CGD NOTE 376 | JULY 2024

Countries and Crises: How Some Rise to the Challenge and Reform, While Others Fail

Shahid Yusuf

Never let a crisis go to waste is a call frequently voiced since the onset of the Financial Crisis in 2009.[1] When a crisis strikes it can open the door to opportunities for policy course correction that would not otherwise be available. Countries can capitalize on a crisis to "build back better," another phrase that has gained considerable currency. But in many cases, countries are unable to take advantage of the latent opportunities if any and the moment passes. Experience suggests that the potential inherent in crises has been oversold. Countries have experienced "good" crises, which unlocked policy actions. The positive outcomes that followed were the result of a congruence of enabling factors. In most instances, countries hit by a crisis are ill-prepared to define and implement a comprehensive plan. A program, which is hastily assembled to cope with the situation and obtain financing from donors, frequently does not lead to the required adjustments and can result in a cycle of crises that gradually erode a country's economic potential. And there is a minority of cases, in which the onset of a crisis results in a vicious spiral and economic collapse, especially when a country is rendered vulnerable by political dysfunction, state failure or a civil war.

Whether countries respond to a crisis with policies that attempt to comprehensively address macroeconomic and institutional problems, or with partial and temporizing fixes, or through inaction because the political will and/or the state capacity is lacking, depends more on country circumstances—economic, political and institutional—and less on the intrinsic severity of the crisis itself. To illustrate these three scenarios, the rest of the note examines the onset of crises in seven countries, the adequacy of the response in five and the toll it has taken on the two that failed for largely political reasons, to rebuild institutions and restore a degree of normality.

India in 1991, Korea in 1997–8, and Türkiye in 2001 took advantage of the opportunities presented by their crises to restore equilibrium and rekindle growth. Pakistan and Argentina have been plagued

1 The crises discussed in this note are the ones caused by financial problems, structural imbalances and/or indebtedness domestic or external.

by a succession of crises stretching over several decades that governments did not adequately tackle each time they struck. The crises that beset Venezuela starting in 2012 and Lebanon commencing in 2019, led to economic and social implosions, a virtual breakdown of the economic system and a severe erosion of state's institutional scaffolding. In each case nothing was preordained. Countries that undertook effective economic reforms could easily have wasted the opportunity at hand. Countries that have endured a cycle of crises are victims of their own repeated inaction, political paralysis and policy failures. The ones that slipped into an economic abyss could conceivably have dodged the bullet if politics had not gotten in the way.

Crises not wasted: India, Korea, and Türkiye

India

India embarked on the road to its crisis in the mid 1980s once it began a slow transition from import substituting industrialization (ISI) to growth that enlarged the contribution of exports. This shift was paralleled by the lifting of some restrictions on imports, a depreciation of the rupee and an increase in public expenditures. GDP growth responded positively but higher imports especially of petroleum and a widening fiscal deficit pushed the current account further into the red—from 1.8 percent of GDP in 1985 to 2.4 percent in 1988–9. The pressure on the external account was increased in 1990–91 by the onset of the Gulf War, which caused petroleum prices to spike, and by an economic downturn in India's trading partners that weakened the demand for its exports. Inflation and domestic political uncertainty exacerbated by the assassination of Rajiv Gandhi in May 1991, added to India's woes. To stem the slide in the value of the rupee as India's credit rating was downgraded and capital fled, the Reserve Bank of India (RBI) ran down its forex holdings until a point was reached when, the government was forced to seek financing from the IMF and impose administrative controls on imports to narrow the current account deficit and restore equilibrium (Cerra and Saxena 2002).

Once an IMF program had been negotiated, Finance Minister Manmohan Singh moved quickly to defuse the crisis and to build India's growth momentum with the full support of PM Narasimha Rao.[2] The rupee was devalued, and a market-based regime established, a budget, which included tax changes, was introduced to bring the public deficit under control and the government embarked on a raft of structural reforms. These reforms, eased the burden of regulations that constrained domestic and foreign investment, began shaving customs duties, initiated a reduction of the government's equity in public enterprises, and increased the exposure of interest rates to market forces.

The measures implemented by the government resulted in a rapid turnaround of the economy. Exports rose aided by a revival of the global economy, external imbalances were reduced as was the

2 PM Rao was initially reluctant to devalue the rupee. His socialist leanings made him skeptical of the liberalizing reforms proposed by Manmohan Singh. But once he realized the gravity of the situation, Rao backed his finance minister and the economic team. https://economictimes.indiatimes.com/news/economy/policy/on-this-day-in-1991-a-landmark-budget-that-changed-indias-fortunes/articleshow/93090439.cms?from=mdr

budget deficit and the public debt, and India began rebuilding its forex reserves. Growth picked up almost immediately and averaged 6.5 percent per annum through 1996 (Acharya 2002; Mohan 2021).

The crisis was not wasted because there was strong economic leadership with the requisite political backing, key institutions weathered the crisis, an effective policy package was quickly assembled, and the state had the administrative capabilities to implement the reforms. The measures introduced increased market competition, widened the choices available to Indian consumers and improved the quality of products and services on offer.

Korea

The crisis, which rocked the Korean economy during 1997–98 had its roots in declining corporate profitability, increasing corporate leverage and a weakly regulated financial sector that had engaged in risky lending exposing bank balance sheets to corporate excesses (Krueger and Yoo 2002). Prior to the crisis, Korea's fundamentals were sound (Kwack 1998). The budget was balanced, the current account deficit was trending downward (from 4 percent in 1996 to 1.9 percent in 1997), the inflation rate was under 5 percent and domestic savings were more than 36.4 percent of GDP (1997). However, because of excessive overseas borrowing by the conglomerates (chaebols) and by banks to finance their loans (encouraged by financial liberalization as well as implicit government guarantees of banks and of the "too big to fail" chaebols), nearly one half of Koreas' external debt was short term almost three times the level of reserves. The overall debt to GDP was 33 percent but it was the term structure that rendered the economy vulnerable to crisis (Hahm and Mishkin 2000).

A terms of trade shock in 1996, which further shaved the narrow profit margins of export-oriented conglomerates, the bankruptcy of six of the 30 largest chaebol, and a stock market meltdown, set the stage for a speculative attack on the currency. Following the collapse of the Thai baht in August 1997, the contagion spread to other East Asian economies with relatively high ratios of short-term debt and limited forex reserves. Foreign investors began demanding repayment of loans to Korean banks and chaebols and selling off their Korean stock holdings. Misinformation regarding the true size of Korea's forex holdings accelerated the pace of withdrawals. So also did the government's apparent willingness to expand credit and to bail out imperiled merchant banks rather than to take tough measures to prop up the currency.

With the backing of the IMF and the World Bank, the Korean authorities rapidly brought the crisis under control. High interest rates (recommended by the IMF) and contractionary fiscal policies helped stabilize the won although the cost in terms of bankruptcies and short-term hardship for the population was high. A restructuring of debt served to restore investor confidence. Throughout the period of recovery from 1998 through 2000 inflation remained low (CPI averaged 3.2 percent per annum), and the sharp curtailment of domestic demand shifted resources into the external sector. Exports soared—aided by the depreciation of the currency. A current account deficit equal to 1.9 percent of GDP in 1997 was transformed into a surplus amounting to 10.5 percent of GDP in 1998.

To ensure against a repeat of financial crises, the government shuttered nonviable financial institutions, and strengthened the supervision and regulation of the financial system, the monitoring of external borrowing by corporations, and the management of Korea's foreign exchange reserves. Other actions were aimed at restructuring the corporate sector and bolstering its robustness through cost-cutting, plus measures to substantially reduce leverage and improve governance. To this end, the government prevailed upon the stronger surviving chaebols to takeover some of the weaker companies and the potentially salvageable parts of the conglomerates that had failed.

By the turn of the century, Korea had repaid the funds borrowed from the IFIs, the scars caused by the crisis had largely healed and GDP growth was on track. Moreover, the crisis raised awareness of the need to accumulate adequate forex reserves and to avoid currency and maturity mismatches when borrowing in foreign currencies.[3] The crisis also induced Korea to rethink its growth strategy to ensure the robust expansion of exports. This it did by sharpening the focus on higher value, technology intensive products with better long-term prospects and supported by increased spending on research. R&D climbed from 2 percent of GDP in 1999 to 3.15 percent in 2010 and has continued rising since to 5 percent in 2023.

Among the East Asian countries that succumbed to the crisis, the Korean economy was the first to rebound.[4] The country was able to recover and learn from the crisis because the economic fundamentals and institutions withstood the buffeting inflicted by the crisis, there was broad political and public support for the harsh policy medicine negotiated with the Fund,[5] and the powerful, well-honed machinery of the state was able to roll-out the policies to restore macroeconomic equilibrium. Domestic expenditure reduction and transfer of resources into tradables permitted Korea's export engine to move into higher gear and begin generating large trade surpluses. The more lasting benefit Korea derived from the crisis was threefold: financial regulation was tightened, competition policies acquired greater prominence and a new chapter of export-led growth began with research and innovation as the emerging drivers (Lee 2017; World Bank 2023).

Türkiye

The factors responsible for Türkiye's crisis in November 2000 resembled some of the ones that precipitated the crises experienced by India and Korea (Capoglu 2004).[6] Turkish banks committed the original sin by taking on unhedged, short term foreign currency loans to lend in lira to the government and to Turkish firms. Their balance sheets were made vulnerable both by currency and

3 When countries are unable to denominate overseas borrowing in their own currency, they are committing what has come to be known as "original sin". This discourages countries from floating their currencies, leads to the holding of excess reserves, makes capital flows more volatile and can result in lower credit ratings (Eichengreen et al 2022).

4 All five Asian countries that bore the brunt of the East Asian Financial Crisis adopted flexible exchange rates, reduced external debt, deepened domestic capital markets and strengthened the supervision of the banking system. These stood them in good stead when another financial crisis swept the globe in 2008. Furusawa (2017).

5 There was much public bitterness over the deflationary policies negotiated with the IMF and although the issue was debated for decades, on balance Korea may have spared itself the pain endured by some other SE Asian countries by adopting interest rate and fiscal policies.

6 In effect, the IMF program launched in December 1999 failed and brought on the crisis.

maturity mismatches as well as by the rising percentage of non-performing loans (NPLs). Türkiye's situation was made more precarious by high inflation and its worsening fiscal balance with the deficit increasing from close to 4 percent in 1995 to 8 percent of GDP in 2000. This situation together with the steady accumulation foreign debt, induced speculators to begin testing the Turkish lira's crawling peg knowing that the state of bank balance sheets would deter the central bank from raising the interest rate.[7] Foreign investors withdrew $70 billion in 2000–2001 (Pearson 2024). In defending the currency, the Bank depleted its forex reserves but failed to allay the worries of market participants. The failure of Demirbank, a market maker of government paper, compelled the bank to unload its securities, which immediately raised interest rates on the secondary market (overnight rates rose to 873 percent) and set off a chain reaction leading to a surge in the demand for foreign exchange. Nationalization of Demirbank and a $7.5 billion infusion by the IMF into Türkiye's reserves temporarily calmed the market but a political crisis[8] reignited fears and led to a resumption in the attacks on the currency. On February 23rd, 2001, a second crisis crested with the government abandoning the crawling peg and devaluing the lira (Yeldan 2008; IMF 2000).

By now the Turkish economy was in the grip of a perfect storm, growth had cratered, unemployment and inflation were spiraling, the banking system was in disarray and several banks had to be nationalized, and the public debt as a percentage of GDP had doubled (Noble 2018).

The crisis also was not wasted. A newly appointed finance minister—Kemal Dervis—seized the opportunity with the IMF's backing, to set in motion the needed policy and structural reforms. In addition to floating the lira, the reform program promised a primary budgetary surplus by 2002 and a gradual reduction of the debt burden. It targeted the weaknesses of the banking system and proposed measures to restore its profitability, closing banks that were no longer solvent and injecting capital into others to offset the effects of higher interest rates and the depreciation of the lira. Of equal importance were the steps taken to strengthen the regulation and supervision of the banks and the judicial framework needed to enforce credit payments and corporate restructuring. To minimize the risks posed by rising public indebtedness, the reforms called for an overhaul of fiscal management and the governance of public enterprises coupled with greater transparency of government revenue and expenditure policies. The reform agenda included pensions, a reduction of agricultural subsidies, a cancellation of expensive take or pay electricity contracts, privatization of some state entities to enlarge the footprint of the private sector, and incentives to enhance the flow of FDI.[9]

The timely and ambitious program restored confidence in the economy. Investment picked up almost immediately and rose steeply for the next seven years and growth, which had plunged into negative territory during 2001, was 6.4 percent in 2002 and 9.8 percent in 2004.

7 The crawling peg was supported by the IMF but during the period it was in place, short term inflows of capital increased Turkish debt by almost $20 billion. Ekinci and Erturk (2007).

8 The Prime Minister Bulent Ecevit was accused of corruption by the Minister of Finance.

9 The reform agenda included much more detail, which can be found in the government's memo on economic policies addressed to the IMF (2001) https://www.imf.org/external/np/loi/2001/tur/02/

Türkiye's crisis was productive because the technocratic Finance Minister provided leadership, and in short order, he and his advisers in the economic ministries were able to craft a detailed and convincing plan. This was vetted and fully endorsed by the IMF, which was forthcoming with a program of sufficient magnitude to dispel the concerns of investors.

The three crises were "productive" because (i) in each country, the state was strong and had retained the capacity to plan, administer and implement; (ii) the causes of the crisis were well understood, and a reform program was rapidly assembled once the crisis took hold; (iii) respected policymakers took control of the crisis management and reform effort. Moreover, they were able to enlist the political cooperation of key political constituencies needed to administer policy measures that might have been strenuously resisted in more normal circumstances; (iv) the government secured the IMF's support, the validation of its policies, and loans from other IFIs that was adequate given the scale of the crisis; (v) major developed countries threw their weight behind the remedial measures adopted; and (vi) the state of the global economy facilitated recovery because trade was booming and countries in crisis could ramp up their exports.

Crises mostly squandered: Pakistan and Argentina

Pakistan

For a brief spell in the first half of the 1960s, Pakistan was viewed as a role model for other developing economies. A strong state run by a general who had staged a coup in 1958, had maintained macroeconomic stability, achieved moderately high growth rates and set the economy on the path to industrialization. In 1971, a left leaning civilian government led by Zulfiqar Bhutto replaced the military backed regimes, which had run the country since 1958. It nationalized many private businesses and commenced the slow erosion of state capabilities to plan and implement a coherent development strategy. One outcome was the first of several bouts of stagflation that have plagued the country since. Pakistan had the opportunity to make a success of export led industrialization along the lines pioneered by the East Asian Tigers. Instead, it chose to remain protectionist, pursue import substitution and did little to encourage industrial diversification and exports by the private sector. Thereafter, a pattern of mismanagement evolved under successive governments civilian and military of lax monetary and fiscal policies, complemented by bouts of exchange rate overvaluation, rent seeking by elites,[10] chronically low rates of domestic savings and investment, emigration of talented nationals, and the inability of the ruling elites to even explore much less arrive at a long-term vision of development.

10 The wealth of well-connected individuals has increased without any compensating increase in productivity that would benefit the nation and increase national wealth. Majaski (2021). Pakistan has been low on the Corruption Perceptions Index. In 2023 it was in 133rd place. https://en.wikipedia.org/wiki/Corruption_Perceptions_Index; The Political Corruption Index for 2023 presents comparable results for Pakistan and the others. https://ourworldindata.org/grapher/political-corruption-index

The outcome has been periodic balance of payment crises, IMF programs, partial fulfilment of negotiated conditions, temporary stabilization and narrowing of structural imbalances, followed by the start of a new cycle. The crises are Pakistan's own doing and closely linked to the political cycle. Governments ramp up public spending to spur growth and employment as an election approaches to win votes. But because growth is import intensive while exports tend to be inelastic, the BOP deficit grows, the reserves always on a knife edge are depleted and assistance from the IMF becomes unavoidable.[11] The stop-go cycle in which Pakistan is trapped has dampened growth and because crisis related firefighting consumes time and political capital, much needed deep structural reforms are deferred time and again. (Iqbal 2023; Ahmed 2018).

Pakistan signed its first standby agreement with the IMF in 1958 (Salman and Ali 2022). As of January 2024, it had entered into 23 programs with the Fund.[12] Each program has entailed commitments to increase tax effort and domestic resource mobilization, to put an end to the circular debt created by energy pricing[13] and non-payment of dues by major consumers, and to improve debt and exchange rate management. Pakistan has been urged to liberalize its economy, reform its trading system and privatize loss making public enterprises (World Bank 2020).[14] The crises and IMF rescue efforts have led to the semblance of near-term progress, but the political calculus has invariably blocked or diluted reforms.

Elite resistance to higher taxes has remained firm. Low urban property and agricultural taxes compound the shortfall resulting from tax evasion, exemptions and weak enforcement (Wahid 2023). Pakistan's tax/GDP rose by only 1.2 percentage points between 2011 and 2021 to 10.3 percent of GDP far below the Asia-Pacific average, which was 19.8 percent in 2021,[15] Domestic savings have also plunged from 15 percent in 2003 to 3.8 percent in 2022. The average for South Asia was 26.3 percent and for low- and middle-income countries it was 35 percent. Inflation during the first half of 2024 was in the double-digit range inflicting hardship on the poor and beginning to "shred the middle class."[16] Needless to say, with gross capital formation averaging 16 percent of GDP and net investment in the very low single digits, Pakistan has difficulty growing out of crises. Moreover, private and foreign investment has been low throughout with the former dropping to 10 percent in FY21 and the latter from 0.6 percent in FY 21 to negligible levels in FY22–23.[17] The country's problems are

11 A reluctance to depreciate the exchange ostensibly to minimize inflationary pressures is one reason why exports remain sluggish. Political considerations have also discouraged a devaluation when an election approaches.

12 https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberKey1=760&date1key=2020-02-29; https://www.dawn.com/news/1803805

13 In 2023, the price of diesel and gasoline in Pakistan was lower than in the UAE and KSA. https://www.brookings.edu/wp-content/uploads/2023/02/fp_20230201_Pakistan_transcript.pdf

14 A plan to dispose of 24 public enterprises was announced following the start of talks with the IMF in May 2024 on an Extended Fund Facility.

15 https://www.oecd.org/tax/tax-policy/revenue-statistics-asia-and-pacific-pakistan.pdf; https://www.theigc.org/blogs/taxing-effectively/why-does-pakistan-tax-so-little

16 https://www.wsj.com/world/asia/an-economy-perpetually-in-crisis-is-shredding-pakistans-middle-class-ef640b84; https://news.gallup.com/poll/505973/corruption-spotlight-pakistan-economy-spirals.aspx

17 https://thedocs.worldbank.org/en/doc/8d151e2497fad2821549046e5a748038-0310062023/original/Reforms-for-a-Brighter-Future-Discussion-Note-3-Transforming-Pakistan-s-Private-Sector.pdf

compounded by the servicing of external debt amounting to $130 billion, which absorbs 57 percent of the government's revenues (Financial Times 2024a; Rana 2023).

The inability of successive governments to take advantage of crises, arrive at an elite consensus on necessary reforms and to curtail rampant corruption, has affected the public mood, the confidence of investors, domestic and foreign and the patience of donors.

Interprovincial frictions, political polarization, the lack of faith in public institutions and a sense among many that the military has ceased to be a political bulwark and its rent seeking is exacerbating Pakistan's economic ills, are adding to the country's woes. Moreover, Pakistan's exposure to climate change means that its vulnerability to crises is worsening and that recovery from future crises will be harder.

With the ongoing political malaise indicating that the cycle of crises could continue, Pakistan's economy runs the risk of Lebanization by a thousand cuts (Economist 2024a and Economist 2024h). If ever there was a need for Pakistan's elites to come together and "gamble on development"[18] it is now. A viable reform blueprint can be assembled from the numerous reports prepared by IFIs, think tanks and advisers (Nawaz 2024; Benhassine and Raiser 2024). But first the political dysfunction must be resolved (Butt 2024), state planning and governance capabilities rebuilt, and competent individuals appointed to key positions to conduct the reforms free of interference by powerful vested interests.[19] This will not be achieved overnight even if all the stars are miraculously aligned. But supposing this does happen, Pakistan will struggle to transition to a high growth path because in the face of competition from other Asian countries and labor displacing technological change, exports of labor-intensive light manufactures will not provide the growth impetus they once could have. Some believe that skill intensive tradable services that harness AI could be the answer, but the potential of services as growth drivers has still to be tested (Rajan and Lamba 2024; Baldwin 2022).

Argentina

Argentina's IMF programs are almost the equal of Pakistan's 21 vs. 23. However, Argentina has borrowed far more from the Fund than Pakistan—a total of $87 billion—and the country has been subject to supervision by the Fund during one half of the last six decades.

In the first decade of the 20th century, Argentina was one of the world's ten wealthiest countries, with a rich endowment of natural resources including large reserves of shale oil and lithium and its future looked bright. Like Australia, New Zealand and Canada it remained an exporter of

18 This is the case put forward by Dercon (2023). Development happens when civilian and military elites get together and make it happen.

19 A former finance minister of Pakistan, M. Ismail (2023) remarked that "Pakistan has the worst governance in the world. Nothing gets done.... Even when there are competent people there is very little room to get anything done." A. Mian (2023) stresses the need for a respected and competent team at the helm of affairs. Dynastic politics and nepotism—in Pakistan and elsewhere—have failed in the past and will fail again. https://www.brookings.edu/wp-content/uploads/2023/02/fp_20230201_Pakistan_transcript.pdf; A budget introduced in July 2024, recommends additional taxes that could enable Pakistan to meet the conditions agreed with the IMF and begin to narrow the budgetary shortfall. First it must survive the opposition from those who would be affected. In the past they have had the political upper hand. Financial Times (2024b)

resource-based products but unlike these countries its development trajectory was derailed by what Dervis and Strauss (2019) describe as "A political system that, having oscillated so frequently between military dictatorship and populist majoritarianism, failed to cement institutions that can constrain short-termism and anchor policies for long-term development." Other reasons include underinvestment in human capital, the inability to diversify the economy, bad policies and the damage inflicted by external shocks (Glaeser et al 2018).

During Argentina's long Peronist interlude (1943–1955), attempts were made to wean the country away from dependence on agricultural exports through state-owned or sponsored import substituting enterprises (ISI) and projectionist policies alongside programs social welfare programs and others to protect the urban labor force.[20] ISI had as little success as elsewhere in Latin America in part because government policies drove up the cost of labor and shielding industry from competition undermined its productivity. Between 1900 and 2022, Argentina's per capita GDP growth averaged 1.1 percent per annum. Over the same period, the US economy averaged 1.6 percent per annum—a difference of 0.5 percent—but the cumulative effect over more than 120 years is vast (Furman 2024).[21] In 1901, Argentina's per capita GDP in 2011 dollars was $4,591 that of the US was $8,770. A hundred and twenty years later, using the same yardstick, Argentina's per capital GDP had risen to $18,292, compared to $58,487 in the US (Our World in Data).

These and other policies were responsible for rising public debt, external imbalances when economic activity rose, inflation, and the onset of crises. By the late 1970s, the chronic imbalances arising from policy mismanagement gave rise to hyperinflation (300 percent in 1977). A failed attempt at stabilization led to a BOP crisis in 1981, a banking crisis and a debt default. Because macroeconomic adjustment did not last, inflation worsened in the mid-1980s and the Austral Plan was adopted to stabilize the economy (Dornbusch and dePablo 1990). This too failed and later after more crises and IMF programs, Argentina adopted the Convertibility Plan, which delivered some relief from budget deficits and inflation (Pou 2000).[22] However, by the end of the century, the country was again in the throes of a financial crisis and exposed to a near meltdown of its banking system (Daseking et al 2004). Argentina again defaulted on its debt and through the early 2000s suffered from a prolonged recession. Growth resumed between 2003 and 2007 fueled by some reforms and higher commodity prices. But that ended all too soon and ever since, irresponsible fiscal policies, corruption and a

20 Juan Peron's populist policies have left their mark on Argentinian politics. He was expelled from the country and the military junta, which ran the country for seven years starting in 1976, made determined efforts to erase Peronism by waging a "Dirty War". This campaign along with vestiges of Peronism were responsible for persistent political instability even after democracy regained a foothold with the election of Ricardo Alfonsin in 1983. Peronism was reborn when Nestor Kirchner was elected in 2003 and continued under his wife Cristina Kirchner who succeeded him in 2007. Roy (2024)

21 Argentina's per capita GDP began diverging from that of comparators such Australia, Canada, the Netherlands, and Germany with roughly comparable per capita incomes from early in the 20th century. The divergence accelerated from mid-century onwards with Argentina converging towards lower income countries in LAC with growth becoming more volatile along with an increase in the level of inflation. A once wealthy country became progressively less so. Katz and Yeyati (2024).

22 Kehoe (2003) states that "To make the Convertibility Plan more credible, the… Administration…made abandoning the plan very costly [e.g. by restricting depositors access to bank accounts]. [But] neither the second Menem administration nor the de la Rúa administration…enforce[d] fiscal discipline… The costs associated with these measures, particularly those incurred by the domestic financial system, made the crisis far worse when the Convertibility Plan [inevitably] failed."

progressive decline of market institutions set the stage for more crises. For example, from 2007 onwards during Cristina Kirchner's term in office, public expenditure rose steeply to 44 percent of GDP in 2015 and the budget deficit reached 7.4 percent of GDP (Pesce and Feldman 2023). However, Argentina managed to skirt a crisis thanks to high commodity prices and capital inflows from China.

Growth, which had been slowing since 2012, became negative in 2016, briefly recovered in 2017 and then began a steep decline once Argentina was hit by Covid in 2020. This failure to restore Argentina's economic fortunes and a run on the peso led to the ouster of Mauricio Macri's right wing, market-oriented government in 2019 (he was elected in 2017). Another crisis, an IMF program negotiated in 2022, followed by policy lapses, a bad harvest, economic contraction (2.5 percent) and rising inflation in 2023 (211 percent) worsened economic and political turmoil (CRS 2024). The government of President Fernandez was voted out of office at the end of 2023 and replaced by that of the Javier Millei leader of the far-right libertarian party, La Libertad Avanza. Millei is the new broom, promising to sweep aside vestiges of Peronism and tarnished institutions that have lost the public's trust, to downsize government, stem corruption and to implement tough policies (Roy 2024).

Another IMF program negotiated in January 2024 provided breathing space for the new government to implement some of its proposed reforms. But Millei's window of opportunity is narrow because his popularity could quickly evaporate if he fails to deliver some improvement in living conditions. One half of the population was poverty stricken in 2024 as against 38 percent in the third quarter of 2023 and many small businesses were being squeezed by a decline in sales.

The monetary policy actions taken by the new government brought monthly inflation down to 14 percent and cut public spending on subsidies and pensions to generate a budget surplus in January 2024 (Economist 2024b). A good harvest and a recovery of commodity prices could further boost the President's and Argentina's fortunes. But Argentina's federalist system could stymie Millei's efforts. None of the governors of Argentina's 23 debt burdened provinces belong to Millei's party, which also has just 7 seats (of 72) in the National Senate and only 37 (of 257) in the Chamber of Deputies. Although the Presidential system permits Millei to wield executive orders to good effect, passing major legislation will be an uphill battle. Resistance mounted by political opponents has forced the President to trim his agenda—postpone dollarization, a pay raise for the military and others—and proposed cuts to spending on universities have predictably aroused a storm of protests (Ellis 2024; de Bolle 2023). Nevertheless, Millei has achieved some wins with the passage of his market friendly omnibus bill.[23] Ensuring that the emergency spending cuts are not reversed and revenue raising measures can be legislated into effect, will determine whether stabilization can endure.

23 "Millei's market friendly economic reform package, which included privatizations and labor law changes, was approved by the Senate on June 13th, 2024, but violent protests prevented the passing of income tax legislation. https://www.bloomberg.com/news/articles/2024-06-12/milei-s-signature-reforms-at-risk-in-tense-argentine-senate-vote?sref=h-tOHjx5Y

Stabilization and growth of the economy that endures may once again be within reach. While the new President is popular, the country's history has demonstrated that time and again it has managed to snatch defeat from the jaws of victory. Whether a country where politics remains highly polarized, and institutions have been debased, and popular support can be fickle, is ready to suffer hardship to end the cycle of crises, remains to be seen. There is a leader with a plan and the IMF as well as the US government is by his side.[24] The future is in the hands of Argentina's politics.

Pakistan and Argentina are not the only ones that have endured crises and struggled to come up with lasting remedies. Sri Lanka, Ghana, Nigeria, Ethiopia, Zambia, Ecuador, Kenya, and South Africa are others confronting hard unenviable choices. In several cases the mounting burden of external debt and the difficulty countries face in mobilizing additional resources from domestic sources, is a major issue.[25] Tax and rate hikes are strongly resisted as in Sri Lanka, Pakistan and Kenya. Growing out of their problems fiscal and others, is a huge challenge even for resource rich countries such as South Africa and Nigeria (Growth Lab 2023; World Bank 2024).

Crises with no end in sight: Lebanon and Venezuela

Lebanon

The crisis that gripped Lebanon from 2019 onwards was one of the most crippling any country had ever encountered. The pressures had been building for some time stoked by civil war, which raged from 1975 to 1990, the accumulation of debts once rebuilding commenced, and starting in 2011, the influx of more than 1.5 million refugees from Syria. Reforms have been stymied by political fragmentation and infighting. The demand for transparency has been rebuffed by ruling elites anxious to conceal the prevailing corruption. Because seventeen political parties hold seats in the Parliament several with as few as five, attempts to cobble together a majority have proven futile. Absent the political resolve, fiscal and financial reforms to correct macroeconomic imbalances, reverse financial fragility and to lessen the dependence on inflows of capital and remittances from abroad, have gone nowhere.

The crisis erupted in October 2019 when an attempt by the government to impose a tax on WhatsApp messages led to widespread rioting (Washington Post 2019). This added to the worries of international lenders who were only too aware of the wide fiscal deficit, the current account deficit amounting to 24 percent of GDP (in 2019), the losses incurred by local banks, and the risk posed by a fixed exchange rate. By early in 2020, foreign inflows and financing from the Gulf states had ground to a halt. This "sudden stop" forced Lebanon to default on its external borrowing in March 2020—the first ever in its history. Subsequently, the economy was pummeled by the Covid pandemic, rising energy prices

24 Argentina has produced some world class companies and is not lacking in entrepreneurship. Mercado Libre founded in 1999 is the largest e-commerce company in Latin America and almost the equal of Amazon. The software developer Globant is another. And there are plenty of promising startups.

25 https://www.marketplace.org/2023/12/14/world-bank-record-debt-hurting-developing-countries/

and the explosion caused by stored ammonium nitrate fertilizer that rocked the harbor and caused extensive damage in the near vicinity. Together these worsened the crisis. GDP measured in current dollars fell from $55 billion in 2018 to $16.2 billion in 2023. The currency depreciated by 98 percent, the consumer price index rose from 3 in 2019 to 171 in 2022, per capita GDP was halved in three short years, and close to one half of the population slipped below the poverty line.[26] The middle class is on the verge of disappearing, which could be dangerously disruptive. As the resources available to the state have plummeted, public services have suffered. School and medical services have been hard hit and the National Social Security Fund is on the brink of bankruptcy. The crisis has curtailed the supply of electricity and access to internet services.[27]

What makes this a particularly deadly crisis is that Lebanon's governing elites show little willingness to make the sacrifices necessary to pull the country out of abyss it is in.[28] For at least three decades, Lebanon has been surviving—and even thriving—on transfers from abroad.[29] Gross domestic savings were barely positive in just a few years and never more than 3.5 percent of GDP. For much of the time since 1990, they have been highly negative, as low as -21 percent of GDP in 2021. Although the tax/GDP averaged close to 15 percent between 2002 and 2019, once the crisis took hold it fell to 5.7 percent in 2021. Throughout the 2000s and 2010s, waste and corruption undermined the capabilities of the state. And when the crisis hit, a gravely weakened state was unable to manage the disruption caused or to formulate a plan to stabilize the economy and begin to restore normalcy.

Starting in May 2020, Lebanon entered negotiations with the IMF, the World Bank, the EU and the UN to arrive at a rescue plan and to mobilize the financing needed to arrest the downward spiral. An initial agreement to establish a Lending Facility was reached in December 2020. However, it was not until April 2022 that an agreement was signed with the Fund for a four-year extended fund facility predicated on reform of fiscal, financial, and governance systems. Yet the "good crisis" remains elusive because of the hurdles created by Lebanon's socio-political composition.

Extreme political fragmentation and the presence of multiple political cartels and non-state entities[30] each with their own agendas, has made it difficult to arrive at common ground on policies requiring shared sacrifices. Furthermore, with state administrative capacity severely compromised by politicization, emigration and corruption, implementation of reforms is an uphill task. Financial engineering that led to the meltdown of the Central Bank highlighted the degree to

26 One consequence of the currency devaluation and the rampant inflation is the progressive dollarization of the economy. In 2022, the median household income was reported to be $122. https://www.hrw.org/world-report/2023/country-chapters/lebanon

27 The contraction of Lebanon's GDP by 38 percent between 2018 and 2022 is almost unprecedented in the annals of crises. The Greek crisis of 2009 resulted in a 26.3 percent drop in GDP; Argentina lost 18.4 percent following the 2001 crisis and 11.4 percent was subtracted from Cyprus' GDP when it succumbed to a crisis in 2012. https://growthlab.hks.harvard.edu/policy-research/lebanon

28 Aryssi (2020) views the crisis as one arising from the failure of governance. "Sectarianism has ...been an important contributor to the rampant corruption. High-ranking government officials, because of their political and religious affiliations, felt immune from judicial prosecution, inflated expenses, hired relatives as consultants to increase the size of the government to unprecedented proportion, contributing to the public deficit."

29 https://www.reuters.com/markets/rates-bonds/lebanons-financial-crisis-how-it-happened-2022-01-23/

30 Powerful militias abound throughout the Mideast over which governments exercise minimal control. Economist (2024c)

which governance was collapsing (Honohan 2023). The political elites remain hopeful that they will be bailed out by the Gulf states or others—as in the past by donor conferences convened in Paris, 1,2 and 3—or that recent natural gas discoveries will make it unnecessary to swallow bitter medicine (Schenker 2007). Hence, the collective elite preference is to buy time, hope that the crisis will pass, so that they can resume their deal making and rent seeking activities. Meanwhile the economy—or what is left of it—continues to crumble.

Many Lebanese are becoming resigned to the view that the prevailing system must be totally dismantled before a functional state can emerge, and before the surviving elites could arrive at a consensus that would maintain a degree of political equilibrium, restore state functions and rebuild the economy (Sayed 2023). It is a forlorn hope and the outcome of a crisis that has enveloped the country in a fatalistic gloom. A collapse is best avoided because the Mideast region is in a difficult spot with tensions on the rise (Halawi 2024). Somalia, Haiti, Sudan, and the DRC, provide warnings of what can happen when states collapse. There is a pathway out of the crisis for example along the lines proposed by Hausmann et al (2023) and the IMF (2023). In order not to lose this opportunity, Lebanon will need reform minded leadership able to carry out reforms and institution building (e.g. of the central bank and the politicized judiciary, Karam 2020) that enjoy cross elite support. Good governance and development must go hand in hand (Dagher and Altug 2023).

Venezuela

Over seven million Venezuelans have left their country since the country began tipping into a crisis in 2013.[31] Such a massive exodus is emblematic of a failed petrostate with the semblance of government and order sustained by brute military and police force.[32] What caused this long-running crisis and why is there no solution in sight (Hausmann and Rodriguez 2013)?

The proximate cause of the crisis was a fall in the price of oil from an average of $98 per barrel in 2013 to $43 per barrel in 2016.[33] Because almost two thirds of the budget was financed through oil exports, the impact on state capabilities was immediate and far-reaching. Other countries reliant on oil exports also suffered a blow and rebounded but Venezuela did not for reasons largely related to decades of political dysfunction (Cheatham and Roy 2023).

The rot set in after the boom in oil prices in the early 1970s. This sudden increase in petro-wealth ushered in a cycle of mismanagement, corruption and embezzlement of public resources. It also exposed Venezuela to the symptoms of Dutch disease that tilted relative prices against tradables and in favor of non-tradables (Ebrahimzadeh 2003). In the 1980s, at a time when oil prices had collapsed, the government of President Perez, purchased and added foreign oil refineries to the already nationalized oil industry. These acquisitions increased Venezuela's external debt and by worsening

31 https://www.iom.int/venezuelan-refugee-and-migrant-crisis; The population of Venezuela in 2022 was 27 million down from almost 31 million in 2016. https://sgp.fas.org/crs/row/R44841.pdf
32 https://www.wilsoncenter.org/blog-post/all-hope-lost-venezuela
33 https://www.macrotrends.net/1369/crude-oil-price-history-chart

macroeconomic imbalances compelled the authorities to rein fiscal spending. Austerity sparked severe public unrest, which simmered through the 1990s leading to the election of Hugo Chavez who promised to use oil revenues to combat poverty and inequality.

Chavez's Bolivarian socialism won him the support of the working class. He expanded social programs and reduced poverty by 20 percent.[34] But in tightening his control over the organs of the state, enlarging the role of the military, he greatly eroded the professionalism of the administrative system, and the technical capacity of the national oil company (PDVSA).[35] Under his increasingly authoritarian watch, Venezuela's oil production and reserves declined, public debt doubled, many private businesses were taken over, exchange and price controls distorted market signals, journalists were harassed and press freedom curtailed, and the Supreme Court became a pliant tool of the presidency. By 2012–2013, Venezuela was already running short of forex to finance imports to offset domestic shortages.[36] This problem has since become far more acute.

The election of Nicolas Maduro a former bus driver, following Chavez's death in 2013 transferred power into the hands of a president more dictatorial than his predecessor. Soon after Maduro's accession, oil prices plummeted and an economically weakened petrostate was plunged headlong into crisis. According to Ricardo Hausmann (2019) five years into the crisis, Venezuela's predicament is worse than that of Germany in the immediate aftermath of the two world wars, of Russia following the disintegration of the USSR, many times more punishing than South America's largest recession, and Venezuela's hyperinflation rivals that of Weimar Germany after the World War 1 (350,000 percent). As the economy continues to shrink, shortages of electricity, drinking water, medical supplies and foodstuffs are making life ever harder for the average citizen. And as long as the military establishment remains unified and allied with Maduro, he will be difficult for the opposition to dislodge.[37]

The Venezuelan crisis like the one ruining Lebanon, can in principle be resolved because the country is fundamentally resource rich with over 300 billion barrels of proven oil reserves, the world's largest.[38] But as in Lebanon, political dysfunction has hollowed out the state, weakened or destroyed key institutions, drained the country of human capital and after two decades of mismanagement, pushed the economy over the brink. Lebanon's predicament can be blamed on multiple parties and non-state actors that have failed to make common cause and end the downward spiral. In

34 How much of the blame for Venezuela's economic collapse lies with Chavez has been debated. See https://nacla.org/is-hugo-chavez-to-blame-for-venezuelas-collapse

35 Technical staff were fired following a workers strike in 2002–2003. This plus inadequate investment in oil production and exploration was responsible for the drop in output, which peaked in early 2000.

36 Imports valued at $85 billion in 2012 were down to just $7 billion in 2019 as hard times and sanction throttled the economy.

37 With the state's coffers depleted, Maduro cannot pay the military, instead it is permitted to loot whatever can be monetized. He has also been forced to cede control over some regions of Venezuela to narco gangs, other criminal organizations, to those engaged in illegal mining and to the surviving elements of FARC. Hausmann (2019). Pressure from the opposition led by Maria Machado, is mounting with elections on the near horizon. Economist (2024d); Berg and Winkler (2024); Financial Times (2024c).

38 https://www.opec.org/opec_web/en/about_us/171.htm; A proposal on how Venezuela's debt burden could be eased can be found in Hausmann et al (2019). A broader plan Pais has also been tabled. Wayne and Rendon (2019). FT (2024) https://www.ft.com/content/8abafb63-6151-4e47-9fe6-a865a5eccb3e

Venezuela's case, economic mismanagement ongoing since the 1980s was brought to a head by the policies pursued first by Chavez who was elected president and enjoyed popular support, and then by Maduro, who won elections twice although the results were disputed. Venezuelan elites and the public cannot be absolved of responsibility for the economic shambles.[39]

Powerful leaders who control the machinery of the state, have a developmental vision and the authority to implement a reform agenda, can use a crisis to initiate an economic transformation. Deng Xiaoping pulled off this feat in China in the aftermath of the highly disruptive Cultural Revolution. Park Chung Hee directed Korea's export led industrialization and helped make a country deemed a "basket case" in the early 1960s into an Asian Tiger. The Singaporean Miracle was the work of Lee Kuan Yew who confronted a crisis in 1965, which led to the separation of Singapore from Malaysia. Each was an authoritarian leader who used a crisis to lay the groundwork of a virtuous spiral. All three had to build or rebuild the machinery of the state and the institutions of a market (or quasi market) economy. Vision, a reform agenda, state capability, and sufficient support from elites ensured that crises were not wasted.

These men were the exceptions that test the rule. Too often, authoritarian leaders, democratic governments and other illiberal regimes squander the opportunities that can arise when a crisis hits. This is not to imply that every crisis potentially has a silver lining. The ones that do can yield quick wins and longer-term gains but need responses like those mounted by governments in India, Türkiye, and Korea.

A few takeaways from crises past and a look ahead

In a book that garnered much acclaim, Acemoglu and Robinson (2012) asserted that to avoid failure, nations needed to get their politics right. Politics grounded in institutions that were inclusive, enforced laws, safeguarded property, invested in welfare enhancing public infrastructure and services, were conducive to good economic outcomes. It is fair to say that state and non-state institutions shape and support a nation's politics, its ability to harness resources, to take advantage of opportunities when they arise, to weather crises and to recover (Acemoglu et al 2005). Leadership with a developmental vision matters as do sound policies, but for these to acquire traction basic functioning institutions must be in place.[40] Where these do not exist or have been severely battered, crises can take a painful turn or worse push a country towards the doom loop that is gripping Haiti, Sudan and Yemen and could more fully engulf others such as the Democratic Republic of Congo (DRC) and the Central African Republic (CAR). Economist (2024e,f,g); Ferragamo and Roy (2024); Giovetti (2024); CFR Global Tracker (2024).

39 In 2023, Lebanon was ranked 149 (alongside Iran, CAR and Zimbabwe) by the Corruption Perceptions Index and Venezuela was in 177 place sharing the spot with Syria and South Sudan https://en.wikipedia.org/wiki/Corruption_Perceptions_Index
40 https://blogs.worldbank.org/en/governance/institutions-matter-growth-and-prosperity-today-more-ever

The experience of Korea, India, Türkiye, China, and Singapore shows that adequate state capability complemented by functional economic institutions are necessary for policies to take effect, resources to be marshalled, and external support put to effective use. These are necessary conditions. The above review also highlights the role of politics. Unless the key elites are willing to support reform—and the public can be persuaded to swallow the medicine—a leader will make little headway. Countries that did not waste their crises, had leaders who enjoyed sufficient political backing for proposed reforms, adequate state capabilities, and could count on serviceable institutions. In each case reforms could very well have foundered, the political support could have evaporated, external developments could have derailed reforms, and lady luck could have deserted them. All these are risks that any country attempting to emerge from a crisis faces but they are worth courting because the alternative is far worse. An authoritarian regime can tamp down dissent and eke out a crisis as in Venezuela, but prolonged repression—or inaction—with no reform can rapidly deepen a crisis. Argentina is now attempting to climb out of the hole led by a president who is not part of the establishment but must still broker some deals with the elites. Pakistan's commitment under recycled leadership will be tested in the months and years ahead.[41] When countries are in as deep a hole as Venezuela and Lebanon, the first step is to stop digging. Next comes a credible commitment by relevant stakeholders to doing whatever it takes to get out and become a "normal" economy.

It appears that in almost all cases, macroeconomic mismanagement, financial breakdowns, accumulation of excessive debts compounded by the original sin, exchange misalignment, and loss of reserves exposed countries to crises.[42] External shocks made matters worse and, in some cases, served as triggers. However, very often, the policy missteps and vulnerability to crises were because of endemic corruption, weakening institutions (including regulatory ones), which were losing public trust, and political disarray or polarization.

One would expect that the extensive knowledge of the causes of crises, especially of financial crises, would improve forecasting and reduce their incidence.[43] And countries that were struck

41 Nawaz Sharif's government commenced its fourth innings in 2024. None of his previous three terms as PM were completed. The democratic process in Pakistan recalls Oscar Wilde's memorable remark—and more. "Once is a misfortune, twice is carelessness, a third verges on self-harm, a fourth leaves one speechless." https://www.reuters.com/world/asia-pacific/nawaz-sharif-pakistans-three-time-pm-due-home-exile-2023-10-19/

42 Past crises have been thoroughly scrutinized, none more so than financial and banking crises. But forecasting is an art that has never evolved beyond infancy. Rumor has it that AI will succeed where humans have failed. "AI, by examining vast datasets, may have the power to identify the patterns that predict financial crises before they happen and take pre-emptive action to mitigate or even avert them." https://www.weforum.org/agenda/2024/06/ai-may-soon-be-predicting-financial-crises-before-they-take-root/; Solutions put forward to minimize the risk of crises range from more regulation and tighter supervision, to making financial systems more resilient via stress tests, diversification, ensuring that banks are well resourced, identifying and minimizing systemic risks, building buffers, requiring banks to prepare living wills etc. https://blogs.worldbank.org/en/allaboutfinance/building-a-more-resilient-financial-system-are-we-there-yet; UNCTAD (1998); Danielsson (2024); Smith et al (2022).

43 Perhaps and perhaps not. Queen Elizabeth's query following the onset of the 2008 Financial Crisis, "Why did no one see it coming?" is unanswered. Alan Greenspan admitted that he—and the economics profession— were caught by surprise. The sophisticated models provided no forewarning. Greenspan (2013). Keynes hoped that economists would become the equivalent of "humble competent people" like dentists. But after reviewing 21 books on the Financial Crisis of 2008, Andrew Lo (2012) concluded that that the crisis demonstrated that financial economics is not a science at all. In fact, financial economists are like "astrologers making pronouncements and predictions without any basis in fact or empirical evidence." Keynes' ambition for economists is work in progress.

by an economic crisis would quickly bring it under control. But all too frequently in developed and developing countries, crises have caught governments unawares and unprepared, and too often, politics and the power of vested interests come in the way of quick remedial action.

Clearly there is no escape from crises economic and other. Looking ahead, climate change threatens environmental crises of a magnitude and frequency never seen before.[44] Climate change will not only add to the roster of crises, but it could also exacerbate economic crises and crises that have other causes. One can only hope because homo is sapiens, countries will learn to avoid crises where possible and if they do strike that fewer will be wasted.

44 WEF (2024) https://www.weforum.org/press/2024/01/wef24-climate-crisis-health/; https://www.worldwildlife.org/stories/is-climate-change-increasing-the-risk-of-disasters; https://www.rescue.org/article/how-climate-change-drives-humanitarian-crises

References

Acemoglu, D., S. Johnson and J. Robinson (2005). Institutions as a fundamental cause of long-run growth. https://economics.mit.edu/sites/default/files/publications/institutions-as-the-fundamental-cause-of-long-run-.pdf

Acemoglu, D., and J. Robinson (2012). Why Nations Fail. Penguin Random House. https://www.penguinrandomhouse.com/books/205014/why-nations-fail-by-daron-acemoglu-and-james-a-robinson/

Acharya, S. (2002). India: crisis growth and reform in the 1990s. https://kingcenter.stanford.edu/sites/g/files/sbiybj16611/files/media/file/139wp_0.pdf

Ahmed, M. (2018) Why does Pakistan have repeated macroeconomic crises? CGD.https://www.cgdev.org/publication/why-does-pakistan-have-repeated-macroeconomic-crises

Aryssi, M. (2020). Sources of the 2020 crisis in Lebanon. https://theforum.erf.org.eg/2020/07/07/sources-2020-crisis-lebanon/

Baldwin R. (2022). Globotics and macroeconomics. Globalization and the automation of the services sector. https://www.ecb.europa.eu/press/conferences/ecbforum/shared/pdf/2022/Baldwin_paper.pdf

Benhassine, N., and M. Raiser (2024). Could 2024 mark Pakistan's turnaround moment. https://blogs.worldbank.org/en/voices/could-2024-mark-pakistans-economic-turnaround-moment

Berg, R., C., and A. Winkler (2024). A second Independence Day? Scenario for Venezuela's July 28 election. CSIS. https://www.csis.org/analysis/second-independence-day-scenarios-venezuelas-july-28-election

Butt, A. I. (2024). Pakistan's unending crises. Journal of Democracy. August. https://www.journalofdemocracy.org/why-pakistan-always-seems-on-the-brink-of-collapse/

Capoglu, G. (2004). Anatomy of a failed IMF program. Emerging Markets Finance and Trade 40(3) https://www.jstor.org/stable/27750392

Cerra, V., and S. C. Saxena (2002). What caused the 1991 currency crisis in India. https://www.imf.org/external/pubs/ft/staffp/2002/03/pdf/cerra.pdf

CFR Global Tracker (2024). Conflict in CAR. https://www.cfr.org/global-conflict-tracker/conflict/violence-central-african-republic

Cheatham, A., and D. Roy (2023). Venezuela: The rise and fall of a petrostate. https://www.cfr.org/backgrounder/venezuela-crisis

CRS (2024) Argentina: An overview. https://crsreports.congress.gov/product/pdf/IF/IF10932/25

Dagher, L., and S. Altug (2023). The end game to Lebanon's woes. https://gjia.georgetown.edu/2023/11/10/the-end-game-to-lebanons-woes-imf-reform-and-political-willingness/

Danielsson. J. (2024). Why so many crises happen when we know why they happen and how to prevent them? https://cepr.org/voxeu/columns/why-so-many-crises-happen-when-we-know-why-they-happen-and-how-prevent-them

Daseking, C., A. R. Gosh, T. D. Lane, and A. H. Thomas (2004). Lessons from the crisis in Argentina. IMF. https://www.imf.org/en/Publications/Occasional-Papers/Issues/2016/12/30/Lessons-from-the-Crisis-in-Argentina-17402

de Bolle, M. (2023.) Is there a way out for Argentina? https://www.piie.com/blogs/realtime-economics/there-way-out-argentina; https://www.bbc.com/news/world-latin-america-68886411

Dercon, S. (2023). Gambling on Development. Hurst.

Dervis, K., and S. Strauss (2019). Argentina must not waste its crisis. Brookings. https://www.brookings.edu/articles/argentina-must-not-waste-its-crisis/

Dornbusch, R., and J. C. dePablo (1990). The Austral Plan. https://www.nber.org/system/files/chapters/c8927/c8927.pdf

Ebrahimzadeh, C. (2003). Dutch disease: Wealth managed unwisely. IMF. https://www.imf.org/en/Publications/fandd/issues/Series/Back-to-Basics/Dutch-Disease

Economist (2024a). What's next for Pakistan? https://www.economist.com/asia/2024/03/27/what-next-for-pakistan

Economist (2024b). After 100 brutal days. https://www.economist.com/the-americas/2024/03/19/after-100-brutal-days-javier-milei-has-markets-believing

Economist (2024c). Militia mayhem. https://www.economist.com/middle-east-and-africa/2024/04/25/the-middle-east-has-a-militia-problem

Economist (2024d). Maria Corina's voter army. https://www.economist.com/the-americas/2024/07/11/a-new-danger-for-venezuelas-autocrat

Economist (2024e). The last scraps of the Haitian state ae evaporating. https://www.economist.com/the-americas/2024/03/07/the-last-scraps-of-the-haitian-state-are-evaporating

Economist (2024f). After a year of war, Sudan is a failing state. https://www.economist.com/middle-east-and-africa/2024/04/15/after-a-year-of-war-sudan-is-a-failing-state

Economist (2024g). Rebellion risks sparking a regional war. https://www.economist.com/middle-east-and-africa/2024/02/22/congos-m23-rebellion-risks-sparking-a-regional-war

Economist (2024h) To ban or not to ban. https://www.economist.com/asia/2024/07/18/imran-khan-comes-under-further-pressure-in-pakistan

Eichengreen, B., R. Hausmann, and U. Panizza (2022). Yet it endures: The persistence of original sin. https://growthlab.hks.harvard.edu/files/growthlab/files/2022-11-cid-wp-420-persistence-original-sin.pdf

Ellis, R. E. (2024). Argentina's political and economic challenges. https://gordoninstitute.fiu.edu/news-events/the-policy-spotlight/2024/argentina-political-and-economic-challenges.html

Ekinci, N., K, and K. Erturk (2007). Turkish currency crisis 2000–2001 revisited. https://www.researchgate.net/publication/24082623_Turkish_Currency_Crisis_of_2000-2001_Revisited

Ferragamo, M., and D. Roy (2024). What is the extent of Sudan's humanitarian crisis? https://www.cfr.org/in-brief/what-extent-sudans-humanitarian-crisis

Financial Times (2024a). How Pakistan's economy fell into crisis—in charts. https://www.ft.com/content/fbdf57c2-cce4-4c35-827a-1528899f5fb7

Financial Times (2024b). Pakistan finance minister warns taxes must rise to break bailout cycle. https://www.ft.com/content/1b88fff6-bebb-4650-9677-7a7caa268f05

Financial Times (2024c). Maduro launches charm offensive as rival soars. https://www.ft.com/content/89e8a043-4c09-4522-9a8a-572a4fe0853e

Furman, J. (2024). Comparing per capita GDP growth of the US and Argentina: 1900–2022. https://x.com/jasonfurman/status/1780592423288098927?ref_src=twsrc%5Etfw%7Ctwcamp%5Etweetembed%7Ctwterm%5E1780592423288098927%7Ctwgr%5Ee473facce1f8ba66415f5e74bd5f61c1883cd574%7Ctwcon%5Es1_&ref_url=https%3A%2F%2Fmarginalrevolution.com%2F%3Fs%3Dargentinagrowth

Furusawa, M. (2017). What we have seen and learned 20 years after the Asian financial crisis. IMF. https://www.imf.org/en/Blogs/Articles/2017/07/13/what-we-have-seen-and-learned-20-years-after-the-asian-financial-crisis

Giovetti, O. (2024). The DRC crisis explained https://concernusa.org/news/democratic-republic-congo-crisis-explained/

Glaeser, E. L, R. Di Tella, L. Llach (2018). Introduction to Argentine exceptionalism. Latin American Economic Review 27(1). https://www.hbs.edu/ris/Publication%20Files/LAER%20Introduction%20to%20Argentine%20Exceptionalism_3c49e7ee-4f31-49a0-ba21-6e2b726cd7c5.pdf

Greenspan, A. (2013). Never saw it coming. Foreign Affairs. https://www.foreignaffairs.com/united-states/alan-greenspan-2008-crisis-never-saw-coming

Growth Lab (2023). Growth through inclusion in South Africa. https://growthlab.hks.harvard.edu/sites/projects.iq.harvard.edu/files/growthlab/files/summary_growth_through_inclusion_in_south_africa_final_2023-11.pdf

Hahm, J-H., and F. S. Mishkin (2000). Causes of the Korea financial crisis: Lessons for policy. NBER Working Paper No. 7483. https://www.nber.org/system/files/working_papers/w7483/w7483.pdf

Halawi, I. (2024). Lebanon on the brink: Failing the state as war sirens blare. https://timep.org/2024/01/11/lebanon-on-the-brink-failing-the-state-as-war-sirens-blare/

Hausmann, R. (2019). Understanding the Venezuelan crisis. https://www.hks.harvard.edu/wiener-conference-calls/ricardo-hausmann#transcript-1021000

Hausmann, R., A. Grisanti and J. I. Hernandez (2019). How to address Venezuela's crushing debt burden. Project Syndicate. https://www.project-syndicate.org/commentary/how-to-address-venezuela-debt-burden-by-ricardo-hausmann-et-al

Hausmann, R., and F. Rodriguez eds. (2013). Venezuela Before Chavez: Anatomy of a collapse. Penn State University Press. https://frrodriguez.web.wesleyan.edu/docs/Books/Venezuela_Anatomy_of_a_Collapse.pdf; https://www.psupress.org/books/titles/978-0-271-05631-9.html

Hausmann, R., et al (2023). Towards a sustainable recovery for Lebanon's economy. https://growthlab.hks.harvard.edu/sites/projects.iq.harvard.edu/files/growthlab/files/2023-11-cid-wp-439-lebanon-sustainable-recovery-execsumen.pdf

Honohan, P. (2023). Lebanon's central bank meltdown is a cautionary tale of financial engineering running amok. PIIE. https://www.piie.com/blogs/realtime-economics/lebanons-central-bank-meltdown-cautionary-tale-financial-engineering

IMF (2000). https://www.imf.org/external/np/loi/2000/tur/03/index.htm

IMF (2023). Lebanon: Staff concluding statement for the 2023 Article 4 mission. https://www.imf.org/en/News/Articles/2023/03/23/lebanon-staff-concluding-statement-of-the-2023-article-iv-mission

Iqbal, F. (2023). Pakistan's political business cycle and external debt dilemma. https://pide.org.pk/research/pakistans-political-business-cycle-and-external-debt-dilemma/

Karam, R., K. (2020). In Lebanon the judiciary is the main obstacle to justice. https://www.eastwest.ngo/idea/lebanon-judiciary-main-obstacle-justice

Katz, S., and E. Yeyati (2024). When did Argentina lose its mojo? VoxEu. https://cepr.org/voxeu/columns/when-did-argentina-lose-its-mojo

Kehoe, T. (2003). What can we learn from the current crisis in Argentina? https://onlinelibrary.wiley.com/doi/abs/10.1111/j.0036-9292.2003.05005002.x

Krueger, A., and J. Yoo (2002). Falling profitability, higher borrowing costs, and chaebol finances during the Korean Crisis. https://www.imf.org/external/pubs/nft/seminar/2002/korean/#:~:text=Based%20on%20their%20review%20of,that%20left%20the%20Korean%20economy

Kwack, S. Y. (1998). Factors contributing to the financial crisis in Korea. https://www.sciencedirect.com/science/article/abs/pii/S1049007898900665

Lee, J. W. (2017). Twenty years after the financial crisis in the Republic of Korea. ADB. https://www.adb.org/publications/twenty-years-after-financial-crisis-korea

Lo, A. W. (2012). Reading about the Financial Crisis: A twenty-one book review. Journal of Economic Literature. 50(1). https://www.aeaweb.org/articles?id=10.1257/jel.50.1.151

Majaski, C. (2021). What is rent seeking in economics and what are some examples. https://www.investopedia.com/terms/r/rentseeking.asp

Mohan, R. (2021). A third-generation strategy for accelerated growth and development in India. CSEP. https://csep.org/working-paper/a-third-generation-strategy-for-accelerated-growth-and-development-in-india/

Nawaz, S. (2024). Pakistan's next government faces an economy sliding into a void. East Asia Forum. https://eastasiaforum.org/2024/01/25/pakistans-next-government-faces-an-economy-sliding-into-the-void/

Noble, S-P. (2018). Turkey: The 2001 financial crisis. https://seekingalpha.com/article/4212301-turkey-2001-financial-crisis

Our World in Data (2022). GDP per Capita. https://ourworldindata.org/grapher/gdp-per-capita-maddison?time=latest

Pearson, W. R. (2024). CPR for the Turkish economy. https://americandiplomacy.web.unc.edu/2024/02/cpr-for-the-turkish-economy-the-2001-financial-crisis-and-its-aftermath/

Pesce, M. A., and G. Feldman (2023). Monetary policy challenges over two decades: A view from Argentina. BIS. https://www.bis.org/publ/bppdf/bispap143_c.pdf

Pou, P. (2000). Argentina's structural reforms of the 1990s. IMF. https://www.imf.org/external/pubs/ft/fandd/2000/03/pou.htm

Rajan, R., and R. Lamba (2024). Breaking the Mold: India's untraveled path to prosperity. Princeton University Press. https://press.princeton.edu/books/hardcover/9780691263632/breaking-the-mold

Rana, S. (2023). Pakistan's existential economic crisis. USIP. https://www.usip.org/publications/2023/04/pakistans-existential-economic-crisis

Roy, D. (2024). Argentina's struggle for stability. CFR. https://www.cfr.org/backgrounder/argentinas-struggle-stability

Salman, A., and B. Ali (2022). The IMF stabilization program and macroeconomic analysis for Pakistan. https://ipripak.org/wp-content/uploads/2022/10/IMF_Policy_Paper.pdf

Sayed, H. (2023). Lebanon's economic crisis. https://www.csis.org/analysis/haneen-sayed-lebanons-economic-crisis

Schenker, D. (2007). Lebanon goes to Paris III. https://www.washingtoninstitute.org/policy-analysis/lebanon-goes-paris-iii-high-stakes-france-and-beirut

Smith, D., et al (2022). In time of competing crises, environmental action matters more than ever. SIPRI. https://www.sipri.org/commentary/essay/2022/time-competing-crises-environmental-action-matters-more-ever

Spruk, R. (2019). The rise and fall of Argentina. https://latinaer.springeropen.com/articles/10.1186/s40503-019-0076-2

UNCTAD (1998). https://unctad.org/board-action/causes-management-and-prevention-financial-crisis-0

Wahid, A. (2023). Pakistan's financing conundrum. https://blog-pfm.imf.org/en/pfmblog/2023/10/23/pakistan-financing-conundrum

Washington Post (2019). Lebanon's economic crisis did not happen overnight. https://www.washingtonpost.com/politics/2019/10/22/lebanons-economic-crisis-didnt-happen-overnight-so-how-did-it-get-this-point/

Wayne, E. A., and M. Rendon (2019). Planning for the day after in Venezuela. CSIS. https://www.csis.org/analysis/planning-day-after-venezuela;

World Bank (2020). Modernizing trade in Pakistan: A policy roadmap. https://documents1.worldbank.org/curated/en/855261578376618421/pdf/Modernizing-Trade-in-Pakistan-A-Policy-Roadmap.pdf

World Bank (2023). Innovative Korea: Leveraging Innovation and Technology for Development. https://thedocs.worldbank.org/en/doc/7bda983fda10300f86b43ce5173ca782-0050062023/original/Innovative-Korea-PPT.pdf

World Bank (2024). https://www.worldbank.org/en/news/feature/2024/06/13/turning-the-corner-nigeria-ongoing-path-of-economic-reforms

Yeldan, A. E. (2008). Turkey and the long decade with the IMF: 1998–2008. https://www.networkideas.org/news/jun2008/Turkey_IMF.pdf

Thanks to Masood Ahmed, Ajay Chhibber, Eeshani Kandpal, Tom Rawski, and two anonymous referees for their helpful comments.

SHAHID YUSUF is chief economist of the Growth Dialogue and a non-resident fellow at the Center for Global Development.

Suggested citation:
Shahid Yusuf. 2024. "Countries and Crises: How Some Rise to the Challenge and Reform, While Others Fail." CGD Note 376. Washington, DC: Center for Global Development. https://www.cgdev.org/publication/countries-and-crises-how-some-rise-challenge-and-reform-while-others-fail

www.cgdev.org

This work is made available under the terms of the
Creative Commons Attribution-NonCommercial 4.0 International License.