

## Interview - Alfredo Hernandez Sanchez

Written by E-International Relations

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**This interview is part of a series of interviews with academics and practitioners at an early stage of their career. The interviews discuss current research and projects, as well as advice for other young scholars.**

Alfredo Hernandez Sanchez is a PhD student at Central European University, Budapest. His research interests include global governance, the international political economy of financial stability and sovereign debt. He has worked as a lecturer on political economy at the American University of Central Asia, the OSCE Academy in Bishkek and is a member of the Young Scholars Initiative of the Institute for New Economic Thinking.

**What (or who) promoted the most significant shifts in your thinking or encouraged you to pursue your area of research?**

I cannot think of one thing in particular that encouraged me to study International Political Economy (IPE), but rather several different interests that pushed me towards it. My father is an economist so there was always a bit of talk about the subject at home. However, when I took my first formal course on economics, I was a bit discouraged by what is sometimes referred to as the unrealistic assumptions about human behaviour that underlie it. Another thing that pushed me in the direction of IPE was a general interest in geography, I always loved maps and I remember trying to memorize the capital from an atlas I had as a kid.

However, what has most shaped my current thinking has been the contradictory ideas and narratives about the global economy to which I've been exposed. In Mexico City, my high school education was very market friendly and pro-business, this contrasted with the rather left-leaning and structuralist ideas of my BA professors at the National Autonomous University of Mexico. Later, at the Central European University, I became more familiar with progressive thinkers both in the American and European traditions. Fortunately, most of my professors were quite good at their jobs and made compelling cases for their respective schools of thought. With this in mind, I try my best to balance out the pros and cons of opposing views on how the world economy functions.

**Your thesis focuses on sovereign debt management in Mexico and Ecuador and argues that the way global financial markets are framed shapes a country's policy towards sovereign borrowing and restructuring. How is this revealed in the case of Mexico and Ecuador?**

I chose these two case studies because they are quite illustrative of how a change in domestic politics affects a country's sovereign debt management policies. In the case of Mexico, I explore the early 2000s when the country had just elected a president from the opposition (PAN) after 70 years of single-party rule (PRI). The new president, Vicente Fox, wished to anchor-in democratic gains and adopted a different foreign policy than his predecessors. Whereas during the PRI era, Mexican foreign policy was characterized by strict adherence to the principle of non-intervention and the sacrosanctity of sovereign rights (the Estrada Doctrine); the new administration opted to engage more deeply not only with the global economy – the process of liberalization had begun after the 1982 Latin-American debt crisis – but also to actively promote liberal values abroad. In the realm of sovereign debt management, this led to hosting initiatives such as the Monterrey Consensus in 2002 and the diffusion of collective action clauses in sovereign debt instruments in 2001.

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By contrast, Ecuador's Rafael Correa – who rose to power after a long period of financial and political turmoil – opted for a less conciliatory stance towards the international financial system. He infamously called his country's creditors “real monsters” and followed through on his rhetoric by setting up a debt auditing commission to assess the legitimacy of the country's debts. Based on the findings of that commission, the Correa administration defaulted on some of Ecuador's bonds –legacies of the Brady Bonds – held by private foreign creditors.

At the critical juncture in which both these leaders came to power, the actions and policies of previous administrations had become delegitimized. Both capitalized on this vacuum and steered their countries in towards the directions they saw fit. Fox, a former CEO of Coca-Cola Mexico from a liberal political party, can hardly be blamed for framing global markets as a variable-sum game in which all parties involved can benefit. Conversely, Correa was a left-leaning university professor with Marxist influences. It is thus not surprising that his administration's policies reflect a zero-sum view of the financial system, a narrative in which countries in the global economic periphery would not be able to finance their way to development successfully. I base my work on the assumption that all humans are biased decision makers, and that preconceptions bind and shape behaviour even when calculated interests or outside forces do not.

**In your upcoming paper, “*China's Role in Latin America: A Dual Strategy?*” you argue that China's presence in Latin America is typified by an extractive logic towards less complex economies and political rapprochement towards more advanced emerging markets. How is this dual strategy evident in China's bilateral relations between Ecuador and Brazil?**

Rather than approaching the region as a monolithic whole, Beijing seems to have different objectives towards Latin America depending on the partner country. On one hand, Ecuador has a less diversified industrial base than Brazil, and certainly lacks its political clout. What it does have in abundance is oil. After the 2008 default by Ecuador, mentioned above, Quito was shut off from borrowing from private foreign creditors for some time. It was around this time when Beijing began to lend aggressively to the emerging world. Ecuador is now one of the largest recipients of Chinese loans in the region despite its relative size; with most of those debts being backed by oil. The relationship with Brazil is different, rather than a straight forward quid-pro-quo, the Beijing-Brasilia partnership was multidimensional. This included joint endeavours such as the BRICS and shared goals such as promoting multipolarity on the world stage. At least this was the approach under the governments of Lula da Silva and Dilma Rousseff.

There is another dimension to it as well; countries that have closer ties to the United States have tended to borrow less from Chinese lenders. Though Mexico, Chile and Colombia are some of the top economies in the region, their financial ties to Beijing are lower than those of Bolivia and Ecuador. This leads me to conclude that there is a political logic behind China's sovereign lending to Latin America: countries that seek to distance themselves from Wall Street (and Washington) have had a financial safety net from across the Pacific. The risk I see is also political, Chinese lending could become a hot-button political issue in these countries and defaulting on them could also have unforeseen consequences for not just the region, but the global economy itself. Traces of this can be found in South East Asia and cancelled infrastructure projects backed by Beijing, and in the return of the right to key Latin American countries like Brazil.

**In your chapter *Sovereign Debt Crisis: Euro-Reality* you explore the different sources of the Euro-debt crisis and outline a framework for creditor responsibility. In your opinion, what was/were the primary cause(s) of the crisis and what does this framework offer?**

The main problem we observe with sovereign lending, particularly to developing countries, is that the burden of adjustment is borne disproportionately by the borrower in times of crisis. This is a problem if the goal is to avert future crises. There is a lot of discussion on how to prevent sovereigns from borrowing too much from abroad – the fiscal deficit caps in Europe are an example. However, less attention is placed –specially in the political discourse of advanced economies— on measure to prevent private lenders from pumping too much credit to less developed countries, particularly when interest rates are low in advanced economies and credit comes cheap.

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This is not to say that the borrower is exempt from fault in the face of financial disaster. Governments with weak oversight and lacking in checks and balances have little incentive to rein-in borrowing in the trade-off between short-term political gain and long-term economic sustainability. Furthermore, we call attention to an international demonstration effect, by which consumers in emerging markets place outsized value in emulating the consumption patterns of their peers in advanced economies. The point we try to make is that the issue of who to blame is not either/or, but that there is shared responsibility among creditors and borrowers in the run up to sovereign debt crises: addressing only one part of the problem is insufficient.

### **How do you expect UK sovereign debt to change in light of a no-deal Brexit?**

This is a tough one! In the short run I expect the cost of borrowing to increase for the British government and thus for the economy as a whole. Nevertheless, it is worth keeping in mind that by any metric the British economy is amongst the world's most complex and competitive. The advantages it has in terms of human capital, location and innovation will not fade away overnight. Furthermore, its currency is one of the most traded in the world and, just like New York, London is a hub in the global network of financial services; this is a result not only of tradition and expertise, but also due to its legal framework. These things are difficult to replicate elsewhere; though no doubt there will be attempts to do so. Whatever negative changes there may be in the short or medium term, I doubt they will be catastrophic. However, even modest changes can take large tolls in the lives of many. Surely some financial services will be gradually moved to continental Europe, or at least new jobs in the UK's financial sector may stall. Still, I don't think that the UK will cease to be a prominent node in the international financial system or renege on its sovereign debt in the short or medium term.

### **What are you currently working on?**

Mainly finishing up my thesis, or at least I should be! However, I do have some other projects in mind for the near future. The first is expanding on my PhD research to include a metric of how salient sovereign debt management is amongst emerging-market-economy leader based on text analysis. With this I hope to find out if there is a correlation between such attitudes and the terms of credit they receive from foreign creditors, other relevant variables considered. The second thing I have in mind is a book on how Central Asia has been transforming with the economic rise of China, particularly with the Belt and Road Initiative. This is a project I hope to publish in Spanish since there is little written on the contemporary history of the region in my native language.

### **What is the most important advice you could give to young scholars?**

This is the trickiest question for me to answer since I am myself a young scholar, so the best I can do is relay some advice I've received and found useful. The first is to write every day, even if it is not directly related to a current research project. I found that this helped me improve as a writer and made me a bit more productive. The second one is to get teaching experience and to work to improve classroom skills as much as possible. In my own experience, getting in touch with CEU's Center for Teaching and Learning has been immensely helpful. Receiving orientation on basic things like preparing syllabi or a teaching philosophy go a long way in both making job applications that stand out and in managing the first few days in front of the blackboard!