

*Paper prepared for the Warwick workshop on sovereign and public debt and default  
Warwick University, 4/5 December 2008*

## **The politics of governing sovereign debt crisis resolution**

Jasper Blom, PhD candidate, University of Amsterdam<sup>1</sup>

j.g.w.blom@uva.nl

### Abstract

The growth and globalisation of the financial system after the fall of Bretton Woods was accompanied by recurring financial crises with grave consequences for the affected societies. The internationalisation and occasional volatility of the global financial system has led to a continuing search for new patterns of governance. This paper will analyse the developments in global financial governance, specifically focussing on the resolution of sovereign debt crises. The paper builds on the dominant International Economics approaches to the global financial architecture debate, by also taking the political context of the debate into account. It will be argued that a transnational policy community is emerging in this domain, comprised of public and private actors. This transnational policy community has facilitated a shift in governance from domestic-based public regulation towards international, market-based patterns of governance. The analysis will be underpinned by a comparison of the governance patterns in response to the Latin American debt crisis of the 1980s and the Mexican and East Asian crises of the second half of the 1990s. The Latin American debt crisis was resolved by a solution brokered by the US as the dominant financial power. This was based on ad-hoc state-based restructurings. In response to the East Asian financial crisis, the major policy proposal came from an international organization (the IMF's Sovereign Debt Restructuring Mechanism) and would entail a global public regulatory regime. Fierce opposition from the private financial actors, however, led to the defeat of this proposal in favour of market-led solutions to sovereign debt defaults.

---

<sup>1</sup> This paper is work in progress, please do not quote. Comments very welcome.

## 1. Introduction

After the fall of Bretton Woods, international capital flows (including emerging market sovereign debt flows) increased rapidly. This growth and internationalisation of the financial system has been accompanied by recurrent crises, however. The effects of these crises are not restricted to the financial sphere but also impact the socio-economic structures of the affected countries. According to one study, the typical financial crisis reduces the affected country's GDP by 9%.<sup>2</sup> The globalisation of the financial system also enabled rapid spill-overs and contagion of financial crises, leading to global repercussions. Pronounced examples of these global financial crises were the early 1980s Latin American debt crisis and the late 1990s East Asian crisis. The financial difficulties do not only spill-over to other vulnerable debtor countries, but also have financial repercussions for creditors (usually situated in OECD countries). This is a direct transmission mechanism pulling creditor countries into the policy debate on financial crisis resolution. A second transmission mechanism raising the interests of creditor countries in financial crisis resolution is the increasing interdependence in international economic relations. The negative economic effects of crises on debtor countries also resonate in the real economies of creditor countries through for example reduced export possibilities.

Given the important global socio-economic effects of large-scale financial crises there is a continuing search for a system of governance aimed at greater financial stability and the orderly resolution of sovereign defaults. As the recent Argentinean default (2001) showed on a large scale, an adequate policy response has not been formulated yet. And that while there seems to be no shortage of policy proposals and a seemingly obvious example of domestic bankruptcy procedures.<sup>3</sup> So, what then precludes the formation of a more comprehensive regime governing sovereign debt crises? This paper will address this puzzle by analysing how the level and form of governance of sovereign debt crises has changed since the 1980s Latin American crisis up till the Asian crisis and its aftermath.

It will be argued that the response to the Latin American debt crisis was ad-hoc, state-based resolution of the sovereign debt crises. The strategy was promoted and effectively led by the American Treasury, and did not lead to new global level rules for governing the market. In the period after the Asian crisis, on the other hand, proposals for the development of a global level regime for sovereign debt crisis resolution gained traction. This regime is not only aimed at the direct resolution of the Asian crisis, but is forward looking and would lead to a distinct change in the way global financial markets are governed. It can be said that in the eventual pattern of governance emerging in the beginning of the 21<sup>st</sup> century, the focal point of governance in a multilevel framework has shifted upward. Effectuation of this pattern of governance is delegated to negotiations between domestic public actors and the private financial sector, however.

---

<sup>2</sup> Although there are differences among studies due to differences in definition and data problems, the 9% figure of Bordo et al. (2001) seems broadly in line with other empirical studies.

<sup>3</sup> For an overview of proposals in the wake of the 1997 East Asian crisis, see Eichengreen, 1999.

This leads to the second argument, regarding the form of governance pattern. Since the 1980s a shift to more market-based forms of governance has occurred. During the Latin American debt crisis, the leading creditor states regularly emphasized the leading role of the IMF in the various plans to deal with the crisis and forced these plans on debtors and the private sector. The new forward-looking pattern of governance developed after the Asian crisis, however, puts much more emphasis on the market relations between debtors and creditors, and only sets the framework for the negotiations between debtor and private actors (as opposed to public interventions in the market). It is hence less constraining for the behaviour of these actors. While in the policy-making process after the Asian crisis more 'command-and-control' type forms of governance were given serious consideration (notably the IMF's Sovereign Debt Restructuring Mechanism (SDRM) proposal), these proposals were defeated by the market-based proposals.

This analysis shows that the shifts in the level and form of governance (and hence also the resolution of actual debt default cases) comes about as a consequence of political struggles in an emerging transnational policy network. Partially as a result of financial globalisation, this policy network is less focussed on the US and privileges internationally active banks. As a consequence, the countervailing power of many parties representing developing countries or other societal interests in the policy-making process is reduced. The strong representation of private sector interests in decision-making at this level, combined with relatively limited democratic accountability of public sector representatives leads to a preference for market-based financial governance mechanisms.

In the policy-making process on sovereign debt crisis, a distinction should be made between proposals aimed at countries with private market access, usually emerging markets, and proposals aimed at countries whose main source of financing are official capital flows (low income countries like most of sub-Saharan Africa). The two policy-making processes have different dynamics, and often take place in different forums. Governance mechanisms for low-income countries such as HIPC are mainly developed and monitored in the World Bank's Development Committee, with much more inclusion of ministries for development cooperation and NGOs), while the governance mechanisms for emerging market debt crisis are mainly developed in the context of the IMF's International Monetary and Financial Committee. This paper focuses on the policy-making process for the governance pattern aimed at resolving emerging market debt crisis.

This paper contributes to the literature on governing sovereign debt defaults by its focus on the political dimension. It takes into account the interplay of both public and private actors in a political process, instead of the 'technical' analyses by many international economists. The systematic comparison of the post-East Asian crisis initiatives with those from earlier periods of financial turmoil is an empirical contribution to the literature since many recent contributions only focus on the developments after the East Asian crisis, without

putting the developments in patterns of governance in their historical context.<sup>4</sup> To understand the developments in the governance of sovereign debt crisis, this historicized empirical work can unearth the grand thrust of shifts in governance in relation to the developments in market structures of the global financial system over the daily nitty-gritty political struggles over specific policy proposals such as the SDRM.

In the next section, a framework for analysing the policy-making process regarding the governance of sovereign debt defaults is developed, building on International Economics literature. In the third section, this framework is applied to the developments in the governance of sovereign debt defaults since the 80s. This section is divided into two subsections, describing the response to the 1980s Latin American debt crisis and the late 90s Mexican and Asian crisis respectively. The final section concludes.

## **2. The political economy of resolving sovereign debt crises**

This paper looks at the issue of sovereign debt defaults from a governance perspective. The concept of governance has seen a remarkable rise especially since the 1990s, reflecting of the perceived rise in international connectedness, new actors in politics like (transnational) NGOs and business coalitions, and new forms of steering of complex societal problems.<sup>5</sup> The concept originated in the disciplines of Political Science and Economics. Traditionally, political science looked at 'government', for example the Bretton Woods system where public authorities (nation-states and the IMF) governed monetary policy-making. Governance encompasses more than just public authority, however. Private sector self-regulatory organizations or supranational entities also play an important role in steering financial markets. In the economics literature, governance is juxtaposed to market mechanisms, e.g. hierarchies versus markets (cf. corporate governance meaning the steering of company management by shareholders).<sup>6</sup>

Treib et al distinguish between three different categories of governance conceptualisation: (1) governance as actor networks (focussing on policy-making process in which not only state actors are involved), (2) governance as systems of rules that shape the actions of social actors, and (3) governance as a variety of instruments to steer behaviour (next to traditional state command-and-control).<sup>7</sup> In analysing and unravelling shifts in governance, it has to be clear which category of governance conceptualisation is talked about. Of course, the three categories interlink, or could be seen as three steps in the process of steering society. In this paper, governance is seen as systems of rules that shape the actions of social actors. The third category of governance conceptualisations is seen as a property of this rules, and not so much as a different conceptualisation of governance. With

---

<sup>4</sup> See for example Eichengreen, 1999; Lukauskas & Rivera-Batiz (eds), 2001; and Noble & Ravenhill (eds), 2000. For an exception, see Helleiner, 2006.

<sup>5</sup> Brunnengraeber et al, 2006.

<sup>6</sup> Williamson, 1975.

<sup>7</sup> Treib et al, 2007, p. 3-4.

respect to the first category of governance conceptualisations, in my view there is little value-added to the policy communities / policy network literature addressed below when including the actor network under the governance conceptualisation. More importantly, the systems of rules are the outcome of negotiations in an actor network. In other words, what is referred to as a first category of governance conceptualisation should actually be an explanatory factor for the second category conceptualisations. Collapsing the explanatory factor and outcome into one overarching concept is analytically unhelpful. Besides, as will be shown below, even when restricting the concept of governance to systems of rules that shape actions, there is a need for further analytical clarification (hence it is not helpful to further bloat the definition).

Financial governance refers specifically to the formal and informal rules by which (international) financial markets are steered. By broadening the focus to both 'public' rules and 'private' rules, the scope of research automatically shifts from a focus on public, state-based actors to all actors involved in the operation of the (international) financial system. Not only the negotiations between states should be analysed to understand the developments in global financial governance, the agency of both public and private actors should be acknowledged. International Political Economy is not only about power struggles between states, but also for example about power struggles between public authorities and the private sector, and within the private sector itself. This allows for good insight into the political struggles and power issues underpinning shifts in governance.

To give "expression to the idea that there are many interacting authority structures at work in the emergent global political economy", the governance of the global financial system should be described in a multi-level governance framework.<sup>8</sup> Depicting governance as multi-level allows for a subtle distinction between the national and international level, and draws attention to other levels not easily captured in pure spatial terms. It should be noted that the term 'level' does not necessarily imply a hierarchy among for example the national level and the global level. On the other hand, even though the levels overlap, shifts in governance may take place from one level to the other. While multilevel governance rightly implies that the different levels work next to each other and reinforcing or contradicting each other, we can observe where the focal point of the rules lie. For example, should the Sovereign Debt Restructuring Mechanism of the IMF have materialized, the global level would have gained substantially in importance vis-à-vis the domestic level in sovereign debt restructurings.

In the application of a multi-level framework, the different shifts in governance that can take place should be disentangled. Lumping together different dynamics as 'interacting authority structures' leads to fuzzy analysis. In this paper, three dimensions of governance are distinguished: the level of governance as a jurisdictional matter, the nature of the 'owner' of the rules, and a dimension describing how constraining the rules are for the behaviour of actors acting under them. In the following paragraphs these three dimensions are introduced.

---

<sup>8</sup> Baker, Hudson & Woodward, 2005, p. 14. See the whole edited volume by Baker, Hudson & Woodward for an elaboration of the concept of multi-level governance in the context of financial governance.

Analytically distinguishing these three dimensions not only clarifies the empirical story, shifts along the dimensions also have important consequences for the legitimacy of the governance pattern as well as the effectiveness and distributional consequences of it.

The first dimension in the governance of global financial markets concerns the level of governance in a jurisdictional sense: are there globally applicable rules, or does the governance of the financial system remain within the purview of states? This dimension also underscores another problem with the first category of governance conceptualisations: for example while the policy-making process on banking supervision is restricted to the G10, from the first Basel Accord to the Basel II Accord we can see a significant jurisdictional extension of the rules, with Basel II applying to most of the world's financial systems. This shift in the jurisdictional dimension of banking supervision regulation would be missed if one would only look at the actor constellation.

The second dimension of governance refers to the nature of the institutions who act as 'owners' of the rules by which international financial markets are steered. Are these institutions public or private? There is a continuum from more public-based institutions to governance mainly based in private institutions. For example, in the conduct of monetary policy, usually the domestic central bank is the main governing institution. This is arguably a mainly public governance institution. On the other hand, in global accounting standards the main institution who has 'ownership' of the rules (the IASB) is a private entity.<sup>9</sup> It should be noted, though, that the classification of institutions is not straightforward. While intuitively the distinction between public and private 'owners' seems clear, the exact reason for classifying actors in one category or the other is hard to pinpoint. Strictly speaking the difference could be made from a legal perspective, but that does not address the fact that private (incorporated) actors can perform 'public' functions (the aforementioned central banks are an example).

The third dimension concerns the type of governance, describing the leeway actors have to make their own choices in following the aims of the rules. This dimension is especially important for the distributional outcomes of governance. Rules steering actor behaviour can be more or less 'heavy-handed', leading from self-regulation through market incentives (taxes and subsidies) to command-and-control. This dimension influences to what extent the private sector feels constrained by the governance mechanisms, with an important distinction being between market-based and authoritarian governance. In the context of this case study into the governance of sovereign debt defaults, important elements in this dimension are whether the steering mechanism is legally binding (such as the SDRM) or is soft law (as the IIF's Principles), whether it is more material or more procedural regulation, and finally, whether there are sanction mechanisms or not.<sup>10</sup>

---

<sup>9</sup> Although recently its public oversight has been increased.

<sup>10</sup> Treib et al, 2007, p. 5-7.

The literature from the field of international economics starts from the behaviour of economic agents in a market setting rather than analysing the dynamics of the market as part of a broader social system. The financial system is defined as a set of markets for financial assets and liabilities, and the individuals and institutions who trade in those markets.<sup>11</sup> In neoclassical economic approaches, under conditions of perfect competition financial markets lead to the most efficient outcome (the social optimum) without the need of additional steering mechanisms (besides fundamental issues like property rights). However, financial markets are specifically prone to so-called market failures to the extent that the neoclassical efficient market should be seen as the exception, rather than the rule. Additional steering mechanisms are needed to deal with these market failures, many of which have to do with information asymmetries. The actor demanding funds has more information on the way it is going to use those funds than the provider of funds has. Therefore, providers need to monitor the actions of the borrowers to ensure timely repayment. This process is facilitated through financial intermediaries. Another example of information asymmetries leading to the need for additional steering mechanisms is adverse selection.

One consequence of these information asymmetries is herding behaviour of international investors, which can drive countries into debt crisis (as the Asian crisis showed). Once in debt crisis, a workout may be protracted because of free-rider problems (every creditor benefits if all other creditors accept a haircut, while getting paid in full itself) leading to socially inefficient outcomes. Hence, there is a case within mainstream economic theory for governance mechanisms for sovereign debt workouts.

The dynamics of patterns of global financial governance, according to this mainstream economics view is mainly the result of innovations autonomous developments in the market structure in the global financial system. These are likely to lead to new market failures and externalities, and hence require new governance patterns. For example, the shift from syndicated bank lending to sovereigns in the 1980s to international banks acting as intermediaries for securitised sovereign debt (an innovation of international banks) led to aggregation and free rider problems if a sovereign had debt problems. As will be discussed in the case study below, new patterns of governance were proposed to deal with this situation.

An important drawback of seeing governance as a technical issue, as a response to market failures, is that it fails to take into account the political context of financial governance. Even if the pattern of governance is determined by rational utility maximizers seeking to optimise the functioning of global financial markets, political issues remain such as the problem of multiple equilibria. Most policy problems have several solutions which are comparable (or just as incomparable) when measured against the yardstick of pareto-(sub)optimality. International Economics theory tells us that the typical resolution of a sovereign debt crisis consists of a combination of three elements: emergency official

---

<sup>11</sup> Allen & Gale, 2001.

financing, domestic policy adjustments, and so-called private sector involvement (private sector refinancing and/or restructuring of existing debts).<sup>12</sup> The international economics theory cannot answer the question what the balance between these three elements should be, however, and how this balance is determined. Any decision on the balance between these three elements is deeply political as it determines who pays what, where, and when. Hence it makes the governance of sovereign debt crisis resolution inherently political, where the eventual balance also depends on the power of the various actors in the policy-making process during the crisis resolution efforts.

Secondly, changes in market structure are not as exogenous as the theory would lead us to believe. For example the internationalisation of international financial markets was only possible because of the political decision to liberalise financial markets and open domestic capital accounts. Furthermore, the diversification of sources of finance for emerging markets in the 90s was also due to the global governance regime for international banks. The Basel Capital Accord, with its high risk-weighting for non-OECD countries sovereign debts, encouraged banks to lend less to emerging markets and focus instead on an intermediary role between the debtor countries and the capital markets. Emitting sovereign bonds became more profitable than directly lending to emerging markets also by this regulation of banks' capital adequacy.

Thirdly, the different actors involved in sovereign debt crisis resolution do not necessarily behave like economic agents as presumed by economics theory. Sovereigns in debt default usually cannot be coerced apart from by military means. Sovereigns usually do not have much international assets which can be seized, and their domestic assets can't be liquidated like those of a company.<sup>13</sup> The creditor institutions, on the other hand, are rent-seekers and hence not necessarily interested in socially optimal solutions. The political and regulatory process at the (inter)national level is as much a part of business strategies as is investment and marketing. Firms simultaneously deploy their political and competitive resources to achieve the outcome they seek. The ways in which markets are structured, the sorts of values embedded in the prevailing regulatory systems, and which actors/organizations are able to develop within the prevailing incentives, make all the difference to the nature of the governance regime for sovereign defaults that emerges.

To push the three aforementioned political issues in sovereign debt crisis resolution further: explanations offered by international economists seem to portray political institutions as an external intervention into market dynamics. There is an inherent notion of a dichotomy of states and markets. However, this dichotomy makes no empirical sense. Political institutions are interdependent on certain constituencies, patterns of governance developed in the policy-making process reflect the interests of constituencies of market agents and feed back into the market structure. The optimal form and level of intervention may prove politically and socially unworkable, and the *actual* form and level of intervention will not be determined

---

<sup>12</sup> Roubini & Setser, 2004.

<sup>13</sup> Thompson & Runciman, 2006.

by optimality conditions thereof. In the international policy forums in which the governance of the international financial system is discussed, the central goal of the participants is not so much optimization of the international allocation of resources, as it is to further the (economic) interests of certain specific constituencies. To explain the developments in global financial governance, the dynamics of changes in market structures and the political interactions constituting these markets must be explained. Hence, an approach overcoming the state-market dichotomy is needed. As emphasized above, however, we should not make the mistake of subsequently only looking at public authority exerted in the global financial system (as sometimes happens in political science). It is the interplay governance mechanisms and competitive structures on markets which is the first step towards understanding the dynamics in the governance of sovereign debt defaults.

To take account of the political dimension in governing sovereign debt crises, we need to analyse the constellation of actors in the governance of the global financial markets and the interaction between them. Here, the concept of policy communities and policy networks is a usual tool.<sup>14</sup> A policy network refers “to the participants in the governance structure and the degree and pattern of integration among them.”<sup>15</sup> Policy networks form around specific ‘dossiers’, specific policy problems. In the current paper, the policy problem is the resolution of sovereign debt crisis with participants ranging from NGOs to private financial services firms to public authorities. Within the policy network groups can emerge which members have shared beliefs, values and norms. These groups often provide a framework for political action as advocacy coalitions.<sup>16</sup>

In the policy network, there is a specific subset of actors who can reach authoritative decisions: the policy community. In the conceptualisation of Coleman & Perl public authorities need to be involved in this policy community because only decisions by public authorities are considered binding on society (and can be enforced by the use of legitimate force).<sup>17</sup> However, this paper diverges from this because private self-regulatory organisations can and do make very binding decisions in the field of financial governance. Various types of policy communities can be distinguished, but for the discussion in this paper, the question of which actors are actually involved in the policy community is more important. Keeping members of the policy network with diverging interests out of the policy community is one of the most effective ways of improving the chances of getting one’s own preferences satisfied. Those who are left out of the policy community have a hard time satisfying their interests in global financial governance.

---

<sup>14</sup> In the policy network / policy communities literature there seems to be quite a diversity of conceptualisations, even to the point of turning the policy community / policy network distinction around. The following discussion is based on Coleman & Perl, 1999; although I do turn around their semantics. See also Coleman & Skogstad 1990 and Dowding, 1995.

<sup>15</sup> Coleman & Perl, 1999, p. 695.

<sup>16</sup> Sabatier, 1988.

<sup>17</sup> Coleman & Perl, 1999, p. 696.

To summarize, the theoretical framework developed here leads to explanations of shifts in the dimensions of the governance of sovereign debt crisis as a political process, based on a combination of material interests and institutional contexts in the policy-making process. In the empirical material laid out below, it will be shown that over the course of the two major global financial crises, a transnational policy community emerged of internationally linked public domestic financial policymakers (Ministry of Finance and Central Bank), internationally active banks and their associations, and International Organizations focussed on monetary issues (notably the IMF). The exclusionary nature of this policy community allowed governance to be shifted towards more market-based mechanisms, defeating proposals based on constraining international public regulation (such as the SDRM).

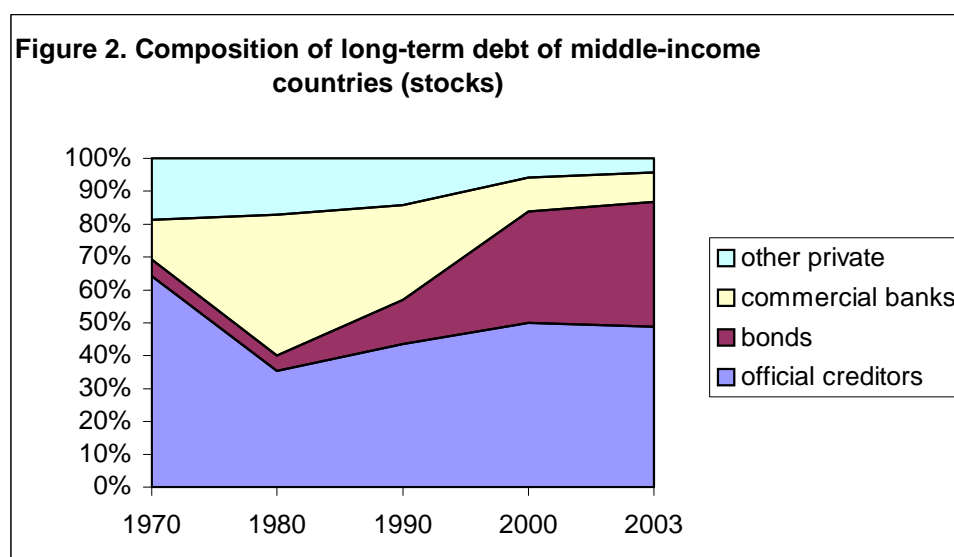
### **3. Resolving sovereign debt crises in the 1980s and late 1990s**

In this section, the theoretical framework elaborated above will be applied to a case study of the resolution of sovereign debt crises. The policy-making process in the wake of the resolution of the Latin American and Asian financial crisis is elaborated, and linked to the changing patterns of governance of sovereign debt crisis over this period. In figure 2 below, the developments in the composition of sovereign debts for middle-income countries over the period of analysis are shown. As can be seen, the rapid internationalisation of the financial services industry after the fall of the Bretton Woods monetary system in the early 70s greatly expanded the possibilities for middle-income countries to gain access to private credit. This led to a gradual expansion of the share of bank loans in the debt stocks of middle-income countries. These loans were put together by syndicates of banks, often involving dozens of banks worldwide. In the early 1980s, a global recession, rising real interest rates, and declining terms of trade for debtor economies combined to produce big difficulties for the debtor countries to repay their debts.<sup>18</sup> In the summer of 1982, Mexico was the first emerging market to declare it could no longer repay its private loans. Several other, mainly Latin American, emerging markets followed and the Latin American debt crisis was born. As can be seen in the figure, the share of bank lending to middle-income countries was gradually reduced in response the debt crisis. Emerging markets increasingly began to source their private credits directly from the capital markets by emitting international bonds. The banks, still struggling with the outstanding debts, made the strategic choice to act as intermediaries in sovereign debts rather than to act as end holders of debts.<sup>19</sup> This development diversified the creditor base of sovereigns, and complicated the coordination between creditors in a possible sovereign debt crisis (as became abundantly clear during the 1995 Mexican crisis).

---

<sup>18</sup> Gilpin, 1987, p. 318.

<sup>19</sup> De Carmoy, 1987, p. 15.



Source: World Bank, *Global Development Finance 2005*

In the following two subsections, the policy responses to the sovereign debt crises of the period will be analysed. Two episodes of global financial turmoil which gave an important impetus to the policy-making process are distinguished: the resolution of the Latin American debt crisis of the 1980s and the policy reactions to the financial crises of the late 1990s (Mexico and East Asia). It will be shown that the composition of the policy community dealing with the Latin American crisis was in important ways different from that dealing with the East Asian crisis. Where in the 1980s the policy community could be distinguished in a domestic level and an international level component, by the 1990s a transnational policy community had emerged. This is also reflected in the policy proposals advocated for dealing with these sovereign crises. The Latin American debt crisis was resolved by a number of succeeding US-led plans working on a case-by-case basis. In the aftermath of the East Asian crisis, on the other hand, forward looking global level solutions were proposed.

#### *The Latin American debt crisis*

As mentioned above, a number of macroeconomic circumstances in the late 1970s / early 1980s conspired to lead to severe difficulties for many emerging markets to repay their debts. This culminated in the declaration by Mexico in the summer of 1982 that it could no longer repay its private loans. When several other, mainly Latin American, emerging markets followed a financial crisis with global repercussions had started. The crisis caused severe economic hardship in the affected debtor countries, for example real per capita GDP fell by 4,8% in 1983 in the countries with debt servicing problems.<sup>20</sup> However, the crisis went beyond that: the global banking system was at risk. International syndicates of banks had lent large amounts to the emerging markets now in debt distress, to the extent that outstanding loans were much larger than bank capital. These exposures were unevenly divided among the

<sup>20</sup> Sachs, 1986, p. 399.

major creditor states, however (see figure 3). With the American banks most heavily indebted and as the leading economy of the capitalist world, the US took the lead in addressing this debt crisis (as will be elaborated below).

Figure 3. Exposure of Western banks to the HD17<sup>21</sup> (percentage of capital)

	1982	1985	1987	1992
France	n.a.	126.6	62.8	22.7
Germany	31.4	50.7	33.5	18.5
UK	85.0	68.6	42.4	n.a.
US (all banks)	130.1	86.6	63.6	26.7
US (9 largest banks)	194.2	140.1	106.6	50.6

Source: Cline, 1995, tables 2.10 – 2.14.

With the global financial system at risk, the resolution of the crisis was taken up by an international policy community. On the public side, members of the policy community consisted of ministries of finance and central bankers from the debtor states and from the large creditor states (basically the G10).<sup>22</sup> Another important public actor in the policy community was the IMF, which also provided the main international negotiation forum for the public actors. Several prominent academics got involved in the debates, for example in 1983 prof. Kenen of Princeton University floated a proposal for the establishment of a new international organization. This International Debt Discount Corporation would buy private sovereign debts at a discount (a 10% haircut) and then reschedule the debt on advantageous terms for the debtor country.<sup>23</sup> The private sector, specifically the banks with large exposures to the debtor countries, naturally became involved in the discussions. They focussed on their home country regulators, with international coordination between them in its first steps.

The first response to the crisis seems to be led by the material interests of the creditor states: the protection of the solvency of Western banks. Effectively led by the US Treasury, the balance between public refinancing, domestic adjustment and private debt restructuring tilted towards domestic adjustment in the debtor states. This was in line with the opinion in the majority of the banking community, which was of the view that “with appropriate interim lending programs and country adjustment effort the debt on banks’ books will be shown over time to be sound.” Only a minority thought debt write-offs to be necessary.<sup>24</sup> Efforts focused on domestic adjustment, combined with official financing. In October 1982, the

<sup>21</sup> The HD17 refers to 17 highly indebted countries identified for inclusion in the Baker plan (see later on). These countries accounted for 51% of total developing country debts, and were: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cote d’Ivoire, Ecuador, Jamaica, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela, and Yugoslavia (Cline, 1995).

<sup>22</sup> The G10 consists of the members of the G7 plus Belgium, The Netherlands, Sweden and Switzerland (curiously enough adding up to eleven). The origin of this group lies in a 1962 agreement to back-up the financing of the IMF (the General Arrangements to Borrow).

<sup>23</sup> Kenen, 1983. I specifically mention this example because members of the US House of Representatives took up the proposal.

<sup>24</sup> Bergsten, Cline & Williamson, 1985, p. 22.

IMF Managing Director (de Larosiere) announced to a meeting with bankers that the IMF would only provide emergency financing to Mexico if the private sector did so as well. These IMF loans would of course have conditionality attached, emphasizing domestic policy adjustment. In subsequent finance packages for debt-distressed countries, the IMF continued to emphasize co-financing by the private sector.<sup>25</sup> This co-financing did not necessarily entail a net flow to the debt-distressed countries, however. As can be seen in figure 3 above, it allowed banks in fact to reduce their exposure over time. Another effect was a steadily rising proportion of official debt in the debt stock of emerging markets.<sup>26</sup> It is furthermore noteworthy how the resolution of this crisis was led by the public sector, and then specifically the US Treasury. The negotiations of the international policy network took place in the IMF's Executive Board and Interim Monetary and Financial Committee (IMFC). This weakened the bargaining position of the affected debtor countries because of their limited voting share in the IMF, and might account for the emphasis on domestic adjustment over debt write-offs.

By the mid-1980s, the effects of this initial round of IMF packages with private sector co-financing began to wear off. The private sector did not have an incentive to start lending completely voluntarily (without IMF moral suasion), however. This led to new liquidity problems for debtor countries, as the policy adjustments in the debt-distressed countries did not provide the desired sustained economic growth and the relatively short-term IMF loans came due. At the same time, a new team headed by Secretary Baker had taken over at the US Treasury. They set out to design a more systematic program for dealing with the debt distressed countries, which was put forward at the October 1985 IMF/Worldbank Annual Meeting in Seoul.<sup>27</sup> The Baker plan acknowledged the fact that growth in the debtor countries would have to be increased if they were to fully repay their debts. The methods of the Baker plan were very much like the earlier procedures dealing with the crisis on a case-by-case basis, although with more emphasis on long term rescheduling of debts ('private sector involvement') and renewing capital inflows (amongst others by a greater involvement of the World Bank and regional MDBs).

It should be noted that the Baker plan was intended as reactive to the Latin American crisis, not a forward looking governance design for sovereign debt crisis resolution. Such governance redesign proposals were made, for example the aforementioned proposal by Prof. Kenen. These proposals often also entailed a different trade-off between debtor adjustment and private sector involvement and would have shifted the focal point of governance mechanisms to the global level. Despite the fact that the Kenen proposal was endorsed by two members of the House of Representatives (Morrison and LaFalce) it was never taken up by the US Treasury. The bill instructing the Treasury to do so had as a caveat that the proposal should not affect the current or future value of sovereign claims, a caveat

---

<sup>25</sup> Cline, 1995, p. 205/206.

<sup>26</sup> See also figure 2 above. It must be pointed out, however, that the share of official financing in the early 70s was much higher than any time after.

<sup>27</sup> Cline, 1995, p. 207/208.

which was used to focus on the Baker plan instead.<sup>28</sup> Following the lead of the US Treasury, the G7 continuously promoted a case-by-case approach emphasizing domestic policy adjustment and a central role for the Bretton Woods institutions (excluding proposals for new global level public entities).<sup>29</sup> The G7 furthermore unequivocally and explicitly supported the Baker plan.<sup>30</sup>

The Baker plan was publicly supported by commercial banks in the US, UK and Japan. The use of more or less the same wording in their declarations of support indicates coordination between these major financial centres. Continental European banks were more muted in their support because they did not agree to the new financing commitments under the Baker plan.<sup>31</sup> With the passing of the initial shock of the crisis and the start of the more systematic Baker plan, divisions within the banking community increasingly began to show. Within the US, the big US money-centre banks (which had the highest exposure) had a strategic interest in continued business with emerging markets, while smaller mainly domestic US banks wanted to get out of the business completely. At the same time, across the creditor nations, differences in tax and reserves policies between US, European, and Japanese financial regulators led European and Japanese banks to be increasingly resistant to new lending. European banks fought for better representation in the creditor steering committees, and were more inclined to capitalize interest payments coming due instead of providing new money.<sup>32</sup> Although American banks provided on average 35% of private loans to Latin American debtors, their representation on the creditor steering committees of the six major creditors was from 45% to 58%, another sign of the American lead in the resolution of this crisis. The Institute for International Finance (IIF) had already been founded as a business association of the international banks cooperating in the assessment of sovereign risks, but apparently was not yet involved in advocating a coherent policy at the international level.<sup>33</sup> Hence, private actors contributed little to a transnational policy community, at the global level it was still very much international negotiations in the context of the IMFC.

With the dangers to the (especially American) banking sector reduced, attention of the US government for the implementation and successful conclusion of the Baker plan also diminished. This led debtor governments to take a more pro-active stance, with Brazil declaring a moratorium on interest payments in the beginning of 1987.<sup>34</sup> Brazil subsequently proposed a long term solution to its debt problems by securitising a large part of its outstanding loans and new funding against market rates (without risk premium).<sup>35</sup> In discussions with private banks from Europe and the US, this solution was outright rejected.

---

<sup>28</sup> Cline, 1995, p. 226.

<sup>29</sup> G7 communiqués throughout the 1980s, obtained through the website of the University of Toronto G8 information centre: [www.g7.utoronto.ca](http://www.g7.utoronto.ca).

<sup>30</sup> G7 communique, May 6, 1986, para 10.

<sup>31</sup> Wiegand, 1988, p. 36.

<sup>32</sup> Wiegand, 1988, p. 9.

<sup>33</sup> Porter, 2002, p 9.

<sup>34</sup> Shepherd, 1994.

<sup>35</sup> Wiegand, 1988, p. 4/5.

This rejection was forcefully joined by the US Treasury Secretary, leading to the abolition of the plan. As a sign it would not be intimidated by the new assertive stance of debtor nations, in May 1987 Citibank set aside some US\$ 3 billion in loan-loss reserves against the Latin American loans (25% of its exposure), soon followed by other US and British banks. Although partially aimed at showing the banks were prepared for a fight with debtor countries, it also sent the message that banks no longer valued the sovereign debts at full value (consequently driving down secondary market prices). This was a significant change in attitude of major US and UK banks, undercutting their previous stance that any restructuring could not lead to losses for banks and that the IMF-led case-by-case approach would be enough to restore creditworthiness. Banks in continental Europe had already gradually built up reserves during the crisis, due to various reasons (tax-deductibility, accounting and reporting standards, and less emphasis on shareholder value concerns). Thus the continental banks were only lukewarm supporters of the US/UK stance.<sup>36</sup> But although many continental banks were in favour of more radical proposals reducing debt and setting up international organizations, they failed to form one bloc. Furthermore the US Treasury and IMF exerted pressure on their home governments to go along in the US-led scheme. Finally, due to their linkages with the American banks, they were vulnerable to influencing by the large US banks. This manoeuvring by the commercial banks, but more importantly the struggle of debtor and creditor public state-actors, was the prelude to the third and final phase in the resolution of the Latin American debt crisis: the Brady plan.

In response to the rising boldness of debtor states on the debt issue, the American government intervened again. This time the new US Treasury Secretary Brady drafted a plan shifting the balance from domestic adjustment to debt forgiveness from the private sector and increasing official financing. With this plan, he also swept aside the more radical proposals coming from the House of Representatives and ignored governmental voices from continental Europe in favour of those solutions. The debt forgiveness under the Brady plan was “premised on a voluntary, market-oriented approach to debt reduction. It wisely rejected any type of mandatory reduction”.<sup>37</sup> It used public-sector funding to collateralise new bonds, which would include private sector debt reduction. The IMF was allowed to lend into arrears, increasing debtor state leverage vis-à-vis private creditors. Again, it should be noted that this plan was not a diversion from the contemporary governance-arrangement, but an ad hoc solution.

After forceful pressure by the US Treasury on private sector banks, the first Brady deal was concluded with Mexico in July 1989, including a 35% haircut (nicely in the middle of the initial Mexican position of 55% and the private sector's offer of 15% haircut). By May 1994, deals had been completed or announced with 18 countries, heavily overlapping with the HD17. Haircuts under these deals were mostly similar to the Mexican deal. The Latin American debt crisis could be considered as resolved. As the evidence from this episode

---

<sup>36</sup> Wiegand, 1988, p. 15 and 20/21.

<sup>37</sup> Cline, 1995, p. 218.

shows, the actors in the policy network were decidedly state-based and the policy community dominated by the American Treasury. Proposals for more forward looking governance mechanisms at the international level were rejected in favour of an ad-hoc, case-by-case approach. The American authorities exerted moral suasion when necessary, but future behaviour of the actors was not constrained.<sup>38</sup>

#### *The Mexican and East Asian crises of the second half of the 1990s*

As apparent from figure 2 above, after the Latin American debt crisis emerging markets increasingly began to source their finance not only from banks, but also directly from the capital markets by emitting international bonds.<sup>39</sup> This diversified the creditor base of sovereigns, complicating the coordination between creditors in a possible default. In the mid 1990s, this became abundantly clear with the 1995 Mexican crisis, a systemically important emerging market. Under a fixed exchange rate regime, Mexico received large capital inflows in the beginning of the 1990s. When the sentiment of traders on the global capital markets changed due to domestic political turmoil and an unfavourable external macroeconomic environment, capital flight occurred. After an initial attempt to defend its peg, Mexico was forced to leave the fixed exchange rate regime, while in the meantime having incurred an unbearable level of external debts. As this financial crisis originated in the capital markets (and not so much from bank credits), it was dubbed the first 21<sup>st</sup> century financial crisis.

After the outbreak of the 1995 Mexican crisis, the G7 Heads of State summit in Halifax commissioned the G10 to draft a report on the orderly resolution of crises. Two things are noteworthy in comparison to the earlier Latin American debt crisis. First of all, although on the public side the creditor countries remained in the driving seat, efforts were not led by the US Treasury this time but broadened to the G10. Second, the G10 officials were to draft a forward-looking report instead of come up with an ad hoc response to the crisis. Although the G7 summit had also discussed an important contribution to the policy discussion by high-profile economist Sachs (which revived the idea of an international bankruptcy court to deal with sovereign debt crises), the G10 working group decided to opt for a more market-based alternative. In their August 1997 report they advocated adding collective action clauses (CACs) into international bond contracts.<sup>40</sup> The report explicitly emphasized that “international bankruptcy procedures and other formal arrangements do not appear to provide, in current circumstances or in the foreseeable future, a feasible or appropriate way of dealing with sovereign liquidity crises.”<sup>41</sup> The CACs were thought to be a ‘practical’ (achievable) solution, also because they were already market standard in the international bond market of London.

---

<sup>38</sup> At least on the specific issue of the governance of sovereign debt restructurings. It could be argued that the Basel I Capital Accord was partially a response to the debt crisis, and hence constraining rules for the private banks were devised in a different policy domain.

<sup>39</sup> Although it must be acknowledged that bank financing in one form or the other remains an important part of the external debts of emerging markets, see Roubini & Setser, 2004.

<sup>40</sup> Helleiner, 2006, p.15. The report also made the familiar call for policy adjustments in debtor countries to prevent crises.

<sup>41</sup> G10, 1997, p. 5.

Furthermore, the input of the private sector had been requested through a questionnaire by G10 member states. This was also a deviation from the earlier crisis resolution period, in which negotiations with the private sector were not that formalised, and not coordinated at the international level.

CACs can perform a number of functions, but most importantly they facilitate decision making in case of restructurings of the bond contract. They are hence a process-aimed governance mechanism. In the case of bonds without CACs, every bondholder can decide for themselves whether to agree to a restructuring of the bond contract, creating a free-rider problem (also known as the rogue creditor problem). Although it might be best for the group of bondholders to accept a (limited) reduction in the value of their bonds instead of forcing the country into full default, each individual bondholder has an incentive not to accept the reduction of value and let other bondholders carry the burden. CACs tackle this problem by instituting majority decision making for a specific bond. If a certain percentage of bondholders agree to a restructuring (usually a supermajority), this is imposed on the whole outstanding bond. Hence there is no possibility for hold-out creditors to keep demanding full payment and so sabotage the deal. The CACs require no global level supervision, but would be a solution on the bond-issuing state level. This G10 report did not set an explicit global level standard, but was a recommendation and does therefore in my view only entail a very limited shift in the jurisdictional level of governance. The CACs are a market-based solution, also in the sense that they require negotiations between the debtor state and private creditors as market actors. Although the various plans for dealing with the Latin American debt crisis assigned a cofinancing role to the private sector, they were never formally involved in the crisis resolution efforts (as they would be under the adoption of CACs). Debtor states in crisis would suddenly have to negotiate with private financial services firms on top of their 'normal' negotiations with the IMF. CACs only constrain the behaviour of private actors by installing majority rules, while it constrains private actors by enforcing negotiations with the private sector.

The 1997 G10 report was duly ignored by the private sector<sup>42</sup> and the bond-emitting countries. The outbreak of the East-Asian crisis around the time of publication of the report focused the attention of policy-makers on the immediate response to this crisis. This immediate response was quite similar to the response to the Latin American debt crisis: IMF-led financing combined with moral suasion of banks to roll-over loans (most notably in the South Korean case). However, the sheer magnitude of this crisis opened up the debate in the policy community, and led to an opportunity for new, radical ideas to be taken up. A large number of new initiatives and institutions was proposed by academics and practitioners (and old ideas were again put on the policy-making agenda).<sup>43</sup> However, even in this whirlwind of proposals, the common pro-market outlook of the policy community rapidly precluded some ideas, such as capital controls or Tobin taxes.<sup>44</sup> In 2001 IMF First Deputy Manager Krueger

---

<sup>42</sup> Helleiner, 2006, p. 15.

<sup>43</sup> See for a discussion Eichengreen, 1999 and Noble & Ravenhill, 2000.

<sup>44</sup> Cohen, 2003.

launched a new complete proposal for a Sovereign Debt Resolution Mechanism (SDRM).<sup>45</sup> This mechanism aims to simplify the resolution of sovereign debt crises by restructuring debt through an independent 'court' (comparable to national bankruptcy procedures). This proposal (even more than the CACs) addressed the situation of countries diversifying their sources of capital, and hence the increasing complexity of debt restructuring negotiations. It would cover different outstanding claims of a country and subject them to an integrated rescheduling / restructuring. This focussed the discussions in the policy-making processes on the dual tracks of CACs and SDRM, both based in an analysis of market structures and market failures / externalities. Hence, the debate in the policy community focussed on two proposed patterns of governance both having their origin in international (if not global level) public organizations. However, the debate in the policy community of course also involved the private sector, to which we turn now.

Private sector representatives responded indifferently to the proposal in the first instance. It was their view that the complexity of establishing such an SDRM would prohibit the successful implementation of the proposal.<sup>46</sup> Creditor member states of the IMF responded to the proposals quite positively, which is surprising given the earlier strong rejection in the 1997 G10 report. It seems that the sheer magnitude of the East Asian crisis, combined with the intellectual force and standing of the IMF in the policy community had changed the perspective on the SDRM of quite some policy-makers, and the IMF started further developing its proposals. At about the same time, developments on the CACs gained momentum again with the establishment of a G10 working group under the leadership of Henk Brouwer (Executive Director of the Dutch central bank) in June 2002. This group was to draft 'model' CACs. The working group held informal consultations, especially with private lawyers, before publishing its report in September 2002. The private lawyers were also expected to advise on the 'market acceptability' of the proposed CACs, meaning the degree to which financial services firms would support including CACs in international bonds.<sup>47</sup>

With the feasibility of an actual SDRM increasing, the private sector started to respond more substantively. Led by the IIF, banking sector representatives opposed the SDRM increasingly vehemently seeing it as an unacceptable breach of creditor rights, constraining their behaviour. The IIF lobbied the IMF directly, for example through its policy briefs in advance of the Fund's spring and annual meetings. While the IMF steadily reduced the global authority the SDRM would have, the private sector broadened their coalition (with associations as the Emerging Market Creditors Association coalescing with the IIF in what became known as the 'Gang of Six') demanding market-based solutions (such as CACs) to sovereign debt crises.<sup>48</sup> As opposed to the earlier Latin American episode, the sense of unity

---

<sup>45</sup> Krueger, 2001. Only months earlier the US Treasury International Secretary had hinted at such a mechanism in a speech which received wide attention in the policy-community.

<sup>46</sup> Confidential document source.

<sup>47</sup> G10, 2002, p. 2.

<sup>48</sup> The Gang of Six consists of the Bond Market Association, EPCA, EMTA, IPMA, IIF, and the Securities Industry Association.

in opposition of the private sector was much greater. Importantly, the private sector had formed effective transnational business associations which lobbied directly to the public sector at various levels. Moreover, these actors often had a relatively high degree of access to the public actors in the policy community. An example is the IMF's Capital Markets Consultancy Group in which top level management of the IMF discusses the world economy but also its policy initiatives with high level representatives (board members) of the financial services industry.

Emerging markets, in apparent reaction to the private sector opposition, in the meantime seemed to oppose any regulation of international capital flows, for fear of increasing borrowing costs.<sup>49</sup> Also, they were hesitant about the role of the IMF in an SDRM.<sup>50</sup> The policy-making process culminated in the September 2004 IMF Annual Meeting in Dubai.<sup>51</sup> Lobbying activity of the private sector in the run-up to this meeting increased in intensity, with the traditional IIF position paper being supported by visits of domestic banking executives to the Ministries of Finance and central banks at the highest level.<sup>52</sup> As another blow weakening the case for the SDRM, Mexico emitted the first international bond under New York law with CACs. The Mexican Minister of Finance later admitted that the main reason to include the CACs was "to get rid of the SDRM."<sup>53</sup> Given the opposition from all sides and the faltering support, the SDRM proposal was shelved by the IMF Board of Governors. The market-based CACs were to be the only substantial change in the governance of sovereign debt crises.

Three things stand out from the policy-making process surrounding the resolution of the Mexican and East Asian financial crises. First of all, an important part of the negotiations took part between global level actors (both private and public). With the emergence of this transnational policy community, for example NGOs, but also domestic level actors like ministries of social affairs, have been excluded from the policy decisions made. Furthermore, this development has certainly not strengthened the voice of low- and middle-income countries in determining the patterns of governance. Secondly, the members of this policy community have to a large degree a same background in economics and therefore show a common problem definition (market failure) and yardstick for solutions (improving the functioning of the financial markets). These shared values and beliefs are underscored by the prevalence of a career pattern where jobs in financial services firms are mingled with stints in the public sector (central banks, ministries of finance, and international organizations like the IMF and the BIS). Third, through a combination of excluding other actors and the shared belief system, the pattern of governance consists of market-based solutions. Representatives

---

<sup>49</sup> Informal communication with Emerging Market representative.

<sup>50</sup> Interview sources, Latin America.

<sup>51</sup> Coincidentally, Argentina also launched its much-delayed debt restructuring plans at this summit.

<sup>52</sup> For example, a delegation of ABN AMRO and ING (both banks closely involved in the IIF) paid a visit to the Dutch Minister of Finance.

<sup>53</sup> LatinFinance, December 2003, p. 24.

of the private sector consciously lobby against global level solutions, in the knowledge these are likely less market-driven.

#### **4. Conclusion**

This paper analysed changing patterns of the governance of sovereign debt defaults, trying to explain how an orderly resolution of sovereign debt crisis can be promoted. Millions of people, mainly in middle-income countries suffer from periods of poverty as a consequence of financial turmoil, underscoring the importance of understanding this issue. The policy solutions proposed in response to the 1980s Latin American debt crisis and the late 1990s Mexican and East Asian crises were compared to seek for explanations for the changes in the territorial level, 'ownership', and form of governance. It was argued that a political economy approach to the policy-making process was needed above the dominant International Economics literature on this issue.

The response to the Latin American debt crisis was an ad-hoc, state-based resolution of the sovereign debt crises. The strategy was promoted and effectively led by the American Treasury, and did not lead to new global level rules for governing the market. In the period after the East Asian crisis, on the other hand, quickly actual proposals for new patterns of governance were elaborated in the policy community. Most pronounced of these were the SDRM proposal and the drafting of model CACs. Both entailed a shift upwards in the level of governance in territorial sense. The eventual outcome of the policy-making proposals (model CACs), however, was a much lesser shift upward than the SDRM would have been, with the implementation and effectuation of the change in pattern of governance domestically based.

Developments in the pattern of governance in the period under analysis show a clear development in the direction of more private (market-based) forms of governance. In the various responses to the Latin American debt crisis, the leading creditor states emphasized regularly the central role of the IMF, while the private sector was supposed to 'follow the lead' in a cofinancing role. However, the adoption of CACs in sovereign bond contracts gives private financial actors a position at the negotiating table as an equal partner. Moreover, distinctly public and more constraining forms of governance which were given serious consideration in the policy-making process (the IMF's SDRM proposal) were defeated.

An important distinction between the Latin American and East Asian episodes is the emergence of a transnational policy community. Negotiations in the policy-making process in the aftermath of the East Asian crisis were much more driven by internationally active private financial actors and International Organizations (notably the IMF). The main policy proposals came from the IMF and the G10, both of which negotiated with the IIF and/or directly with internationally active banks on their proposals. The voices of debtor countries or other societal interests in the policy-making network were effectively shut out of the policy community. The strong representation of private sector interests at this level, combined with relatively limited democratic accountability of public sector representatives, enables them to satisfy their material interests (market-led financial governance mechanisms). The dominance

of the emerging transnational policy community is compounded by their shared values and beliefs. This leads the members of this policy community to a common problem definition (market failures) and common standards for the solutions (improving financial market efficiency). Its operation can be witnessed in the quick dismissal of 'radical' solutions like capital controls after the East Asian crisis because it would distort market forces.

Further research is needed to establish whether the emergence of a transnational policy community in global financial governance has also affected the patterns of governance in other policy domains, for example the supervision of banks. Also, theoretical explanations for the emergence of this transnational policymaking community should be elaborated and tested. Finally, and more importantly the implications of these shifts in governance for normative questions of legitimacy, accountability and most of all equity should be analysed.

## References

- Allen, F. & D. Gale, *Comparing financial systems*, MIT Press, 2001
- Baker, A., Hudson, D. & R. Woodward, *Governing financial globalization, international political economy and multi-level governance*, Routledge, 2005
- Bergsten, C.F., Cline, W.R. & J. Williamson, *Bank lending to developing countries: the policy alternatives*, Institute for International Economics, 1985
- Bordo, M. et al., 'Is the crisis problem growing more severe?', *Economic Policy*, 2001 (vol 32), p. 51 – 82
- Brunnengräber, A. et al, 'Interdisciplinarity in governance research', *GARNET working paper*, no. 08/06, September 2006
- Cline, W.R., *International debt re-examined*, Institute for International Economics, 1995
- Cohen, B.J., 'Capital controls: the neglected option', in: Underhill, G.R.D. & X. Zhang (eds), *International financial governance under stress: global structures and national imperatives*, Cambridge University Press, 2003
- Coleman, W.D. & A. Perl, 'International policy environments and policy network analysis', *Political Studies*, 1999 (vol. 47), p. 691 – 709
- Coleman, W.D. & G. Skogstad, 'Policy communities and policy networks: a structural approach', in: Coleman, W.D. & G. Skogstad, *Policy communities and public policy in Canada: a structural approach*, Copp Clark Pitman, 1990
- De Carmoy, 1987
- Dowding, K., 'Model or metaphor? A critical review of the policy network approach', *Political Studies*, 1995 (vol. 43), p. 136 - 158
- Eichengreen, B., *Toward a new international financial architecture*, Institute for International Economics, 1999
- G10, *The resolution of sovereign liquidity crises*, August 1997
- G10, *Report of the working group on contractual clauses*, September 2002
- Gilpin, R., *The political economy of international relations*, Princeton University Press, 1987
- Helleiner, E., 'The long and winding road towards a sovereign debt restructuring mechanism', paper presented at the first annual GARNET conference, Amsterdam, The Netherlands, 27 – 29 September 2006
- Hudson, D., 'Locating and understanding the marketplace in financial governance: IPE, interdisciplinarity and multi-level governance', in: Baker, A., Hudson, D. & R. Woodward, *Governing financial globalization, international political economy and multi-level governance*, Routledge, 2005, p. 62 – 82
- Kenen, P.B., 'Third-world debt: sharing the burden. A bailout plan for the banks', *The New York Times*, March 6, 1983
- Krueger, A., 'International financial architecture for 2002: a new approach to sovereign debt restructuring', address given at the national economists' club annual members dinner, Washington DC, November 26, 2001, <http://www.imf.org/np/speeches/2001/wp01ind.htm>
- LatinFinance, 'What CACs lack', December 2003, p. 24 - 25
- Lukauskas, A.J. & F.L. Rivera-Batiz, *The political economy of the East Asian crisis and its aftermath*, Edward Elgar, 2001.
- Noble, G.W. & J. Ravenhill (eds), *The Asian financial crisis and the architecture of global finance*, Cambridge University Press, 2000
- Porter, T., 'Multilevel governance and democracy in global financial regulation', paper presented at the 'Globalization, Multilevel governance and democracy' conference, Queen's University, Kingston, Canada, 3-4 May 2002
- Roubini, N. & B. Setser, *Bailouts or bail-ins? Responding to financial crises in emerging economies*, Institute for International Economics, 2004
- Sabatier, P.A., 'An advocacy coalition framework of policy change and the role of policy-oriented learning therein', *Policy Sciences*, 1988 (vol 21), p. 129 – 168
- Sachs, J., 'Managing the LDC debt crisis', *Brookings papers on economic activity*, issue 2, 1986
- Shepherd, M., 'U.S. domestic interests and the Latin American debt crisis', in: Stubbs, R. & G.R.D. Underhill, *Political economy and the changing global order*, St. Martin's Press, 1994

- Thompson, H. & D. Runciman, 'Sovereign debt and private creditors: new legal sanction or the enduring power of states?', *New Political Economy*, 2006 (vol 11), p. 541 - 555
- Treib, O., et al, 'Modes of governance: towards a conceptual clarification, *Journal of European Public Policy*, 2007 (vol. 14), p. 1 - 20.
- Wiegand, G., *Western Europe and the Latin American debt crisis*, Institute for European-Latin American Relations, 1988
- Williamson, O.E., *Markets and hierarchies*, Free Press, 1975