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Shifting or Maintaining Dominant Development Paradigms?

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DOI
10.1111/dech.12800

Publication date
2023

Document Version
Final published version

Published in
Development and Change

Citation (APA)
Fischer, A. M., & Storm, S. (2023). The Return of Debt Crisis in Developing Countries: Shifting or Maintaining Dominant Development Paradigms? *Development and Change*, *54*(5), 954-993. https://doi.org/10.1111/dech.12800

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Development and Change

Published on behalf of the Institute of Social Studies, The Hague

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Debate

The Return of Debt Crisis in Developing Countries: Shifting or Maintaining Dominant Development Paradigms?

Andrew M. Fischer and Servaas Storm

ABSTRACT

In the aftermath of the COVID-19 pandemic, much of the global South has been immersed in a debt crisis of a breadth and depth not seen since the early 1980s. The debt distress was apparent before the pandemic and the situation over the last decade is best described as a slow burn, which the pandemic and war in Ukraine ignited in often sudden and dramatic ways. However, what remains a surprising feature of the ongoing situation has been the avoidance so far of a generalized domino effect, unlike previous systemic Southern debt crises. This fact does not diminish the severity of the consequences given that the containment of crisis has been achieved by regular and persistent applications of austerity and adjustment programmes with deleterious impacts on development in poor countries. This article frames the Debate by exploring these aspects of the current Southern debt crisis, focusing on its deeper structural drivers versus the role of more proximate triggers of the crisis; the similarities or differences with past crises of recent decades; and the degree to which anything has in fact changed in orthodox responses to crisis management. A theme that emerges from the more heterodox scholarship profiled by this Debate is that the current crisis and its responses are maintaining the dominant development paradigm of the last 40 years, rather than eliciting a shift away from it. There is a continued adherence to neoliberal ideology in macroeconomic policy making and to the punitive subordination of developing countries in debt distress, through crisis responses, to the Northern and especially US-centred international financial system. Ignoring the very strong similarities to the past, especially the 1982 debt crisis that ushered in this paradigm, risks repeating the lost decades to development that followed.

The authors would like to thank the editors of *Development and Change* for their work in reviewing this Introduction and the whole Debate section, in particular Kate Meagher, whose meticulous and indefatigable comments and engagement improved all our work and spirits immensely. We also thank the other authors of the Debate for contributing such timely pieces and for bearing with us through the journey.

Development and Change 0(0): 1–40. DOI: 10.1111/dech.12800
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INTRODUCTION

In the aftermath of the COVID-19 pandemic, much of the global South has been immersed in a debt crisis of a breadth and depth not seen since the early 1980s. The International Monetary Fund (IMF, 2022a) estimated that about 60 per cent of low-income developing countries were experiencing debt distress or were close to it in 2021 and 2022. Many are teetering on the edge of default. Ghana and Sri Lanka already defaulted on their external debt in 2022, two years after Zambia did. Pakistan and Egypt have been on the verge of a default in 2023.

While the number of countries in debt distress surged in the first year of the COVID-19 pandemic due to a sharp increase in debt combined with economic slowdown, the underlying conditions had been building before the pandemic. In 2016–19, public debt in over 40 developing countries had exceeded 60 per cent of GDP (UN, 2023), and many others were approaching this level. The situation over the last decade is best described as a slow burn, contained by regular and persistent applications of austerity and adjustment programmes. Many have been under the direct tutelage of the IMF, with an overriding aim of placating (global) financial markets, while cutting critical public investment and social spending (Kentikelenis and Stubbs, 2023; Storm, 2022; UNCTAD, 2022).

However, except for a few spectacular outbursts or occasional articles or features in the financial press, this slow-burning global crisis receives scant attention in the Northern-centred international media. The fact that large parts of the global South are again under the yoke of debt distress and crisis barely registers in the Northern imaginary of development. It even seems to largely escape the gaze of the Northern-centred development studies community, which has been absorbed by debates about decoloniality or other crises such as climate or identity. For instance, neither of the 2023 conferences of the UK Development Studies Association or the European Association of Development Institutes featured any keynote or even panel focused on this debt crisis.

Headline attention has been instead grabbed by the ongoing reverberations of COVID (up until 2022), the war in Ukraine (from 2022 onwards), and rising geopolitical tensions between the US and China. The overriding concern has been with resurgent price inflation in the centres of capitalism (rather than in the peripheries where most of the world's population lives and where relatively high inflation has remained a regular feature). Inflation has been used to justify a drastic tightening of monetary policy in the US and across the globe, even while economies are still recovering from the COVID-19 pandemic and still reeling from the energy and commodity price shocks caused by the Ukraine war. This has had an immediate impact on the

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cost of debt burdens faced by developing countries and, by also worsening balance of payments constraints, has also ironically fuelled rather than quelled inflation in many of these countries. Moreover, whilst the cost-of-living crisis in the North has been intense for poorer sections of the population, it has been much more so in the global South (Ghosh, 2022). Countries of the South also have far fewer means to buffer the consequences, especially given much tighter limits to indebtedness, which current conditions are exacerbating.

The growing debt of poor countries is alarming and brings back traumatic memories because current problems plaguing the global economy eerily resemble the dominant features of the world economy in the late 1970s. That period ended in the early 1980s, with a brutal monetary tightening in the US that triggered a wave of debt crises in developing countries, especially in Latin America and Africa, alongside the rise of a new economic orthodoxy that has come to be called neoliberalism. The punitive stabilization and austerity programmes imposed on the debtor developing countries in crisis, followed by structural adjustment programmes (SAPs), directly contributed to almost two lost decades of development in the affected regions — a point that often remains an elephant in the room in mainstream discussions about development goals, paradigms, or performance.

In comparing the present crisis to this earlier period, the conventional wisdom is that the nature of crisis and crisis responses have changed, and that the current crisis is also a harbinger of systemic changes in the development paradigm, with the rise of China and the relative decline of the US and its Washington-curated consensus. For instance, former World Bank President David Malpass exuded optimism that today's policy makers have learned from mistakes made in the past and, hence, 'are in a better position today [than in the 1970s] to stave off stagflationary headwinds' (World Bank, 2022: xvi). Alternatively, Oldekop et al. (2020: 3) argue that this debt crisis marks a new era of 'global development', which will not be understandable through a purported 'international development paradigm' because China and various private sector actors are much bigger creditors than in the 1982 crisis, and 'US–China competition prevents the kind of coordinated multilateral response that followed [this past crisis]'. They do not specify the latter response, although we must presume that they are referring to the structural adjustment programmes that followed the 1982 crisis, because it otherwise took almost a decade for the Brady Plan to produce significant debt relief for Latin America in 1989, and more than two decades for the Multilateral Debt Relief Initiative to provide the same for low-income countries in 2005.

Yet other organizations beg to differ, such as UNCTAD which has regularly warned of a repeat of lost development decades and recently contended that 'it is not obvious …. that tighter monetary and fiscal policies are the correct response to inflation driven by supply-side bottlenecks' (UNCTAD, 2022: 22). Indeed, declining real wages, slowing economic growth, a

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general weakening of multilateral rules and practices are the dominant features of today's world economy in the context of monetary tightening and fiscal austerity. As a result, macroeconomic policy space is shrinking in developing countries, especially those closely integrated into the global financial system, which is not just endangering their fragile recovery from the pandemic, but also undermining their longer-term development. According to this view, optimism is premature as the worst might be yet to come.

The Forum 2023 Debate explores these tensions in the understanding of the Southern debt crisis. This includes the role of more proximate triggers of and responses to the crisis, versus its deeper structural drivers; the similarities or differences with past crises of recent decades; and the degree to which anything has in fact changed in terms of orthodox responses to crisis management. In this respect, the Debate collection mostly challenges the economic orthodoxies promulgated by the World Bank, the IMF and the Bank for International Settlements (BIS) regarding the causes, responses and consequences of recent Southern debt distress. However, while challenging this persistence of economic orthodoxies that have reigned over macroeconomic policy making and development thinking for more than four decades, there are also significant degrees of disagreement among these critical, more heterodox perspectives on the current crisis.

Several major themes that emerge from this Debate help to clarify these important points of difference and dissonance within the more critical scholarship, which this article seeks to elaborate. The first concerns the parallels between the current conjuncture and the 1982 debt crisis. How similar are these crises? What, if anything, can we learn from the monetary and fiscal policy experiences and mistakes of the 1980s? Is the current crisis actually signalling a change in the dominant development paradigm of the last 40 years or instead its maintenance and continuity? The second concerns the role of proximate triggers for the current debt distress (which include the COVID-19 pandemic and the spike in energy and food commodity prices due to the Ukraine war, as well as domestic policy decisions by debtor country governments) versus underlying structural causes, which are primarily related to the nature of a country's integration into the global economic and financial system. The latter includes factors such as economic and technological dependency or international financial subordination (IFS), or else the accentuated pro-cyclical manner by which the peripheries receive economic and financial cycles from the centre. A variant of this second theme regards the recurring debates that resurface with each debt crisis since the early 1980s about whether crisis can be attributed primarily to bad domestic policy decisions or development strategies, as is often alleged by mainstream commentators, or else to systemic external factors that have increased the vulnerability of developing countries to economic shocks emanating from the global North. This last point goes to the heart of development studies given that it concerns the severely limited policy space that many developing

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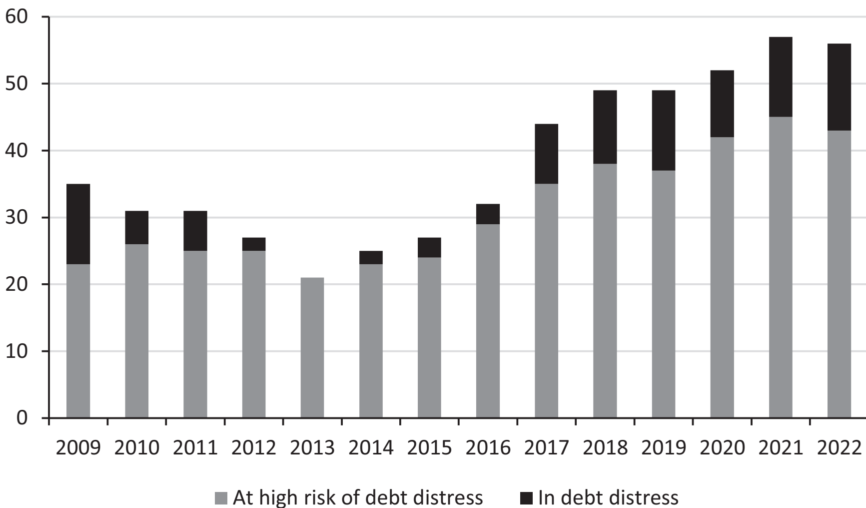
countries face in pursuing development strategies that invariably require external indebtedness, bringing us back to the perennial issue of how, why and when a state can succeed in operating as an effective developmental state in the current global context. But we begin by outlining the current state of the world economy as seen from the perspective of these developing countries.

Crisis upon Crisis

As noted above and detailed in Chowdhury and Jomo (this issue), since the start of the COVID-19 pandemic, much of the global South has been immersed in a debt crisis of a breadth and depth not seen since the early 1980s. The IMF (2022a) estimates that about 60 per cent of low-income developing countries were experiencing debt distress or were close to it in 2021 and 2022 (see Figure 1). Based on data from the IMF (2023), the UN (2023) similarly calculates that over 70 developing countries having public debt exceeding 60 per cent of GDP in 2020, and almost 60 countries remained at that level in 2022 despite the severe austerities that were imposed in many of these cases. As shown in this UN report, these levels were the peak of a sharp short surge induced by the COVID-19 pandemic — the World Bank (2021) notes that the debt burden of the world's low-income countries in 2020 alone increased 12 per cent to a record US$ 860 billion.

Figure 1. Rising Debt Distress in Low-income Countries (per cent of DSSI countries)



Notes: The low-income countries are the 73 countries eligible for the Debt Service Suspension Initiative (DSSI).
Source: IMF (2022a).

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However, the underlying conditions that rendered these countries so vulnerable to the pandemic had been building before the pandemic, with over 40 developing countries having public debt exceeding 60 per cent of GDP from 2016 to 2019 (UN, 2023), and many others approaching this level (also see Figure 1).

As in the early 1980s, the current debt crisis could be described as a perfect storm: with elevated public and private debt levels exacerbated by the COVID-19 pandemic, these low-income economies have been coping with higher food and energy prices in a context of the war in Ukraine, at the same time as monetary policy has been suddenly tightened in the global North. Rising geopolitical tensions have also led to a general weakening of multilateral rules and practices (Chowdhury and Jomo, this issue). Monetary tightening has increased the cost of debt burdens, especially as earlier and cheaper debt comes due and needs to be refinanced at much higher interest rates, and when net financial flows towards developing countries have slowed or even reversed (UN, 2023).

Despite these consequences, monetary tightening has been spurred by the spectre of inflation in the central economies of the global system. This reignited fears about stagflation that have been deeply inculcated into orthodox economic thinking and decision making since the 1970s. The ruthless monetary tightening in the US by Paul Volcker's Federal Reserve, combined with brutal labour market deregulation, brought down US inflation in the early 1980s, albeit with massive collateral damage in the US and in developing countries. Ever since, orthodox macroeconomics is wedded to the idea that the single most important task of monetary policy making by (supposedly) independent, technocratic central banks is to control inflation, at any cost, while fiscal policy became de-prioritized based on the belief that fiscal policy makers are prone to make errors that will destabilize the economy, if only because they are affected by electoral cycles or populist motives. According to the World Bank (2022) and the BIS (2022), the key lesson from the 1970s and 1980s is that central banks need to act in a pre-emptive manner to avoid a loss of confidence in their commitment to maintaining low inflation, and that delaying the necessary monetary tightening heightens the likelihood that even larger and more costly future policy rate increases will be required, particularly if inflation becomes entrenched in household and firm behaviour and inflation expectations. This belief has been bolstered in policy making by the shift towards 'independent' inflation-targeting central banks in both 'advanced economies' as well as 'emerging market and developing economies' (World Bank, 2022; for a critical view, see Chowdhury and Jomo, this issue; Storm, 2022).

As a result, the current cycle of monetary tightening has been the most rapid and widespread in decades. If judged by the US Federal Reserve, which leads these cycles, it has been the biggest and fastest tightening since the late 1970s: the federal funds rate rose from just over 4 per cent in early 1977 to almost 20 per cent by March 1980, and again to over 20 per

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cent in June 1981. Subsequent hikes were smaller, from around 6 to almost 10 per cent between 1986 and 1989, from around 3 to 5 per cent from 1993 to 1995, from 1 to 5 per cent between June 2004 and June 2006, and then from almost 0 to 2.4 per cent from October 2015 to January 2019 (which caused the so-called taper tantrum that contributed to the build-up of debt stress in the current setting; see Jump and Michell, this issue). In the current cycle, rates rose again from almost 0 per cent in February 2022 to 5.33 per cent in July 2023, or over 5 per cent in just over one year.[1] Central banks in other advanced economies such as the UK and EU hiked rates by similar amounts. Even central banks in the global South followed suit, often with much greater interest rate increases (see BIS, 2022; Chowdhury and Jomo, this issue), although in these cases, inflation targeting was often a secondary concern relative to stabilizing the balance of payments and exchange rates.

A notable exception was Turkey, where interest rates were lowered, constituting the most non-orthodox current policy response to the rise in inflation. However, as Orhangazi and Yeldan (this issue) clarify, it would be wrong to regard Turkey's unconventional monetary policy as an attempt by a peripheral middle-income economy to reclaim policy space because the sole purpose of Erdoğan's low interest rate regime was to turn the distribution of incomes even further in favour of the rentier class. Most peripheral countries have not been following the Turkish example, but are falling in line, on the advice of the IMF and the World Bank, with the drastic monetary tightening by central banks in capitalist core economies.

The World Bank points to empirical evidence that is claimed to show the benign role of inflationary targeting in stabilizing the economy, in line with the assumption that monetary policy is neutral in the long run. It claims that 'emerging market and developing economies with inflation-targeting monetary policy regimes suffered about one-half the potential output losses in recessions and financial crises than countries with other monetary policy regimes' (World Bank, 2020: 49). However, as shown by Storm (2022), the empirical evidence that substantiates this claim is probably not statistically significant, i.e., it is not evident that the statistical difference between the mean cumulative potential output declines of the inflation-targeting versus non-targeting groups of countries is significantly different from zero. This implies that there is no real difference in (recession) outcomes between the two groups of countries, and no evidence to support the claim that having an inflation-targeting monetary policy regime helps developing countries to better navigate a recession. This evidence offered by the World Bank must, hence, be regarded as a sleight of hand, skilfully hiding the truth that inflation control does not matter much for post-recession macroeconomic performance.

1. www.federalreserve.gov/data.htm; accessed 25 July 2023.

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Regardless of the rigour of the evidence, this economic orthodoxy has nonetheless stubbornly stuck to its position that inflation control, regardless of short-run costs, is essential to prevent larger problems in the future. This position has been maintained even as inflation in core countries of the Organization for Economic Cooperation and Development (OECD) has fallen from its 2022 peak. At a central bankers' conference in Sintra, Portugal, in June 2023, US, UK and EU central bank chiefs warned that interest rates will keep rising given tight labour markets in their respective countries (Arnold, 2023), when many observers had been expecting (or hoping for) a pause, confirming that this expurgatory approach was still reigning as of the final revisions of this article.

Cognitive dissonance from the IMF has not helped to tame this orthodox revanchism. The IMF Deputy Director cautioned at this conference that central banks may need to sacrifice their fight against inflation if higher interest rates trigger a systemic financial crisis, even though the IMF has nonetheless simultaneously insisted that tight macroeconomic policies are still needed to anchor expectations and subdue demand (e.g. Hansen et al., 2023). This insistence is despite the sharp losses that have been experienced in real wages (in the North) over the last several years (which have also been compounded by austerity in many contexts), and despite also acknowledging the role of profits in inflation (with reference to central OECD countries).

The problem is that the leading (Northern) central banks set rates (at least according to official rhetoric) with reference to economic conditions in their respective countries (tightness of labour markets is an obsessive focus), even though conditions are generally very different in developing economies. In the latter, economic conditions have included pre-existing and chronic macroeconomic instability, often double-digit inflation, protracted government austerity, and high unemployment or underemployment (much of it disguised as informal employment). Under these conditions, monetary policy decisions by central bankers in the global North have been wreaking havoc in the finances of governments, firms and households in the global South.

Indeed, as noted above, macroeconomic instability — including balance of payments problems, currency crises and debt distress — had already been building in many developing countries for several years before the pandemic and the recent rate hikes. Troubles started with the end of the commodity super cycle in 2013, followed by the tapering of quantitative easing by the US from 2015 onwards. To give a few examples, Ghana entered an IMF programme in 2015 (and is now in another; see Akolgo, this issue). Zambia experienced a currency crisis in 2015 and was then in protracted negotiations with the IMF up until its default in 2020 (and is now in a programme). Egypt entered an IMF programme in 2016 (and is now in its fourth since then). Jordan also entered one in 2016 (and is now in its second since). Ecuador entered one in 2019, while Lebanon entered a severe financial crisis in the same year. Even China was not spared from instability, and from 2015 to

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2017 its central bank undertook the largest intervention in foreign exchange markets that any central bank has ever taken in order to prevent a run on the renminbi, depleting its foreign exchange reserves by over one trillion US dollars (Yu, 2018). Many people and organizations during these years had already been warning that the situation was increasingly dire.[2]

In this respect, the emerging debt crisis might be better described as a slow burn rather than a dramatic trigger point releasing a wave of simultaneous crises, as in 1982, 1997 or 2008. COVID and the war in Ukraine then ignited the embers in often sudden and dramatic ways, although what remains a surprising feature of the ongoing situation has been the avoidance so far of a generalized, systemic domino effect, both before and after COVID and the Ukraine war. This fact does not diminish the severity of the consequences given that, as already observed in the period leading up to COVID, the containment of a more generalized crisis was and continues to be achieved through pre-emptive impositions of severe austerity (Chowdhury and Jomo, this issue). These were often at first self-imposed by countries in attempts to avoid submitting to an IMF programme, or else they were the agreed outcome of IMF Article IV consultations, with the aim to prepare for or avoid IMF programmes. Many were also the result of IMF programmes, such as in the cases mentioned above.

This smouldering situation was turbocharged by the pandemic and its aftermath. Within a year of the pandemic, most major international organizations, alongside various INGOs such as Oxfam, were issuing warnings. The UNDP released a report in October 2022 that identified 54 countries with severe debt problems and in imminent danger of default (UNDP, 2022). The UNCTAD *Trade and Development Report 2022* (UNCTAD, 2023) warned of a real risk of widespread debt crisis in developing countries. The World Bank was featuring blogs asking ‘are we ready for the coming spate of debt crises’ (Estavao, 2022), as if this outcome was already taken for granted. And the IMF’s *Global Financial Stability Report* (IMF, 2022b) highlighted the risks of debt crisis in navigating the high-inflation environment.

Same Old Remedies…

Despite this seeming consensus on the looming crisis, there are divergent perspectives about how to address the debt distress, as in the past. Even though the IMF and World Bank have been warning about the build-up of (public and private) debt, as noted above, they have simultaneously contributed towards it through policies of financial liberalization, and by pro-

2. For some recollections, see Bortz et al. (2020), Chowdhury and Jomo (this issue), Storm (2022) and UNCTAD (2022).

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moting the idea that private finance can provide for the massive financing needs of poorer countries in ways that aid or multilateral lending cannot, so long as these countries make themselves amenable to (private transnational) market forces. Gabor (2021) powerfully makes this point with respect to the promotion of derisking by the World Bank, which she calls the Wall Street Consensus. In this context, much of the rapid build-up of sovereign external portfolio debt through the issuance of Eurobonds[3] by developing countries was cultivated, encouraged, and ushered in by these International Financial Institutions (IFIs), especially during the 2010s, when interest rates in the global North were very low and Northern banks and financial firms were very willing to coax Southern governments and firms deeper into debt with the various financial instruments they provided. As a result, developing economies ramped up their external borrowing in foreign currency — mostly US dollars — making them highly vulnerable to subsequent devaluations, which increases the local equivalent costs of such borrowing (Chowdhury and Jomo, this issue; UNCTAD, 2022).[4]

As discussed by Dafe et al. (this issue), the same has been the case with the liberalization of local currency bond markets (LCBMs) in lower-income countries to external investors. While often purported as avoiding the above exchange rate risks, in contrast to Eurobonds, such local currency bonds, when bought by foreigners, are only one degree of separation away from debt denominated in foreign currency: they bring in foreign exchange as a preliminary to purchase the local currency bonds, which eventually needs to be re-exchanged once these bonds are redeemed (provided that central banks, ideally now independent, guarantee free convertibility, which is a preparatory condition for liberalizing these LCBMs). As a result, these bonds can exacerbate a balance of payments crisis if and when foreign investors exit the market *en masse*, even if they do not directly contribute to the foreign exchange interest payments and redemptions of the government.

Moreover, even without considering foreign exchange risks, such indebtedness has been relatively expensive. The UN (2023) estimates, based on data from the IMF (2023), that average US dollar bond yields for African countries in 2022–23 were 11.6 per cent, versus 7.7 per cent for Latin America and the Caribbean, 6.5 per cent for Asia and Oceania, and 3.1 per cent for 10-year bonds of the US and 1.5 per cent for the same of Germany. Local currency bonds are generally even more expensive for lower-income country governments: in May 2023, as Zambia was struggling to climb out of crisis on the back of an anticipated agreement with official creditors under the Common Framework (see Setser, this issue), its 10-year

3. Eurobonds are foreign currency bonds issued offshore in global financial centres. They are issued outside of the country in whose currency they are denominated (usually the US dollar, hence outside ofthe US).
4. See: https://news.un.org/en/story/2022/12/1131432

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government bonds reached a yield of 30.3 per cent,[5] reminiscent of when the 10-year government bond yields of Greece, also in the midst of crisis in 2012, reached 22.5 per cent. Even more stable countries such as Nigeria had equivalent yields of 12.8 per cent in July 2023.[6]

These higher costs have occurred in tandem with, and have encouraged the continuous promotion of austerity on public finances, particularly when deficit spending would threaten to destabilize this conceived utopia of private financing. For instance, based on an extensive database of all IMF-mandated reforms from 1980 to 2019, Kentikelenis and Stubbs (2023) argue that, despite a rhetoric of having reformed its previous structural adjustment practices, the IMF's practices have effectively changed very little over this period. The pandemic, however, made this explicit, as the IMF has been clear about needing to return to pre-pandemic levels of spending, if not overcorrecting for the overspending in poor countries during the pandemic. As noted by Oxfam (2021: 3), 'as of 15 March 2021, 85% of the 107 COVID-19 loans negotiated between the IMF and 85 governments indicate plans to undertake austerity once the health crisis abates'. In addition to this, the IMF has leveraged its negotiating power, significantly enhanced by the COVID-19 crisis and the increase in global interest rates, to insist on long-cherished reforms, such as eliminating food, fuel and agricultural subsidies,[7] deemed as inefficient market distortions contributing to budget deficits, or else liberalizing exchange rates and capital accounts, and privatizing whatever is left of state-owned assets. In other words, despite assurances from the IMF over the last two decades that it had turned a page on punitive structural adjustment programmes, these appear to have returned with a vengeance in all but name (several of which are analysed in this Debate).

Most of the attention in these programmes is on the headline issues of debt restructuring negotiations, as discussed by Brad Setser (this issue). Key topics include which creditors should be included in the restructuring arrangements, especially regarding whether loans from Chinese state-owned banks and corporations should be treated as sovereign or private. Other issues include the supply of concessional finance parallel to restructuring negotiations. For instance, Setser and Paduano (2023) have proposed that the World Bank issue a special drawing rights (SDR) denominated bond to mobilize funds to expand the World Bank's balance sheet, which is deemed as vital to bolster its seriously deficient funding available to deal with the scale of the potential impending crisis. In the absence of a massive increase in

5. www.worldgovernmentbonds.com/country/zambia/#:~:text=The%20Zambia%2010Y%20Government%20Bond,last%20modification%20in%20May%202023,last%20modification%20in%20May%202023; accessed on 17 July 2023.
6. http://www.worldgovernmentbonds.com/bond-historical-data/nigeria/10-years/#:~:text=The%20Nigeria%2010%20Years%20Government,97.2%20bp%20during%20last%20year; accessed on 17 July 2023.
7. For a critical perspective, see Houeland (2021).

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liquidity available for concessional lending, the tried and tested alternative remains government austerity, with the usual conditions attached.

Austerity and the other underlying conditions of these negotiations receive far less attention than the intrigues of creditor negotiations, even though they are so devastatingly consequential for development. Ndongo Sylla and Peter Doyle (2020) call this revival of severe fiscal austerity combined with reforms a 'debtor's prison', referring to IMF demands that debt distressed countries run large primary budget surpluses in the medium term. This means that government revenue should exceed government spending not including interest payments (the surplus is then used to meet interest payments and to pay down debt, at the expense of public spending and investment). Under the terms of typical IMF agreements, countries are required to commit to flipping from moderate fiscal deficits to these large primary surpluses within one to two years. For instance, the commitment made by the Government of Zambia with the IMF in its newly agreed programme in September 2022 was to shift from a primary fiscal deficit of 6 per cent of GDP in 2021 to a primary surplus of 3.2 per cent of GDP by 2025 (Chelwa, 2022). In the context of an economy already in crisis and desperately needing fiscal stimulus (which rich countries have so generously allowed themselves), these agreements basically imply a further crippling of public spending and especially public investment, even though these are crucial for economic recovery and development, and for political stability. In the above-mentioned case, Chelwa (ibid.) poignantly summed up the implications by writing 'Cry, My Beloved Zambia'.

Other issues of underlying power relations receive even less attention within these negotiations and agreements. Sial et al. (this issue) highlight this for Pakistan, which accepted a US$ 3 billion IMF bail-out programme in July 2023. They argue how global financial power asymmetries find their expression in international dispute settlement courts, dominated by the lawyers of the transnational corporations (TNCs), in global financial rules favouring Western creditors, and in private profit-seeking credit rating agencies with obvious biases against peripheral countries. Less attention is also paid to crucial underlying issues that critically weaken debtor countries' positions, such as illicit financial flows or tax avoidance/evasion by international corporations or domestic elites as detailed by Global Financial Integrity (2019), UNCTAD (2020a) and AUC/ECA (2021). For instance, according to UNCTAD (2020b), African countries lose around US$ 88.6 billion annually in illicit financial flows, or 3.7 per cent of their combined GDP, arising from trade mis-invoicing, tax abuse, cross-border corruption and transnational financial crime. These illicit financial outflows drain resources from development, as well as worsen inequalities, undermine systems of governance and damage public trust. Cumulatively, these outflows possibly far exceed the debt being renegotiated, as demonstrated in the case of Zambia by Fischer (2020). The rampant foreign ownership of many Southern economies also allows for legal outflows of finance or

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profits, which again often increase even as countries are navigating a crisis (Suwandi, 2019). These deeper structural issues speak to the cascading effects of past conditions and 'reforms' on debtor countries.

Paradigm Change or Maintenance?

The first theme addressed by this Debate concerns the parallels between the current conjuncture and past crises, particularly the 1982 debt crisis. Does this crisis signal a change in the dominant development paradigm of the last 40 years, such as with the rise of China and the declining grip of the Washington Consensus over development policy? Or else, is the crisis another moment of paradigm maintenance, perpetuating the subordination of developing countries to a US-led and Northern-centred global financial system, in part through austerity-based solutions that impose most of the costs of adjustment on Southern debtor country governments? As a corollary, what, if anything, can we learn from the monetary and fiscal policy experiences and mistakes of the 1980s, or have economic policy makers across the globe been repeating similar mistakes?

In drawing historical comparisons to the current crisis, the 1982 debt crisis seems the most pertinent reference point. The 1982 crisis imploded from what is often referred to as the Volcker Shock when, as noted above, the US Federal Reserve increased the federal funds rate to almost 20 per cent by March 1980, and again to over 20 per cent in June 1981. Within a very short period, interest payments on commercial debt tripled, new bank lending dried up, massive capital flight flowed out from Southern economies, and demand and prices for Southern exports fell sharply due to the induced recession in the US and other rich countries (Cohen, 1986). Most of the leading 'newly industrializing countries' were slammed given that they had been externally financing their industrialization strategies during the instabilities of the 1970s with the recently exploding liquidity of Eurodollar loans. These included most of Latin America, much of North Africa, the Middle East and West Asia, as well as South Korea, a few countries in sub-Saharan Africa such as Nigeria that were exporting oil and hence deemed creditworthy by international banks, and even parts of the Soviet Bloc such as Poland. The crisis in most of sub-Saharan Africa was quite distinct from these other cases given that they were mostly excluded from commercial bank lending and their debt was mostly bilateral or multilateral. However, they were nonetheless slammed by the collapse of demand and prices for their primary (non-oil) commodities Geda (2003).[8] Despite this global reach, the crisis is often remembered as specifically Latin American, because

8. This process started earlier in the 1970s with the sharp falls in the terms of trade for these commodities in the context of the oil shocks of 1973 and 1979. As a result, many sub-

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the crisis in this region was the most threatening to the stability of the US-centred international financial system.

Comparisons could also be made to subsequent crises, such as the Asian financial crisis of 1997–98, or the global (or North Atlantic) financial crisis of 2007–09. The Asian crisis came closest to the 1982 debt crisis in terms of a Southern-originating crisis that systemically threatened the stability of the international financial system and required major multilateral interventions. Like the present crisis, it also required the involvement of China in stabilizing the regional trading and exchange rate system. Despite claims then that it had ushered in an era of post-neoliberalism (or post-Washington Consensus), in retrospect it was a crisis that occurred *within* the framework of neoliberalism, inducing an adaptive evolution of the reigning economic orthodoxy, rather than a radical transformation away from it. The same judgement could be made of the 2007–09 global financial crisis, especially for the global South, which was relatively unscathed by this crisis. The global South recovered quickly, back into a business-as-usual that was amplified by the post-crisis waves of (Northern) liquidity, created by the unconventional monetary policies of Northern central banks, and the search for yield in so called 'frontier markets' by private finance.

However, the 1982 crisis arguably stands out as the most comparable. The systemic characteristics are similar, with the comparable lead-up in the 1970s of rapidly increasing indebtedness in a setting of low and sometimes negative real interest rates and abundant international (dollar) liquidity seeking yield. The 1982 crisis was also the watershed moment for the ideological and policy regime change at the height of economic policy power, the 'counterrevolution' (Toye, 1987) or what has since been called neoliberalism or more innocuously referred to as the Washington Consensus. The current crisis is similarly inspiring speculations that a comparable regime change is taking place, again towards a post-neoliberal regime, with the role of a much more economically and politically powerful China as an increasingly central element. However, such predictions have been made many times in the past and each time these have proven to be false, exaggerated, or at least premature. Is this time different? Or else, how much are we repeating history? As noted above, despite rhetorical modifications, analytical and policy responses to the current crisis from the echelons of economic power do not appear to have altered much since the 1980s.

Part of the answer to this question resides in the extent to which the crisis today is structurally similar to the early 1980s in terms of underlying systemic features. The echoes of the 1970s are loud: high inflation, large shocks to the supply-side of the global economy and weakening growth. But there are also important differences between the two time periods. First, the recent commodity price increases, when measured in real terms, have been

Saharan African countries were already experiencing balance of payments crises by the late 1970s. See Geda (2003) for an excellent analysis.

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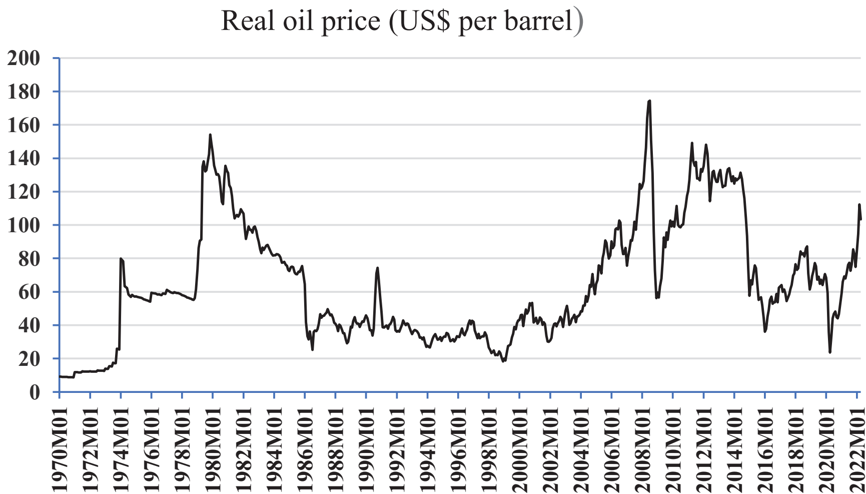
Figure 2. Real Price of Oil (US$ per Barrel) (Monthly; January 1970–April 2022)



Note: Deflated by the US Consumer Price Index.
Source: World Bank (2022), Figure SF1.4.A.

smaller than in the 1970s (BIS, 2022: 6). This is shown in Figure 2, drawing on the World Bank (2022: 61), which notes that 'oil prices quadrupled (in US dollar terms) in 1973–74 and doubled in 1979–80. As of May 2022, oil prices have roughly tripled from their lows of early 2020 and doubled since early 2021, but to a level that is still only about two-thirds of those in 1980'. In addition, as shown in Figure 3, the energy intensity of GDP has declined considerably since the 1970s. Oil-importing countries have also, to some extent, substituted oil for renewable energy sources including solar photovoltaic and wind energy. As a result of this structural change, the inflationary impact of higher energy prices has been reduced.

A second notable difference concerns the causes of the recent revival of inflation in core OECD economies (inflation has been a regular and recurring problem for peripheral economies that has never disappeared and hence never needed to be revived). On this count, the situation now is quite different: as a mirror image of the 1970s, inflation appears to have been profit rather than wage driven, as has been acknowledged by the IMF (2023), the ECB President Lagarde,[9] ECB economists Arce et al. (2023) and the

9. Christine Lagarde, the President of the European Central Bank (ECB), stated that '[i]n some sectors, firms have been able to increase their profit margins on the back of mismatches between supply and demand, and the uncertainty created by high and volatile inflation' (Lagarde cited in Partington and Waerden, 2023). In another statement, Lagarde doubles down on her claim, pointing out that 'sectors have taken advantage to push costs through

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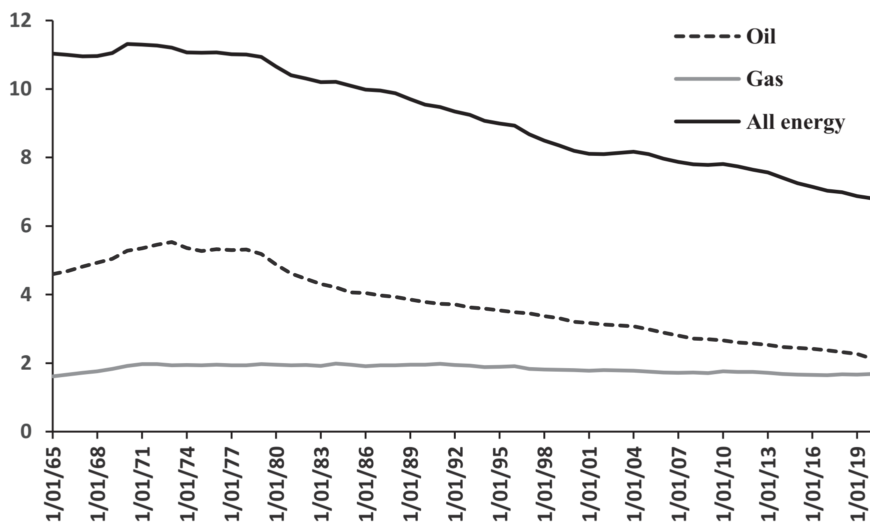
Figure 3. Energy Intensity (Megajoule/GDP) 1965–2020



Source: BIS (2022), Graph A2.A.

OECD (2023). In contrast to the 1970s, when real wages in core OECD countries such as the US or the UK were rising and profit shares were being squeezed, real wages have now been falling, as the bargaining power of labour is at an all-time low (Ferguson and Storm, 2023; Stansbury and Summers, 2020; Storm, 2021). Empirical evidence provided by Storm (2022) shows that nominal wage growth in many developing countries, including Argentina, Brazil, Mexico, South Africa and Turkey, has not been keeping up with consumer price inflation during 2019–22 and, hence, real wages are stagnating or declining. If one of the core functions of neoliberalism has been to undermine the power of labour and to subordinate it to the needs of capital (Ferguson and Storm, 2023; Harvey, 2011), the current resurgence of inflation, which might yet be transitory, would not appear to be fundamentally challenging neoliberalism.

A third key difference is that the 1982 debt crisis was a crisis of bank lending, whereas the crisis now is dominated by portfolio debt, primarily offshore sovereign Eurobonds and, to a lesser degree, foreign investment into local government bond markets, as noted above. The latter have been liberalized across Africa and other parts of the world, especially since 2011, when the G20 launched its action plan to develop LCBMs at the G20 Summit in Cannes (see Dafe et al., this issue). However, this difference with

entirely without squeezing on margins, and for some of them to push prices higher than just the cost push' (Lagarde cited in Allenbach-Ammann, 2023). See also Lavoie (2023) and Storm (2023).

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the 1982 crisis more likely represents a further evolution of the Western-centred international monetary (dis)order rather than a shift away from it given that it is in continuity with the gradual shift towards portfolio debt since the Brady Bonds of the late 1980s, which financial liberalization facilitated. Indeed, the 1997–98 Asian financial crisis was already a crisis of portfolio (i.e., bond) rather than bank lending.

The exception to this difference has been lending by China, which is mostly (state) bank based. The rapid emergence of China as a major bilateral lender to countries of the global South (see Setser, this issue) is commonly seen as a potentially seismic shift in the global political economy that leads many to believe that a demise of the Western-centred global neoliberal order is underway. However, as discussed by several articles in this Forum Debate (see Akolgo; Chowdhury and Jomo; Nicholas and Nicholas), the role of China is often exaggerated. Comparisons of China to other bilateral lenders is inappropriate given that bilateral public lending by Northern governments is relatively minor if not insignificant, whereas Western presence is mostly felt through private channels, such as portfolio flows or foreign direct investment (FDI), or else through multilateral lending. In this respect, debt to China is often minor in comparison to offshore sovereign bond borrowing, which is very Western-centred, at least in issuance, even though involving a diversified investor base. Moreover, when viewed through the lens of interest payments rather than debt stocks, the role of sovereign bonds is even greater, as demonstrated in the case of Sri Lanka, arguably one of the more plausible cases of the rising dominance of China via debt diplomacy. As is shown by Nicholas and Nicholas (this issue), sovereign bonds accounted for a disproportionate 70 per cent of total interest payments on foreign debt in 2021, even if the share of these bonds in Sri Lanka's total external debt was only around 36 per cent. From this perspective, the China factor definitely appears exaggerated.

A final crucial difference between the current debt crisis and the one of the 1980s is that, regionally, the crisis is now more concentrated in Africa and parts of Asia (especially Sri Lanka and Pakistan) and disproportionately in low-income and low-middle-income counties (LICs and LMICs) rather than middle-income countries (MICs). This reflects the rapid rise of the LICs and LMICs as 'asset classes' in 'frontier markets', a euphemism used to justify their entry into sovereign bond borrowing after the global financial crisis, whether offshore or in their local bond markets. Thus far, most Latin American and East and Southeast Asian countries have managed to stay out of the limelight in this crisis, in contrast to the 1982 and 1997–98 crises. Indeed, the degree to which large-scale systemic defaults have been avoided in Latin America and East and Southeast Asia is notable. However, as noted in the previous section, this is not necessarily indicative of an absence of debt distress, as many MICs have also entered IMF programmes (such as Ecuador in 2019) or else have pre-emptively self-imposed austerity to prevent entering such programmes. In Latin America, this is arguably

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testament to the efficiency and effectiveness of orthodox fiscal and monetary discipline (the latter imposed by 'independent' central banks) that has been established during the last four decades of neoliberalism and financial liberalization, to such an extent that governments discipline themselves to avoid IMF programmes and to keep the channels of international finance flowing. This might be seen as a macroeconomic form of Foucauldian neoliberal governmentality, of making oneself (in this case, the nation) fit for 'the market'.

This internalization of monetary and (particularly) fiscal self-discipline was already established during the 1982 debt crisis. As famously noted by Carlos Diaz-Alejandro (1984), in his *Brookings Papers* debate on that crisis with Paul Krugman (1984) and Jeffrey Sachs (1984), for the first time in the history of Latin American debt crises, there were no sustained defaults in the 1982 crisis. Instead, Latin American governments willingly or unwillingly socialized large amounts of privately contracted external debt and adopted stabilization policies that quickly generated trade surpluses by crippling their economies in order to service these socialized external debts, as then-firebrand neoliberals like Sachs were effectively advocating.[10] Besides the later *mea culpas* from a remorseful Sachs, little appears to have changed in the mainstream consensus towards crisis response. Notably, whereas default imposes a significant portion of the costs of adjustment to crisis on creditors, the Washington Consensus regime of debt repayment discipline that has become established since the early 1980s largely removes this cost, and places most of the burden of adjustment on the debtor as opposed to sharing the costs of crisis between creditors and debtors.

Such self-discipline has in turn been matched by the financialization of Southern debtor countries, in particular the financialization of government finances beyond the most creditworthy countries of the global South, and into the least creditworthy countries (Koddenbrock et al., 2022; Soener, 2022). Indeed, the US Federal Reserve has not raised interest rates by nearly as much now as it did in the early 1980s. Nevertheless, many developing countries are much more exposed and vulnerable now than they were then, due to much higher levels of financial openness and integration, including their domestic bond markets, along with the hollowing out of national productive capacities and a much greater dependence on transnational networks of production and distribution.[11] These underlying structural dynamics arguably explain the fact that much smaller movements in US interest rates can more easily trigger financial instability in these countries, relative to the late 1970s. This has been particularly punitive for the poorest countries, many of which had been, if anything, attempting to revive developmentalist aspirations in a fleeting context of cheap and abundant international liquidity,

10. Sachs argued that the IMF focus on reducing budget deficits through austerity was a crucial step for restoring private sector confidence in local currency assets (Sachs, 1984).
11. For a provocative recent critique of value chains, see Suwandi (2019).

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after two lost decades or what Thandika Mkandawire has called the 'Great African Depression' (Meagher, 2019: 521). Current debt distress plaguing the poorest developing countries must be considered from this historical background, as argued for instance by Akolgo (this issue) with respect to Ghana.

Structural Determinants versus Proximate Causes of Debt Distress

The second theme in this Debate concerns the important but under-emphasized question regarding the extent to which the current crisis is due to structural (external) constraints on the economies of debtor countries, or whether it has been primarily the outcome of proximate causes such as faulty fiscal and monetary policy decisions that are then triggered or exacerbated by shocks. This has been a long-running debate since at least the 1982 crisis, if not before. Explanations highlighting structural external constraints emphasize the shortage of foreign exchange earnings to pay for the imports of intermediate and capital goods and technology needed for the economic transformation of late industrializing economies. These foreign exchange gaps (or 'balance of payments constraints', to use the Thirlwallian post-Keynesian lexicon) are exacerbated by the systemic dynamics and incentives of the international capitalist order, dominated by the hegemonic US economy and the US dollar as the global currency. Indebted and import-dependent Southern industrializing countries occupy vulnerable and disadvantaged positions within this order. In contrast, explanations pointing to proximate domestic policy mistakes emphasize the clearly identifiable, country-specific faults that could be named and shamed in each case, which inevitably involve varying doses of misplaced populism, outright corruption, incompetent policy making and/or strategic policy errors.

The tension between the two explanations is, of course, artificial. As Diaz-Alejandro (1984: 335) wrote in his above-mentioned article, 'Blaming victims is an appealing evasion of responsibility, especially when the victims are far from virtuous'. He elaborated:

> But when sins are as heterogeneous as those of the Latin American regimes of 1980, one wonders how well the exemplary mass punishment fits the alleged individual crime. Most Latin American economies, for a variety of domestic and external reasons, in 1980–81 faced the need for reform and adjustment to the new international economic environment … Yet the incompetence and torpor of policymakers do not fully explain the depth of the depression of the early 1980s in Latin America … what could have been a serious but manageable recession has turned into a major development crisis unprecedented since the early 1930s mainly because of the breakdown of international financial markets and an abrupt change in conditions and rules for international lending. (ibid.)

This 'new international economic environment' refers to the shift in the early 1980s, described by Arrighi (2002: 22–23) as when the US Treasury and Federal Reserve started to compete aggressively for capital worldwide

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to finance the growing US current account deficits. This move by the US caused turmoil for conventional developmentalist strategies that had been practised across the global South until that point. As Arrighi (2002) argued, the resultant reversal in the direction of global financial flows split the global South into two regions: one that had a strong advantage in competing for a share of the expanding Northern demand for cheap industrial products and that had less need to compete with the US for international finance, and another (larger) group of countries that was put into the hopeless position of having to compete directly with the US in global financial markets.

Arrighi's (ibid.) macro-structural perspective is a useful lens to examine the previous question of whether we have moved beyond a neoliberal global order, in terms of the global economic structural changes that neoliberalism originally set out to justify, legitimate and buttress. The fundamental structural transformation in the global economy that was occurring in the late 1970s and early 1980s, which underlaid the seismic shift to the neoliberal global order, was the shift of the US economy from persistent current account surpluses and especially trade surpluses to permanent and deep deficits. The current crisis has simply not effected any change to this pattern. Indeed, even China, which based its own industrialization strategies since the 1980s on leveraging this emerging global imbalance as supplier of goods and finance to the US economy, today has difficulty transitioning its economy away from a reliance on this dynamic.

As discussed by Fischer (2015), the so-called 'Golden Age' up to the early 1970s, built on these US trade surpluses and the export of goods and finance to the rest of the world, was a context that supported both developmentalism and dependency. Developmentalism was supported by the provisioning of net finance for the import intensity typical of late industrialization (also see Fischer, 2018), and dependency was deepened because the vehicle of these financial flows was through FDI. While the persistently large and growing current account deficits and net financial inflows into the US economy from the late 1970s onwards are now well-known, as are the further waves of financial liberalization in the US and globally that accompanied these imbalances, it is important to qualify that net outflows of US FDI have continued despite the overall net absorption of finance from abroad (Kregel, 2008). In other words, the radical reversal of US imbalances in the late 1970s also disguises an element of continuity in the expansion of Northern-centred TNCs, and the subordination of peripheral Southern economies to this expansion. As analysed by Bibi and Valdecantos (this issue), Peru provides an excellent example of how this dependence on FDI has continued as the dominant model for many countries, and in the case of Peru, has led to a deep restructuring of its economy towards mining and low value-added export processing. The seemingly similar emergence of China as also a major supplier of FDI to countries in the global South (which is still relatively minor in comparison to US FDI) is qualitatively different in that it represents the so-called recycling of surpluses,

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rather than the 'exorbitant privilege'[12] that the US economy imposes on the rest of the world. In contrast, the globalization of US-centred TNCs that started in the early post-war period continues unabated despite the reversal in overall US imbalances in the late 1970s.

The persistence of this fundamental structural imbalance of global financial flows suggests that we are far from emerging out of the pattern established by the neoliberal order, whereby dependence and structural subordination have been reinforced through the pro-cyclical fiscal and monetary policy discipline and liberalizations characteristic of neoliberal conditionalities. Southern economies can produce economic growth under these conditions during certain boom-time conditions, even spectacular growth. However, this is achieved at the cost of generating financial fragilities, vulnerabilities and often crisis (see Chowdhury and Jomo, this issue; Jump and Michell, this issue), while locking their economies into existing patterns of economic specialization and dependence, often established during colonial times, and a perpetual stifling of state developmental capabilities (see Akolgo, this issue; Sial et al., this issue). It is from this perspective that the debate over systemic, external causes versus idiosyncratic, domestic causes of debt crises must be framed.

Proximate Causes, Policy Choices and the Limits of Structural Determinism

The authors in this Debate have a decided preference for the more external and systemic explanations of current debt distress and crisis in developing countries. This is expressed in several of the papers with reference to ideas of financial dependence, IFS, currency hierarchies and monetary sovereignty, the latter notion deriving heavily from the ideas of modern monetary theory (MMT). The arguments around IFS are best represented in this issue by the articles by Dafe et al. Akolgo, and Sial et al., while the arguments of Nicholas and Nicholas, Jump and Michell, Bibi and Valdecantos and Gabor and Sylla (all in this issue) rely more strongly on wider notions of trade, technological and financial dependence.

Authors working on IFS, currency hierarchies and (lack of) monetary sovereignty provide useful framings to highlight the subordinate and disadvantaged position of most economies of the global South in the international financial system, such as with respect to external constraints, excessive risk premia imposed on costs of international loans, and the volatility of financial flows under liberalized capital accounts. To some extent these approaches constitute a reformulation or rebranding of older — structuralist

12. The term was coined in the 1960s by then French Minister of Finance Valéry Giscard d'Estaing, who criticized the asymmetries in the global financial system where non-Americans are 'forced' to support American living standards and subsidiz American TNCs. Also see Bernanke (2016).

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— approaches which would describe international financial subordination in terms of the financial aspects of dependence, centre–periphery systems, unequal exchange, or imperialist world order, such as discussed in Fischer (2015) or Kvangraven (2021). However, it is unclear how much these recent approaches manage to generate new analytical insights into crisis dynamics — why, when and how developing countries might fall into a debt or financial crisis. For instance, the idea that national currencies operate within a very polarized international hierarchy is widely accepted — we used to call this 'hard' and 'soft' currencies, the latter having little value outside of national borders. However, it is difficult to make predictive statements about how positions within the global financial hierarchy (however hierarchy and position would be conceived and measured) might influence the likelihood of a country to experience debt distress or to fall into crisis.

If anything, lessons from the past teach us that it is not necessarily countries located at the bottom of the global currency hierarchy that are most vulnerable to monetary tightening in the global North. As discussed above, it was the class of newly industrializing middle-income countries in the 1980s and 1990s that were more susceptible to the changes in international financial conditions that triggered crises. Yet they were more industrially advanced, more financially developed, and were conceivably higher on the currency hierarchy, less subordinated, and with greater monetary sovereignty than the African or Asian countries that were excluded from international commercial borrowing. Rather, it was precisely because they were more integrated into the international financial system and deemed more creditworthy that they became excessively vulnerable and exposed. Even today, it is not clear that a country like Ghana, which entered full-scale default in late 2022 (see Akolgo, this issue), is more subordinated or lower in the global currency hierarchy than other West or East African countries that have not (yet) entered into crisis. Rather, as evidenced by Dafe et al. (this issue), Ghana arguably has more developed domestic financial markets and deeper integration into international finance than many of its neighbours. Indeed, Jump and Michell (this issue) raise a similar point in grappling with the notion of monetary sovereignty. Based on an empirical analysis, they argue that a country's integration into the global financial system is the key determinant of the extent to which tighter global conditions are transmitted to domestic financial systems, largely irrespective of various measures of 'monetary sovereignty'.

However, while external structural conditions clearly play a strong conditioning role, the problem with only emphasizing external constraints and international financial subordination is that, in most cases of debt distress and crisis, there is also overwhelming evidence that bad policy choices were made in the domestic economies themselves. This is clear, for instance, from a closer look at the case of Ghana as discussed by Akolgo (this issue). The Akufo-Addo government (2017–present) was able to overborrow when global credit was cheap in the belief that interest rates would remain low,

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and also in the expectation that future oil revenues would enable it to repay the loans without much difficulty. However, these loans were not used for productive purposes that would have earned income soon enough to repay the loans. Some loans were used instead on investing in basic infrastructure and on social expenditures, which is understandable given the importance of these to long-term development strategies. But public spending on infrastructure generates a strong demand for foreign exchange (Fischer, 2018; Ocampo, 2013) and, in the case of Ghana, this was further combined with tax cuts. The pandemic played a role, of course, but cannot and does not explain the bulk of the large increase in public indebtedness, which occurred before the pandemic. Akufo-Addo's policy choices may or may not have been due to 'populist' policy decisions guided by election cycles, as many argue, but regardless, policy errors were significant, and a plausible argument can be made that these errors explain the current crisis. Given the considerable increase in Ghana's external debt (and debt to GDP ratio), it is also not surprising that credit rating agencies lowered their ratings nor is it remarkable that the interest rate paid on Ghana's debt increased. This would happen in OECD countries as well.

It remains entirely plausible, as Akolgo (this issue) argues, that international financial subordination restricts countries to a relatively thin margin of manoeuvre to make policy mistakes, for which they are also punished disproportionately. It is true that Ghana has a subordinated position in the global economy and faces a tight external foreign exchange constraint. It is also true that colonialism created a dependent economy, and that the SAPs of the 1980s and 1990s severely undermined whatever developmental state capabilities and expertise there was in the country, strengthened foreign dependence, and weakened the productive capacity of the economy (as in Africa more generally, e.g., see Mkandawire, 1988, 2001). Northern banks and financial firms were also pushing debt on Ghana's government. In the confluence of these factors, macro policy space is limited, and small errors can lead to crisis. Nonetheless, profound errors of economic management such as the ones made by the Akufo-Addo government in Ghana do not necessarily have anything to do with global financial subordination, even though the negative effects of these policy mistakes are considerably amplified by the external structural constraints imposed by such subordination.

In other words, an explanation of crisis is not complete without also considering domestic political economy dynamics. In Ghana's case, it is important to add that there was always a domestic constituency for neoliberal policies. As discussed by Mkandawire (1999) with reference to Africa in general, a neoliberal-aligned elite emerged and captured the key economic positions of governments through the course of crisis and SAPs in the 1980s and 1990s. Finance ministries and central banks have been controlled by neoliberal technocrats whose outlook on the world has been aligned with the IFIs and has been largely anti-developmentalist. Through

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the course of neoliberal reforms, domestic banking sectors also came to be dominated by foreign ownership in many of these countries (Stein, 2010), although with buy-in from local financial elites. These elites were cultivated by the IMF and the World Bank and often directly parachuted into these countries by these institutions, but they are also part of the domestic political economy matrix (or 'political settlement' if one prefers).

This emphasis of domestic political economy was, in fact, an important aspect of earlier dependency analyses that is often overlooked, as recently discussed by Naseemullah (2023).[13] Emphasizing external subordination and exploitation while not giving equal attention to the domestic political Lloyd economy dynamics that reproduce such subordination leads to rather simplistic dependency analysis that is easily criticized. This creation of a dependency strawman, so to speak, is expertly reviewed by Kvangraven (2021), but was elucidated already much earlier by Cardoso (1977) and Palma (1978) regarding the more simplistic versions of dependency theory, such as by Frank (1966), or parallel approaches such as world systems theory by Wallerstein (1974). Frank, for instance, proposed that economic development or performance was inversely related to dependency, such that the more a country was dependent, the more it would be underdeveloped. This was a proposition that was easy to refute but was unfortunately taken to represent the dependency analytical tradition more generally, even though the tradition, in its original and more sophisticated articulations, was always very concerned with the contingent domestic political economy conditions and dynamics that produce and reproduce dependency, even within a context of considerable growth and structural change. Moreover, as noted by Fischer (2015), the tradition was also generally cognisant of the possibilities of dependent development, particularly as dependency was reproduced in the context of late industrialization.

Similar challenges face recent initiatives to consolidate, update and reframe many of these intellectual traditions, such as in the previously mentioned work on international financial subordination, currency hierarchies, or monetary sovereignty. These efforts need to integrate an appreciation of domestic political economy dynamics with their assessment of the external constraints that actors are working within in order to avoid the crude determinism of what Palma (1978) called 'mechanico-formal' theories of underdevelopment.

Diaz-Alejandro (1984) again performed this balancing act in his analysis of six major Latin American countries that entered the 1982 crisis from very different macroeconomic positions and development strategies. Their pre-crisis diversity refuted any simplistic narratives attributing the causes

13. Naseemullah revisits the historical-structural analysis proposed by Cardoso and Faletto (1979), outlining how the approach was originally intended to 'incorporate the interactions among domestic governments, firms and other economic actors, international agencies, multinationals and global structures and institutions' (Naseemullah, 2023: 1).

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of the crisis to economic performance, investment performance, real exchange rates, levels of debt, or other factors 'impinging strongly on foreign exchange flows' — he focused on these flows given that the crisis 'centered predominantly on the balance of payments and on the balance of international indebtedness' (Diaz-Alejandro, 1984: 337). The only feature that the six major Latin American economies had in common was their openness and vulnerability to external shocks.

He identified one more important commonality between the six countries, however: the extent to which their elites supported and, in some cases, even encouraged stabilization and adjustment measures once faced with crisis. As he pointed out, '"countries" do not decide whether or not to service debt – individual political actors do' (ibid.: 336–37). In the last section of his paper, he discussed these actors' perceptions of the costs and benefits of active or passive default. To understand the interests of key actors, he focused on the diversified international portfolios held by the middle and upper classes in Latin America and the Caribbean, the foreign portion of which rose substantially in the years leading up to the crisis. This was encouraged by domestic policies that generated incentives to place household wealth abroad, as well as for firms to borrow abroad. Diaz-Alejandro emphasized how this confluence of the evolving international system and domestic policies increasingly offered Latin American middle and upper classes comfortable possibilities for capital and personal exit (ibid.: 377–80). This undermined their political commitment to default, particularly given that their assets were largely held in the creditor countries. As he ironically noted, 'The prospects of being cut off from their bankers abroad, or even from Disneyland, will make many members of the elite pause before risking near anarchy' (ibid.: 382).

We might add that stabilization policies such as devaluation also led to major windfall gains (in local currency terms) for those holding assets in foreign currencies and/or those who profited from previous capital flight. Dafe et al. (this issue) pry into similar issues with respect to local currency government bond markets, which have been opened to foreign investors in most of Africa but at the same time include a large component of internationally mobile domestic investors. The interests of these domestic bond holders are aligned with open capital accounts and exceedingly tight domestic monetary policies that together produce high interest rates on the bonds that they hold, whilst also offering the possibility of cross-border arbitrage and speculation in the event that economic conditions worsen. In a manner similar to the 1982 Latin American crisis, a sovereign debt crisis can offer a potential bonanza for such domestic elites, so long as their international financial mobility is not impinged and governments ultimately honour their debt obligations, however restructured.

The bottom line is that during episodes of external debt distress, the predominant schism dividing people between those who benefit from crisis versus those who carry the burden is not along the lines of capital and labour but is determined by access to foreign exchange. It is crucial for the

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study of political economy in peripheral economies to recognize that this social dimension of the external constraint, or what Ocampo (2013) calls the 'balance of payments dominance', is not based on standard class distinctions but on international portfolio mobility (or lack thereof). Indeed, in most peripheral economies, there is a large group of domestic capitalists who lack such mobility, i.e., whose capital is sunk in domestic (real and financial) assets and whose debts are also domestic. In the context of crisis, their interests are more aligned with labour than with the local derivative of the globe-trotting 'Davos class' (George, 2012), of which many Latin Americans, Africans and Asians are members. The latter has offshored much of its wealth to 'hard currency' areas and might even return as external investors taking advantage of financial arbitrage, thereby blurring the boundaries of the external and domestic. Meanwhile, the incomes, jobs, profits and wealth of the rest are directly exposed to currency depreciations, higher interest rates, fiscal austerity and debt restructuring. While this was a crucial dimension of the 1982 crisis in Latin America, as highlighted by Diaz-Alejandro, recent decades of financial liberalization across the global South have entrenched this deep integration of Southern elites into Northern financial systems even further, along with an ideological commitment to maintaining this integration.

If capital accounts and international wealth mobility are severely restricted, wealthy elites could be potentially directed to act as investors in domestic productive activities, as was the case in the classic post-war developmental states of East Asia. However, under financial globalization today, they are managing portfolios that weigh the possibilities of engaging in local business operations with the ease of investing in bond and stock markets (and cryptocurrencies) around the world. In this sense, it is easy to see how the demand for neoliberal liberalization and discipline appeal to the global one or even 10 per cent. The power of neoliberalism has been its ability to feed into this imagination and aspiration of wealth mobility among them.

This takes us to the heart of the fundamental political economy dilemma of structural transformation in such contexts. As highlighted by Mkandawire (2001), among others, industrialization and diversification require large-scale public and private investments committed for the long term. The only way to mobilize this 'patient' long-term capital is through a social compromise that succeeds in disciplining local elites, by forcing them to invest in productive domestic (or 'national') developmentalist projects, rather than in financial speculation or 'rent seeking' (rents in the classical sense of earning income from assets rather than from profits). East Asian developmental states succeeded in disciplining their (business) elites and keeping them committed to investing in domestic production, rather than putting their wealth in international financial assets (Fischer, 2019; Storm and Naastepad, 2005; Wade 2018). Nicholas and Nicholas (this issue) analyse Sri Lanka's relative failure to strike such a social compromise compared to Vietnam's relatively successful attempt to do so.

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Answering the question of why such developmentalist projects have not happened with borrowed funds over the last decade (such as in the cases of Ghana, Pakistan and Sri Lanka, analysed in this issue) cannot be credibly attempted without considering the global horizons of would-be capitalists, the potential agents of productive investments, whose focus might be as far as it is near. They might be as much focused on stock market returns in the US as on investment opportunities at home, and they could potentially earn much greater profits from the former, or from speculating in local bond markets, and with much greater ease, than from the much more difficult, painstaking work of getting their hands dirty in manufacturing or other bricks and mortar activities. In this sense, the so-called weakness of a capitalist class in large parts of the global South, which Whitfield (2018) argues is a fundamental limitation in Ghana, is not a primordial legacy, as if inherited from a prior 'underdeveloped' colonial or post-colonial condition. Rather, it is endogenously and continuously produced precisely through the siphoning of this capitalist potential through the globalized integration of elites into international circuits of finance and capital, where profit-seeking incentives direct them towards financial arbitrage and speculation. Nicholas and Nicholas (this issue) label this class of capitalists co-opted by global finance and transnational corporations as 'comprador' rentiers, again bringing us back to some of the classic Marxist and dependency analyses of this political economy dilemma in open peripheral developing economies.

The fact that large fractions of this Southern elite are fully dependent on multinational finance capital also conditions the emergence of new manifestations of 'developmentalism', consisting of state-led attempts at (late) industrialization. One rather extreme illustration of a new, financialized form of 'developmentalism' is the case of Lao People's Democratic Republic, where the military junta is engaging private firms in legalized cryptocurrency mining in the service of sovereign debt repayment, incentivizing these firms by offering (subsidized) hydroelectricity, generated by hydropower dams in the Mekong Basin's flow (Souvannaseng, 2022). The stated aim of this crypto-mining based strategy is to create forward linkages to urban private and state banks, IT firms, and blockchain-centred financial and other facilities. Another example of a novel incarnation of 'developmentalism' is Namibia's experiment with a strategy of (green) industrialization-by-derisking, discussed by Gabor and Sylla (this issue). As argued by the authors, Namibia's experiment is inherently flawed: without a developmental state in strategic control of the green hydrogen chain, the hydrogen revolution will likely trap the country into the patterns of unequal ecological exchange that have characterized carbon capitalism, manifesting as net transfers of biophysical and financial resources from the periphery to the centre (Mitchell, 2011). The local ruling classes of peripheral economies such as Namibia gain nevertheless, as they continue to benefit from their connections with the ruling government, as well-paid intermediaries of TNCs and through their offshore wealth portfolios.

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To end this unequal economic and ecological exchange, peripheral countries must regain greater control over the way their economies are integrated into global trade and finance. Greater control over international trade means that Southern countries must claim more control over global value chains, while at the same time diversifying their economies out of dependence on primary and low-value-added commodities and export-processing activities. To do so, peripheral countries need to have a minimum degree of policy autonomy, which, in turn, requires control over their capital accounts. Only then will there be space to make monetary policy serve developmentalist fiscal and industrial policy measures — which, when effectively used, can turn the visible hand of the state into a mobilizing force for economic and social progress and emancipation. This brings us full circle, however: the required policy reforms go not just against economic dogmas held by the IFIs, but also are adversarial to the interests of TNCs and banks in the global North and to the interests of the rentier class in capitalism's peripheries. Even if there have been changes in the relative positions of different countries on the economic and geopolitical ladder (such as China and now India), this does not mean that the basic centre–periphery tendencies that drive the global capitalist system have disappeared; the coalition between the ruling elites in centre and periphery continues to block transformative change in the global South.

CONTRIBUTIONS TO THIS DEBATE: CHALLENGING ECONOMIC ORTHODOXY

The ten contributions to this Debate all touch upon many of the political economy issues raised in this introduction, offering analyses, critiques and some new ways to think about bringing about transformative change in economies that have limited space for development in the context of the current debt distress and crisis. They challenge the economic orthodoxies advocated by the World Bank, the IMF and the BIS, regarding the responses of fiscal, monetary and industrial policies to the recent Southern debt crisis.

The first four papers are of a more general nature and help to set the stage for the (policy) debate. The first of these papers, written by Anis Chowdhury and Jomo Kwame Sundaram, empirically chronicles the build-up to the current debt distress and crisis conditions in developing countries. Chowdhury and Jomo carefully document how developing country debt levels increased since 2010 when Northern interest rates were historically low and Northern financial systems, caught in a liquidity trap (also because of the quantitative easing policies implemented by their central banks), massively channelled funds to low- and lower-middle-income countries. Crucially, facing this global liquidity glut, developing countries have taken much riskier commercial borrowings at higher interest rates with shorter maturities, with less refinancing or restructuring options. This shift has

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accelerated due to broken development aid promises, declining concessional finance, and donor and IFI pressure to leverage private finance to meet increasing emergency, development and other financing needs. The COVID-19 pandemic raised debts even further as countries responded with unprecedented fiscal and monetary measures for relief and recovery. However, the unsustainability of these (short-term commercial) debts became evident following the rapid, sequenced interest rate hikes in Northern economies to stem rising inflation, which was largely caused by supply bottlenecks due to COVID-19 and increases in prices in energy and food commodities due to the Ukraine war and sanctions-induced supply disruptions. The debt situation of developing countries has not been helped by rich nations refusing to provide meaningfully adequate debt relief.

The second paper in the Debate, by Florence Dafe, Annina Kaltenbrunner, Ingrid Harvold Kvangraven and Iván Weigandi, investigates the recent growth of local currency bond markets in selected African countries in the context of international financial subordination. LCBMs are promoted as a method of debt-financing government deficits in low-income countries that is arguably less vulnerable to swings in global financial markets and less likely to cause debt distress than foreign-currency denominated external debts. The authors investigate these claims for key African economies, scrutinizing a very rich and novel set of data on LCBs in the African economies concerned in combination with interviews with experts and policy makers. The important findings by Dafe et al. suggest that the benefits offered by LCBs are rather limited for countries at the bottom of the global financial hierarchy, because these (African) economies remain structurally dependent on the global financial cycle and continue to incur a relatively higher cost of this debt, while their growth and developmental progress remain constrained by their undiversified productive and financial systems. LCBMs are not the ‘magic bullet’, offering a way out of financial, trade and technological dependency, although they offer some benefits, such as mitigating risks associated with foreign currency debt.

The third stage-setting paper in the Debate, written by Brad Setser, deals with the thorny issues related to the restructuring of the external debt of low-income countries in recent years. To coordinate this debt restructuring, traditional and new creditor countries, commercial lenders, and the IMF set up a Common Framework, an internationally agreed process for coordinating the restructuring of low-income countries. To date, this process has failed to provide an effective path toward agreement with new bilateral creditors like China, commercial creditors and the traditional bilateral creditors. Setser traces the origins of the Common Framework and analyses what happened in recent key country cases of severe debt distress including Chad, Zambia, Ghana, Sri Lanka and Pakistan. These case studies illustrate the enormous challenges of creditor orientation in these debt restructurings, mostly because of growing geopolitical tensions between traditional (Western) creditors and new creditors (basically, China and

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Chinese state banks). These tensions have led to serious delays in reaching agreements on new financing terms. According to Setser, China's participation in official creditor committees, the biggest innovation of the Common Framework, has, in practice, proved to be a source of delay rather than a mechanism for creating consensus. Based on Setser's assessment, there is little hope that the Common Framework can be made to work soon, delivering significant debt relief and including the Chinese policy banks.

Rob Calvert Jump and Jo Michell's macroeconomic analysis addresses the extent to which lower- and middle-income countries possess 'monetary sovereignty' which, arguably, might help them to insulate domestic policy from prevailing global financial conditions. Monetary sovereignty, if narrowly defined, can be seen as a necessary (and sufficient) condition for domestic policy autonomy; this particular view is strongly influenced by modern monetary theory which proposes a definition of 'monetary sovereignty' centred on the state's capacity to issue domestic currency. However, as Jump and Michell argue, outside of currency unions, the main policy constraints for developing countries are unrelated to monetary sovereignty but arise from limited domestic productive capacity and subordinated integration into global trade and financial networks rather than monetary arrangements. To buttress their argument, the authors econometrically examine three recent episodes of global illiquidity and/or policy tightening: the 2013 taper tantrum, the March 2020 liquidity shock, and the 2022 dollar tightening cycle. Their statistical findings suggest that monetary sovereignty does not insulate a country from episodes of dollar illiquidity: a range of 'monetarily sovereign' emerging market economies experienced highly heterogeneous outcomes during these three episodes. Specifically, Calvert Jump and Michell find that the integration of domestic and global financial systems is an important determinant of the extent to which tighter global conditions are transmitted to domestic financial systems. This financial constraint is largely unrelated to monetary sovereignty, however. MMT is less relevant for most developing countries, therefore, than some of its proponents seem to believe.

This brings us to the six case studies in this Debate. The first country case concerns Sri Lanka, which made headlines when its government defaulted on its external debt in April 2022. Howard Nicholas and Bram Nicholas provide a detailed and important analysis of the proximate and structural origins of Sri Lanka's recent sovereign debt default. The authors begin by questioning the validity of widely propagated claims that Sri Lanka's debt crisis is the result of a combination of Chinese debt diplomacy and domestic mismanagement in the form of fiscal and monetary excesses. Their data show that Sri Lanka's debt problems did not arise from overborrowing from Chinese banks but are due to an international sovereign bond debt trap (as Chowdhury and Jomo, this issue, also argue). This is the proximate cause of Sri Lanka's debt crisis, but its fundamental — long-term — cause is the failure of successive Sri Lankan administrations to transition towards an export-oriented manufacturing economy focused on producing

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increasingly technologically sophisticated manufactured products. This failure to diversify production and exports has domestic (political economy) origins, but is also the result of Sri Lanka's structural dependence on imports and global finance. Nicholas and Nicholas argue that the Extended Fund Facility arrangement with the IMF, that has been imposed on Sri Lanka, is based on an incorrect diagnosis of the sources of the crisis being the protracted fiscal and monetary excesses of successive Sri Lankan administrations. IMF-imposed conditionalities and structural reforms are unlikely to turn Sri Lanka into a more competitive export-oriented economy, and the authors lament that similar attempts to remedy previous debt and currency crises have consistently failed. Karl Marx's dictum that history repeats itself, first as tragedy, second as farce, needs to be updated for Sri Lanka, because the IMF-imposed policies are setting up the country for yet another — future — debt crisis.

Samuele Bibi and Sebastian Valdecantos argue that the sustained growth and macroeconomic stability of the import-dependent peripheral Peruvian economy during the last 20 years has been made possible by stable and continuous external financing of its current account deficits through FDI, coming in (during the commodity boom period) to finance the extractive export-oriented activities of mining TNCs in the country. These large inflows of foreign capital into environmentally damaging mining-based enclaves did close to nothing in terms of diversifying Peru's production, technological and export structures, but rather reinforced Peru's dependency on the central capitalist economies, while augmenting socio-economic tensions and inequalities, also because of the pollution and environmental degradation caused by the TNC-dominated resource extraction. Using balance of payments and international investment position statistics, Bibi and Valdecantos show that Peru's macroeconomic stability in a context of persistent current account deficits financed mostly by FDI is not sustainable and that its external position has in fact taken on a Ponzi profile, questioning the idea that foreign direct investment is a superior way of external financing compared to external debt. Hence, instead of celebrating Peru's recent economic stability and growth as achievements brought about by the post-2000 turn to orthodox macroeconomic policies (including austerity and strict inflation targeting), a more appropriate diagnosis of Peruvian economic performance suggests structural stasis, reflected in a continued dependence on imports, foreign technology and global finance, an unsustainable depletion of the country's natural resources, a persistent net transfer of its biophysical and financial resources to the capitalist centre at unequal terms of trade, and an intensification of social repression to sustain this model.

Daniela Gabor and Ndongo Samba Sylla offer a thought-provoking assessment of a recent attempt at reviving 'developmentalism' by the government of Namibia, which has decided to use its visible hand to turn the economy into a major producer and exporter of green hydrogen as a

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stepping stone to further economic diversification and transformation. Geographic and climate conditions endow Namibia with comparative advantage in producing this new (green) commodity, which is expected to constitute a major source of energy in the expectedly decarbonized future states of the world economy. Employing a critical macro-finance perspective, Gabor and Sylla show that Namibia's green industrialization strategy is predicated on neoliberal derisking practices, in which states provide guaranteed returns on the investments of global private (institutional) investors who fund the structural transformation towards a greener economy. In high-income countries, derisking has led to systemic greenwashing, while simultaneously legitimizing the (de facto) privatization of a range of public goods (Gabor, 2021). The government of Namibia wants to do things differently when leveraging private (external) finance to fund its hydrogen industrialization process, but it lacks the ability to discipline private capital into pursuing green industrialization goals. As Gabor and Sylla argue, because (foreign) capital dominates the state–capital relationship in derisking developmentalism, the new green rules written by powerful private investors and global North governments will render global South countries into consumers of green hydrogen technology (with no control over the hydrogen global value chain) and generators of financial yield for global finance, thus reinforcing the structural drivers of existing centre–periphery relationships and solidifying the subordinated position of developing countries in the global financial, economic and technological systems. Gabor and Sylla propose that African countries abandon 'industrialization-by-derisking' and rather experiment with new forms of green public ownership and partnerships that discipline local green industrial winners. This will require a move away from the Wall Street Consensus to a supportive global macro-financial framework.

The paper by Özgür Orhangazi and A. Erinç Yeldan tells the fascinating story of a middle-income country, Turkey, that has been stubbornly trying to go against the global current of monetary tightening and instead intensified monetary easing towards credit expansion at the risk of increased exchange rate instability. The Turkish case is interesting as its economy has been struggling with a fragile external account since the 2018 currency crisis, yet Turkey has, so far at least, managed to avoid a debt crisis and/or an IMF programme, even if real interest rates are deeply negative, inflation is very high and persistent, the current account deficit is large, and net foreign exchange reserves held by the central bank are negative. The Turkish central bank is independent in name only, as President Erdoğan, who is backing Islamic theocracy by blaming high interest rates for *causing* inflation, has repeatedly intervened in the affairs of the Turkish Republic Central Bank to ensure the continuation of low interest rates. Lower interest rates were to spur investment, while a depreciation of the Turkish lira would spur exports and initiate import substitution, resulting in a balanced current account. All this, of course, did not happen that way. Instead there were massive financial outflows and sharp increases in borrowing with the primary purpose to

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speculate in volatile currency markets. A sharp depreciation of the Turkish lira could only be avoided by tackling this speculative demand through the introduction of a mechanism of 'exchange rate protected deposit accounts'. But, as Orhangazi and Yeldan make clear, Erdoğan's low interest rate regime was not a policy mistake, but rather a deliberate strategy prioritizing economic growth, rent generation, and resetting the contours of income distribution in favour of the rentier class. In Erdoğan's speculation-led growth model, the burden of the distributional adjustments is falling on the shoulders of labour, and the income share of (wage) labour has declined considerably during 2019–23. Orhangazi and Yeldan conclude by arguing that Turkey's unconventional macroeconomic policies must be regarded not as a courageous attempt of a peripheral developing economy to claim some policy space, but rather as a further deepening of neoliberal peripheralization.

The final two papers in the Debate deal with two countries which have been going through repeated cycles of debt distress, restructuring and IMF loans, partial recovery, and another crisis. Pakistan has been the recipient of a total of 23 loan programmes from the IMF since 1958, illustrating a pattern of cyclical indebtedness and a serial burden of IMF policy conditionalities that together have annihilated all attempts at meaningful long-term structural transformation of its economy. In their pertinent political economy analysis of Pakistan's chequered economic history, Farwa Sial, Juvaria Jafri and Abdul Khaliq argue that Pakistan's policy space has been severely constrained by the way its economy is integrated within the global investment and financial order. Sial et al. review the proximate causes of Pakistan's current socio-economic crisis which include the COVID-19 pandemic, surges in commodity prices and major geopolitical events. The authors also discuss how the current debt restructuring process has been complicated as a result of Pakistan's cooperation with China through the China–Pakistan Economic Corridor, a pivotal part of the Belt and Road Initiative; their discussion here complements Setser's analysis of the ineffectiveness of the Common Framework. Sial et al. then turn to the longer-term, structural factors constraining Pakistan's policy space. The authors draw attention to four clear-cut cases of how global financial power asymmetries work to the detriment of peripheral countries such as Pakistan. The authors explain how the International Centre for Settlement of Investment Disputes under the World Bank favours TNCs over indebted developing countries and how the Financial Action Task Force has been 'disciplining' Pakistan's polity by threatening to blacklist Pakistan as a terrorist country. Furthermore, private Wall Street-based credit rating agencies have been quick to downgrade countries such as Pakistan because they are more reliant on climate-dependent industries, such as agriculture, and have less climate-resilient infrastructure — which has the perverse effect that funding for climate change mitigation and adaptation becomes more costly in exactly those countries where the needs are most urgent. The authors conclude by

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discussing how IMF surcharges drain Pakistan's foreign currency reserves and siphon off resources that could be used for development spending.

The final paper in this Debate, written by Isaac Abotebuno Akolgo, offers a historical political economy analysis of the longer- and short-run origins of Ghana's recent economic crisis. On 17 May 2023, Ghana's government entered another IMF debt-restructuring programme, the 17th time since its independence in 1957 — which is clear evidence of a pattern of cyclical indebtedness and external dependence. The proximate causes for Ghana's debt crisis lie in COVID-19-induced public spending, higher import prices due to the Ukraine war and serious fiscal policy errors made by the Akufo-Addo government. However, as Akolgo argues, governments of 'dependent' economies such as Ghana are forced to operate within tight constraints that are rooted in the economic and financial subordination of African economies since colonial times. Akolgo locates Ghana's persistent vulnerability to global shocks in the country's ongoing financial dependence on an exploitative and discriminating global financial system. Ghana's financial dependence, in turn, arises from its dependence on imported capital goods and technology and its relatively undiversified export structure that is mostly made up of agricultural commodities and mineral products. Akolgo convincingly argues that following the rise and fall of developmentalism in the 1960s and 1970s, IMF-led SAPs disrupted Ghana's economic transformation, promoted financial liberalization and deindustrialization, and destroyed whatever developmental state capabilities and expertise had existed. In effect, these SAPs made it impossible for Ghana to break out of its inherited dependency. As a result, the macroeconomic policy space for Ghana's government is limited, margins for policy errors are small, and any such errors are punished harshly. Akolgo concludes that the long-standing duality of structural subordination and financial dependence, compounded by the government's fiscal slippages, the COVID-19 crisis, and high energy and food prices, explains the 2022–23 debt crisis. The Ghanaian experience shows that widespread calls for unconditional debt cancellation, while necessary, are insufficient to address the recurring cycles of indebtedness. Debt cancellation should be followed by broader economic and financial reforms, globally and domestically.

CONCLUSION

This last point on the need for broader reforms brings us back to the heart of development studies, regarding the perennial issue of how and why a state can succeed in operating as an effective developmental state, versus the limited policy space that many developing (debtor) countries face in attempting to pursue economic development strategies that invariably require external indebtedness. After outlining the current state of debt distress and crisis from the perspective of developing countries, this article presented a

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series of themes that orient debate on the current crisis towards a focus on these underlying and systemic structural issues. These were addressed by first examining the parallels between the current conjuncture and the 1982 debt crisis, including the lessons learnt or the errors repeated, set against the fundamental shifts in the world economy that were ushered in by this earlier crisis, both structural and ideological. The ideological refers to the emergence and dominance of neoliberalism that, despite repeated predictions of its demise that accompany each crisis, appears to still be alive and well.

The debate about the role of proximate factors for the current debt distress versus underlying structural causes needs to be set in this context. Besides the immediate trigger of rising interest rates, proximate factors include the COVID-19 pandemic and the spike in energy and food commodity prices due to the Ukraine war, as well as well-worn arguments about bad policy decisions taken by developing country governments in the context of abundant and cheap international (US dollar) liquidity and increased lending from China. Underlying structural factors are primarily related to the nature of a country's subordinate or dependent integration into the global economic and financial system, alongside entrenched inequalities with this financial system. These factors place peripheral developing countries at a hugely disadvantaged position in dealing with the vicissitudes of economic cycles emanating from central (primarily US) economies, which has deepened and hardened considerably during the neoliberal era. Structural external constraints also considerably narrow the space for domestic policy making, with the effect that there is very little room for policy experimentation because the economic and social cost of making policy errors is prohibitively large. This provides a very important perspective to debates about the extent to which domestic policy choices have increased the vulnerability of developing countries to recurring debt crises, especially given that many of these policy choices have been in any case conditioned by the neoliberal orthodoxy.

An additional reflection that emerges from this themed debate is the persisting relevance of many of the classic insights from development economics, which were very much forged by experiences of financial and balance of payments crises in the context of late industrialization. The global crisis of the 1930s was foundational, as were the balance of payments instabilities that newly industrializing countries experienced as they pursued their developmentalist strategies in both the pre- and early post-war periods. Indeed, such experiences had profound influence on structuralist and dependency thinking and were at the inception of the very idea of external constraints. The financial instabilities of the 1970s and 1980s also fundamentally altered the playing field of development ever since and we cannot understand subsequent development dynamics or their accompanying ideologies without understanding how they emerged out of these instabilities.

From this perspective, arguments suggesting that development studies is no longer fit for purpose given changes in the world order, and that we

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need to move towards other conceptions of global development or post-development, could not be more poorly timed. At a time that large parts of the global South are again in a deep systemic financial crisis, it adds insult to injury to suggest that the lessons of the past are now largely irrelevant. Rather, development studies — understood from a classic perspective — is not particularly in crisis, even if development and people are.

Many of the foundational insights of early development economics, for instance, help us to understand the underlying structural factors leading to the current crisis. Even if the global context has in many ways changed, certain underlying principles are as relevant as ever, even if obscured by moments of exuberance such as during gluts of international liquidity. Most important of these, which has reasserted itself with an aggressive if not violent vengeance, is the principle of external constraints, which was central to structuralist thought in early development economics and formed the basis for early justifications for aid and concessional finance. Insights from structuralist and dependency analyses also remain extremely relevant today with the increasing depth and extensiveness of foreign ownership in the global South and, combined with external constraints, how this structures Southern economies and reinforces particular aspects of vulnerability and polarization. Lessons from the 1980s are also vital as many countries are being thrown back into similar scenarios of severe austerity and revived structural adjustment programmes, which many had thought dead only a decade ago (despite their vigorous imposition in the peripheries of Europe).

In this respect, many of the current calls to move beyond development studies represent a politics of distraction and obfuscation of the aggressive reassertion of Northern dominance that is occurring through the current debt crisis. This is in stark contrast to the early 1980s, when debates between reformists and revolutionaries in development studies were set aside given the emergency of the moment. Leading figures of the field set themselves to the task of raising awareness about and struggling against the economic devastation that was being wrought on large parts of the global South, not only by the crisis, but also by the belligerent assertion of neoliberal ideology that accompanied it. The relative silence in scholarship today appears more as a victory rather than a demise of this ideology. Wishing away the very strong similarities to the past risks repeating the lost decades of development that followed these past crises, especially but not only for lower-income countries.

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