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State Owned Enterprises as a Tool to Disincentivize the Transition Toward Renewable Energy Resources: India and Mexico

Ananya Vidyarthi

Introduction

With the global acceptance of climate change as an existential threat, the transition toward renewable energy resources has been prioritized around the world through various international accords such as the Paris Agreement. However, both India and Mexico have been slow to adapt to the necessary changes in energy infrastructure, as is evidenced by the fact that both countries have consistently fallen short of their renewable energy targets and have committed to large investments in their non-renewable energy generation capacity. This paper serves to establish that the inertia in transition is because the state-owned enterprises (SOEs) in non-renewable resource industries in both countries ensure stability for the central governments by using resources within their own borders to generate power and facilitate capital reproduction with minimal uncertainty. Ultimately, the transition toward renewable energy resources in India and Mexico threatens the profitability of the state-owned energy enterprises. This paper argues that the state ownership of the coal industry in India, and the petroleum industry in Mexico, has been integral to the legitimacy of the central government in both countries, and therefore disincentivizes the transition toward renewable energy resources.

Overview of the International Financial System

To understand the importance of non-renewables to the political economies of India and Mexico, it is important to demonstrate how the international financial system began to use non-renewable energy sources – particularly oil – as mechanisms by which to value currencies. Essentially, it is important to understand how the dollar's value became tied to the sale of oil after the second world war.

In his book, Carbon Democracy, Tim Mitchell acknowledges that modern democracy was made possible by the development of ways of living that required energy use on a new scale. He points out how the use of large-scale fossil fuels during the industrial revolution began the trend of large industrial countries becoming consumers of energy produced elsewhere. Thus, in the most foundational sense, the differentiation and specialization of tasks within an economy led to the need for political systems to prioritize the production and ownership of non-renewable resources. The collapse of democracy after World War I in Europe can be attributed to the collapse in methods of maintaining value in currency. The introduction of the Bretton Woods system was meant to limit the control private banking speculation had on international finance. Essentially, the risk and uncertainty in the global economy was being exasperated by speculative movements of capital (since the gold standard had been abandoned). According to historian Karl Polanyi, the abandonment of the international gold standard pushed Europe towards the second world war because countries in central and eastern Europe no longer had anything to base the value of their currencies.[1] Tim Mitchell attributes the growth of international trade activity to the consolidation of British gold mining operations which regulated speculation around international trade and "encouraged the growth of private banks, which profited from speculation in the value of national currencies." [2] When the gold standard was abandoned during the Depression era, sovereign states had the authority to manipulate the value of currencies by influencing the money supply– as seen in the Weimar republic.

During the establishment of the Bretton Woods system in New Hampshire, Henry Morgenthau – then secretary of the US treasury – claimed that the new monetary system was meant to "limit the control which certain private bankers have in the past exercised over international finance."[3] To curb the large-scale speculative movements of capital across borders, the value of currencies was tied to the rate exchange of goods and services. By the time World War II ended, it was clear that gold could no longer secure international financial exchange. There were two main reasons for this: first, European nations had been forced to sell their gold to the US to buy wartime supplies, and the United States had accumulated nearly 80% of the world's gold.[4] Secondly, although the US agreed to fix the value of dollar based on gold ($35 per ounce) at Bretton Woods, the circulation of dollars quickly began to outpace the supply of gold.[5] This was because South African gold mines could not increase production and because other countries participating in the Bretton Woods system agreed to peg their own currencies to the dollar which would increase the amount of dollar circulation. The most significant outcomes from the post-war transition toward the American gold monopoly was that the dollar strengthened because countries began to use the American dollar to participate in international trade and purchase essential goods such as oil.[6]

Additionally, by the end of World War 2, petroleum had become the most valuable global commodity, and the United States produced 2/3rds of the world's oil, while another 1/6th was produced in South and Central America.[7] As per arrangements that governed the oil trade, oil was to be bought and sold in the currency of the companies' that controlled oil production.[8] Since the bulk of oil produced had to be purchased in "dollar oil" "the value of the dollar as the basis of international finance depended on the flow of oil."[9] John Maynard Keynes and Harry

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[1] Polanyi
[2] Mitchell, Timothy. "The Fuel Economy." Carbon Democracy: Political Power in the Age of Oil, by Timothy Mitchell, Verso, 2013, pp. 109–143.
[3] Ibid
[4] Barry Eichengreen, Global Imbalances and the Lessons of Bretton Woods, Cambridge, MA: MIT Press, 2007: 40–1.
[5] Mitchell, Timothy. "The Fuel Economy." Carbon Democracy: Political Power in the Age of Oil, by Timothy Mitchell, Verso, 2013, pp. 109–143.
[6] Ibid
[7] Degolyer & MacNaughton, Twentieth Century Petroleum Statistics, Dallas: DeGolyer & MacNaughton, 2009.
[8] Walter j levy
[9] Mitchell, Timothy. "The Fuel Economy." Carbon Democracy: Political Power in the Age of Oil, by Timothy Mitchell, Verso, 2013, pp. 109–143.

Dexter White argued for the setting up of an institution (alongside IMF and World Bank) that managed the international trade of natural resource commodities, with the aim of hedging risk against price swings and speculative trading.[10] This proposed that countries create stockpiles of natural resources to protect from swings in currency value during times of supply shortages.[11] Dexter White's recommendations also included the establishment of an international stabilization fund that could ensure that member countries had access to an adequate supply of essential raw materials.[12] Friedrich Hayek proposed an international commodity standard to replace the gold standard, wherein currency would be issued in exchange for "a fixed combination of warehouse warrants for a number of storable raw commodities."[13] However, although the call for preventing speculative destruction of currency depended on the management of storage and exchange of key commodities, it was increasingly apparent that oil was the key commodity that needed to be regulated. This would lead to the establishment of the International Petroleum Council. While the "IMF was intended to limit chaos caused by speculative dealings of international banks," the IPC was "intended to limit the trouble caused by international oil companies" and "pre-empt oil producing countries from taking control of oil themselves."[14] Ultimately, the IPC "was envisaged as a form of trusteeship to facilitate Anglo-American control of Middle Eastern oil."

The momentum to create a new regime governing Middle Eastern oil stemmed from the weakened position of Anglo-American oil companies in Latin America, which had seen a period of nationalization of resources and expropriation of foreign oil revenue. The general move toward state monopolies over petroleum production in Latin America – symbolized by Mexico's 1938 expropriation of oil revenue – was integral in the shifting of American oil interests to the Middle East where "pressure for national control of oil resources seemed easier to prevent."[15] Thus, the post war Anglo-American international agreements regarding oil were formed around the basis of "efficient and orderly development of the international petroleum trade" such that large oil companies would be given the authority to "represent the interest of all countries in managing access to oil while compensating producer countries by contributing" to the development of oil extraction infrastructure.[16] These agreements meant to establish Anglo-American control over oil resources outside of their borders reflect the centrality of oil in

[10] 'United Nations Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated Nations', preliminary dra9 , March 1942, Chapter III: 30. Harry Dexter White Papers, 1920–55, Box 6, Folder 6, Public Policy Papers, Princeton: Seeley G. Mudd Manuscript Library.

[11] Mitchell, Timothy. "The Fuel Economy." Carbon Democracy: Political Power in the Age of Oil, by Timothy Mitchell, Verso, 2013, pp. 109–143.

[12] 'United Nations Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated Nations', preliminary dra9 , March 1942, Chapter III: 30. Harry Dexter White Papers, 1920–55, Box 6, Folder 6, Public Policy Papers, Princeton: Seeley G. Mudd Manuscript Library.

[13] F. A. Hayek, 'A Commodity Reserve Currency', Economic Journal 53: 210/211, 1943: 176–84; Benjamin Graham, Storage and Stability: A Modern Ever-Normal Granary, New York: McGraw-Hill Book Company, Inc., 1937.

[14] Mitchell, Timothy. "The Fuel Economy." Carbon Democracy: Political Power in the Age of Oil, by Timothy Mitchell, Verso, 2013, pp. 109–143. l

[15] Ibid

[16] Ibid

sustaining the economic value of western currencies. They can be interpreted as an extension of western imperialism to the *global south*, or they can be interpreted as integral steps in the creation of oil as a commodity that would act as a physical guarantor of the international financial system and the currencies of multiple countries. The agreements of Bretton Woods and the Washington Consensus showcase the mechanisms used to stabilize the values of currencies to reduce the risk of state's losing legitimacy. This was especially important to protect western democratic interests as the rise of fascism in Europe after World War 1 was attributed to economic uncertainty and hyperinflation as was seen in the Weimar Republic.[17] Given that the economic uncertainty was created by devaluation of currencies in Europe (such as in Russia and Germany), it became quickly evident that the shift away from the gold standard in the 1920s made for the lack of a stabilizing economic factor.[18] It is important to contextualize the cases of India and Mexico with regards to the post war financial system. This paper argues that the post-colonial financial systems inherited by these countries prevent them from effectively transitioning away from non-renewable energy resources. This can be determined by demonstrating the bargaining power structures these countries possess with regards to maintaining autonomy from western imperialism.

Comparative analysis of Mexico and India's political systems

India and Mexico were chosen for this comparative study because both states operate within federal systems to varying degrees. This section provides a brief overview of the distribution of power between State and Central government in both countries, and provides a comparison that will be relevant in assessing the importance of the state owned non-renewable industries to the central government's operations and legitimacy.

Primarily, Mexico is a *federal republic* with 31 states and a federal district (Mexico City). There are three branches of the federal government – executive, legislative, and judicial. The legislative branch consists of the Senate and Chamber of Deputies, both of which consist of representatives from each state. The executive branch is headed by the president (elected for 6 year terms) along with his personally appointed cabinet. Finally, the judicial branch consists of the Supreme Court with justices serving life-long terms. The three branches of government extend into the State governance structure which is based on a congressional system.[19] Governors – elected one time and serve six-year terms – hold executive power. The legislative power resides within the state's congress, the structure of which differs for each state and is outlined in the Constitution. Similarly, each state's judiciary structure is also established within the national constitution. The Mexican Federal System is unique in that the 1917 Constitution asserts that

[17] "Conservative Twenties, Revolutionary Thirties." The Great Transformation: The Political and Economic Origins of Our Time, by Karl Polanyi et al., Beacon Press, 2014, pp. 21–35.
[18] "Conservative Twenties, Revolutionary Thirties." The Great Transformation: The Political and Economic Origins of Our Time, by Karl Polanyi et al., Beacon Press, 2014, pp. 21–35.
[19] Mexican Constitution, Article 116
https://web.archive.org/web/20070519011959/http://constitucion.gob.mx/index.php?idseccion=169&ruta=1 Article

each state within the federation maintains sovereignty in all internal matters.[20] Thus, the federal government cannot intervene in state matters unless there is a complete cessation of government powers or approval from the Congress of the Union.[21] Additionally, State Governments rely on federally allocated funds and resources, however, they have the authority to manage their own resources by raising taxes, for example. Understanding the relationship between the State and Federal government in Mexico is especially relevant from a budgetary and fiscal standpoint. Given that State Governments rely on federally allocated funds, the Federal Government's revenue streams are integral in maintaining its legitimacy within the union. This contextualizes the importance of Pemex, which is "saddled with a tax rate of almost 100 percent" and contributes to one third of the federal government's tax revenue.[22] Thus, the budgetary relevance of Pemex to the federal system highlights one of the reasons the federal government is reluctant to transition away from its prized non-renewable resource.

India, on the other hand, is also a union of 28 states and 8 union territories with a *federal structure*. The term *federal structure* is used to refer to the relationship between India's Central government and individual state governments, however, the Central government is not explicitly referred to as a federal government. Yet, similar to Mexico, India has three branches of government – legislative, executive, and judiciary. The legislature in India refers to the Parliament which consists of the Lok Sabha – the lower house, or house of the people – and the Rajya Sabha – the upper house, or Council of States. The executive branch is headed by the Prime Minister, and the judiciary consists of the Supreme Court. The Indian Parliament does not have complete sovereignty, and its law are subject to judicial review.[23] However, the parliament exercises some balances over the executive branch of government.[24] The Indian federal system is unique in that it is referred to as a *quasi-federal system* wherein the Central Government's decision-making power is not adequately balanced by those of the State Governments. While the Supreme Court has noted that the Indian federation comprises "the Union of States and the distribution of power between them," [25] The Central Government possesses the power to alter the status of states, enact "law in a field not specified in the Constitution," and oversee financial assistance for states. This indicates that "the powers of the States are not coordinated with the

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[20] Mexican Constitution 1917, https://web.archive.org/web/20110511194922/http://www.scjn.gob.mx/SiteCollectionDocuments/PortalSCJN/RecJur/BibliotecaDigitalSCJN/PublicacionesSupremaCorte/Political_constitucion_of_the_united_Mexican_states_2008.pdf

[21] Ibid

[22] In 2012, Pemex paid $69.4 billion in taxes on $69.6 billion in pretax profits, a 99.7 percent tax rate. Garcia, David Alire. "Mexico to Keep Pumping Pemex for Tax Money despite Promised Reforms." *Reuters*, Thomson Reuters, 30 Oct. 2013, www.reuters.com/article/mexico-reforms-pemex/mexico-to-keep-pumping-pemex-for-tax-money-despite-promised-reforms-idUSL1N0IB0OI20131030.

[23] Venkatesan, J. "Parliament's Actions Subject to Judicial Review: Court." *The Hindu*, The Hindu, 27 Sept. 2016, www.thehindu.com/todays-paper/tp-national/Parliaments-actions-subject-to-judicial-review-court/article14704694.ece.

[24] Ibid

[25] SR Bommai v Union of India . https://indiankanoon.org/doc/60799/, 11 Mar. 1994.

Union," which demonstrates the asymmetric balance of power between Indian State Governments and the Central Government. Additionally, this structure of power balance demonstrates the relevance of CIL in the Central Government's responsibilities. Given that State Governments have limited options in terms of raising fiscal resources, they must rely on assistance from the central government. This means that the revenue generated by CIL is integral for the legitimacy of the central government within the Union. However, it is notable that CIL's significance would be different from that of Pemex since the checks and balancing mechanisms for the Indian central government are far diminished (and not outlined in the constitution) compared to those in Mexico.

Quantifying the importance of coal to the Indian political economy

The hindrance to India's transition to renewables can be traced to three determining factors: the mass debt crisis faced by coal producers across the country, the politically powerful labor unions interests in protecting coal mining jobs, and the absence of a domestic supply chain for renewable energy production and distribution. Primarily, scores of coal miners are in violation of the Indian Bankruptcy code because they are unable to receive payments from state-owned distribution companies that are influenced by regional leaders to set artificially low power prices to secure votes.[26] As a result, state-owned power distribution companies have accumulated upward of $3.5 billion in debt.[27] This debt is transferred to coal producers who "have a cash flow problem because their buyers aren't paying up."[28] The underperformance of state-owned distribution companies directly ties into the high levels of debt within the coal producing sector. Due to the mismanagement of power distribution, the expectations of surges in electricity demand have not been actualized, leaving coal fired power plants with "unwanted capacity".[29] This is reflected by the fact that the average load factor across the country (proportion of capacity that the plant generates) fell to 60% in 2017, from 70% in 2013.[30]More than half the debt owned by Indian power companies is now *stressed debt* (wherein the interest payments exceed profits) – this amounts up to $35 billion.[31] The power industry itself makes up 15% of all of India's stressed debt.[32]

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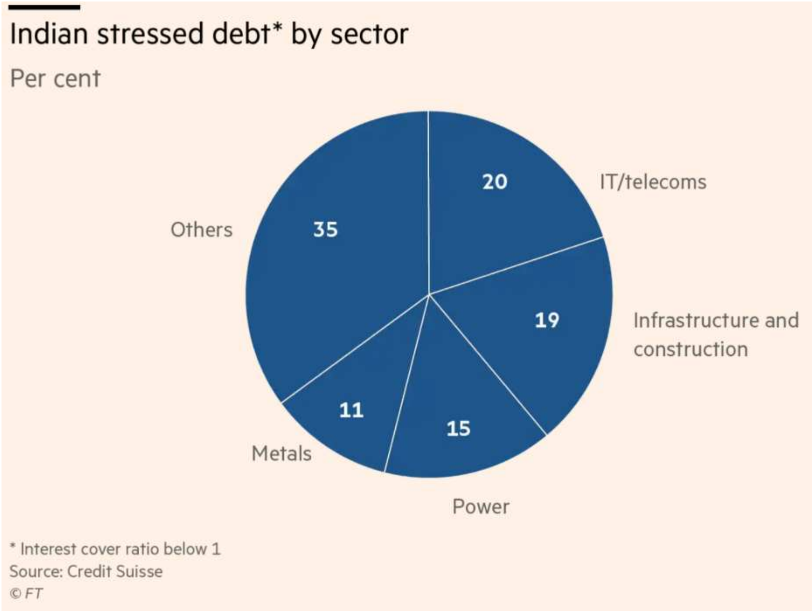
[26] Mundy, Simon. "Payments Crunch Pushes Indian Power Producers to Brink of Default." *Financial Times*, Financial Times, 21 June 2018, www.ft.com/content/07bca5a4-73bc-11e8-aa31-31da4279a601.
[27] Ibid
[28] Ibid
[29] "India Shows How Hard It Is to Move beyond Fossil Fuels." *The Economist*, The Economist Newspaper, 2 Aug. 2018, www.economist.com/briefing/2018/08/02/india-shows-how-hard-it-is-to-move-beyond-fossil-fuels.
[30] Ibid
[31] Mundy, Simon. "India's Renewable Rush Puts Coal on the Back Burner." *Financial Times*, Financial Times, 1 Jan. 2019, www.ft.com/content/b8d24c94-fde7-11e8-aebf-99e208d3e521.
[32] Mundy, Simon. "Payments Crunch Pushes Indian Power Producers to Brink of Default." *Financial Times*, Financial Times, 21 June 2018, www.ft.com/content/07bca5a4-73bc-11e8-aa31-31da4279a601.

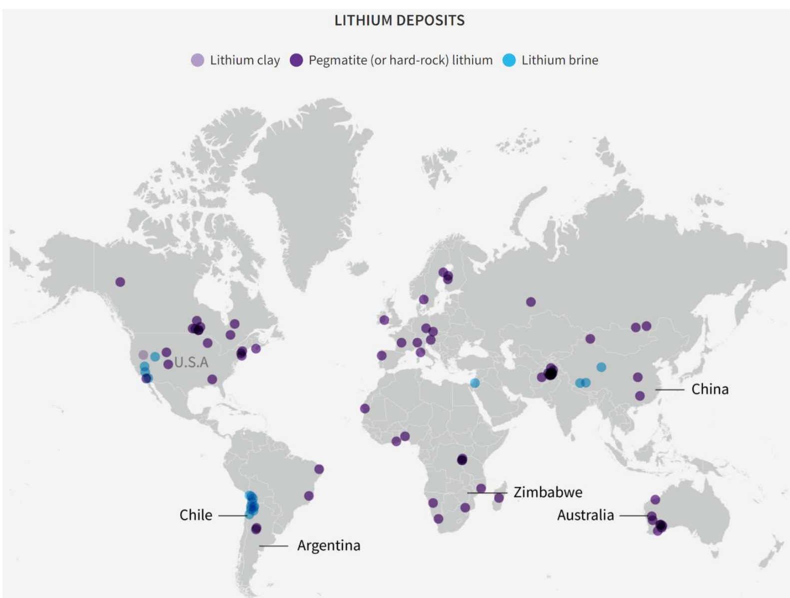


According to Arvind Subramanian, India's Chief Economic Advisor in 2019, because of these high debt levels, "if coal-fired plants go belly up, the (state-owned) banking system would be badly strained."[33] Additionally, since the banks that have lent to coal fired power plants are largely state owned, they are unlikely to enforce bankruptcies to avoid "write downs on loans that will pay off when the expected surge in demand finally comes."[34] Since the stability of state-owned banking heavily relies upon the success of coal fired power plants, it is important that the government ensure the profitability of coal in the coming decade. Thus, since the rise in renewables poses a direct threat to the success of coal, it is unlikely that support for the renewable industry will continue to be as pronounced. This is reflected by investment in coal from state owned banks, which was three times that in renewables in 2017.[35]It is also notable that if coal fired power plants go "belly up," the worst-case scenario sees 17% of the national power grid's capacity being stripped thanks to bankruptcy of the power plants.[36] Moreover, like Mexico, India faces the rather obvious decision of whether to outsource its energy production supply chains or to rely on a resource that is domestically abundant. The benefit of relying on a domestically available resource is that the government must not deal with foreign entities in a way that might compromise its autonomy. This is more significant with regards to energy, since the livelihood, prosperity, and subsequently, the government's legitimacy – all rely on the access to energy. Thus, the slow transition toward renewable energy is explained by the fact that the resources and materials required to efficiently run the sector do not naturally exist in India. These resources include lithium and cobalt that are necessary to make batteries and storage equipment. Lithium and cobalt cannot be mined in India, therefore, India would need to rely on the reserves

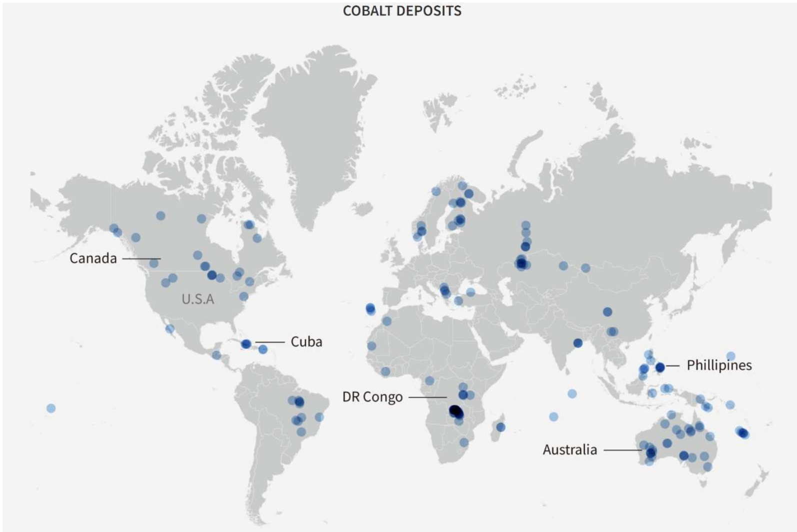
[33] "India Shows How Hard It Is to Move beyond Fossil Fuels." *The Economist*. https://www.economist.com/briefing/2018/08/02/india-shows-how-hard-it-is-to-move-beyond-fossil-fuels
[34] Ibid
[35] Mundy, Simon. "Payments Crunch Pushes Indian Power Producers to Brink of Default."
[36] Ibid

in Australia, China, Chile, Japan etc. India would prefer to avoid a reliance on foreign actors for essential materials involved in energy production.

Given that one of the largest impediments to renewable adoption in India is the lack of storage capacity for renewable energy, it is important to consider the reluctance to integrating a supply chain for batteries and other goods essential to the production of renewable energy. This refers to the shift in balance of power within the energy sector from fossil fuel owning countries and producers to countries that own rare-earth materials essential to developing low-carbon solutions.[37] This shift in power is especially relevant when considering the sources of rare minerals essential to power generation – 57% exist in Russia and China which creates a disincentive in India for having to depend on China for parts of its own energy supply chain.[38] Additionally, the availability for lithium and cobalt, which are essential to building batteries and storage capacity for renewables, is limited. This is reflected by the hike in lithium prices in 2015 when fears of shortages caused prices to skyrocket to $20,000 per ton.[39] Additionally, nearly 50% of all known lithium reserves are concentrated in South America, which is geographically inconvenient for purposes of India's access to the metal.[40] Similarly, the supply for Cobalt is largely concentrated in the Democratic Republic of Congo and is sought after by the booming electric vehicles market in Asia.



[37] Paltsev, S. (2016): The complicated geopolitics of renewable energy. Bulletin of the Atomic Scientists, 72(6): 390-395 (doi:10.1080/00963402.2016.1240476) (http://dx.doi.org/10.1080/00963402.2016.1240476)
[38] "National Minerals Information Center." *Rare Earths Statistics and Information*, www.usgs.gov/centers/nmic/rare-earths-statistics-and-information.
[39]Shankelman, Jessica, et al. "We're Going to Need More Lithium." *Bloomberg*, Bloomberg, 7 Sept. 2017, www.bloomberg.com/graphics/2017-lithium-battery-future/?sref=3DFmJWh5.
[40] Ibid



Although India has some known Cobalt reserves, the risk of relying on foreign sourced materials essential to renewable energy production brings too much uncertainty during times of geopolitical tensions. Given that India already relies on imports for oil and has resorted to entering deals with risky countries like Iran and Venezuela, the move toward renewables becomes more cautious due to the likelihood of cartelization.

Quantifying the importance of petroleum to the Mexican political economy

The resurrection of Mexican nationalism around Pemex, and subsequently the de-prioritization of the transition toward renewable energy, can be explained by three factors from a political economy perspective: reluctance to give up national control of domestic energy production, the federal government's consolidation of control in domestic energy, and energy security and economic security concerns. Primarily, Mexico's current president, Lopez Obrador, was elected to office on the platform of rationalizing the country's oil industry and Pemex, both of which had been open to private and foreign contracts and investment after the 2013 constitutional reforms. Obrador has publicly claimed that "in energy matters, the interest of the nation will always be predominant."[41] He has pledged support for state-owned enterprises that monopolize the energy production and distribution in Mexico, and has publicly pledged "to rescue Pemex and CFE for the people's good."[42] In doing so, AMLOs administration has blocked developments within the renewable energy space by scrapping renewable grid auctions in 2018.[43] Additionally, the National Center for Energy Control (CENACE), that is tasked with providing the National Electricity Market with access to the National Power Grid, has been given the green

[41] Villamil, Justin. "Mexican President Steps Up Criticisms on Private Energy Companies." *Bloomberg.com*, Bloomberg, 26 Oct. 2020, www.bloomberg.com/news/articles/2020-10-26/mexican-president-steps-up-criticism-on-private-energy-companies?sref=3DFmJWh5.
[42] Ibid
[43] "Nothing Can Shake AMLO's Fossil-Fuel Fixation." *The Economist*, The Economist , 21 May 2020, www.economist.com/the-americas/2020/05/21/nothing-can-shake-amlos-fossil-fuel-fixation.

light to suspend all inspections required by solar and wind farms to become operational, and issue a brand-new set of inspections for renewable energy generation.[44] This serves to slow the implementation of new renewable energy generation in Mexico, and alienate new prospects for investment in the sector. This is significant because the last grid auction for renewables in Mexico, in 2017, resulted in guarantees for the cheapest electricity production in Mexico's history, however, given the suspension of inspections, it is unlikely that these low cost provisions will be actualized.[45]

Per AMLO and his constituents, the induction of renewable energy into Mexico's energy sector poses threats to the nation's sovereignty. This is because investment in renewable energies is overwhelmingly foreign and privately sourced. Since the infrastructure required to develop the renewable energy power grid is foreign owned, Obrador sees this as a threat to Mexico's own energy and economic security over the long term. Obrador sees capitalizing on resources native to Mexico as a less uncertain way of ensuring domestic energy supply. He is also deterred by the prospect of renewable energy revenue streams filling the pockets of foreign investors rather than being injected back into the domestic economy. Therefore, the loyalty to oil is believed to bring growth of domestic revenue streams over time, while growth in renewable energy serves to increase the amount of capital outflows to foreign investors. Additionally, it is important to note that the central government can retain its bargaining power within the union if energy comes from oil because the distribution and production of oil is monopolized by the state. This is reflected by the fact that the Cenace (national center for energy control), CFE (Mexico's electric utility and power distributor), and Pemex are all owned and operated by the central government. A move over toward renewable energy will undermine the market share and distribution prowess held by CFE. CFE currently holds 54% of market share in terms of electricity distribution across the grid, however, introducing renewable energy generators, which are owned by foreign investors, would see bargaining power in energy transferred from the central government to foreign investors. Thus, the consolidation of energy provision responsibility is reflected by AMLO's support for CENACE and CFE. Finally, it is also worth noting that Pemex has been a symbol of Mexico's sovereignty from imperialist interest within its own borders. Thus, the resurrection of the SOE reflects an opportunity for Mexico to ascertain its self-sustainability. Additionally, per AMLOs discretion Pemex inserted the words "*for the recovery of sovereignty*" under its logo – thus shaping the renationalization of Pemex as a means to progress from lazy economic growth and foreign influenced corruption.

This consolidation of energy within the central government also reflects AMLO's intention to preserve the existing status quo between federal and state governments. Given that renewables would decentralize the onus of energy production (since access to the wind and sun cannot be limited), this could weaken the central government's legitimacy and bargaining power with states. Since Mexico's constitution puts the federal government in charge of allocating

[44] Ibid
[45] Ibid

finances to states, increased renewable energy production could make states less reliant on the federal government which could result in a future crisis of legitimacy. Although there are no existing signs for a crisis of legitimacy, the Mexican federal government has consistently faced challenges in the form of drug cartels, foreign intervention from the US, refugee influxes and corruption. So, while the legitimacy of the federal government is not under active threat, the preservation of the status quo between state and federal government is an essential factor in retaining federal legitimacy in a challenging world.

Conclusion

This research project finds that India and Mexico exist in political and economic structures that enable and encourage their reliance on non-renewable resources that exist within their borders to produce energy. This is demonstrated by the bargaining power achieved by both countries' with state-controlled ownership structures of the resources that exist within their borders, the constitutional autonomy afforded to the central governments, and the makeup of the international financial system. The state-controlled ownership structure has enabled both central governments to consolidate revenue and ensure energy provision from non-renewable energy production, subsequently ensuring its legitimacy within the union. The constitutional superiority granted to central governments over state governments and constitutional amendments that establish the federal government's ownership of mineral resources further encourage the state's reliance on non-renewables as it enables preservation of the existing status quo. Finally, the structure of the international financial system that speculates value based on the rate of economic activity is inherently linked to the access and distribution of non-renewable, carbon energy resources within nations which suggests the risk in moving on from such resources is forgoing financial autonomy and sovereignty in the international system. As per the political economy analysis conducted in this paper, it is evident that the central governments of India and Mexico have a vested interest in disincentivizing the success of renewable energy resources because they threaten the profitability and market share of coal and petroleum in the respective countries. The central government's 'vested interests' in these non-renewable industries are a result of high levels of indebtedness in both industries and the political loyalties of trade unions that represent coal and petroleum workers respectively. However, it is worth noting that Pemex plays a more significant role in Mexico's national identity and conception of sovereignty than CIL does for India. On the other hand, CIL brandishes a greater level of political influence over the central government in the form of trade unions in rural mining regions which can be pivotal in winning elections.

Finally, the strain of indebtedness on the central government is different for both CIL and Pemex. While India's coal industry is heavily indebted to state-owned banks, Pemex is heavily indebted to international banks. This means the Indian and Mexican central governments experience different types of threats to their legitimacy. The Indian government faces an economic threat, in the form of its banks collapsing due to defaults on loan payments from CIL and the coal industry. Mexico, however, faces the threat of foreign influence and control over its own natural resources, and potential debt entrapment. The implications of this research are grave but not surprising. India and Mexico will continue to develop their non-renewable industries at the expense of the renewable energy adoption. This is likely to contribute to high emission levels and pollution related epidemics. In the longer term, the two countries will seek to rid their state-owned enterprises of debt by modernizing them and committing to sustainable extraction practices. However, it is likely that both SOEs will face periods of deregulation and privatization if they continue to hold on to their debt. It is unlikely that the privatization of non-renewable industries themselves will lead to an uptick in renewable energy consumption, however, it may speed the transition toward renewables because the government would no longer view growth in renewables as a threat to its own legitimacy and bargaining power.

Therefore, using constitutional analysis and a political economy framework, this paper has demonstrated how the state ownership of the coal industry in India, and the petroleum industry in Mexico, has been integral to the legitimacy of the central government in both countries. It has also demonstrated how state-ownership of these industries has disincentivized the development of renewable energy supply chains over time. Nevertheless, it should be noted that the quantitative analysis of budgetary data and historic commodity prices did not validate the hypothesis, however, there were significant gaps in available data, and the accuracy of analysis may differ with different indicators. Finally, it should also be noted that state-ownership of non-renewable resources and production in India and Mexico is not the only factor in slowing the transition to renewables, as energy security is also an influencing factor.

Introduction

Several international financial institutions act as "lenders of last resort" when crises strike their member states. Spain primarily interacts with two: The International Monetary Fund (IMF) and the European Central Bank (ECB). The IMF is an organ of the United Nations system[46] designed to provide "medium-term loans…to solve balance-of-payment problems," which arise from domestic factors like poor fiscal and monetary policy or from external factors like natural disasters.[47] As part of the Eurozone or "Eurosystem"—the group of states that use the euro currency[48]—Spain must also interact with the ECB, the European Union's (EU) central bank, which governs the banking systems of its member states.[49]This paper examines how international financial institutions contributed to Spain's response to the economic side-effects of the (ongoing) COVID-19 pandemic compared with their actions during Spain's 2008 financial crisis. In the aftermath of 2008, Spain's economy suffered more severe damages than other European countries,[50] and because Spain's economy relies heavily on tourism and struggles with high public debt,[51] it seems especially vulnerable to crisis during a pandemic. If we cannot answer this question, we cannot answer another, bigger question: *how do IFIs effectively assist as many countries as possible in a global crisis?*

I argue that international financial institutions (IFIs) contribute less to Spain's response to the economic side-effects of the COVID-19 pandemic than they did in the aftermath of 2008. Through reviewing the existing literature, I synthesize different scholars' perspectives on international financial institutions' intended role in the global economy, the institutions' shortcomings, and possible avenues for reform. I then compare and contrast Spain's interactions with the International Monetary Fund (IMF) and the European Central Bank (ECB), as well as the policy responses that accompanied each crisis. From this analysis, I find that:

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[46]International Monetary Fund, "The IMF and the World Bank," *International Monetary Fund*, last updated 25 March 2020 (accessed 22 September 2020), https://www.imf.org/en/About/Factsheets/Sheets/2016/07/27/15/31/IMF-World-Bank.
[47]International Monetary Fund, "IMF Lending," *International Monetary Fund*, last updated 27 March 2020 (accessed 22 September 2020), https://www.imf.org/en/About/Factsheets/IMF-Lending.
[48]European Central Bank, "Eurosystem mission," *European Central Bank*, n.d. (accessed 22 September 2020), https://www.ecb.europa.eu/ecb/orga/escb/eurosystem-mission/html/index.en.html.
[49]European Central Bank, "ECB mission," *European Central Bank*, n.d. (accessed 22 September 2020), https://www.ecb.europa.eu/ecb/orga/escb/ecb-mission/html/index.en.html.
[50]Luis de Guindos, "Euro area and Spain: current status and challenges ahead," *European Central Bank*, 15 October 2018 (accessed 15 October 2020), https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp181015.en.html.
[51]María del Mar Martínez, Santiago Fernandez, David Francés, and Ignacio Marcos, "Spain after COVID-19: From resilience to reimagination," *McKinsey Institute*, 4 June 2020 (accessed 15 October 2020), https://www.mckinsey.com/business-functions/risk/our-insights/spain-after-covid-19-from-resilience-to-reimagination.

(1) Pandemics require IFIs to divide resources between multiple types and recipients of financial assistance, which limits their ability to effectively aid developed countries like Spain;

(2) IFIs generally prioritize LDCs' needs at the expense of more developed countries;

(3) Because of its membership in the Eurozone, Spain has access to regional-level IFIs that it can consult before consulting with "lenders of last resort" like the IMF.

Literature Review

To understand this question, we first ask additional questions: why international financial institutions exist, what benefits they offer, and how they can better respond to crises. We focus primarily on the IMF in this section since the literature focuses on it most, even though in reality the IMF is "often not the only…source of liquidity during crises," according to McDowell.[52]

Most of the literature agrees that international financial institutions exist to facilitate cooperation and to assist countries in economic crises. Isard, for example, cites Article I of the IMF charter, which includes promoting "international monetary cooperation" and preventing "balance of payments adjustment" from damaging prosperity, among other things.[53] Clift, also referencing the IMF's founding documents, calls it "the machinery for consultation and collaboration on international monetary problems" which conducts surveillance to hold member states accountable.[54] Reinhart—speaking of international financial institutions more generally—concurs with Clift, also stressing the importance of transparency.[55] Stiglitz goes an entirely separate direction. He points to Keynes, the IMF's "intellectual godfather," who believed that institutions like the IMF should facilitate "expansionary policies" best suited for solving crises.[56] McDowell's perspective is somewhat related to this Keynesian angle because it mentions Keynes' role in the Bretton Woods negotiations which "designed the structure of the international monetary system" in 1944.[57] He contrasts Keynes' proposal for "a quasi-global central bank"—disbursing "automatic, on-demand" loans—with that of Harry Dexter White, who proposed making the bank's loans conditional on policy changes.[58] More importantly, however, McDowell focuses on the IMF's role as the "de facto ILLR [International Lender of Last Resort],"[59] which must "respond to international financial crises by providing credit to illiquid institutions in foreign jurisdictions" when no one else can or will.[60] The goal of providing

[52]Daniel McDowell, *Brother, Can You Spare a Billion: The United States, The IMF and the International Lender of Last Resort* (Oxford: Oxford University Press, 2017): 3.
[53]Isard, Peter, *Globalization and the International Finance System: What's Wrong and What Can Be Done* (New York, NY: Cambridge University Press, 2005): 69.
[54]Clift, Ben, *The IMF and the Politics of Austerity in the Global Financial Crisis* (New York, NY: Oxford University Press, 2018): 88.
[55]Reinhart, Carmen and Kenneth S. Rogoff, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton, NJ: Princeton University Press, 2009): 278.
[56]Stiglitz, Joseph, "Dealing with Debt: How to Reform the Global Financial System," *Harvard International Review* (Spring 2003): 56.
[57]Bishop, *Economics: An A-Z Guide* (New York: The Economist, 2016). 46.
[58]McDowell, *Brother Can You Spare a Billion*, 24-25.
[59]Ibid, 3.
[60]Ibid, 4.

such credit was not just sustaining the illiquid institutions themselves, but also protecting the "general interests" of the "broader, national financial system" those institutions serve, according to Walter Bagehot, the nineteenth-century "father" of these ideas, and his intellectual inspiration, Henry Thornton.[61] Later, their twentieth-century contemporary Charles Kindleberger would propose "a Bagehot-style mechanism…at the international level," since "financial crises tend to spill across borders" faster in an integrated global economy.[62] What makes McDowell's perspective especially interesting is his argument that "the [IMF] was not designed to function as a Bagehot-style crisis lender," and that it didn't fully adopt this role until after the Bretton Woods monetary regime collapsed in the early 1970s.[63]

Although there is a broad consensus among most scholars over the IMF's basic purpose, these scholars have differing views of whether these institutions serve their purpose effectively and the reasons they fail or succeed in this purpose. Stiglitz is one of the IMF's harsher critics, arguing that it "has failed miserably" in preventing market failure, in part because it often forces contractionary policies onto struggling countries.[64] Isard disagrees with Stiglitz, arguing that the IMF is too often a "convenient scapegoat" for politicians struggling with the painful austerity measures that their economies need to recover.[65] McDowell, like Stiglitz, also criticizes the IMF, but he focuses more on the IMF's internal, structural flaws than on how the IMF's policies shaped the economy surrounding it. The two primary problems McDowell cites are "unresponsiveness"—which refers to how "time-consuming negotiations" and bureaucracy reduce the "timeliness and effectiveness" of the IMF's response[66]—and "resource insufficiency," which refers to the IMF's finite "lendable resources" and the "access limits" that protect the IMF from borrowers "severely depleting" these resources.[67] Clift goes a completely different direction with his assessment of the IMF's effectiveness. He weighs the actions of member states' policymakers more heavily than those of the IMF, since the IMF's authority is contingent upon policymakers following its advice. In other words, the "lens" through which policymakers interpret IMF data—and what they do with it—is as important, if not more, than the data itself.[68]

Scholars also disagree over which aspects of these institutions most need reform, if at all. Independence ranks among the most contentious issues. Stiglitz and Reinhart both argue for establishing bodies separate from the IMF to improve impartiality, albeit for different functions. Stiglitz's proposal is to delegate sovereign debt and bankruptcy matters either to external committees or to a subsidiarity of the International Court of Justice,[69] while Reinhart proposes an institution dedicated to "promoting transparency" through improved economic data reports and financial regulation.[70] Clift, on the other hand, claims that such structural reforms are

[61]McDowell, *Brother Can You Spare a Billion*, 19-20.
[62]Ibid, 20-21.
[63]Ibid, 22.
[64]Stiglitz, "Dealing with Debt," 54-56.
[65]Isard, *Globalization*, 105-107.
[66]McDowell, *Brother Can You Spare a Billion*, 25-27.
[67]Ibid, 28.
[68]Clift, *Politics of Austerity*, 101-107.
[69]Stiglitz, "Dealing with Debt," 59.
[70]Reinhart, *This Time Is Different*, 281-282.

unnecessary because the IMF is already an independent actor,[71] and argues against those who claim that it is little more than "an arm of US foreign policy" exclusively serving American interests.[72] Clift also claims that the IMF re-evaluated its fiscal policy approach after the 2008 crash and is now more wary of letting markets control themselves as they did before.[73]

Based on my literature review, my argument combines McDowell's and Clift's assessments of the IMF's shortcomings. It is true that "the IMF's effectiveness…has been consistently limited by the problems of resource inefficiency and unresponsiveness," as McDowell argues.[74] At the same time, however, Clift is also correct in arguing that the results of international financial institutions' policies are at least partially contingent on member states' adopting said policies.[75] My argument also combines elements of Stiglitz[76] and Reinhart's suggestions for reform—e.g., adding new institutions to improve the IMF's performance and offload its more cumbersome duties[77]—with elements of Isard's strategy for IMF reform.[78] Incidentally, if these suggestions work, they could possibly also serve McDowell's goals of reducing the "resource inefficiency and unresponsiveness" that plagues the IMF.[79]

Spain and the International Monetary Fund (IMF)

As the contagion—or "domino effect"—of the 2008 financial crisis vividly demonstrated, no economy within a globally integrated financial system operates in complete isolation.[80] Similarly, although this paper analyzes Spain's relationships with the IMF and ECB separately, these institutions do not operate in isolation. In fact, they often worked together in addressing the "European sovereign debt crisis," which necessitated "a stark shift in the IMF's central focus" towards "unsustainable debt loads in developed countries" in Europe. Part of what made this shift possible was the "troika,"[81] a tripartite collaboration between the IMF, the ECB, and the European Commission, the "politically independent executive arm" of the European Union.[82] Nevertheless, these institutions often collaborate in disagreement with each other. When the IMF "soften[ed] its stance on austerity," it was "at odds with the rest of the troika" because the ECB and the European Commission remained relatively supportive of austerity.[83] We thus address the

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[71]Clift, *Politics of Austerity*, 92.
[72]Ibid, 223.
[73]Ibid, 228.
[74]McDowell, *Brother Can You Spare a Billion*, 40.
[75]Clift, *Politics of* Austerity, 101-107.
[76]Stiglitz, Joseph, "Dealing with Debt," 59.
[77]Reinhart, *This Time Is Different*, 281-282.
[78]Isard, *Globalization*, 284.
[79]McDowell, *Brother Can You Spare a Billion*, 40.
[80]Matthew Bishop, *Economics: An A-Z Guide* (New York: The Economist, 2016): 72.
[81]Jonathan Masters and Andrew Chatzky, "The IMF: The World's Most Controversial Financial Firefighter," *Council on Foreign Relations*, last updated 20 August 2020 (accessed 7 December 2020), https://www.cfr.org/backgrounder/imf-worlds-controversial-financial-firefighter.
[82]European Union, "European Commission," *European Union*, n.d. (accessed 30 December 2020), https://europa.eu/european-union/about-eu/institutions-bodies/european-commission_en.
[83]Masters and Chatzky, "The IMF: The World's Most Controversial Financial Firefighter."

IMF and ECB separately to give their policy differences the attention they deserve. Greece's "extraordinary" bailout dominates much of the scholarship surrounding the IMF's response to the 2008 crisis, for two reasons. First, this bailout was the first of its kind, since it was "the first time the IMF lent to a Eurozone country" since the euro's 2002 inception. It was also "the largest [assistance] package granted to a member country," with funds totaling "3,200 percent" of its IMF membership contribution, or five times over the usual upper limit.[84] Spain's experience gets less coverage, but is no less illuminating. Both Spain and Greece suffered "deep recessions," and "have the highest youth unemployment rates" in the EU, with "over 30 percent" of youth out of work.[85] While Spain remained "relatively calm" when the financial crisis first struck in 2008[86] and waited longer than Greece to request or receive bailouts, it still faced grave risks. Spain's unemployment reached a 13-year high in 2010, and its "economic growth slump[ed] to zero," during the third quarter of 2011.[87] This alarming slump stunned Spain into finally seeking a "€100 billion ($125 billion)" troika bailout in June 2012, "piling even more debt on Spain's weary shoulders" to avoid bank runs.[88] It is worth noting that, unlike previous troika bailouts which were broad "macroeconomic adjustment programmes," Spain's bailout "target[ed] financial institutions." IMF rules thus forbade it from "contribut[ing] any of the funds," although IMF experts could still help the European Commission and the ECB "run and administer the bank rescue programme" as a fellow member of the troika.[89] The IMF's pandemic response so far has been proactive. It "doubled the amount of money available" to its natural disaster relief, and also "pledged to deploy about one-quarter of its $1 trillion lending capacity," as of August 2020.[90] Such measures matter for Spain now more than ever, given that Spain sustained "the largest contraction" in economic growth "among major advanced economies" during just the first half of 2020, at a staggering 12.8 percent.[91]

Spain and the European Central Bank (ECB)

The Eurozone uses a singular currency and monetary policy, but it does not "meet the criteria for an optimal currency area" because of the drastic differences between its economies.[92]

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[84]Ibid.
[85]Ibid.
[86]The Economist, "The Spanish bail-out: Going to extra time," *The Economist*, 16 June 2012 (accessed 30 December 2020), https://www.economist.com/briefing/2012/06/16/going-to-extra-time.
[87]Reuters Staff, "Timeline: Spain's economic crisis," *Reuters*, 30 December 2011 (accessed 30 December 2020), https://www.reuters.com/article/us-spain-cuts-economy/timeline-spains-economic-crisis-idUSTRE7BT0RL20111230.
[88]The Economist, "The Spanish bail-out: Going to extra time."
[89]Peter Spiegel and Victor Mallet, "Spain seeks eurozone bailout," *Financial Times*, 10 June 2012 (accessed 30 December 2020), https://www.ft.com/content/b4deeb3a-b256-11e1-99ff-00144feabdc0.
[90]Jonathan Masters and Andrew Chatzky, "The IMF: The World's Most Controversial Financial Firefighter."
[91]International Monetary Fund, "IMF Executive Board Concludes 2020 Article IV Consultation with Spain," *International Monetary Fund*, 13 November 2020 (accessed 30 December 2020), https://www.imf.org/en/News/Articles/2020/11/12/pr20339-spain-imf-executive-board-concludes-2020-article-iv-consultation.
[92]Bishop, *Economics: An A-Z Guide*, 27-28.

"Sharp divergences," like the ones that divided northern and southern Europe in the early 2000s, predispose the Eurozone to asymmetric shocks within its borders. Germany, in northern Europe, experienced "stagnant" growth and its inflation "averaged just 1.5 percent a year" between 1998 and 2007, while Spain grew rapidly and "averaged 3.2 percent" inflation during the same period. These differences "compounded" during the 2000s and "led to a substantial divergence in prices" and wages between Germany and Spain. Interest rates also differed substantially, which led Spain to borrowing more than it saved and Germany towards saving more than it borrowed. What resulted was "a massive flow of funds from northern Europe to the Eurozone periphery" that "reinforced the macroeconomic divergence" between northern and southern Europe.[93] Additional factors that would "bring the Eurozone close to collapse" included "decentralized" bank regulation—which led banks to "seek out higher-yield and higher-risk loans"—and "widespread" confusion over whether member states would bail each other out during crises.[94] The European Central Bank (ECB) is distinctive because the "Maastricht Treaty," which first established the ECB in 1992, "prohibits it from directly financing national governments." This prohibition, combined with "the absence of a fiscal union, including a Eurozone-wide treasury to pool debt," makes the ECB's role as "lender of last resort" a little complicated, but it nevertheless played an active role in "support[ing] ailing economies" following the 2008 crisis, often through "unorthodox monetary policies" like "unlimited bond buying, the use of negative interest rates, and a $3 trillion quantitative easing plan," all within just five to ten years' time.[95] Meanwhile, fiscal policy "switched dramatically towards austerity" for Spain, which increased the debt-to-GDP ratio and made debt "even less sustainable than before" enforcing austerity.[96] The stakes were high both for Spain and for the whole Eurozone. For some, Spain's economic downturn was "the gateway" through which the crisis could become "complexly unmanageable" and lead to "complete unraveling of the common currency area," as Greene observed in 2012.[97]

Early in the COVID-19 pandemic, the ECB appeared more detached than its 2008 self. Its chief Christine Lagarde—who, until last year, served as the IMF's Managing Director[98]—initially suggested that "bond spreads" resulting from higher borrowing costs in Spain and other southern European countries "weren't her problem." The following week, though, the ECB introduced its "Pandemic Emergency Purchase Program," a plan to spend "up to 750 billion [euros] to purchase bonds and other securities" from struggling countries. One of

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[93]Jeffry Frieden, *Currency Politics: The Political Economy of Exchange Rate Policy* (Princeton: Princeton University Press, 2015): 173-175.
[94]Ibid, 176-179.
[95]James McBride, Andrew Chatzky, and Christopher Alessi, "The Role of the European Central Bank," *Council on Foreign Relations*, last updated 3 October 2019 (accessed 30 December 2020), https://www.cfr.org/backgrounder/role-european-central-bank.
[96]Antonio Fatás, "What Has the Eurozone Learned from the Financial Crisis?" *Harvard Business Review*, 28 September 2018 (accessed 30 December 2020), https://hbr.org/2018/09/what-has-the-eurozone-learned-from-the-financial-crisis.
[97]Interview of Megan Greene, "Spain Doubles Down on Austerity," *Council on Foreign Relations*, 28 September 2012 (accessed 30 December 2020), https://www.cfr.org/interview/spain-doubles-down-austerity.
[98]Christine Lagarde, "Statement by Managing Director Christine Lagarde," *International Monetary Fund*, 16 July 2019 (accessed 30 December 2020), https://www.imf.org/en/News/Articles/2019/07/16/pr19280-statement-by-managing-director-christine-lagarde.

the program's main beneficiaries is Spain, which announced its plans for a stimulus with "at least 100 billion euros in public aid, with a total package that could rise to 200 billion [euros]," that same day. Such an abrupt about-face from the ECB is an unsurprising response to the "unprecedented" challenges it faces in protecting "the entire European project" from collapse, especially given how "memories are still fresh" of debt issues in Spain and elsewhere leading to near-disaster.[99]

Takeaways from Comparison

Comparing the circumstances of the 2008 financial crisis to those of the ongoing COVID-19 pandemic shows us that, at least as of this writing, international financial institutions (IFIs) like the IMF and the European Central Bank (ECB) contribute less to Spain's response to COVID-19's economic side-effects than they did during Spain's 2008 financial crisis.

There are several reasons for this discrepancy. First, unlike recessions which usually only affect economic growth, pandemics threaten "both lives and livelihoods" because of their effect on public health,[100] the response to which takes precedence over the economy because economies cannot sustain themselves with a rapidly dying population. Nevertheless, any aid funneled toward pandemic relief must go to multiple types of recovery funds, because, although public health is the top priority, long-term recovery is impossible without also prioritizing the economy. International financial institutions thus must not only allocate scarce resources between developed and lesser developed countries (LDCs), but also among a greater variety of relief efforts. The IMF, for example, provides not only "about 100 billion USD" in emergency financing to "more than 100 countries," but also "debt relief grants to the Fund's poorest and most vulnerable members…[for] six months" while "help[ing] them channel…financial resources towards vital emergency medical…efforts," among other services.[101]

Some might argue that this situation is not unique to the current pandemic, since the IMF had to divide its attention and funds among numerous countries during the 2008 crisis as well. This is an understandable, but misguided, conclusion. The IMF's crisis response in 2008 not only focused exclusively on economic recovery, but also focused overwhelmingly on assisting LDCs. Although "the global financial crisis originated in the advanced economies," the IMF targeted its "sharp increase in concessional lending" towards LDCs, lending $2.7 billion to sub-Saharan Africa between January and July 2009 alone, to avoid worsening already high poverty levels.[102]

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[99]Keith Johnson, "Europe's Central Bank, in About-Face, Swoops in to Save a Virus-Afflicted Continent," *Foreign Policy*, 19 March 2020 (accessed 29 December 2020), https://foreignpolicy.com/2020/03/19/european-central-bank-christine-lagarde-coronavirus-debt/.

[100]Martínez, Fernandez, Francés, and Marcos, "Spain after COVID-19: From resilience to reimagination."

[101]International Monetary Fund, "How the IMF Can Help Countries Address the Economic Impact of Coronavirus," *International Monetary Fund*, last updated 30 September 2020 (accessed 15 October 2020), https://www.imf.org/en/About/Factsheets/Sheets/2020/02/28/how-the-imf-can-help-countries-address-the-economic-impact-of-coronavirus.

[102]International Monetary Fund, "The IMF Response to the Global Crisis: Meeting the Needs of Low-Income Countries," *International Monetary Fund*, 29 July 2009 (accessed 15 October 2020), https://www.imf.org/external/np/lic/2009/072909.htm.

Second, when crises strike, international financial institutions usually prioritize the needs of LDCs at the expense of more developed countries. Spain is relatively developed—it is the "fourth-biggest economy" in the Eurozone, behind France, Germany, and Italy[103]—so it is less likely to receive substantial assistance than LDCs, which tend to "have fewer fiscal tools and policy options to combat COVID-19 damage to their economies" compared to other countries.[104] International financial institutions can thus only afford to give Spain short-term, "band-aid" remedies for its shortfalls. The problem is that Spain's government "enjoys less room to maneuver than other European countries" because of its massive public debt, which spiked from 40% of its GDP in 2007 up to 98% of GDP in 2018. Spain also relies mostly on tourism and small businesses, which "are more vulnerable to a weakened economy" than are large corporations and non-tourism industries.[105] While "no direct correlation exists between the magnitude of the recession and the social conditions of each country" in Southern Europe,[106] Spain suffered from high unemployment and low productivity for years after the 2008 crisis,[107] and its GDP—which was its peak in 2008 at $1.625 trillion USD—never recovered its strength.[108] This stagnation, combined with the "record 18.5 per cent" contraction Spain's economy suffered in 2020's second quarter, makes it reasonable to assume that the pandemic will further aggravate Spain's economy, despite its relatively developed status. The Bank of Spain, a local branch of the European Central Bank, predicted in September 2020 that its economy "will still be as much as 6 per cent smaller at the end of 2022 than…before the [pandemic] hit," although these forecasts did not factor in "the EU's €750 billion coronavirus recovery fund," since the fund's "timing, nature, and effectiveness…had yet to be determined" at the time.[109]

Third and finally, Spain consults some international financial institutions, like regional central banks, more than others depending on the crisis. Spain, as of this writing, has relied more on aid from EU bodies—like the "umbrella" schemes the European Commission developed in April to fund employment benefits, COVID-19 testing and vaccine research, for example[110]—than on wider-reaching bodies like the IMF, from which Spain currently receives no

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[103]Valentina Romei and Martin Arnold, "Virus resurgence darkens Spanish outlook," *Financial Times*, 28 August 2020 (accessed 28 December 2020), https://www.ft.com/content/32e17ca8-b386-449a-b05a-be1ea8fd2d4c.
[104]Rachel Layne, "How Countries Use Financial Policy to Fight COVID-19," *Harvard Business School Working Knowledge*, 23 July 2020 (accessed 30 December 2020), https://hbswk.hbs.edu/item/how-countries-use-financial-policy-to-fight-covid-19.
[105]Martínez, Fernandez, Francés, and Marcos, "Spain after COVID-19: From resilience to reimagination."
[106]P.J. Gómez Serrano, Ricardo Molero-Simarro, and Luis Buendía, "The Impact of the 2008/9 Crisis on Inequality and Poverty in Southern Europe: The Case of Spain," *Journal of Australian Political Economy* (78): 87-88.
[107]Luis de Guindos, "Euro area and Spain: current status and challenges ahead."
[108]World Bank, "Spain | Data," *World Bank Open Data* (accessed 15 October 2020), https://data.worldbank.org/country/spain. Figure from graph labeled "GDP (current US$)."
[109]Daniel Dombey, "Spain's economy faces long-lasting pandemic drag, warns central bank," *Financial Times*, 16 September 2020 (accessed 28 December 2020), https://www.ft.com/content/53ab7751-56cb-4c19-8855-43065aea6448.
[110]European Commission, "State aid: Coronavirus Spanish 'umbrella' scheme," *European Commission*, 24 April 2020 (accessed 15 October 2020), https://ec.europa.eu/commission/presscorner/detail/en/ip_20_742.

debt relief.[111] This reliance on EU bodies to absorb Spain's large "liquidity needs" is feasible mostly because the EU has "significant regional resources," whereas "many middle- and low-income countries" outside the EU do not have "active regional institutions" on which they can rely for assistance. As a result, these middle- and low-income countries must consult higher-level institutions, like the IMF and World Bank, when they have no regional-level alternatives.[112]

If the pandemic persists too long, however, regional institutions like the ECB may need extra help with satisfying demand. Some scholars, like Edwin Truman, propose a two-pronged solution that involves both "expanding the IMF's financial resources" and "major central banks" in the G20 alliance "link[ing] their expanded multilateral swap to the IMF…expand[ing] the financial resources" of the countries in the swap line while saving IMF funds for other uses.[113] Strategies like this, which pools the resources of "19 countries and the EU, which together count for 90% of global GDP, 80% of world trade," and about two-thirds of the world's population,[114] require cost-benefit analysis over the short, medium, and long-run, especially during crises.

Conclusion

"International financial crises…are built into the human genome," wrote Paul Volcker.[115] In an attempt to understand how international financial institutions effectively assist as many countries as possible in a global crisis, I asked how international financial institutions contributed to Spain's economic recovery from COVID-19 compared with the 2008 financial crisis. As this paper demonstrated, Spain will likely rely less on international financial institutions overall for its economic recovery from COVID-19 than it did for its 2008 recovery. However, we cannot say for certain whether the future will align with the preceding argument, since the pandemic is ongoing. More research is clearly needed after the pandemic ends—whenever that is—to reassess the validity of our claims in the long run.

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[111] International Monetary Fund, "COVID-19 Financial Assistance and Debt Relief," *International Monetary Fund*, last updated 15 October 2020 (accessed 15 October 2020), https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker#EUR.

[112] Stephanie Segal, "International Financial Institutions Step Up, but Debt Sustainability Looms Large for Future Support," *Center for Strategic and International Studies*, 21 May 2020 (accessed 28 December 2020), https://www.csis.org/analysis/international-financial-institutions-step-debt-sustainability-looms-large-future-support.

[113] Christopher G. Collins, Simon Potter, and Edwin M. Truman, "Enhancing central bank cooperation in the COVID-19 pandemic," *Peterson Institute for International Economics*, 9 April 2020 (accessed 15 October 2020), https://www.piie.com/blogs/realtime-economic-issues-watch/enhancing-central-bank-cooperation-covid-19-pandemic.

[114] Bishop, *Economics: An A-Z Guide*, 137.

[115] Ibid, 243.

Iraq: Re-Defining the US Military's Role in Post-Conflict Nation-Building in the Middle East
Victoria Genna-Schmidt

Introduction

When President Bush gave his infamous "Mission Accomplished" speech in May 2003, he briefly spoke about the "difficult work" that still needed to be done in Iraq[116]. He did not imagine that, seventeen years later, work still has yet to be "accomplished." In the subsequent years after President Bush gave that speech, his administration gave the US Military complete control over Iraq's stabilization. What ultimately resulted was the collapse of Iraq, from which an insurgency erupted that was felt worldwide. With the Middle East in continual unrest, as seen in Yemen's and Syria's civil wars, the US Military will most likely be called to participate in reconstruction efforts again. In avoidance of another security crisis, the following question should be asked: How can understanding the reconstruction failures in Iraq help the US Military in future endeavors in post-conflict nation-building in the Middle East? The answer to this question will help avoid creating another insurgency and help the US Military redesign its role in legitimizing American nation-building.

Methodology

In devising a solution for the above question, research focused on several sources concerning the issue. First, existing literature about the historical context of the rebuilding of Iraq was used to assess the military's decisive mistakes in the process. The literature consists of academic journals, research arguments, as well as government and military works. This step is crucial, as the entire crux of the policy recommendations rests on its context. Next, current and possible measures taken by the different departments within the military and other organizations were studied to examine their progress and visualize how they can be best implemented in their new role within nation-building. The brief is formatted so that American nation-building can first be understood and legitimized. Without this, there would be no practical or moral framework within which the US Military could operate.

The U.S. Military and the Failures of Iraq

Many voices question the validity of American nation-building. Ted Carpenter argues that as a security strategy, America has no business in nation-building. He states, "Nation building is both unnecessary and impractical as a security strategy. Depending on the definition (and scholars vary widely), there are as many as two dozen 'failed states' today in the

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[116] Seth Cline, "The Other Symbol of George W. Bush's Legacy," U.S. News & World Report, May 1, 2013, accessed December 10 2020, https://www.usnews.com/news/blogs/press-past/2013/05/01/the-other-symbol-of-george-w-bushs-legacy)

international system. Yet most of them pose no plausible menace to America's security."[117] Adding to this sentiment, Erich Weede notes that in the case of Iraq, America created its status as a failed state. He notes, Saddam Hussein "ruled inhumanely, but effectively. By defeating him…the Americans effectively turned Iraq into a failed state."[118] The replacement Weede writes about exemplifies Carpenter's view that America came into Iraq assuming its superiority in replacing Iraq's government entirely, therefore succumbing all too easily to the temptation of imperialism.'"[119] There is also a critique of the military's involvement in state reconstruction. Aside from the idea that the military is best suited for war, not diplomacy, there are those that question its readiness if its role is changed. Many fear that if the military becomes nation-builders, its duty in protecting America's security will be compromised. Dominic Tierney articulates this sentiment by saying, "historically, conventional interstate conflicts like the world wars have represented the gravest threat to US national security. Prioritizing nation-building over, say, checking the rise of China, could represent a strategically risky trade-off." [120] He adds that presidents might also be more willing to send the military on even more intervention missions, which could become costly.[121]

While acknowledging valid concerns of American stabilization, these criticisms ignore the current climate that America finds itself in. America is "damned if they do, damned if they don't" concerning military interventions in the Middle East. In the case of Syria, there was mounting criticism over the US's lack of involvement.[122] The Middle East, in particular, harbors many concerns for US security. Weede notes that in the Middle East, "western efforts at nation-building are attempts to forestall state-failure and the export of refugees and political instability to neighboring countries. Although not all terrorists are Islamists…only Islamist terrorism is global in scope."[123] Tierney adds, "An aversion to nation-building has impaired America's capacity to develop this skill set. As a result, Washington has repeatedly engaged in stabilization operations without adequate preparation."[124] The International Crisis Group has listed multiple ongoing crises in the Middle East, from the civil war in Yemen to the continued insurgency in Iraq.[125]

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[117] Ted G. Carpenter, "The Imperial Lure: Nation Building as a US Response to Terrorism," *Mediterranean Quarterly* 17, no. 1 (2006): 46, doi:10.1215/10474552-17-1-34)
[118] Erich Weede, *Nation Building in the Middle East: The New Imperialism? Paper Presented at the International Colloquium "Global Freedom? The Future of International Governance" Organised by the Liberal Institute of the Friedrich Naumann Foundation, Potsdam, Germany, 9* - 11 November 2007 (Potsdam: Liberal Inst., 2008), 13
[119] Carpenter, "The Imperial Lure," 47
[120] Dominic Tierney, "The Backlash Against Nation-Building," *Prism* 5, no. 3 (2015): 13, accessed December 6, 2020, cco.ndu.edu/Portals/96/Documents/prism/prism_53/Prism Vol 5 No 3.pdf)
[121] Tierney, "The Backlash Against Nation-Building" 20
[122] Thanassis Cambanis, "The Case for a More Robust U.S. Intervention in Syria," The Century Foundation, October 05, 2016, accessed December 19, 2020, https://tcf.org/content/report/the-case-for-a-more-robust-intervention-in-syria/)
[123] Weede, "Nation-Building in the Middle East," 18
[124] Tierney, "The Backlash Against Nation-Building" 20
[125] "The Middle East between Collective Security and Collective Breakdown," Crisis Group, May 07, 2020 accessed December 12,

The potency of these crises and the effects they could cause should not be ignored. Therefore, nation-building in the Middle East should not be seen as an act of imperialism but rather as an act of international security. Noah Feldman agrees and writes that "the primary explanation for the US pursuit in the extraordinarily difficult…task of creating in Iraq a multiparty, federal democracy…is that the United States sought to produce an Iraq that will not contribute to increased global security."[126] With this in mind, the US Military would have to be involved in the act of nation-building, as it applies to the safeguard of American security. In this effort, imperialistic connotations should be acknowledged but ultimately rectified when concerning Middle Eastern security as well.

As mentioned by Erich Weede previously, Iraq was not a failed state before the American invasion. It is in both the US's and the Middle East's interest to avoid this. The first, and arguably the most important, mistake made was putting the military in complete control of Iraq's stabilization. In 2002, the Bush Administration placed the Pentagon in charge of all civil and military planning for postwar Iraq.[127] Previously General Tommy Franks of United States Central Command (CENTCOM), the military command responsible for much of the Iraq invasion, and the Secretary of Defense's office made it clear that they did not want to be in charge of the reconstruction. Further, they wanted to reduce the number of American troops in Iraq as quickly as possible.[128] Already with unwilling leadership, the project was doomed from the start. The State Department, the agency with actual diplomatic experience, was virtually shut out of most reconstruction planning. This was due to the false narrative that the State Department was "against" the war in Iraq and would sabotage plans for its reconstruction. Kenneth Pollack describes the catch-22 in this scenario by stating, "so while neither the military nor the civilian leadership of the Pentagon was interested in nation-building, they were absolutely determined to exclude those agencies that were both more willing and more able." [129] This also created obscurity in agency assignments. The Office of Reconstruction and Humanitarian Assistance (ORHA), an office within the State Department, tried to assemble an inter-agency meeting in February 2003. The purpose of this meeting was to rehearse plans for the post-war phase in Iraq. It was attended by more than 200 officials from a multitude of US government agencies. While this was an attempt to create unity, it instead showed the disarray in communications between agencies. Accurately summarized in *After the War: Nation-Building from FDR to George W. Bush*, "It was proving very difficult to get various organizations within the US government to

2020,https://www.crisisgroup.org/middle-east-north-africa/gulf-and-arabian-peninsula/212-middle-east-between-collective-security-and-collective-breakdown)

[126] Noah Feldmen, "Chapter 1. Nation Building: Objectives," *What We Owe Iraq*, 2009, 10, doi:10.1515/9781400826223.7)

[127] James Dobbins et al., "Americas Role in Nation-Building: From Germany to Iraq," *RAND Corporation*, 2003, 104, accessed December 13, 2020, doi:10.7249/mr1753

[128] Kenneth M. Pollack, "The Seven Deadly Sins of Failure in Iraq: A Retrospective Analysis of the Reconstruction," Brookings, May 10, 2017, accessed December 19, 2020, http://www.brookings.edu/articles/the-seven-deadly-sins-of-failure-in-iraq-a-retrospective-analysis-of-the-reconstruction/)

[129] Ibid

provide personnel for the ministerial teams,…something they had never done before. In this regard, the meeting highlighted the fact that the issue of who would provide security for civilian officials in the postwar period, typically a DOS responsibility, remained unresolved."[130] Because there was no clear picture of who was in control of what, security issues fell through the cracks. With these mistakes in mind, a future proposal can be crafted with a clearer picture in mind.

Recommendations

First and foremost, the Department of State ought to lead any post-conflict nation-building efforts, and the military should complement it. The State Department already has an office for this exact situation. On August 5, 2004, then-Secretary of State Colin Powell announced the Office of the Coordinator for Reconstruction and Stabilization. This office was designed "to lead, coordinate and institutionalize US Government civilian capacity to prevent or prepare for post-conflict situations, and to help stabilize and reconstruct societies in transition from conflict or civil strife so that they can reach a sustainable path toward peace, democracy, and a market economy."[131] While this office was also met with setbacks and deficiencies in Iraq, it would be easier to evolve an existing organization than create a whole new structure. The DoD should also make an office for the military-led projects of nation-building. As recommended by an Independent Task Force sponsored by the Council on Foreign Relations, the State Department should control all civilian-managed dealings, and the military should command the area of security.[132] With clear diplomatic leadership and clear divides in efforts, further stabilization missions can be met with practical tactics that could lead to better results.

One direction the military should take in this role is to bridge the civilian-military gap. In 2017, The US Army created the Security Force Assistance Brigades (SFABs). These units are responsible for working with the host governments to build up their security forces.[133] According to the Army, these units are trained "in the areas of cross-cultural communication, building rapport, [and] working with interpreters and negotiation."[134] This type of unit should be created within the Department of Defense's broader sphere and include troops from all military branches. This would simplify the military's role and create cohesion. These units should also be the first ones deployed in post-conflict scenarios that will require further stabilization. There should also be smaller units within the broader DoD structure that require each team to be somewhat fluent in its designated Host country's language. While SFAB units utilize negotiators,

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[130] James Dobbins et al., "Americas Role in Nation-Building" 113-114

[131] "Office of the Coordinator for Reconstruction and Stabilization," accessed December 16, 2020, https://2001-2009.state.gov/s/crs/index.htm)

[132] Berger, Samuel R., et al. Council on Foreign Relations, pp. 1–76, July 2005, *In the Wake of War: Improving U.S Post Conflict Capabilities*

[133] Dan Grazier, "The US Needs to Rethink Nation-Building to Prevent the Next Forever War," Project On Government Oversight, accessed December 18, 2020, http://www.pogo.org/analysis/2020/04/the-us-needs-to-rethink-nation-building-to-prevent-the-next-forever-war/)

[134] "Security Force Assistance Brigade (SFAB)," Goarmy.com, accessed December 12, 2020, https://www.goarmy.com/careers-and-jobs/current-and-prior-service/advance-your-career/security-force-assistance-brigade.html/)

there would be better communication and understanding if the units themselves could converse without a middle party. Also, civilian-military affairs units should be trained by the State Department in matters of diplomacy. If the State Department is to spearhead diplomatic reconstruction, the military, as its assistant, should be educated on all constituents of the nation-building goal. This will also create a clear delineation of responsibility and avoid inter-agency confusion.

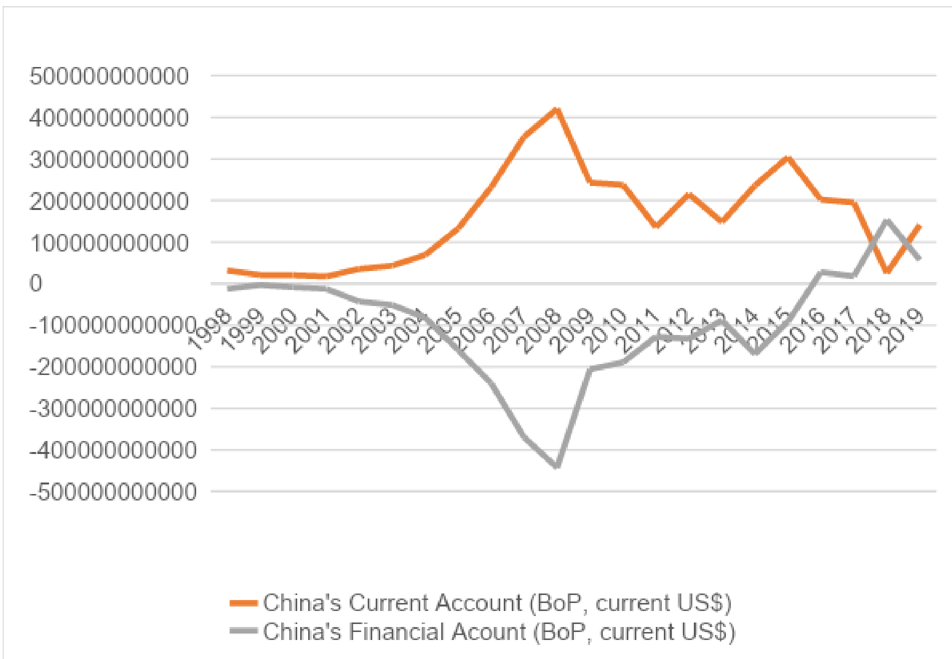
Conclusion

In conclusion, the US Military's role in nation-building must be re-assessed so that prospective projects don't repeat Iraq's failures. Whereas diplomatic shortcomings in this region have caused universal trouble, nation-building cases should be reviewed as security issues needing proper resolution. As history and research have shown, the US Military is better suited to assist the State Department as a bridge between civilian and military affairs. Moreover, the military would do well to utilize more detachments like the Army's SFAB units in its new position. Through further diplomacy training and delineation of work assigned by the State Department, inter-agency conflict can be avoided, and more cohesion will likely occur. Continuing research may wish to explore the State Department's diplomatic role in nation-building in the Middle East, so unsuccessful policies like De-Baathification can be avoided. In this capacity, the Office of the Coordinator for Reconstruction and Stabilization failings can be examined so that the office can be reconfigured to be a better leading agency for future projects. Furthermore, studying other agencies' participation in these environments may also offer additional suggestions to avoid inter-agency confusion. Added research, combined with the analysis presented here, could help propose a new nation-building framework that successfully serves both US security and Middle Eastern interests.

A Brief Analysis for China Finance and China-US Relations

The Myth of Twin Surplus

In *Multinational Business Finance*, the author mentions China's Twin Surplus "Exhibit 3.5 documents one of the more astounding BOP behaviors seen globally in many years—the twin surplus balances enjoyed by China from 2000 to 2011. China's surpluses in both the current and financial accounts—termed the twin surplus in the business press—are highly unusual."[135] However, this is arguable. The other emphasis can oppose this since it is not the current and financial accounts that suffered the twin surplus, put the current account, and the reserve assets excluded financial account experienced the twin surplus.



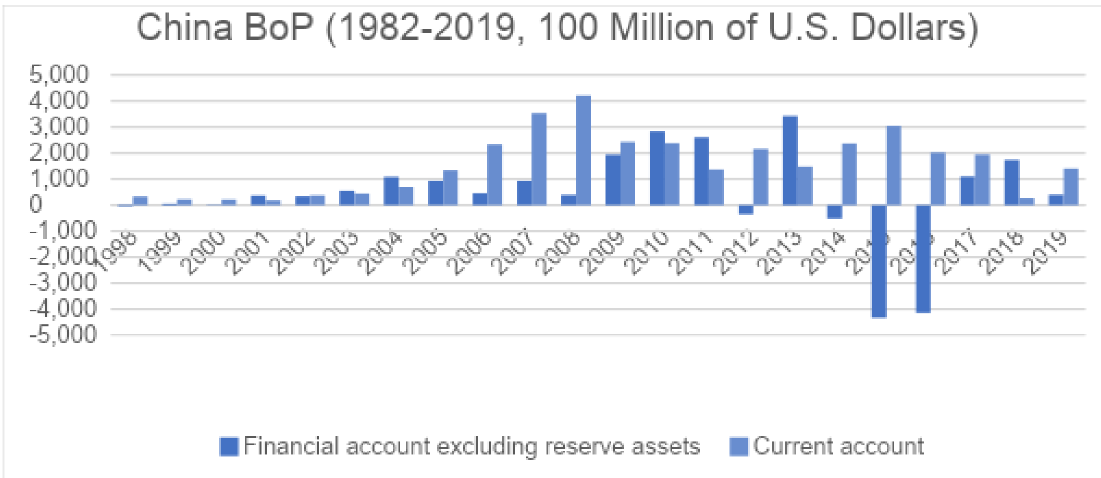
Graph 1: China's Current Account and Financial Account (1998-2019)
Source: Data abstracted by author from WorldBank.org

From World Bank data, we can find the data under the category of China's Financial Account and Current Account have the same trend with others: there was an inverse relationship between the current and financial accounts. Moreover, it was not 2001-2011, but after 2016, China experienced the twin surplus of Net Financial Account and Current Account. The first question is to consider waht China's twin surplus is?

"The financial account consists of four components: direct investment, portfolio

[135] Eiteman, David K., Arthur I. Stonehill, and Michael H. Moffett. "The Balance of Payments." *Multinational Business Finance*. 15th ed. Pearson, 2021. 66. Print.

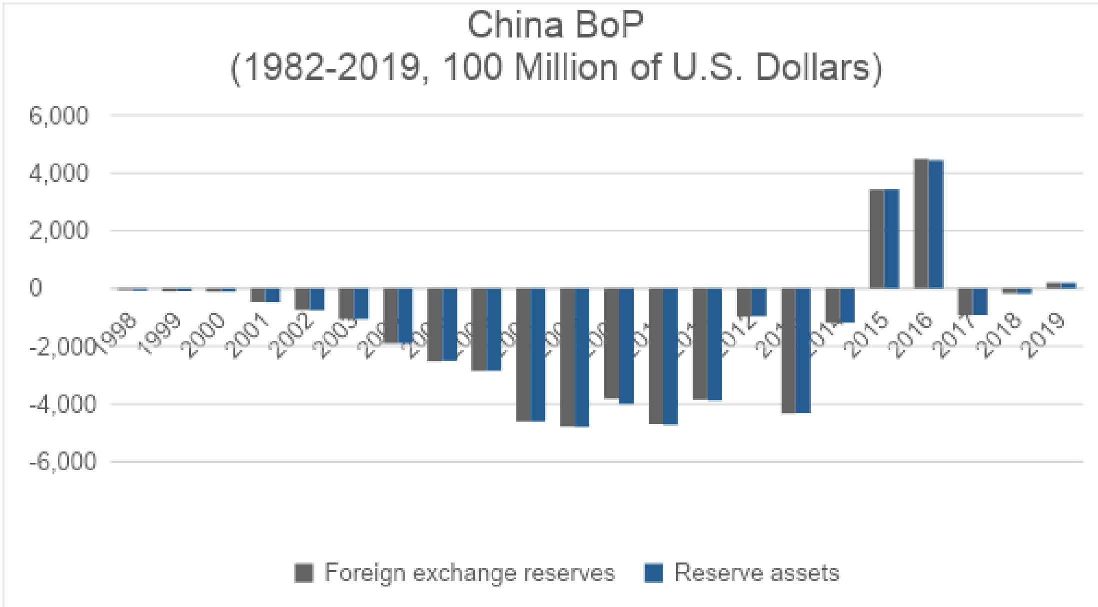
investment, net financial derivatives, and other asset investment."[136] On China's State Administration of Foreign Exchange's website, there is a page "The time-series data of Balance of Payments of China." According to the data provided on this page, the administrator categorized China's financial account into "Financial account excluding reserve assets" and "Reserve assets." Furthermore, the financial account excluding reserve assets was the account that experienced the famous twin surplus.



Graph 2: "Financial account excluding reserve assets" and "Current account" experienced the "twin surplus."
Source: Data abstracted by author from China's State Administration of Foreign Exchange http://www.safe.gov.cn/en/2019/0329/1496.html

The twin surplus's key lies in the reserve asset account, which contains monetary gold, special drawing rights, reserve position in the IMF, foreign exchange reserves, and other reserve assets.

[136] Eiteman, David K., Arthur I. Stonehill, and Michael H. Moffett. "The Balance of Payments." *Multinational Business Finance*. 15th ed. Pearson, 2021. 62-63. Print.



Graph 3: "Foreign exchange reserves" takes up the major part of "Reserve asserts" (a positive value for assets represents a net decrease while a negative value represents a net increase)
Source: Data abstracted by author from China's State Administration of Foreign Exchange http://www.safe.gov.cn/en/2019/0329/1496.html

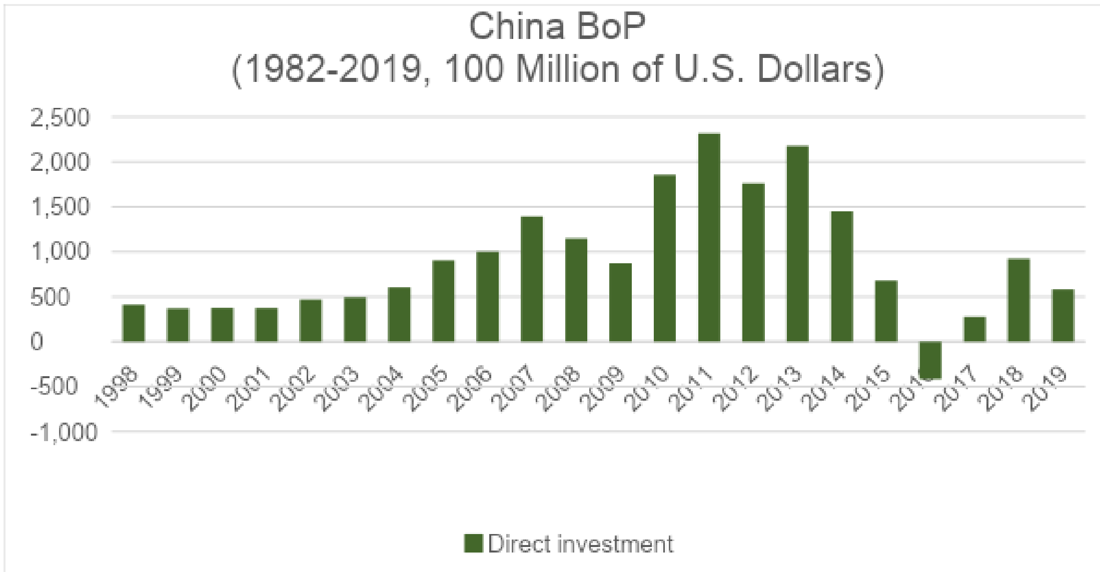
It is well-known that China has tremendous foreign exchange reserves. Since the "Foreign exchange reserves" take up the major part of "Reserve asserts," examining how foreign exchange reserves changed can be very important for analyzing how China BoP affects China's relations with the US.

Significance

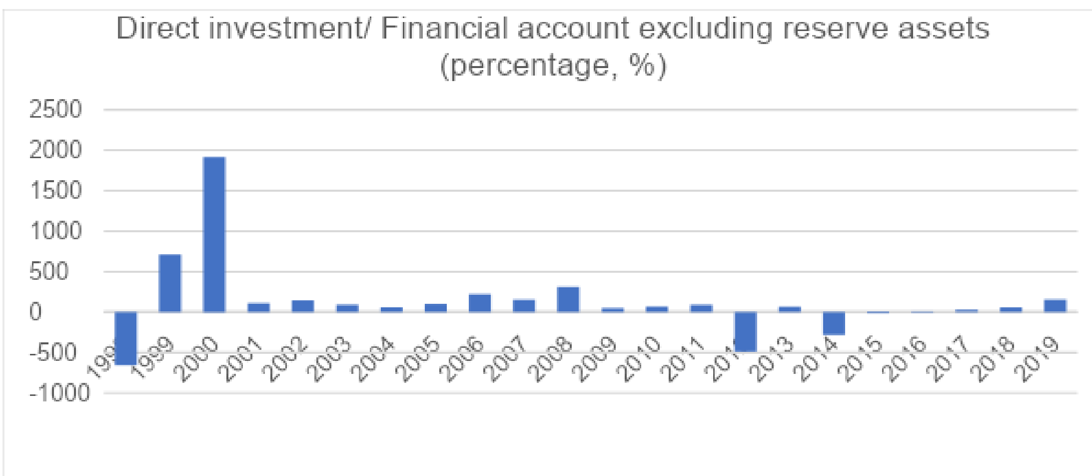
Going beyond the twin surplus; other factors may have a huge influence on China-US relations. One is the direct investment in the Financial account, excluding reserve assets as the data showed the direct investment once times of financial account excluding reserve assets before 2009. According to graph 5, in 2000, which was the year before China managed to get into WTO, direct investment was almost 19 times of financial account excluding reserve assets. And although direct investment peaked in 2011, it only made up about 90% of China's financial account, excluding reserve assets that year.

Looking at Graph 4, there were two waves of direct investments that came into China. The first wave stopped when the 2008 financial crisis came. Moreover, the second wave started in 2010, which had two reasons. The first was the end of QE1 and the start of QE2. The second was a paper named "Several Opinions of the State Council Concerning Further Improving the Work of Utilizing Foreign Investment" ("国务院关于进一步做好利用外资工作的若干意见").

In this paper, China stated that foreign investments classified in the encouraged category will receive priority in its land approval application and may receive a discount up to 30% off the price set by the Minimum Transfer Price Standard for Industrial-Use Land. More importantly, this paper also encouraged foreign investors to merge and acquire domestic enterprises, supported domestic listed companies to attract foreign strategic investors, and supported qualified domestic enterprises to list overseas security exchanges. [137]



Graph 4: The value of direct investment increased after 2009 but rapidly decreased after 2013.



Graph 5: Although the total number of direct investments increased, the direct investment contributed less to the financial account, excluding reserve assets on average after 2008.
Source: Data abstracted by author from China's State Administration of Foreign Exchange http://www.safe.gov.cn/en/2019/0329/1496.html

In *Multinational Business Finance*, direct investment is defined as an investment that has

[137] China Central Government. "国务院关于进一步做好利用外资工作的若干意见." *Gov.cn*. Office of the State Council, 13 Apr. 2010. Web. 23 Mar. 2021.

a long-term life or maturity and in which the investor exerts some explicit degree of control over the assets. With the availability of dollars, some American capitals changed their strategies of investing in China and chose to invest in local Chinese companies rather than building their own factories in China. Furthermore, Chinese companies also cooperate with American capital and even went to the American stock market for IPO. In 2009, there were only 33 Chinese companies listed in NASDAQ.[138] However, as of October 2, 2020, there were 217 Chinese companies listed on these US exchanges with a total market capitalization of $2.2 trillion. [139] However, the drop in direct investment after 2013 was also sudden, while the trend of China-US decoupling came after the drop; we should examine the situation in the following part.

Result: China Money Supply

Two things have been mentioned in the first and second parts of this article. The first is the twin surplus and its background information; the second is a contextualization of direct investments. Both are linked to China's policy that each foreign currency brought to China should be changed into RMB by law. Since China had a trade surplus in general, several results should be mentioned:

1. China's government has a huge amount of foreign exchange reserves, 3.2 trillion dollars, in Feb. 2021.[140]
2. There are limited ways for people to spend China's foreign exchange reserves. Aside from the general economic reasons like maintaining the exchange rate. There are also political factors: 1998 Asia financial crisis made China believe having a huge amount of foreign exchange reserves is necessary to prevent American capital's financial strike; there are only a few financial asserts that can contain China's huge foreign exchange reserves; and most importantly, American government banned a lot of Chinese investments in foreign countries, making China can mainly use its dollar to invest in developed countries' debt, (all of them have a very low-interest rate, especially compared with the profit rate foreign companies gain in China)[141] and Chinese companies prefer to use RMB to do business within China.
3. The enormous trade surplus is put into the rapid expansion of China's money base, M0, from ¥3 trillion in 2008 to more than ¥8 trillion in February 2018, while M2 went from ¥40 trillion in 2007 to ¥182 trillion in December 2018.[142] It contributed to China's domestic assets inflation and Chinese capital expansion.

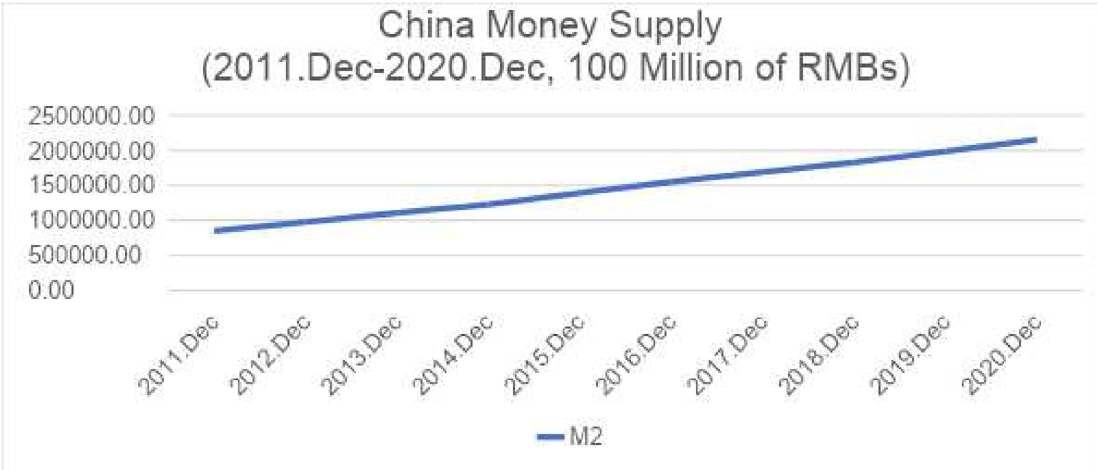
[138] "33 Chinese Companies Listed on NASDAQ in 2009, More Than Any Other U.S. Exchange." *Nasdaq, Inc.* 06 Jan. 2010. Web. 23 Mar. 2021.

[139] "Chinese Companies Listed on Major U.S. Stock Exchanges." *Uscc.gov*. U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION, 02 Oct. 2020. Web. 23 Mar. 2021.

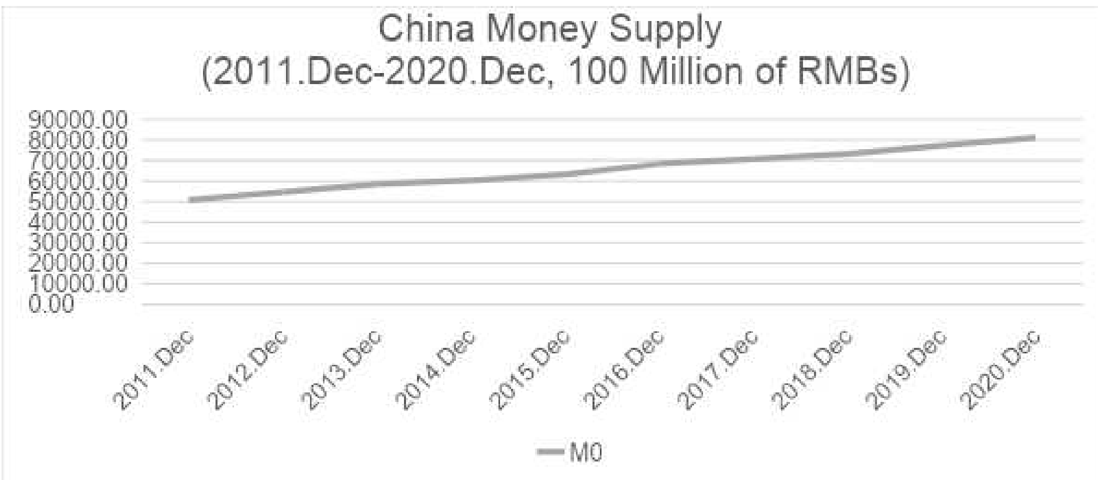
[140] "官方储备资产（2021年）_外汇储备_国家外汇管理局门户网站*Safe.gov.cn*. China’s State Administration of Foreign Exchange, 2 Feb. 2021. Web. 23 Mar. 2021.

[141] Khanapurkar, Uday. "CFIUS 2.0: An Instrument of American Economic Statecraft Targeting China." *Journal of Current Chinese Affairs* 48.2 (2019): 226-40. Print.

[142] Tsui, Sit, Erebus Wong, Lau Kin Chi, and Wen Tiejun. "Toward Delinking: An Alternative Chinese Path Amid the New Cold War." *Monthly Review* (2020): 15-31. Print.



Graph 6: China's M2 from 2011 to 2020.



Graph 7: China's M0 from 2011 to 2020.
Source: Data abstracted by author from People's Bank of China
http://www.pbc.gov.cn/diaochatongjisi/116219/116319/index.html

From the graphs, things are getting clear. Since the US is controlling Chinese foreign investing through law with its allies, while the profit rate of allowed investment like the national debt investment was low, China's companies preferred to invest in the domestic market. Therefore, the increment of foreign exchange reserves accelerated because of limited Chinese companies' foreign investments. The Money supply also accelerated due to the foreign currency reserves. Thus, China's domestic capital grew, even though the US exited QE in 2013 and direct investment fell after 2013.

This can be regarded as a symbol that China's development relied less on foreign capital, and China's domestic capital was experiencing a stage of relative surplus within China's domestic market. Under the domestic pressure of over-production and capital inflation, it is no wonder that China provided The Belt and The Road and accelerated the internationalization of RMB and industry structure update. The result was that China became more independent. This situation confronted the US financial and economic interests, which made the US-China Trade War seem inevitable.

Conclusion

The twin surplus resulting from China's huge foreign exchange assets was not that rule-breaking; however, it had some significant results that changed China. In the recent 20 years, there were two waves of direct investment increasing, the first contributed to China's industrial growth, and the second contributed to China's capital growth, making China become less dependent on the US capital. Since Chinese capital was competing with American capital in both China's domestic market and international market, America's trade war seemed inevitable.

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