IMPERIALISM AND THE POLITICAL ECONOMY OF GLOBAL SOUTH'S DEBT

Edited by Ndongo Samba Sylla

RESEARCH IN POLITICAL ECONOMY

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IMPERIALISM AND THE POLITICAL ECONOMY OF GLOBAL SOUTH'S DEBT

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LIST OF ABBREVIATIONS

BRI	Belt and Road Initiative
CACs	Collective Action Clauses
CF	Common Framework (for Debt treatments beyond the DSSI)
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
FDI	Foreign Direct Investment
FFC	Forces of Freedom and Change
GA	(United Nations) General Assembly
GDP	Gross Domestic Product
GNI	Gross National Income
HIPC	Heavily Indebted Poor Countries (initiative)
IBRD	International Bank for Reconstruction and Development
ICESCR	International Covenant on Economic, Social, and Cultural Rights
ICJ	International Court of Justice
IDA	International Development Association
IFFs	Illicit Financial Flows
IFIs	International Financial Institutions
IGE	Intergovernmental Group of Experts
IIF	Institute of International Finance
IMF	International Monetary Fund
LMICs	Low and Middle Income Countries
MDRI	Multilateral Debt Relief Initiative
MMT	Modern Monetary Theory
NCP	National Congress Party (Sudan)
NIEO	New International Economic Order
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PCR	the People's Republic of China
RSF	Rapid Support Forces
SAP(s)	Structural Adjustment Program(s)
SDRM	Sovereign Debt Restructuring Mechanism
SST	State Sponsors of Terrorism
TDB	Trade and Development Board (UN)
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development

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PREFACE

The Global South, as a geo-historical concept, occupies in the age of neoliberal globalization the intellectual space opened up during the Cold War by the concept of the Third World. Like its predecessor, the Global South connects Latin America, the Caribbean, Asia, Africa, and Oceania as a set of territories that share characteristics pertaining to history (former European colonies/victims of imperialism), international law (countries that are international norm-takers rather than international norm-producers), economic status (nonindustrialized or late industrialized countries), knowledge production (marginalized and distorted subjectivities of Western-centric epistemology), geopolitics (dominated countries that try to challenge the world system), etc. In common academic usage, the concept refers to empirical sets that may differ according to the themes studied, the statistical sources used, etc.

A condition common to the Global South countries following the different waves of political independence has been the recurrence of foreign currency debt crises. In most episodes, the script was already written, with some nuances. In economic booms, there is a large demand for external financing that is met by eager creditors attracted by the prospect of high returns based on exaggerated risk perceptions. When granted, the financing is not always used for productive projects that will allow it to be repaid or in the interest of the population. Sometimes the new loans are intended to repay debts previously contracted. The crisis generally occurs when the terms of trade deteriorate. Declining export prices reduce the ability to service the debt. Creditors become less enthusiastic and fear defaults on their loans. The costs of refinancing the debt increase accordingly.

As countries become insolvent and face a balance-of-payments crisis, they apply for emergency loans to the International Monetary Fund (IMF), a twentieth-century-born institution that updates the goals of "gunboat diplomacy" with "civilian" methods. In its capacity as bailiff and policeman for Global North-based creditors, the IMF provides "assistance" in return for the austerity measures it invariably imposes. The objective is to get the states to reduce their "lifestyle," which is considered "expensive"," and to try to quickly obtain external surpluses (export revenues) to continue to service the debt. Meanwhile, the World Bank also provides "assistance" in return for privatizing public enterprises and liberalizing the economy (foreign trade, finance, labor relations) for the benefit of foreign capital and its local junior allies. When the debt proves impossible to service, even with the "assistance" of the two Bretton Woods institutions, there comes talk of restructuring it. In this fragmented process, private and multilateral creditors rarely lose out, while bilateral creditors make

some concessions, always bearing in mind their diplomatic and geostrategic interests. The debt relief granted by the "creditor nations" often falls far short of the expectations of the movements campaigning for the abolition of Third World's (now Global South's) debt. In the end, the populations of debtor countries, especially the most vulnerable among them, are the adjustment variables. Their cries of anger in the streets may have led to the overthrow or non-reelection of certain governments in place.

This scenario is being played out again before our very eyes, as the period opened by the COVID-19 pandemic has brought the issue of the Global South's external debt back to the forefront. Faced with this "black swan" event, the Southern countries found themselves with reduced ammunition. In some cases, as in Africa, the economic crisis even preceded the health crisis. The deterioration of the terms of trade, the drop in export and tourism revenues, the decline in foreign direct investment flows, the increase in risk premiums on bonds issued by Southern governments, currency depreciation, etc. were the immediate consequences of the health crisis that started in China before spreading to Northern countries and the rest of the world. In this particular configuration, many governments in the South were faced with a difficult choice: to service the debt or to fail to mitigate the health, economic, and social consequences of the COVID-19 pandemic. In the same vein, shocking inequalities in physical and financial access to COVID-19 vaccines have compromised prospects for a strong economic "recovery" in the South.

The COVID-19 pandemic has certainly revealed the many flaws in the multilateral system, the various facets of the dependence of Southern countries (commercial, technological, financial) on Northern countries, and the strong reliance of the latter on Southern labor and raw materials. It has also been an accelerating factor. The ongoing debt crisis in the Global South was on the cards before Sars-Cov-2 appeared. External solvency indicators – debt service to exports; exports to external debt stock; official reserves to external debt stock – tended to deteriorate in most Southern countries during the 2010 decade. Despite the partial cancellation of sovereign debts under schemes such as the Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiative (MDRI), Southern countries reindebted massively in the wake of the Great Financial Crisis (2007-8). This context is marked both by the gradual exhaustion of the primary products supercycle observed since the early 2000s and by the pursuit of nonconventional monetary policies by Northern countries' central banks (quantitative easing, zero interest rate policy). These have led to an abundance of liquidity on international financial markets that could be invested in exotic destinations ("emerging markets/frontier markets") offering returns much more attractive than those prevailing in the Global North.

Though a similar structural logic led to their genesis, the debt crisis of the 1980s and the current one differ in at least two aspects. On the one hand, the immediate triggers were not the same: declining terms of trade and a drastic rise in the Federal Reserve interest rates ("Volcker Shock") in the first case; a pandemic in the second. On the other hand, the composition of creditors changed significantly. The share of official loans (bilateral and multilateral) in the public

external debt stock of Southern countries was more important at the time. Since then, one country in particular acquired the new status of a global creditor vis-à-vis the Southern countries: China. Moreover, private creditors are now dominated by Eurobond holders rather than commercial banks. This latter change reflects the transition in the North to market-based financial systems, but also the trend toward increasing concentration and centralization of capital. Trillion-dollar asset management companies like Blackrock now hold the sovereign debts issued by countries like Zambia, one of the sovereign defaulters that made the headlines in 2020. This new environment, marked by the emergence of China and private creditors, is making the process of restructuring Southern sovereign debts more complex and their outcomes more uncertain.

Seizing the opportunity offered by current events, this volume aims to revisit the issue of Global South's external/foreign currency debt, with a particular focus on sovereign debt. The starting point of the contributions gathered here is the recognition that Global South's external debt crises are structural in nature. As such, they cannot be explained away as the result of "mismanagement", "fiscal irresponsibility", etc. These idiosyncratic considerations are potentially aggravating rather than structural factors helping account for the longevity and recurrence of this problem across the Global South.

Among the questions addressed in this volume: How can we explain debt cycles in the South? In what ways are they indicative of the subordinate economic and monetary status of the Southern countries, or even of the particular constraints imposed on them by economic, monetary, and financial order? In what way does foreign currency debt constitute an instrument of imperialist domination? What is the role of the ruling classes of the South in the persistence of this pattern? How true is the view that China is practicing a "debt trap diplomacy" to loot Southern countries? What are the implications of creditors' view on debt sustainability on the sustainability of social reproduction and the environment? Why have repeated calls for an international mechanism to restructure sovereign debts not yet been successful? What alternatives can be considered in the absence of such a mechanism? More importantly, what practical measures could help turn the page on debt crises in the Global South countries and rid them of the iron fist of their creditors?

The contributions in this volume allow us to consider the external debt of Global South countries as a *legacy of imperialism* in its colonial phase (visible through the longevity of legal structures of colonial origins and the dependence on exports of primary and low wage-based products), the *ongoing outcome* of a global economic, monetary and financial order that constrains their autonomous development, and an *instrument of imperialist domination* that makes it possible to shape their economic policies according to the requirements of core countries and their capitalist interests. Using various theoretical lenses, *Imperialism and the Political Economy of Global South's Debt* critically engages with policy proposals to overcome the structural conditions that create the enduring foreign debt burden and its long trail of avoidable human sufferings.

Ndongo Samba Sylla
July 2022

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PART 1

CASE STUDIES

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THE POLITICAL ECONOMY OF DEBT IN THE GLOBAL SOUTH: THE CASE OF ARGENTINA (2001–2022)

Juan E. Santarcángelo and Juan Manuel Padín

ABSTRACT

Following a successful debt-renegotiation process in the mid-2000s, Argentina consolidated a path of growth and debt relief. The outbreak of the global financial crisis in 2007–2009 and other domestic imbalances altered the economic scenario. In this context, the authorities tried to return to global financial markets, but legal conflict with vulture funds made that option unpalatable. In 2015, the triumph of a right-wing political coalition restored the dominance of neoliberal economic policies, including the return to debt and equity markets. The subsequent cycle of indebtedness and capital flight faced by Argentina not only unleashed a major crisis but also caused the return of the International Monetary Fund, which granted the largest lending arrangement to a single country in its history. The aims of this chapter are to analyze the winding cycle of debt reduction and overindebtedness experienced by Argentina between 2001 and 2022; to examine the set of structural factors as well as the role of certain domestic and foreign actors; and to consider the long-term effects of external indebtedness and some lessons that can be drawn for other countries in the Global South.

Keywords: Political economy; Argentina; external debt; neoliberalism; IMF; dependence

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1. INTRODUCTION

Over the last two decades, Argentina has trodden a challenging economic path, moving through four different stages in its approach to external debt. The first stage began after the 2001 crisis that caused a partial default. It marked the beginning of a debt-reduction period, which included two renegotiation processes with private creditors and the repayment of debt to the International Monetary Fund (IMF). Starting in 2011, the second stage involved a significant decline of international reserves and an attempted return to international financial markets, thwarted by a legal conflict with a small group of vulture funds. The third stage began in December 2015, as a new government came into office promoting neoliberal policies and leading the country on a strenuous journey of indebtedness and capital flight. This path not only precipitated a severe crisis and a new default but also sparked the return of the IMF, with the largest lending arrangement granted to a single country in its history.

The last stage began with a new Peronist government coming into office at the end of 2019. The administration struck a deal with private creditors in 2020 and finished the renegotiation of repayment conditions for the IMF's extraordinary disbursement in 2022. This agreement includes many of the "IMF's classical recommendations." For example, a reduction of monetary financing of the fiscal deficit and a new framework for monetary policy implementation to deliver positive real interest rates; reducing energy subsidies; prudent monetary and fiscal policies; and policies aimed at maintaining a competitive real effective exchange rate; among others (IMF, 2022).

For a better understanding of this erratic behavior in just two decades, it is essential to take into account that Argentina is a de facto bimonetary economy, characterized by a structural currency flight. Reaching out for international funding is regularly required to cover external account imbalances, and needs increase further when the terms of trade turn unfavorable and the current account worsens. In spite of this, external indebtedness – which could both serve that purpose and support development – did not fulfill that role in any of the opening and liberalization cycles in recent decades (mid-1970s, 1990s, and 2016–2019). Conversely, this increased imbalances, strengthened the financial hegemony, and reduced the range of action of monetary policy under neoliberal guidelines, strongly promoted by international financial institutions. As such, indebtedness processes not only paved the way for transferring assets abroad and protected the wealth of major players (such as creditors, banks, and international institutions) but also amplified the relevance of financial hegemony, conditioning other alternative paths of development.

The aim of this paper is to analyze the winding cycle of debt reduction and overindebtedness experienced by Argentina between 2001 and 2022. This analysis will examine a set of structural factors, as well as the role played by core countries that, through international institutions (particularly, the IMF) and with local complicity, were instrumental in subordinating the Argentine economy to the Global North. To this end, this paper includes four more sections. Section II looks into the 2001 crisis, the debt-renegotiation processes during the 2000s, and

the early repayment of the debt to the IMF by the then President Néstor Kirchner. Section III analyzes the failed attempt to return to capital markets after the sharp decline in international reserves in 2011 and the conflict with the vulture funds. Section IV describes the policy of overindebtedness applied between 2016 and 2019 that was supported by the neoliberal government in office, and the IMF's role. To conclude, the final section aims to reflect on the long-term effects of indebtedness, the current challenges facing the Argentine economy, and some lessons that can be drawn for other countries in the Global South.

2. FROM THE DICTATORSHIP TO THE 2001 ECONOMIC CRISIS AND THE DEBT-RENEGOTIATION PROCESSES

Argentina is one of Latin America's major economies, and it is also classified as an upper-middle-income country.[1] Even so, the economic composition and social situation are a reflection of its peripheral setting. The current productive matrix is focused on businesses of low (food, wood, and paper) and lower-middle (oil, rubber and plastic, iron and steel, etc.) technological complexity, which together account for 70% of total manufacturing value added (Abeles & Amar, 2017).[2] The aforementioned production structure is also highly concentrated and majority foreign owned; for example, the top 500 companies in Argentina – which are strongly supported by foreign capital – account for almost a quarter of total value added and more than 60% of total exports (Santarcángelo, 2019).

The global integration of the Argentine economy is consistent with this profile. Commodities and natural resource–based manufactured goods are the country's main exports – for decades, they have accounted for 50% to 60% of total goods exports.[3] These characteristics also affect funding needs. Although the trade balance of goods usually fluctuates but remains positive in the last decades (only three years had a trade deficit between 2000 and 2020), its sensitivity to changing international demand and to the evolution of trading terms has a strong impact on funding requirements. By way of example, between 2010 and 2019, the volatile contribution of the trade balance of goods was not sufficient to counteract the current account deficit of the balance of payment, while the availability of international reserves was affected by three determining factors: dividend distributions and profit remittances abroad, the continuing deficit in the trade balance for services, and the payment of debt interests.

Continual capital outflow and the lack of a sustained source of revenue in foreign currency, such as foreign direct investment, to offset the external account deficit aggravate the need for foreign currency to keep the fragile Argentine economy in motion. It is worth noting that this structural scenario is periodically influenced by other factors, such as the types of policies implemented by different governments, the nature of the approach to financial markets and international financial institutions, and the partnerships (and conflicts) between classes and fractions.

The shift in Argentina's development trajectory during the 1970 is a vital element to understand the current performance of the economy. In this regard,

between the 1930s and mid-1970s, economic development was based on an import substitution model. This was supported by a highly regulated financial system. Public banking played a key role, the government determined loan and deposit interest rates, reserve requirements were high, the purpose of loans granted by commercial banks was under tight scrutiny, and both access to the foreign exchange market and capital movements were significantly restricted.

The financial reform and integration process that started during the military dictatorship (1976–1983) – and intensified under the democratic governments of the 1990s, with support from the IMF and the World Bank – shifted the accumulation regime toward financial hegemony.[4] Just as in other major countries in Latin America, Argentina implemented initiatives based on the Washington Consensus, enforcing integration, opening, and deregulatory economic policies, allegedly aimed at facilitating capital inflow and outflow (Basualdo, 2006; Santarcángelo, 2017). The results of the abandonment of the development path based on industrialization by import substitution had strong impacts both in terms of economic growth and the levels of indebtedness of the economy, as shown in Fig. 1.

As mentioned above, one of the main impacts was the stagnation of economic growth, which went from an average annual growth rate of 5% between 1956 and 1975 to almost stagnation until the early 1990s. Throughout the dictatorship,

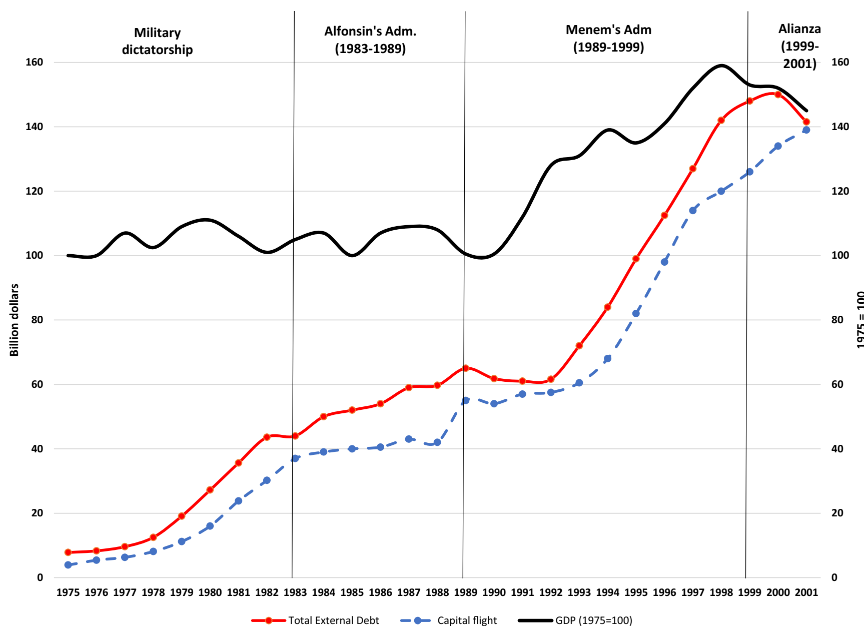

Fig. 1. GDP at Constant Values of 1992, Total External Debt and Capital Flight, 1975–2001, in US$ Billion and 1975 = 100. *Source:* Own elaboration using data from Basualdo (2006).

there was also a significant increase in the levels of foreign indebtedness, which rose 358% (from 7.8 to 43.6 billion dollars) as well as in the evolution of capital flight (from 3.9 to 30.2 billion dollars).[5]

The return to democracy under Alfonsin's administration (1983–1989) consolidated the economic transformation carried out by the dictatorship, and then was deepened during the following administrations of Menem (1989–1999) and De la Rúa (1999–2001).[6] In a context of a jobless economic growth that lasted from 1990 until 1998, the levels of indebtedness and capital flight in the country increased significantly (both variables ended up in 2001 with values of almost 140 billion dollars). In effect, during the neoliberal era, foreign indebtedness ceased to be a means of financing industrial expansion and became an instrument for obtaining financial rents that later became the core of capital flight.

This process went hand in hand with a strong role played by international organizations, particularly the IMF, which not only became the political and technical representative of external creditors but was also in charge of elaborating adjustment programs and monitoring their evolutions. In the case of Argentina, the IMF actions were key to support economic policy changes, as when it granted a lending arrangement for USD 300 million to the military dictatorship (1976–1983) in order to strengthen international reserves and curb devaluation expectations; while just a few months earlier, the financial institution had denied the loan to the democratic government of Isabel Perón (1974–1976).

The rise and consolidation of neoliberalism as well as the recurrent economic and financial crises provoked a systematic loss of value of the local currency (due to constant devaluations, different exchange rates regimes, and inflationary processes) which helped to consolidate a pattern of conduct in which society's savings are constantly exchanged for dollars, as a strategy to retain their value over time. This dynamic, to which we must add the structural need of dollars that the country has in order to pay its foreign debts or to promote the development of the manufacturing sector (import payments), consolidated Argentina as a de facto bimonetary economy. As a legacy, the US dollar ceased to have predominantly productive purposes (import payments), and the financial demand for US dollars for savings as well as for the dollarization of utilities became a central factor.

At the turn of the century, Argentina faced a deep crisis that brought down the existing economic regime (convertibility). Poverty rates climbed to 54%, with 27.7% of the population living in extreme poverty, and unemployment rates exceeded 17%. By the end of 2001, amid high institutional instability, Argentina partly defaulted on its external debt (which did not include debts to major international institutions) for over US$100 billion, one of the largest sovereign debt defaults in history.[7]

In such a deep crisis, Argentina's debt would only become a priority issue after the elections of April 2003 and the rise of a new government led by a Peronist politician, Néstor Kirchner, which had the goal of "normalizing the economy." This would begin a favorable trend: it was the inauguration of a phase of extraordinary expansion (with 8.8% annual growth between 2003 and 2008)

marked by trade and fiscal surpluses, domestic prices under control, real income growth, and a significant recovery of social indicators. The increase in business activity at the time was stimulated by redistributive and expansionary policies, together with a determining international equilibrium based on the boost in the global economy, improved trading terms, and the good performance of major trading partners such as China and Brazil, which in turn led to significant accumulation of foreign reserves (Amico, Fiorito, & Zelada, 2012; Kulfas, 2016).[8]

Although the hard-line stance of the Argentine government faced intense pressure from the financial capital sector, solving "the external debt problem" was one of the main accomplishments of the Kirchner administration. There were three key milestones on this journey. The first was the debt restructuring in 2005, which gave relief to external accounts by reducing payable interest and ending the accumulation of arrears on defaulted public debt. From the total eligible debt of US$82 billion, US$62 billion were swapped, and new debt securities for US$35 billion were issued. The nominal haircut reached 56% and, by the end of the process, acceptance had exceeded 76% (Table 1). Historically speaking, this was a truly successful result. In fact, in 1983, at the return of democracy, the interests of public and private debt accounted for 70% of exports. In 2001, the debt-to-exports ratio was at 45%, dropping to a third of that value after the debt swap (Gerchunoff, 2006, p. 4).

The second milestone was in 2006, when President Kirchner announced an early repayment of debt to the IMF (US$9.81 billion) using foreign exchange reserves.[9] This became particularly relevant not just because of the sum itself (which represented 34% of the country's international reserves) but also because it marked the end of the IMF's long-standing influence in domestic affairs through its never-ending set of conditions.[10] This was clearly reflected in Kirchner's words announcing the debt repayment: "This debt has been a continuous vehicle for meddling because it is subject to regular reviews and has been the source of more and more demands, which contradict each other and go against the goal of sustainable growth. Besides this, considering the current distortion of its purpose

Table 1. Results of the Debt-Restructuring Processes Between 2005 and 2010, in US$ Billion.

Variable	Year	
	2005	2010
Eligible amount	82.836	18.300
Amount swapped	62.318	12.210
New debt issued	35.261	7.179
Haircut over nominal value (swapped)	56.60%	58.80%
Creditor acceptance	76.10%	70.20%
Outstanding debt	23.90%	7.10%

Source: Own elaboration using data from Kulfas (2016).