The U.S. is integral to reproduction of “transnational debt architecture” that disguises and reinforces the “power global financial capitals over debtor states” (Soederberg, 2014:928)

But the financial interests of sovereign states, private creditors and debtor states are divided over the resolution of holdout payments. Hypothetically, the risk of losing an emerging debt market for the gain of few “vulture funds” may be too great for large banks from creditor nations (U.S., European Union). Selective payments to holdouts can lead to “moral hazard” when just a few bondholders benefit from sovereign default.

Vulture funds utilize a “particular type of strategy where a holdout creditor who through the secondary market buy distressed assets at a discount, and then refuse to participate in sovereign debt restructurings.

- Essentially its wanting the debtor to lose as much as possible, so that the hold out creditor can buy the debtors distressed assets on the secondary market for a discount to gain the most profit/financial returns
- Debatable area concerning quite philosophy/ideological notions regarding consumption of consumers, materialism, what nations spend things on and how they utilize loans, the conditions, which is often not explained
- Most often, “vulture funds” buy distressed government bonds from poor countries at fire sale prices, gambling on the possibility that through litigation the courts will award them the full price no matter the consequence to the debtor nation or more conventional debt holder
- Vulture funds are... part and parcel of the restructuring of the global financial order that has occurred since the resurgence of financial crisis in Latin America, Russia and Asia in the late 1990s. In the process, “vulture funds” became both the transmission belt of contagion as well as its agent in restructuring sovereign debts.
- The most important change has been the “disintermediation” of capital flows assisted by new instruments of debt financing in emerging market economies—increasingly away from official borrowing (commercial bank loans, IMF loans and governmental loans) towards domestic bond issuance and portfolio investment flows. Rethel calls this process as “domesticisation of emerging market debt”, which include securitized (government) debt issued in local currency (such as Treasury securities, bonds and stocks) and held by a wide range of domestic investors: the central bank, commercial banks and non-bank financial institutions such as hedge funds, mutual funds, pension funds and insurance companies (Bueet al, 2014:16). As a result, domestic debt accounted for a larger portion of total government debt in some of the low and middle-income countries
- In January 2005, out of $81.8 billion debt owed to bondholders, it exchanged $62.3 billion of defaulted bonds for $35.2 billion in new bonds. The amount of debt owed to private investors in 2010 remained around $29 billion (bond principal plus interest). With the bond exchange concluded on December 31, 2010, the total participation rate increased to 91.3% of defaulted debt which also included the 2005 participants.From 2010 to 2011, Argentina reduced the portion of debt owed to holdouts and the Paris Club of nations from 1[illegible]% of total public sector debt to 7% of total public debt. From 2002 to 2010, international reserves also increased from $[illegible].4 billion to $52.2 billion. During the period 2003-2008, the Argentine economy experienced an average growth rate of 8.5% and a primary surplus of 2.8% in revenues, enabling the government to refinance external debt at a faster pace than during 2001 or 2005
- During these bond exchanges, new bonds were issued in order to raise money for repaying bonds coming due. The bonds benefited domestic and foreign investors who participated in the restructuring process, as well as Argentina in its role as recipient of portfolio capital flows. Datz showed that the bonds exchanged in the 2005 debt swap “registered returns of 25% and 50% respectively” and there were even considerable returns in “extremely risky bonds” (“junk bonds”)
- RUFO clause”stated in Argentina’s bond prospectus. Buying Argentine bonds for amere $48 million in 2008, Griesa’s ruling would reward Singer’s NML capital handsomely-- $832 million (“a return of 1,600%”). Under the same ruling, NML capital and other “vulture funds” (1% of the creditors) would also obtain $1.5 billion. If the additional claims of other holdouts (6.6% of total creditors) were considered, the debt owed would amount to $15 billion (Stiglitz and Guzman, 2014)—nearly half of Argentina’s total dollar reserves. Also 200 billion penalty if enacted
- ...Illustrating the limits of the dominated regime of accumulation characterized by securitization of transnational debt has involved the emergence of a less regulated global financial order. It has in particular involved the emergence of neoliberal, “exploitative strategies of accumulation”in debtor states in order to overcome the accumulation
- Generally, European and Latin American countries, especially France, Mexico and Brazil, supported Argentina during the Supreme Court’s review of the rival claims. With the exception of the U.S., Canada and Panama, Argentina has had the full backing of the“Organization of the American States”. As the judge’s order unfolded, the IMF sought to“intervene” on behalf of Argentina but the U.S. pressured it not do so
- the Obama administration has been concerned that New York may lose business to London if Argentina defaults as well as destabilizing financial markets