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

Sovereign Defaults
On Both Domestic And External Debt

Proportion of country that experienced a sovereign default
of which advanced economies

Source: Reinhart and Rogoff (2010); Rabobank
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
1999 Counterfactual GDP =

\[(1998 \text{ Reported Real GDP}) + (OECD \text{ Projected Growth}) - (Projected \text{ Default Penalty})\]
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

- Foreign Investment
  - Political-Industrial Complex
    - Putin-era Political Regime
    - Price Surge - Global Energy Markets
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