears that these legal battles reflect as much about strategic choices of private investors as about the political environment in creditor countries. Litigation provides an im-

[10]See *Elliot Associates, LP v Banco de la Nacion and The Republic of Peru*, 194 F.3d 363 (2nd Cir. 1999), where Elliot sued for full repayment in New York. The court's judgment made Peru unable to pay other creditors, under a pari passu clause, with its funds in NY. Peru then transferred funds to Belgium to pay EU creditors, but Elliot sued in Brussels and was granted a restraining order. See Brussels Court of Appeals, *Elliot Associates, LP v Republic of Peru* General Docker No 2000/QR/92 (2000). Peru eventually had to pay Elliot in full. For more detailed information and legal discussions, see Waibel (2007) and Martínez (2022)

portant channel for creditor government intervention—in their own courts, therefore warranting deeper and more systematic analysis. What does the rise of litigation suggest about the power of creditor governments to influence sovereign debt restructuring outcomes, and what does litigation as a strategy for hold-out investors reveal about the domestic channels for private actors to obtain favorable outcomes? For one thing, the success of litigation is predicated on the centrality of a few Western cities (New York and London, mostly) in the international financial system. The enforcement mechanism of these courts' decisions also rests not on the courts' ability to directly affect the debtor country, but its ability to affect banks who work with the debtor country, a power that can prove to be extremely effective (e.g. when Argentina was forced to default on its external bonds in 2014, not because it wished to but because no bank was able to disburse payments on its behalf because of the court rulings by a New York judge (Hornbeck, 2013; O'Brien, 2014; Vuletin, 2014)). Moreover, does litigation mirror any part of the structural or instrumental influence of finance on creditor governments? How is the litigation strategy different from traditional strategies adopted by finance to influence political actors? And since litigation is a strategy often adopted by smaller, more risk-acceptant hedge funds, as opposed to bigger, more established, and more strictly regulated international banks, does it indicate a divergence of interest within finance?

7.3.4 What about China?

As in any discussion of contemporary topics in international political economy, China is a rising force to be reckoned with and, more often than not, a distinctive case. China's behavior and the motivations behind its behaviors are often so different, opaque, surprising, and yet sometimes remarkably internally consistent and therefore predictable, resulting in its frequent appearance in books and articles as the outlier state. With regard to lending to foreign governments, China appears to be distinctive in several ways: to begin with,

China's state-dominant banking industry results in a highly state-driven international lending practice, so that there is virtually no private Chinese creditor with a large debt portfolio overseas, a key reason why China is left out in the case studies in this dissertation, since the dissertation focuses on sovereign borrowing from the private market and creditor government intervention in the private market, not official lending. Moreover, the Chinese government does not, and has not shown the inclination to become a member of the Paris Club (an informal group of central bankers from creditor countries to collectively work out debt rescheduling programs for distressed sovereign debtors) or coordinate with it, highlighting a lack of collective action mechanism between China and other creditors, both official and private (Bon and Cheng, 2021). In fact, China has demonstrated a preference for negotiating debt relief bilaterally, as clauses in many of its loan contracts suggest (the Economist, 2022).

Overall, compared to China's preeminent status in world trade and its rising military capacity, Chinese role in global finance remains poorly understood. However, the sheer size of Chinese lending overseas, as well as the opacity of its lending and debt relief process, means that there could be significant consequences of Chinese lending and debt restructuring to debtor countries, international private creditors, and creditor governments alike. First, Chinese loans, especially since they are unreported in most international data bases (since China is not a member of the OECD, Paris Club, or the BIS), are generally less well documented, their conditions less understood, and renegotiation process less transparent. All of these qualities can seriously hamper accurate evaluation of debtor countries' debt servicing burden and debt sustainability level. Second, because debt restructuring requires collective action by creditors, the lack of coordination between private creditors and their home governments and China can severely aggravate concerns of free riding and intra-creditor inequality and therefore alter the incentive structure of creditors during the debt restructuring negotiation. Besides, Chinese official loans provide an alternative to IMF and creditor government bilateral finance and may not have the same conditionality attached

(Horn et al., 2021), weakening the ability of creditor governments to impose pro-market reforms on debtor country and the effectiveness of creditor government intervention overall.

For all of the reasons above, it is possible that Chinese lending behavior can become a factor that would potentially alter the creditor government interventions studied in this dissertation, both by weakening the creditor government's leverage vis-à-vis debtor countries (and hence its ability to influence debtor country behavior) and by reducing the impact of creditor government-led debt restructuring deals on a debtor country's overall debt level. One key question on Chinese lending behavior is whether it will change with time, especially now that it is facing increasingly larger arrears and complicated restructuring negotiations from its lending in low- and middle-income countries, as exemplified by its recent troubles in collecting official debt from Sri Lanka and Pakistan (Ghoshal and Jayasinghe, 2023). While China could certainly benefit from more collective action with other creditors and the IMF in containing the fallout from nonperforming loans, doing so may also jeopardize the geo-strategic purposes, the fundamental logic behind many of its Belt-and-Road initiative projects, behind Chinese overseas investment. So will more arrears and the necessity to restructure make China more willing to coordinate (or at least communicate) with Western creditors, share more loan information (which is a key function of the Paris Club but China so far has seemed to prefer to keep loan terms secret), or will China continue on the path of shunning the Paris Club in favor of bilateral negotiation? If China becomes more In the meantime, it is equally worth investigating how the West is to respond to rising Chinese influence, how it understands the effect of China's growing international lending, and how Western governments deal with potential concerns over Chinese free riding on Paris Club debt relief and Chinese alternatives to IMF bail-out and structural adjustment programs. In the end, sovereign borrowing and lending, just like every other issue area in international political economy, has to come up with its answer to the ultimately question about China—the question of whether it can be integrated into the existing liberal world

order or that its rise means the birth of a new world order, whose creation will inevitably shatter the old one.

References

101st Congress (1989). "international economic issues, and their impact on the U.S. financial system, hearings before the committee on banking, finance, and urban affairs committee, house of representatives, 101st congress, january 4 & 5, 1989". Accessed Jun. 30, 2022.

97th Congress (1984). "the argentinian debt : hearing before the subcommittee on international finance and monetary policy of the committee on banking, housing, and urban affairs, united states senate, on details and implications of u.s. government involvement in both the argentinian and the larger latin american debt crises, may 3, 1984". Accessed 06/30/2022.

98th Congress (1983). "international debt, hearings before the subcommittee on international finance and monetary policy of the senate banking, housing, and urban affairs committee, 98th congress, february 14, 15, 17, 1983". Accessed Jun. 30, 2022.

99th Congress (1986). "economic summit, latin debt, and the baker plan, hearings before the committee on foreign relations, united states senate, 99th congress, may 20, 1986". Accessed Jun. 30, 2022.

Aguiar, M. and G. Gopinath (2006). Defaultable debt, interest rates and the current account. *Journal of international Economics 69*(1), 64–83.

Aldrich, J. H., C. Gelpi, P. Feaver, J. Reifler, and K. T. Sharp (2006). Foreign policy and the electoral connection. *Annu. Rev. Polit. Sci. 9*, 477–502.

Alessandro, M., G. Sandleris, A. Van Der Ghote, et al. (2011). Sovereign defaults and the political economy of market re-access. *Universidad Torcuato Di Tella Working Paper* (08).

Almond, G. A. (1950). *The American people and foreign policy.* Harcourt, Brace.

Altamura, C. E. and J. F. Zendejas (2020). Politics, international banking, and the debt crisis of 1982. *Business History Review 94*(4), 753–778.

Andrew Whitley (1985, Nov 25). Brazil admits wasting borrowings / planning ministry official confirms foreign debt increased by wastage on ill-conceived projects. *Financial Times*. URL = https://global.factiva.com/redir/default.aspxP=saan=FTFT000020070506dhbp00d6ncat=aep=ASE [Accessed 10-02-2022].

Angrist, J. D. and J.-S. Pischke (2009). *Mostly harmless econometrics: An empiricist's companion*. Princeton university press.

Arellano, C. (2008). Default risk and income fluctuations in emerging economies. *American economic review 98*(3), 690–712.

Arteta, C. and G. Hale (2008). Sovereign debt crises and credit to the private sector. *Journal of international Economics 74*(1), 53–69.

Asonuma, T. and H. Joo (2020). Sovereign debt restructurings: Delays in renegotiations and risk averse creditors. *Journal of the European Economic Association 18*(5), 2394–2440.

Avant, D. D., M. Finnemore, and S. K. Sell (2010). *Who governs the globe?*, Volume 114. Cambridge University Press.

Baker, A. (2010). Restraining regulatory capture? anglo-america, crisis politics and trajectories of change in global financial governance. *International Affairs 86*(3), 647–663.

Baldwin, D. A. (1985). *Economic Statecraft: New Edition*. Princeton University Press.

Ballard-Rosa, C. (2016). Hungry for change: Urban bias and autocratic sovereign default. *International Organization 70*(2), 313–346.

Barnett, M. N. and M. Finnemore (1999). The politics, power, and pathologies of international organizations. *International organization 53*(4), 699–732.

Bases, D. (2014, Jul 29). Argentine debt defiance may strengthen holdouts' legal position. *Reuters*. https://www.reuters.com/article/us-argentina-debt-holdouts/argentine-debt-defiance-may-strengthen-holdouts-legal-position-idUKKBN0FY0JR20140729 [Accessed 08-18-2022].

Baum, M. A. (2004). Going private: Public opinion, presidential rhetoric, and the domestic politics of audience costs in us foreign policy crises. *Journal of Conflict Resolution 48*(5), 603–631.

Baum, M. A. and P. B. Potter (2008). The relationships between mass media, public opinion, and foreign policy: Toward a theoretical synthesis. *Annual Review of Political Science 11*(1), 39–65.

BBC (1999, May 12). Robert rubin, the man wall street trusts. *BBC News Online, Business: the Economy*. http://news.bbc.co.uk/2/hi/business/342086.stm [Accessed 08-17-2022].

BBC (2010, Dec 10). Iceland agrees icesave deal with uk and netherlands. *BBC News*. URL=https://www.bbc.com/news/business-11962885 [Accessed 01-05-2023].

BBC (2016, Feb 3). Argentina agrees to pay italian holdout creditors. *BBC News Online*. https://www.bbc.com/news/world-latin-america-35479954 [Accessed 2022-08-18].

Beaulieu, E., G. W. Cox, and S. Saiegh (2012). Sovereign debt and regime type: Reconsidering the democratic advantage. *International Organization 66*(4), 709–738.

Bechtel, M. M., J. Hainmueller, and Y. Margalit (2014). Preferences for international redistribution: The divide over the eurozone bailouts. *American Journal of Political Science 58*(4), 835–856.

Bell, S. and A. Hindmoor (2015). Masters of the universe but slaves of the market: Bankers and the great financial meltdown. *The British Journal of Politics and International Relations 17*(1), 1–22.

Bernal, O., K. Oosterlinck, and A. Szafarz (2010). Observing bailout expectations during a total eclipse of the sun. *Journal of international money and finance 29*(7), 1193–1205.

Berthélemy, J.-C. and R. Lensink (1992, May). An assessment of the brady plan agreements. *Research programme on: Financial Policies for the Global Dissemination of Economic Growth 101*(92), 1–46.

BID/IRELA (1998). *Inversión extranjera directa en América Latina: la perspectiva de los principales inversores, Rumagraf (Foreign Direct Investment in Latin America: The perspective of the main investors)*. Inter-American Development Bank.

Bivens, J. (2016). Why is recovery taking so long—and who's to blame? *Economic Policy Institute*.

Blackmon, P. (2014). Determinants of developing country debt: the revolving door of debt rescheduling through the paris club and export credits. *Third World Quarterly 35*(8), 1423–1440.

Blackmon, P. (2017). *The political economy of trade finance: Export credit agencies, the Paris club and the IMF*. Routledge.

Blackwill, R. D. and J. M. Harris (2016). *War by Other Means: Geoeconomics and Statecraft*. Harvard University Press.

Blanchard, J.-M. F., E. D. Mansfield, and N. M. Ripsman (1999). The political economy of national security: Economic statecraft, interdependence, and international conflict. *Security Studies 9*(1-2), 1–14.

Blyth, M. (2013). Paradigms and paradox: The politics of economic ideas in two moments of crisis. *Governance 26*(2), 197–215.

Bogdanowicz-Bindert, C. A. (1986). The debt crisis: The baker plan revisited. *Journal of Interamerican Studies and World Affairs 28*(3), 33–45.

Bon, G. and G. Cheng (2021). Understanding china's role in recent debt relief operations: A case study analysis. *International Economics 166*, 23–41.

Bradsher, K. (1994, Dec 23). Crisis in mexico: Washington; political perils showing in free trade accord. *The New York Times*. https://www.nytimes.com/1994/12/23/business/crisis-in-mexico-washington-political-perils-showing-in-free-trade-accord.html [Accessed 08-18-2022].

Bradsher, K. (1995, Mar 2). House votes to request clinton data on mexico. *The New York Times*. https://www.nytimes.com/1995/03/02/business/house-votes-to-request-clinton-data-on-mexico.html [Accessed 08-18-2022].

Bratsiotis, G. J. and W. Robinson (2004). Economic fundamentals and self-fulfilling crises: further evidence from mexico. *Journal of International Money and Finance 23*(4), 595–613.

Braun, M. and C. Raddatz (2010). Banking on politics. *World Bank Economic Review 24*(2), 234–279.

Brooks, S. (2020). What finance wants: explaining change in private regulatory preferences toward sovereign debt restructuring. *Review of International Political Economy 0*(0), 1–24.

Brooks, S., D. Lombardi, and E. S. Suruma (2014). *African perspectives on sovereign debt restructuring*. Centre for International Governance Innovation.

Brooks, S. M., R. Cunha, and L. Mosley (2015). Categories, creditworthiness, and contagion: how investors' shortcuts affect sovereign debt markets. *International studies quarterly 59*(3), 587–601.

Broz, J. L. and M. B. Hawes (2006). Congressional politics of financing the international monetary fund. *International Organization 60*(2), 367–399.

Bröcker, M. and F. Vollmer (2010, May). Griechenland entscheidet diewahl: Umfragen zeigen kopf-an-kopf-rennen" [greece is decisive for the election: Surveys show neck-and-neck race]. *RP Online*. url = http://www.rp-online.de/nrw/landespolitik/griechenland-entscheidet-die-wahl-aid-1.877336. [Accessed 12-30-2022].

Buckley, R. P. (2009). The bankruptcy of nations: an idea whose time has come. *Int'l Law. 43*, 1189.

Bunte, J. B. (2018). Sovereign lending after debt relief. *Review of International Political Economy 25*(3), 317–339.

Cabré, M. M., K. P. Gallagher, and Z. Li (2018). Renewable energy: the trillion dollar opportunity for chinese overseas investment. *China & World Economy 26*(6), 27–49.

Cain, P. (1985). J. a. hobson, financial capitalism and imperialism in late victorian and edwardian england. *The Journal of Imperial and Commonwealth History 13*(3), 1–27.

Calomiris, C. W. (2007). Bank failures in theory and history: the great depression and other" contagious" events.

Camerer, C. F. (2011). *Behavioral game theory: Experiments in strategic interaction*. Princeton university press.

Cameron, M. and B. Tomlin (2000). *The Making of NAFTA: How the Deal was Done*. Cornell University Press.

Canes-Wrone, B. (2010). *Who leads whom?: presidents, policy, and the public*. University of Chicago Press.

Carr, E. H. (1939). *The twenty years' crisis, 1919-1939: Reissued with a new introduction*. Springer.

CBS/NYT (1989). CBS News/The New York Times Poll: May 1989, Question 25, USCBSNYT.051589.R25. Cornell University, Ithaca, NY: Roper Center for Public Opinion Research, Dataset.

Champion, G. (1983, Jan 11). Foreign debts: A proposal for u.s. banks. Copyright - Copyright Dow Jones Company Inc Jan 11, 1983; Last updated - 2022-04-16.

Chaudoin, S., H. V. Milner, and X. Pang (2015). International systems and domestic politics: Linking complex interactions with empirical models in international relations. *International Organization 69*(2), 275–309.

Cheng, G., J. Diaz-Cassou, and A. Erce (2018). Official debt restructurings and development. *World Development 111*, 181–195.

Chowdhury, A. R. (1993). Political surfing over economic waves: parliamentary election timing in india. *American Journal of Political Science*, 1100–1118.

Christensen, T. J. (1996). *Useful adversaries: Grand strategy, domestic mobilization, and Sino-American conflict, 1947-1958*, Volume 179. Princeton University Press.

Claessens, M. S. and M. A. Kose (2013). Financial crises explanations, types, and implications.

Clark, J. et al. (1993). Debt reduction and market reentry under the brady plan. *Federal Reserve Bank of New York Quarterly Review 18*(4), 38–62.

Cline, W. (1995). How one big battle was won. *The Economist (London) 334*(7902), 23–25.

Cline, W. R. (1989). "the baker plan progress, shortcomings, and future". Accessed Jun. 30, 2022.

Cline, W. R. et al. (1995). International debt reexamined. *Peterson Institute Press: All Books*.

Clinton, William J. (1995, Jan 12). Statement with Congressional Leaders on the Economic Situation in Mexico. *Office of the Federal Register, National Archives and Records Service*.

CNN/USA Today (1994). Gallup/CNN/USA Today Poll: Health Care Reform/Crime, Question 18, USGALLUP.94AGW2.R05. Gallup Organization, Cornell University, Ithaca, NY: Roper Center for Public Opinion Research, Dataset.

Cohen, B. J. (2017). *International political economy*. Routledge.

Cohen, B. J. et al. (1997). The financial support fund of the oecd: A failed initiative. Technical report, International Economics Section, Departement of Economics Princeton University,.

Cole, H. L. and T. J. Kehoe (1996). A self-fulfilling model of mexico's 1994–1995 debt crisis. *Journal of International Economics 41*(3), 309–330. Symposium on Mexico.

Committee", S. C. (1977). 1977 church committee report.

Congressional Research Service (2017, Oct 13). Government assistance for aig: Summary and cost. *CRS Report R42953*. https://sgp.fas.org/crs/misc/R42953.pdf [Accessed 12-05-2022].

Congressional Research Service (2019, May 31). Fannie mae and freddie mac in conservatorship: Frequently asked questions. *CRS Report R44525*. https://sgp.fas.org/crs/misc/R44525.pdf [Accessed 12-05-2022].

Copelovitch, M. (2010). *The International Monetary Fund in the Global Economy: Banks, Bonds, and Bailouts*. Cambridge University Press.

Crawford, V. P. (1987). *International lending, long-term credit relationships, and dynamic contract theory*. International Finance Section, Department of Economics, Princeton University.

Cruces, J. J. and C. Trebesch (2013). Sovereign defaults: The price of haircuts. *American economic Journal: macroeconomics 5*(3), 85–117.

Culpepper, P. D. (2010). *Quiet politics and business power: Corporate control in Europe and Japan*. Cambridge University Press.

Culpepper, P. D. and R. Reinke (2014). Structural power and bank bailouts in the united kingdom and the united states. *Politics & Society 42*(4), 427–454.

Curtis, K. A., J. Jupille, and D. Leblang (2014). Iceland on the rocks: The mass political economy of sovereign debt resettlement. *International Organization 68*(3), 721–740.

Dani, R. and M. McMillan (2011). Globalization, structural change and productivity growth. *National Bureau of Economic Research Cambridge, Mass., USA*.

Davidson, K. and I. Talley (2021, Aug 17). U.s. halted dollar shipments to afghanistan to keep cash out of taliban's hands. *the Wall Street Jounal*. https://www.wsj.com/articles/u-s-halted-dollar-shipments-to-afghanistan-to-keep-cash-out-of-talibans-hands-11629233621 [Accessed 2022-09-15].

de Larosière, J. (2018). *50 Years of Financial Crises*. Odile Jacob.

DeLong, C. and N. Aggarwal (2016, 01). Strengthening the contractual framework for sovereign debt restructuring—the IMF's perspective. *Capital Markets Law Journal 11*(1), 25–37.

Democratic Leadership Council (2001). Democratic Leadership Council Poll: November 2001, Question 2, USPENN.02DLCJF.R007. Penn, Schoen Berland Associates, Cornell University, Ithaca, NY: Roper Center for Public Opinion Research, Dataset.

Devereaux, C., R. Z. Lawrence, and M. D. Watkins (2006). *Case Studies in US Trade Negotiation Volume 1: Making the Rules*. Columbia University Press.

Dornbusch, R., A. Werner, G. Calvo, and S. Fischer (1994). Mexico: stabilization, reform, and no growth. *Brookings papers on economic activity 1994*(1), 253–315.

Doyle, M. W. (1986). Liberalism and world politics. *American political science review 80*(4), 1151–1169.

Drago, L. M. and H. E. Nettles (1928). The drago doctrine in international law and politics. *The Hispanic American Historical Review 8*(2), 204–223.

Dreher, A. (2006). Imf and economic growth: The effects of programs, loans, and compliance with conditionality. *World Development 34*(5), 769–788.

Dreiling, M. C. and D. Y. Darves (2016). *Agents of neoliberal globalization: Corporate networks, state structures, and trade policy*. Cambridge University Press.

Dvorkin, M., J. M. Sánchez, H. Sapriza, and E. Yurdagul (2021, April). Sovereign debt restructurings. *American Economic Journal: Macroeconomics 13*(2), 26–77.

Eaton, J. and M. Gersovitz (1981). Debt with potential repudiation: Theoretical and empirical analysis. *The Review of Economic Studies 48*(2), 289–309.

Edelstein, M. (1982). *Overseas investment in the age of high imperialism: the United Kingdom, 1850-1914*. Taylor & Francis.

Égert, B. (2010). Fiscal policy reaction to the cycle in the oecd: Pro-or counter-cyclical?

Eichengreen, B. (1991). Historical research on international lending and debt. *Journal of Economic Perspectives 5*(2), 149–169.

Enderlein, H., L. Müller, and C. Trebesch (2011). Democracies default differently: regime type and sovereign debt crisis resolution. *Unpublished manuscript, Hertie Sch. Gov., Berlin*.

Farnsworth, C. H. (1983a, Feb). I.m.f. near accord on quota rise. *The New York Times*, 1. Accessed Jun. 30, 2022.

Farnsworth, C. H. (1983b, Feb). More rules for banks proposed. *The New York Times*, 1. Accessed Jun. 30, 2022.

Fatás, A. and I. Mihov (2009). Why fiscal stimulus is likely to work. *International Finance 12*(1), 57–73.

FDIC (1997). *History of the Eighties–lessons for the Future: An examination of the banking crises of the 1980s and early 1990s*, Volume 1. Federal Deposit Insurance Corporation.

Finnemore, M. (2004). *The Purpose of Intervention: Changing Beliefs about the Use of Force*. Cornell Studies in Security Affairs. Manas Publications.

Fishlow, A. (1992). Conditionality and willingness to pay: Some parallels from the 1890s. In B. Eichengreen and P. H. Lindert (Eds.), *The international debt crisis in historical perspective*. MIT press.

Forster, T., A. E. Kentikelenis, B. Reinsberg, T. H. Stubbs, and L. P. King (2019). How structural adjustment programs affect inequality: A disaggregated analysis of imf conditionality, 1980–2014. *Social science research 80*, 83–113.

Fox News (2001). Fox News Poll: December 2001, Question 26, USODFOX.121401.R29. Opinion Dynamics, Cornell University, Ithaca, NY: Roper Center for Public Opinion Research, Dataset.

Frieden, J. A. (1994). International investment and colonial control: A new interpretation. *International Organization 48*(4), 559–593.

Gagnon Jr, V. P. (1994). Ethnic nationalism and international conflict: The case of serbia. *International security 19*(3), 130–166.

Gallagher, K. P. (2013). *THE NEW VULTURE CULTURE: SOVEREIGN DEBT RESTRUCTURING AND INTERNATIONAL INVESTMENT RULES*, pp. 41–62. Anthem Press.

Gallop (2002, Feb 15). Americans' perceptions: World affairs. *Gallup News*. https://news.gallup.com/poll/9907/americans-perceptions-world-affairs.aspx [Accessed 2022-09-15].

Gallup Organization (1948). Gallup Poll 1948-0411: 1948 Presidential Election/Laws Governing Labor Unions, Question 39, USGALLUP.411.QT03D. Cornell University, Ithaca, NY: Roper Center for Public Opinion Research, Dataset.

Gallup/UBS (2001). Gallup/UBS Poll: December, 2001 US Investor Optimism Index, Question 24, USGALLUP.01UBSDC.R174A. Gallup Organization, Cornell University, Ithaca, NY: Roper Center for Public Opinion Research, Dataset.

GAO (1996). *Mexico's financial crisis: Origins, awareness, assistance, and initial efforts to recover*. US General Accounting Office, Washington D.C.

Gelpern, A. and M. Gulati (2006). Public symbol in private contract: A case study. *Wash. UL Rev. 84*, 1627.

Genschel, P. (2002). Globalization, tax competition, and the welfare state. *Politics & Society 30*(2), 245–275.

Ghoshal, D. and U. Jayasinghe (2023, January 24). China's exim bank offers sri lanka debt extension letter. *Reuters*. url = https://www.reuters.com/markets/asia/chinas-exim-bank-offers-sri-lanka-debt-extension-letter-2023-01-24/ [Accessed 02-22-2023].

Goldman, M. W., J. J. Tallaksen, M. C. McClintock, and R. J. Wolkowitz (1994). An introduction to direct foreign investment in mexico. *Ind. Int'l & Comp. L. Rev. 5*, 101.

Gowa, J. and E. D. Mansfield (1993). Power politics and international trade. *American political science review 87*(2), 408–420.

Green, M. (2001). *Japan's reluctant realism: Foreign policy challenges in an era of uncertain power*. Springer.

Greenspan, A. (2007). *The age of turbulence: adventures in a new world*. HeinOnline.

Gurría, J. Á. (1993). *La política de la deuda externa*.

Guzman, M. (2020). An analysis of argentina's 2001 default resolution. *Comparative Economic Studies 62*(4), 701–738.

Guzman, M., J. Ocampo, and J. Stiglitz (2016). *Too Little, Too Late: The Quest to Resolve Sovereign Debt Crises*. Initiative for Policy Dialogue at Columbia: Challenges in Development and Globalization. Columbia University Press.

Haber, S. (2005). Mexico's experiments with bank privatization and liberalization, 1991–2003. *Journal of Banking & Finance 29*(8-9), 2325–2353.

Hacker, J. S. and P. Pierson (2002). Business power and social policy: Employers and the formation of the american welfare state. *Politics & Society 30*(2), 277–325.

Hacker, J. S. and P. Pierson (2010). *Winner-take-all politics: How Washington made the rich richer–and turned its back on the middle class*. Simon and Schuster.

Hakim, P. (2001, Aug 30). U.s. passivity in argentine crisis sends a bad signal. *The Christian Science Monitor*. URL = https://www.csmonitor.com/2001/0830/p9s2-coop.html [Accessed 08-18-2022].

Harris Interactive (2001). Harris Interactive Poll: December 2001, Question 7, USHARRIS.122201.R3. Cornell University, Ithaca, NY: Roper Center for Public Opinion Research, Dataset.

Heinrich, T., Y. Kobayashi, and K. A. Bryant (2016). Public opinion and foreign aid cuts in economic crises. *World Development 77*, 66–79.

Helleiner, E. (2005). The strange story of bush and the argentine debt crisis. *Third World Quarterly 26*(6), 951–969.

Helleiner, E. (2008, 03). The Mystery of the Missing Sovereign Debt Restructuring Mechanism. *Contributions to Political Economy 27*(1), 91–113.

Helleiner, E. and S. Pagliari (2011). The end of an era in international financial regulation? a postcrisis research agenda. *International Organization 65*(1), 169–200.

Henning, C. R. et al. (1999). *The exchange stabilization fund: slush money or war chest?* Peterson Institute.

Herman, B., J. A. Ocampo, and S. Spiegel (2010). *Overcoming developing country debt crises*. OUP Oxford.

Holmström, B. and J. Tirole (1998). Private and public supply of liquidity. *Journal of Political Economy 106*(1), 1–40.

Holsti, O. R. (2004). *Public opinion and American foreign policy*. University of Michigan Press.

Honaker, J. and G. King (2010). What to do about missing values in time-series cross-section data. *American journal of political science 54*(2), 561–581.

Hook, G. D., J. Gilson, C. W. Hughes, and H. Dobson (2002). Japan and the east asian financial crisis: patterns, motivations and instrumentalisation of japanese regional economic diplomacy. *European Journal of East Asian Studies*, 177–197.

Horn, S., C. M. Reinhart, and C. Trebesch (2021). China's overseas lending. *Journal of International Economics 133*, 103539.

Hornbeck, J. F. (2013). Argentina's defaulted sovereign debt: Dealing with the" holdouts". Congressional Research Service.

Hufbauer, G. C. and J. J. Schott (2005). Nafta revisited: Achievements and challenges.

Hufbauer, G. C., J. J. Schott, R. Dunnigan, and D. Clark (1993). *NAFTA: An assessment*. Peterson Institute.

Hutchison, M. M. and I. Noy (2003). Macroeconomic effects of imf-sponsored programs in latin america: output costs, program recidivism and the vicious cycle of failed stabilizations. *Journal of International Money and Finance 22*(7), 991–1014.

Igan, D., P. Mishra, and T. Tressel (2012). A fistful of dollars: Lobbying and the financial crisis. *NBER Macroeconomics Annual 26*, 195–230.

IMF (2002, Feb 21). Sovereign debt restructurings and the domestic economy experience in four recent cases. *Policy Development and Review Department, Internationa Monetary Fund*. URL=https://www.imf.org/external/NP/pdr/sdrm/2002/022102.pdf [Accessed 08-18-2022].

IMF (2003, Feb). *Proposed features of a sovereign debt restructuring mechanism*. Policy Papers. Legal Department, I.M.F. and Policy Development and Review Departments, International Monetary Fund.

IMF (2013, June). Greece: Ex post evaluation of exceptional access under the 2010 stand-by arrangement. *IMF Country Report No. 13/156*. url = https://www.imf.org/external/pubs/ft/scr/2013/cr13156.pdf. [Accessed 12-28-2022].

IMF (2015a). "imf country report: Ukraine, march 2015". Accessed Jan. 24, 2022.

IMF (2015b, Oct). Reforming the fund's policy on non-toleration of arrears to official creditors. *IMF Policy Papers*. url = https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Reforming-the-Fund-s-Policy-on-Non-Toleration-of-Arrears-to-Official-Creditors-PP5005. [Accessed 12-28-2022].

IMF (2022). *Reviews of the Fund's Sovereign ARREARS Policies and Perimeter*. Policy Papers. Legal Department, I.M.F. and Monetary and Capital Markets Department, International Monetary Fund. URL=https://books.google.com/books?id=K3lxEAAAQBAJ [Accessed 08-18-2022].

Ito, T. and J. H. Park (1988). Political business cycles in the parliamentary system. *Economics Letters 27*(3), 233–238.

Johnson, S. (2009, Nov 18). Testimony submitted to the congressional oversight panel, hearing on "the overall impact of the troubled asset relief program (tarp) on the health of the financial system and the general u.s. economy,". *Congressional Oversight Panel 3*. http://cybercemetery.unt.edu/archive/cop/20110401231809/ [Accessed 12-05-2022].

Kagel, J. H. and A. E. Roth (2020). *The handbook of experimental economics, volume 2*. Princeton university press.

Kahane, L. H. (1996). Senate voting patterns on the 1991 extension of the fast-track trade procedures: Prelude to nafta. *Public Choice 87*(1/2), 35–53.

Kahler, M. (1985). Politics and international debt: Explaining the crisis. *International Organization 39*(3), 357–382.

Kalaitzake, M. (2017). The political power of finance: The institute of international finance in the greek debt crisis. *Politics & Society 45*(3), 389–413.

Kamlani, D. S. (2008). The four faces of power in sovereign debt restructuring: Explaining bargaining outcomes between debtor states and private creditors since 1870.

Katada, S. N. (1998). The japanese government in two mexican financial crises: An emerging international lender-of-last-resort? *Pacific Affairs 71*(1), 61–79.

Katada, S. N. (2001). Japan and the united states in the asian financial crisis management. In *Banking on stability: Japan and the cross-Pacific dynamics of international financial crisis management*. University of Michigan Press.

Kayser, M. A. (2005). Who surfs, who manipulates? the determinants of opportunistic election timing and electorally motivated economic intervention. *American Political Science Review 99*(1), 17–27.

Keefe, J. R. (2009). Invasion of the invaded: Nafta and the rise of illegal immigration. *Inquiries Journal 1*(10).

Keohane, R. O. (1984). *After hegemony*. Princeton university press.

Kertzer, J. D. and T. Zeitzoff (2017). A bottom-up theory of public opinion about foreign policy. *American Journal of Political Science 61*(3), 543–558.

Keynes, J. M. (1924). Foreign investment and national advantage. *The Nation and Atheneum 35*, 584.

King, G., R. O. Keohane, and S. Verba (2021). *Designing social inquiry: Scientific inference in qualitative research*. Princeton university press.

Kirshner, J. (2007). *Appeasing bankers: Financial caution on the road to war*. Princeton University Press.

Klarevas, L. (2002). The "essential domino" of military operations: American public opinion and the use of force. *International Studies Perspectives 3*(4), 417–437.

Krasner, S. D. (1985). Structural conflict: The third world against global liberalism.

Kraus, J. R. (1997). Citicorp hits middle market in mexico for wider spreads. *American Banker 162*(49), 10.

Krauss, C. (2001, Dec 24). Argentine leaders declares default on billions in debt. *The New York Times*. https://www.nytimes.com/2001/12/24/world/argentine-leader-declares-default-on-billions-in-debt.html [Accessed 2022-08-29].

LA Times (2002, Aug 29). Bush offers argentina greater access to the u.s. import market. *The Los Angeles Times*. https://www.latimes.com/archives/la-xpm-2002-aug-29-fg-argentina29-story.html [Accessed 2022-08-18].

Lall, R. (2012). From failure to failure: The politics of international banking regulation. *Review of International Political Economy 19*(4), 609–638.

Larson, E. V. and B. Savych (2005). *American public support for US military operations from Mogadishu to Baghdad*. Rand Corporation.

Leeds, R. S. (1987). *The 1982 Mexican debt negotiations : response to a financial crisis*. FPI case studies ; no. 4. Washington,D.C.: The Johns Hopkins University. School of Advanced International Studies, Foreign Policy Institute.

Lenin, V. I. (1939). The highest stage of capitalism. *The New Imperialism: Analysis of late Nineteenth-century Expansion*, 29–38.

Li, Z., K. P. Gallagher, and D. L. Mauzerall (2020). China's global power: Estimating chinese foreign direct investment in the electric power sector. *Energy Policy 136*, 111056.

Lieberman, I. W. (1989). *The history of external sovereign debt: the reaction of creditors and debtors to disruption of debt service; an international relations perspective.* Ph. D. thesis, University of Oxford.

Lieberman, I. W. (2018a). Emerging market crises and the mexican crisis, 1994–97. In *In Good Times Prepare for Crisis: From the Great Depression to the Great Recession: Sovereign Debt Crises and Their Resolution*, pp. 197–212. Brookings Institution Press.

Lieberman, I. W. (2018b). *Historical Context: The Export of Capital and Sovereign Debt Crises, 1815–1914*, pp. 11–28. Brookings Institution Press.

Lienau, O. (2014). *Rethinking Sovereign Debt*. Harvard University Press.

Lindblom, C. E. (1982). Politics and markets. *Ethics 92*(4), 720–732.

Lipset, S. M. (1966). The president, the polls, and vietnam. *Trans-action 3*(6), 19–24.

Lipson, C. (1992). International debt and national security: Comparing victorian britain and postwar america. In B. Eichengreen and P. H. Lindert (Eds.), *The international debt crisis in historical perspective*. MIT press.

Liss, J. (2018). The origins, purposes and negotiations of the nafta investment agreements: Implications for renegotiations and integration with china. *Syracuse J. Int'l L. & Com. 46*, 261.

Liss, J. (2019). The political relationship between u.s. multinational corporations and the nafta investment chapter: the case of manufacturing multinationals. *Transnational Corporations Review 11*(1), 7–23.

Long, J. S. (1997). Regression models for categorical and limited dependent variables: Advanced quantitative techniques in the social sciences series.

Lustig, N. (1997). Mexico in crises, the u.s. to the rescue: the financial assistance packages of 1982 and 1995. *UCLA Journal of International Law and Foreign Affairs 2*(1), 25–67.

Lustig, N. et al. (1995). *The Mexican peso crisis: the foreseeable and the surprise*. Number 114. Citeseer.

Lustig, N. C. (2000). *Mexico: The remaking of an economy*. Brookings Institution Press.

Mackey, M. W. (1999). *Report of Michael W. Mackey on the Comprehensive Evaluation of the Operations and Functions of The Fund for the Protection of Bank Savings" FOBAPROA": And Quality of Supervision of the FOBAPROA Program 1995-1998*. The Congress of the Republic of Mexico.

Maiden Lane (2018, Dec). Maiden lane transactions. *Federal Reserve Bank of New York*. https://www.newyorkfed.org/markets/maidenlane.html [Accessed 12-05-2022].

Mander, B. (2016, Feb 2). Argentina to pay italian 'holdout' creditors. *the Financial Times*. URL=https://www.ft.com/content/ee587988-c9e2-11e5-be0b-b7ece4e953a0 [Accessed 01-05-2023].

Mannsberger, J. and J. B. McBride (2007). The privatization of the mexican banking sector in the 1990s: from debacle to disappointment. *International Journal of Emerging Markets*.

Mansfield, E. D. and D. C. Mutz (2013). Us versus them: Mass attitudes toward offshore outsourcing. *World Politics 65*(4), 571–608.

Marichal, C. (1989). *A Century of Debt Crises in Latin America: From Independence to the Great Depression, 1820-1930*. History. Economics. Princeton University Press.

Martínez, M. (2022). *The contractual approach to sovereign debt default and restructuring*. The Global Law Collection. ARANZADI / CIVITAS.

Mastanduno, M., D. A. Lake, and G. J. Ikenberry (1989). Toward a realist theory of state action. *International Studies Quarterly 33*(4), 457–474.

Mayer, J. F. and K. Woodside (2001). Crises of confidence: attitudes of the domestic bankers towards the credit problem in mexico. *Bulletin of Latin American Research 20*(3), 324–341.

McDowell, D. (2016). *Brother, Can You Spare a Billion?: The United States, the IMF, and the International Lender of Last Resort*. Oxford University Press.

Media General/Associated Press (1989). Media General/Associated Press Poll: National Poll 25–Savings and Loans/College Sports/Communism, Question 48, USAPMGEN.24-4.RD08D. Cornell University, Ithaca, NY: Roper Center for Public Opinion Research, Dataset.

Mengle, D. (1992, May). Update: Banks and LDC debt. Morgan Guarantee Trust Co, Economic Research Note.

Meza, F. (2019). The case of mexico. *Macro Finance Research Program, Becker Friedman Institute Working Paper*, 558–563.

Miliband, R. (1969). *The State in Capitalist Society*. New York: Basic Books.

Miller, M. and D. Thomas (2007). Sovereign debt restructuring: the judge, the vultures and creditor rights. *World Economy 30*(10), 1491–1509.

Milner, H. V. (1997). *Interests, institutions, and information: Domestic politics and international relations*. Princeton University Press.

Mitchener, K. J. and M. D. Weidenmier (2010). Supersanctions and sovereign debt repayment. *Journal of International Money and Finance 29*(1), 19–36.

Mosley, L. and D. A. Singer (2009). The global financial crisis: lessons and opportunities for international political economy.

Murillo, J. A. (2002). La banca en méxico: Privatización, crisis y reordenamiento. *Ensayo de Trabajo, Banco de México*.

Musacchio, A. (2012). Mexico's financial crisis of 1994-1995. *Harvard Business School Working Paper 12*(101).

Negrin, J. L. (2001). Mechanisms for sharing credit information: international evidence and the mexican experience. *El Trimestre Económico*, 405–466.

Nelson, R. M. (2009). Essays on the politics of sovereign debt markets.

Neumeyer, P. A. and F. Perri (2005). Business cycles in emerging economies: the role of interest rates. *Journal of monetary Economics 52*(2), 345–380.

Newman, G. and A. Szterenfeld (1993). *Business international's guide to doing business in Mexico*. McGraw-Hill Companies.

Niskanen, W. A. and Cato Institute (Washington) (1988). *Reaganomics: An insider's account of the policies and the people*, Volume 292. Oxford University Press New York.

Norris, J. (2017, Aug 15). Special feature: A history of american public opinion on foreign aid. *Devex*. https://www.devex.com/news/special-feature-a-history-of-american-public-opinion-on-foreign-aid-90732 [Accessed 2022-09-15].

Oatley, T., W. K. Winecoff, A. Pennock, and S. B. Danzman (2013). The political economy of global finance: A network model. *Perspectives on Politics 11*(1), 133–153.

O'Brien, M. (2014, Aug 3). Everything you need to know about argentina's weird default. *The Washington Post*. URL=https://www.washingtonpost.com/news/wonk/wp/2014/08/03/everything-you-need-to-know-about-argentinas-weird-default/ [Accessed 01-10-2023].

Ostrom, E. (2010). Analyzing collective action. *Agricultural economics 41*, 155–166.

Palma, G. (1998, 11). Three and a half cycles of 'mania, panic, and [asymmetric] crash': East Asia and Latin America compared. *Cambridge Journal of Economics 22*(6), 789–808.

Panizza, U., F. Sturzenegger, and J. Zettelmeyer (2009). The economics and law of sovereign debt and default. *Journal of Economic Literature 47*(3), 651–698.

Pereznieto, P. (2010). The case of mexico's 1995 peso crisis and argentina's 2002 convertibility crisis. *Social and Economic Working Paper, UNICEF*.

Perotti, R. (2005). Estimating the effects of fiscal policy in oecd countries. *Available at SSRN 717561*.

Pew (2019, Dec 17). Views of foreign policy. *In a Politically Polarized Era, Sharp Divides in both Partisan Coalitions*. https://www.pewresearch.org/politics/2019/12/17/6-views-of-foreign-policy/ [Accessed 12-05-2022].

Plümper, T. and E. Neumayer (2010). Model specification in the analysis of spatial dependence. *European Journal of Political Research 49*(3), 418–442.

Przeworski, A. and J. R. Vreeland (2000). The effect of imf programs on economic growth. *Journal of development Economics 62*(2), 385–421.

Przeworski, A. and M. Wallerstein (1988). Structural dependence of the state on capital. *American Political Science Review 82*(1), 11–29.

Putnam, R. D. (1988). Diplomacy and domestic politics: The logic of two-level games. *International Organization 42*(3), 427–460.

Quint, M. (1989, Apr). Brady plan lifts big bank stocks. *The New York Times*, 84. Accessed Jun. 30, 2022.

Radelet, S., J. Sachs, et al. (2000). The onset of the east asian financial crisis. *Currency crises 1*, 105–103.

Rademacher, I. (2021). One state, one interest? how a historic shock to the balance of power of the bundesbank and the german government laid the path for fiscal austerity. *Review of International Political Economy 0*(0), 1–23.

Reforma (2006). *Reforma Defiende IPAB el rescate bancario*. Periódico Reforma. www.reforma.com/negocios/articulo/682831/ [Accessed 08-18-2022].

Reinhart, C. (2016). Global Crises Data. Accessed Jan. 24, 2022.

Reinhart, C. and K. Rogoff (2009). *This Time Is Different: Eight Centuries of Financial Folly*. Princeton University Press.

Reinhart, C. M. and K. S. Rogoff (2004). Serial default and the" paradox" of rich-to-poor capital flows. *American Economic Review 94*(2), 53–58.

Reuters (2015, June). How much greece owes to international creditors. *Reuters Business News*. url = https://www.reuters.com/article/us-eurozone-greece-debt-factbox/factbox-how-much-greece-owes-to-international-creditors-idUKKBN0OW2ES20150616. [Accessed 06-30-2022].

Rho, S. and M. Tomz (2017). Why don't trade preferences reflect economic self-interest? *International Organization 71*(S1), S85–S108.

Robinson, J. A. and D. Acemoglu (2012). *Why nations fail: The origins of power, prosperity and poverty*. Profile London.

Rogers, C. and S. Vasilopoulou (2012). Making sense of greek austerity. *The Political Quarterly 83*(4), 777–785.

Rogoff, K. and J. Zettelmeyer (2002). Bankruptcy procedures for sovereigns: A history of ideas, 1976-2001. *IMF Staff Papers 49*(3), 470–507.

Roos, J. (2019). *Why Not Default?: The Political Economy of Sovereign Debt*. Princeton University Press.

Roper (1982). Roper Report 1982-01: Women/Finances/Automobiles/Business, Question 11, USROPER.82-01.R03I. The Roper Organization, Cornell University, Ithaca, NY: Roper Center for Public Opinion Research, Dataset.

Roper (1986). Roper Report 1986-01: Employment/Consumerism, Question 11, USROPER.86-1.R03I. The Roper Organization, Cornell University, Ithaca, NY: Roper Center for Public Opinion Research, Dataset.

Roper (1989). Roper Reports 1990-01: The 1990's/Entertainment, Question 32, 31097457.00032. The Roper Organization, Cornell University, Ithaca, NY: Roper Center for Public Opinion Research, Dataset.

Roubini, N. and B. Setser (2004). *Bailouts Or Bail-Ins?: Responding to Financial Crises in Emerging Economies*. Columbia University Press.

Roy, J. and C. Alcantara (2012). The election timing advantage: Empirical fact or fiction? *Electoral studies 31*(4), 774–781.

Rubin, D. B. (2004). *Multiple imputation for nonresponse in surveys*, Volume 81. John Wiley & Sons.

Rubio, L. and R. F. Rubio (1999). *Tres ensayos: fobaproa, privatización y tlc*. Ediciones Cal y Arena.

Ruggie, J. G. (1982). International regimes, transactions, and change: embedded liberalism in the postwar economic order. *International organization 36*(2), 379–415.

Russett, B. M. and J. R. Oneal (2001). *Triangulating peace: Democracy, interdependence, and international organizations*. WW Norton & Company Incorporated.

Sachs, J. D. (1989). Developing country debt and economic performance. the international financial system. In *Developing Country Debt and Economic Performance, Volume 1: The International Financial System*, pp. 12–0. University of Chicago Press.

Sachs, J. D. (2001). Tropical underdevelopment. *National Bureau of Economic Research Cambridge, Mass., USA*.

Sachs, J. D. and H. Huizinga (1987). US commercial banks and the developing country debt crisis. National Bureau of Economic Research Cambridge, Mass., USA.

Sandler, T. et al. (1992). *Collective action: Theory and applications*. University of Michigan Press.

Schneider, C. J. and B. L. Slantchev (2018). The domestic politics of international cooperation: Germany and the european debt crisis. *International Organization 72*(1), 1–31.

Schneider, C. J. and J. L. Tobin (2020). The political economy of bilateral bailouts. *International Organization 74*(1), 1–29.

Scholvin, S. and M. Wigell (2018). Power politics by economic means: Geoeconomics as an analytical approach and foreign policy practice. *Comparative Strategy 37*(1), 73–84.

Schumacher, J., C. Trebesch, and H. Enderlein (2021). Sovereign defaults in court. *Journal of International Economics 131*, 103388.

Scott, H. S. (2020, apr 8). *23. Criticisms of Bailouts Generally*. https://covid-19.mitpress.mit.edu/pub/vf54oo8p.

Sgard, J. (2016, 01). How the IMF did it—sovereign debt restructuring between 1970 and 1989. *Capital Markets Law Journal 11*(1), 103–125.

Shimbun, A. (1997, Nov 6). Interview with a former president of nissho iwai. *Asahi Shimbun(Morning Sun Newspaper)*.

Smythe, E. (2000). State authority and investment security: non-state actors and the negotiation of the multilateral agreement on investment at the oecd. *Non-state actors and authority in the global system*, 74–90.

Sobel, R. (2001). *Impact of Public Opinion on U.S. Foreign Policy Since Vietnam*. Oxford University Press New York.

Steinfeld, J. (2004). Development and foreign investment: Lessons learned from mexican banking.

Steinwand, M. C. and R. W. Stone (2008). The international monetary fund: A review of the recent evidence. *The Review of International Organizations 3*(2), 123–149.

Strange, S. et al. (1996). *The retreat of the state: The diffusion of power in the world economy*. Cambridge university press.

Sturzenegger, F. and J. Zettelmeyer (2007). *Debt defaults and lessons from a decade of crises*. MIT press.

Summers, L. (2015). Larry Summers: An Economist in White House, Conversations with Bill Kristol. https://www.youtube.com/watch?v=c39i8eM6nk0 [Accessed 12-05-2022].

Suter, C. and H. Stamm (1992). Coping with global debt crises: debt settlements, 1820 to 1986. *Comparative Studies in Society and History 34*(4), 645–678.

Swank, D. (1992). Politics and the structural dependence of the state in democratic capitalist nations. *American Political Science Review 86*(1), 38–54.

Taylor, J. B. (2007). *Global financial warriors: The untold story of international finance in the post-9/11 world*. WW Norton & Company.

the Economist (1981, Sep 26). Survey: IMF-Ministry without Portfolio. *the Economist*. page 16. [Accessed 12-05-2022].

The Economist (1999, Nov 4). Mexican banks: Fasten seatbelts. *The Economist. Mexico City*. URL = https://www.economist.com/node/326406/print?story_id =326406/ [Accessed 08-18-2022].

the Economist (2022, Aug 24). Faced with an overseas debt crisis, will china change its ways? *the Economist*. URL=https://www.economist.com/china/2022/08/24/faced-with-an-overseas-debt-crisis-will-china-change-its-ways? [Accessed 12-05-2022].

The New York Times (1989, Feb 28). Price riots erupt in venezuela. *NYT*. https://www.nytimes.com/1989/02/28/world/price-riots-erupt-in-venezuela.html [Accessed 08-18-2022].

The Oklahoman (1995, Mar 7). Mexican bailout fallout. *The Oklahoman*. https://www.oklahoman.com/story/news/1995/03/07/mexican-bailout-fallout/62398255007/ [Accessed 08-18-2022].

Thomson, A. (2005, Feb 1). Argentine swap criticised by bond holders. *Financial Times*. https://www.ft.com/content/ed0e9ab0-748c-11d9-a769-00000e2511c8 [Accessed 08-18-2022].

Times Mirror (1994). Times Mirror Poll: October 1994, Question 10, USPSRA.102894.R12. Princeton Survey Research Associates, Cornell University, Ithaca, NY: Roper Center for Public Opinion Research, Dataset.

Times Mirror (1995a). Times Mirror Poll: February 1995, Question 59, USPSRA.021795.R31A. Princeton Survey Research Associates, Cornell University, Ithaca, NY: Roper Center for Public Opinion Research, Dataset.

Times Mirror (1995b). Times Mirror Poll: March 1995, Question 20, USPSRA.033095.R36. Princeton Survey Research Associates, Cornell University, Ithaca, NY: Roper Center for Public Opinion Research, Dataset.

Tomz, M. (2007). *Reputation and International Cooperation: Sovereign Debt across Three Centuries* (STU - Student edition ed.). Princeton University Press.

Tomz, M. and M. L. Wright (2007). Do countries default in "bad times"? *Journal of the European Economic association 5*(2-3), 352–360.

Tomz, M. and M. L. Wright (2013). Empirical research on sovereign debt and default. *Annual Review of Economics 5*(1), 247–272.

Truman, E. M. (2020). "how jacques de larosière and paul volcker contained the 1982–89 global debt crisis". *Peterson Institute for International Economics, Realtime Economic Issues Watch*. Accessed Jun. 30, 2022.

Truman, E. M. (2021). The road to the 1980s write-downs of sovereign debt. *Financial History Review 28*(3), 281–299.

Tsingou, E. (2015). Club governance and the making of global financial rules. *Review of International Political Economy 22*(2), 225–256.

Unal, H., A. Demirgüç-Kunt, and K.-W. Leung (1993). The brady plan, 1989 mexican debt-reduction agreement, and bank stock returns in united states and japan. *Journal of Money, Credit and Banking 25*(3), 410–429.

Underhill, G. R. and X. Zhang (2008). Setting the rules: private power, political underpinnings, and legitimacy in global monetary and financial governance. *International Affairs 84*(3), 535–554.

Uribe, M. and V. Z. Yue (2006). Country spreads and emerging countries: Who drives whom? *Journal of international Economics 69*(1), 6–36.

U.S. Treasury (2022). U.s. fiscal data. *National Deficit Data*. https://fiscaldata.treasury.gov/americas-finance-guide/national-deficit/deficit-by-year [Accessed 12-28-2022].

Vandevelde, K. J. (1988). The bilateral investment treaty program of the united states. *Cornell Int'l LJ 21*, 201.

Vandevelde, K. J. (1992). *United States Investment Treaties: Policy and Practice*. Kluwer Law International.

Vasquez, I. (2002). A retrospective on the mexican bailout. *The Cato journal 21*(3), 545–551.

Volcker, P. A. (1982). *Sustainable recovery: setting the stage*. Remarks before the Fifty-eighth Annual Meeting of the New England Council, Boston, MA, 16 November, Board of Governors of the Federal Reserve System.

Vuletin, G. (2014, Aug 5). Argentina in default: Why 2014 is different from 2001. *The Brookings Institution*. URL=https://www.brookings.edu/blog/up-front/2014/08/05/argentina-in-default-why-2014-is-different-from-2001/ [Accessed 01-10-2023].

Waibel, M. (2007). Opening pandora's box: sovereign bonds in international arbitration. *American Journal of International Law 101*(4), 711–759.

Walter, A. (2001). Ngos, business, and international investment: The multilateral agreement on investment, seattle, and beyond. *Global Governance 7*, 51.

Warnau, J. (2016, Mar 2). Elliott management, other funds get big rewards on argentina bonds. *the Wall Street Jounal*. https://www.wsj.com/articles/elliott-management-other-funds-make-hay-on-argentina-bonds-1456929628 [Accessed 2022-08-18].

Weiner, T. (2001, May 27). The world; after a bailout, a wedding. *The New York Times*. https://www.nytimes.com/2001/05/27/weekinreview/the-world-after-a-bailout-a-wedding.html [Accessed 08-18-2022].

Wellons, P. A. (1985). International debt: The behavior of banks in a politicized environment. *International Organization 39*(3), 441–471.

Williamson, J. (1990). Latin american adjustment: How much has happened?

Wollscheid, C. (2012). Rise and burst of the dotcom bubble. In *Seminar paper, available online at https://www. grin. com/document/197166*.

WSJ/NBC News (1994a). NBC News/Wall Street Journal Poll: Economy, Question 34 [USNBCWSJ.121694.R11A]. Hart-Teeter Research Companies. Cornell University, Ithaca, NY: Roper Center for Public Opinion Research, Dataset.

WSJ/NBC News (1994b). NBC News/Wall Street Journal Poll: Economy, Question 35, USNBCWSJ.121694.R11B]. Hart-Teeter Research Companies. Cornell University, Ithaca, NY: Roper Center for Public Opinion Research, Dataset.

WuDunn, S. and N. D. Kristof (1997, Dec 17). Japan seems paralyzed by asian crisis. *the New York Times*. https://archive.nytimes.com/www.nytimes.com/library/financial/121797asia-japan.html [Accessed 12-28-2022].

Young, K. L. (2012). Transnational regulatory capture? an empirical examination of the transnational lobbying of the basel committee on banking supervision. *Review of International Political Economy 19*(4), 663–688.