

Macroeconomic Growth in the Aftermath of Sovereign Debt Default:

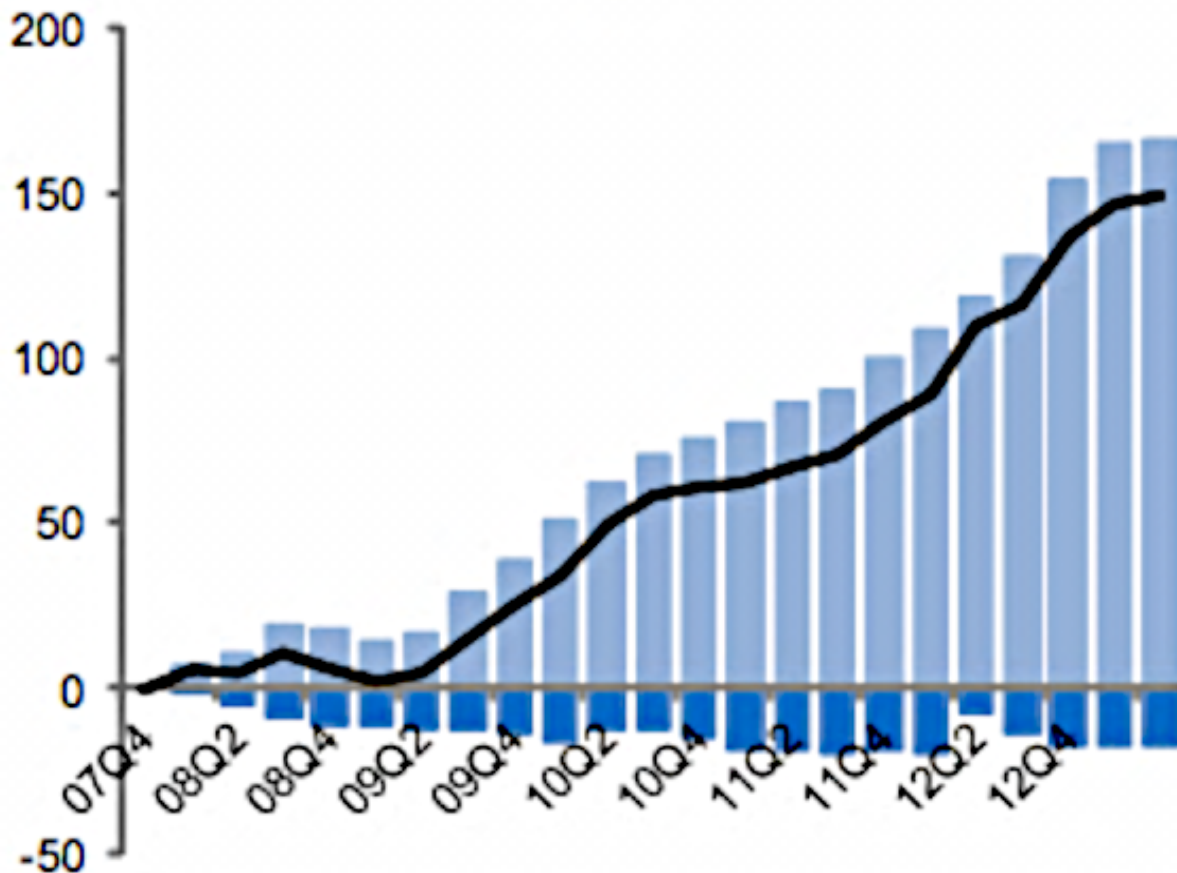
NEOLIBERAL ARCHITECTURE AND EMERGING MARKET INVESTMENT IN RUSSIA, 1999 - 2005



During the modern era sovereign external default crises have been far more concentrated in emerging markets than banking crises have been ... ***sovereign defaults on external debt have been an almost universal rite of passage*** for every country as it has matured from an emerging market economy to an advanced developed economy.

— Carmen Reinhart and Kenneth Rogoff, *This Time is Different: Eight Centuries of Financial Folly*

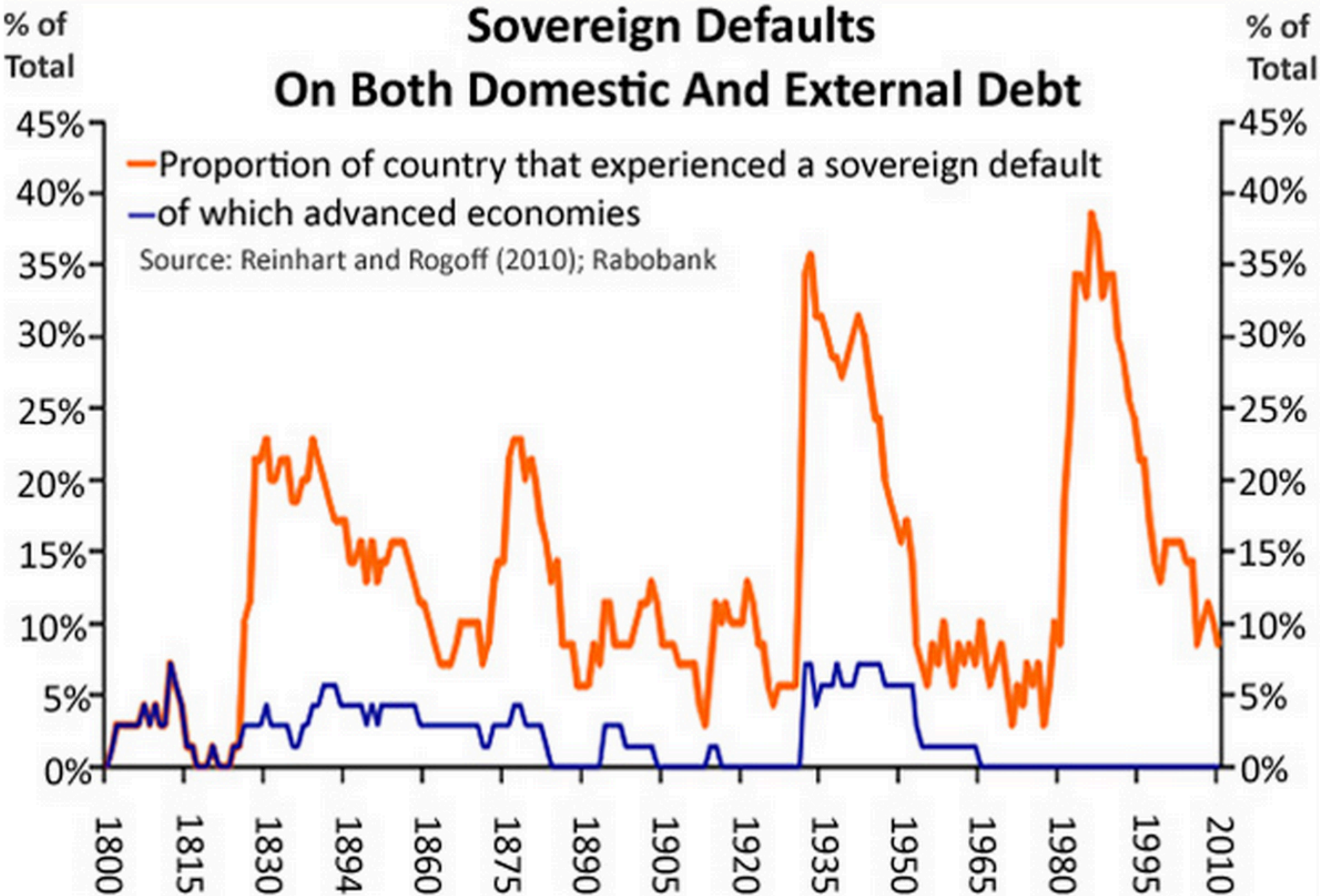
Activity in BRICs Credit Markets



Source(s): Serkan Arslanal and Takahiro Tsuda, "Tracking Global Demand for Emerging Market Sovereign Debt," International Monetary Fund, (2014).

Sovereign Defaults

On Both Domestic And External Debt



Research Puzzle

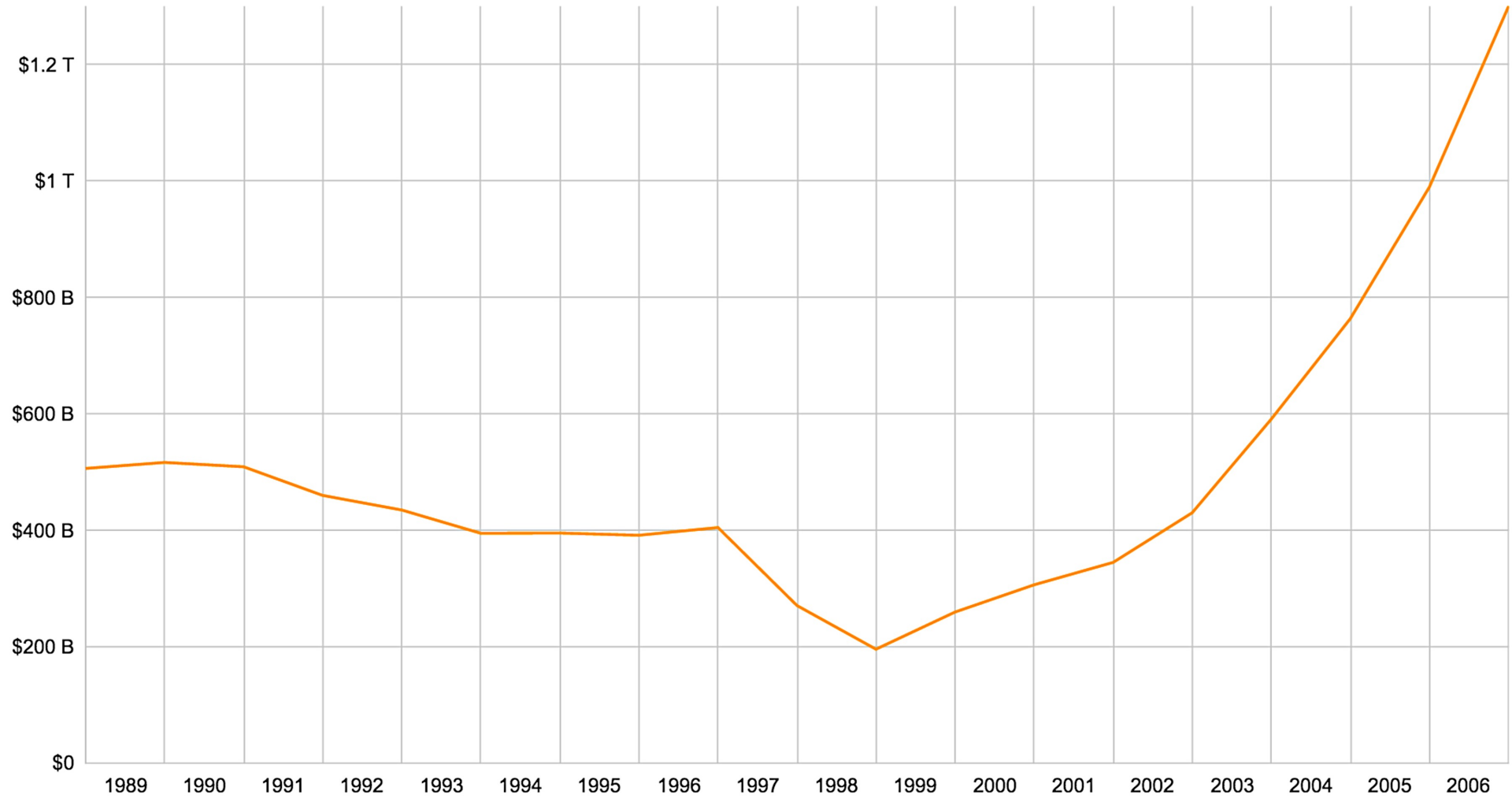
What explains the number of sovereign debt defaults in emerging market economies and what can the international system do to curtail this trend?

Intellectual Context

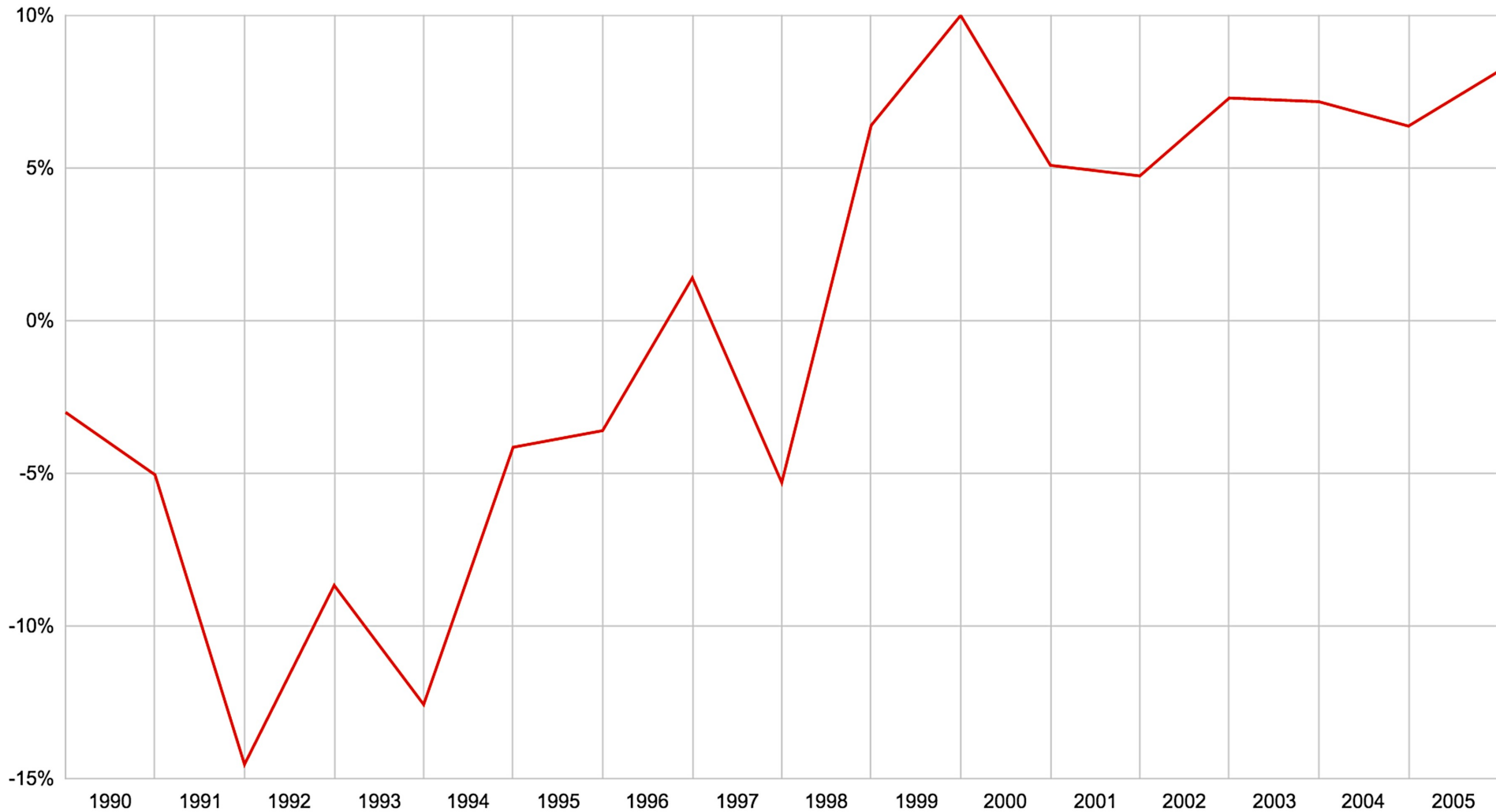
- Law of Sovereign Default
 - Sovereign Immunity, International Comity
- Neoliberal Infrastructure
 - Post-Bretton Woods Architecture
- Market Mechanism Models
 - Costs: Output, Reputational, Penalty



Real GDP, US Dollars (World Bank Development Indicators)



GDP Growth, Percentage (World Bank Development Indicators)



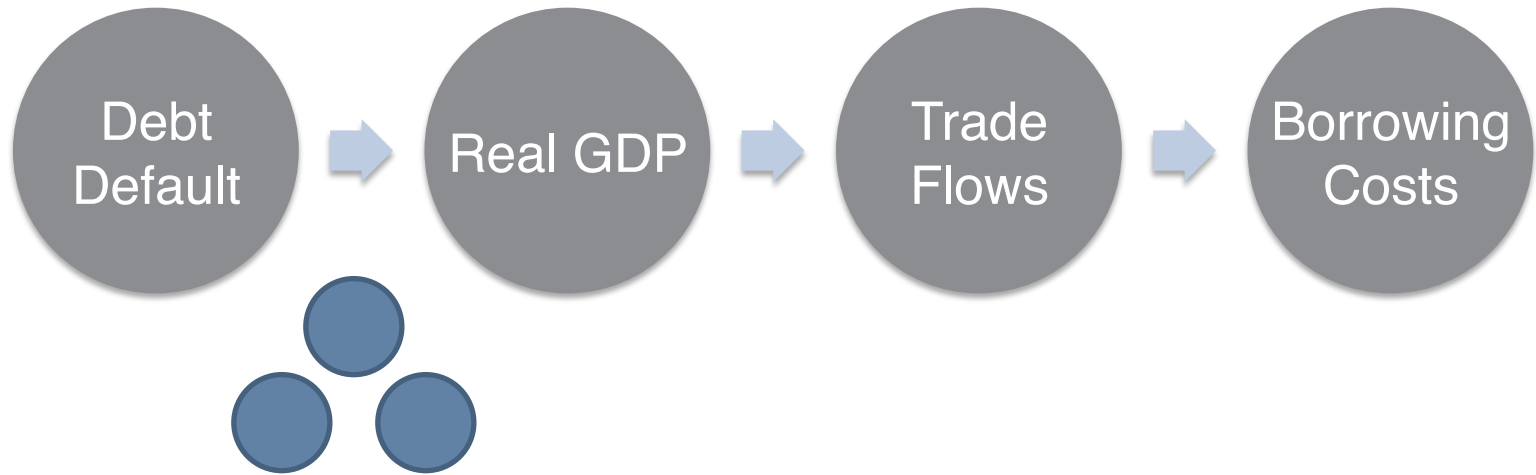
Case Study: Russia in 1998

Research Question: *What variables explain the recorded growth in Russia following the debt default?*

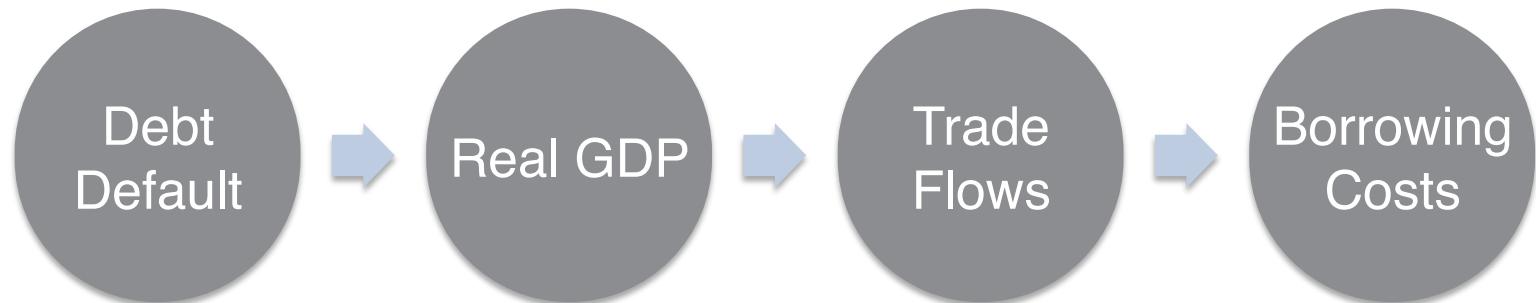
Methods

- Deviant Case Study
- Processing Tracing — Empirical Chain
- Counterfactual — Counterfactual Chain
- Evidence: Policy reports, Newspapers

Empirical Chain

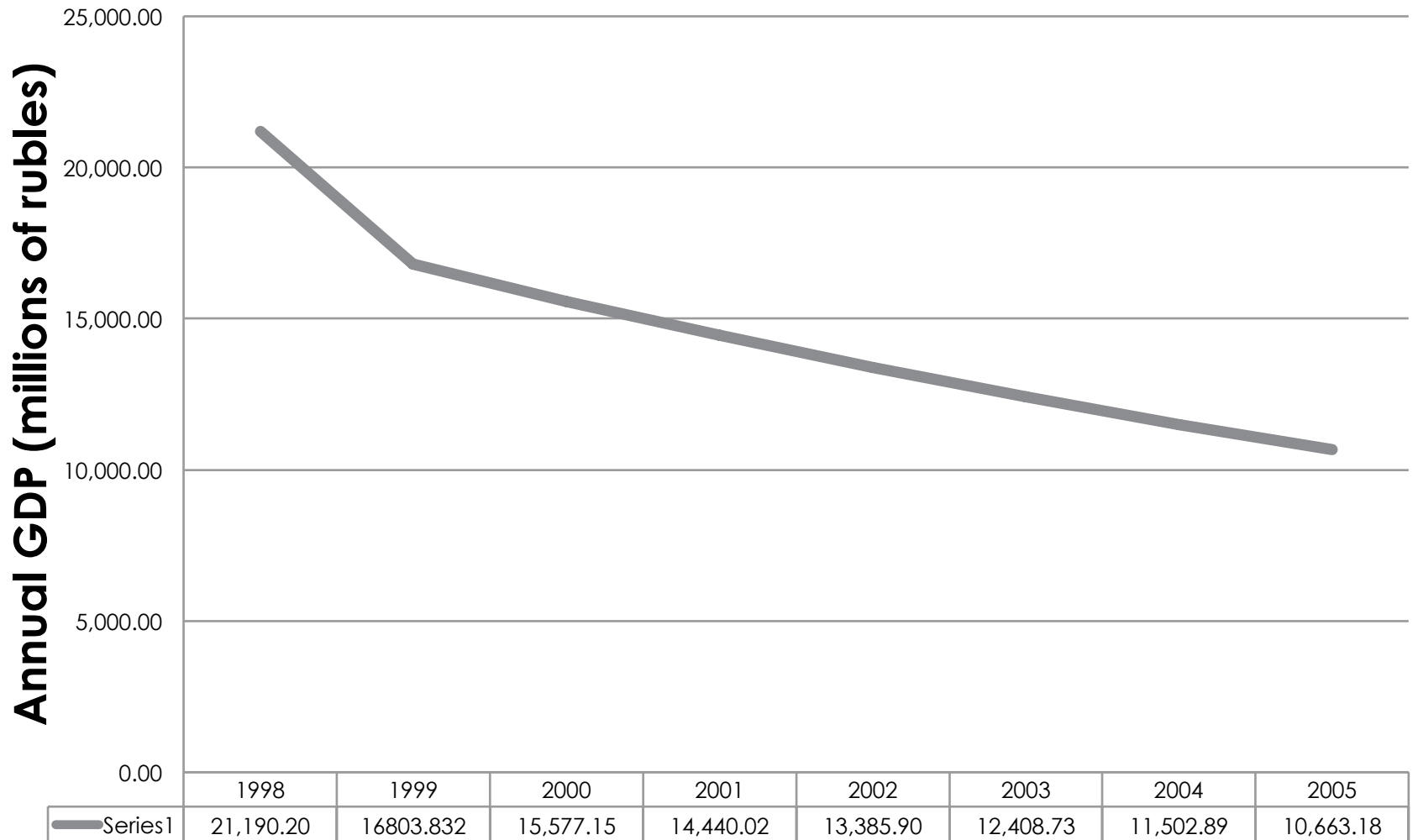


Counterfactual Chain

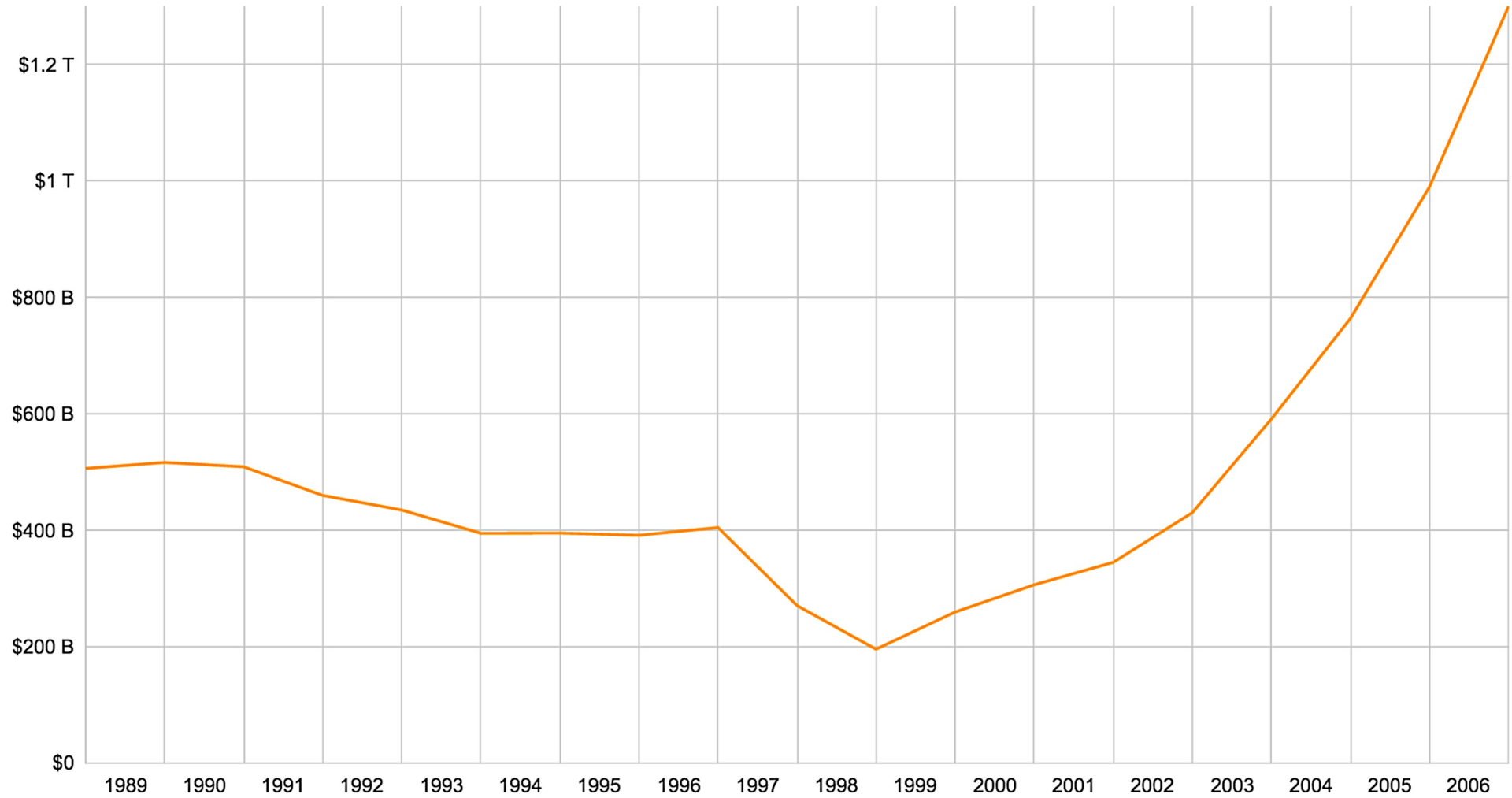


1999 Counterfactual GDP =

(1998 Reported Real GDP) + (OECD Projected Growth) - (Projected Default Penalty)



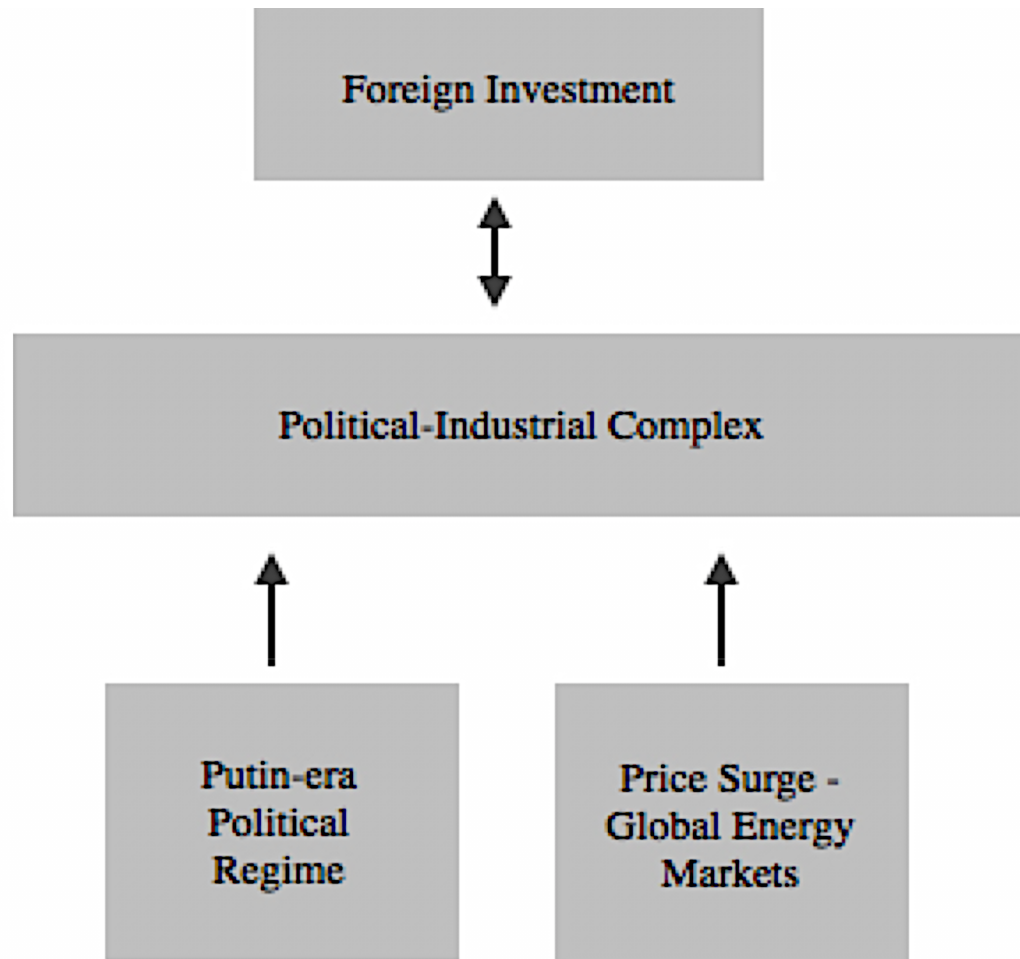
Real GDP, US Dollars (World Bank Development Indicators)



3 Critical Junctures

- Vladimir Putin rises to become President Boris Yeltsin's final prime minister.
- The Putin administration tightens federal controls over tax collection and asserts authority over the energy sector.
- Russia's domestic energy sector sees rising profits as a result of a global energy surge at the turn of the century.

Russia's Post-Default Framework



Implications

- Economic Theory
 - Calls for a large scale study of debt defaults in the era of the “emerging market”
- Legal Infrastructure
 - Formal tools for regulating restructuring & repayment, disincentivizing default as strategy