China and Latin America in the midst of recession and deflation

The financial fragility and volatility of the Chinese currency in the financial markets point to the continued deterioration of its economy, accompanied by growing capital flight and the depletion of its reserves. The reworking of economic reforms oriented towards satisfying the domestic market of one-fifth of the world's population is causing serious turbulence, principally in emerging markets. Latin America is facing the profound transformation of its trade and financial relations with China in a context of deflation and recession. To this are added the interest rate hikes by the U.S. Federal Reserve, plummeting commodities prices, primarily in Latin America and the Caribbean, and the economic slowdown of the People's Republic of China (PRC). These economic events require us to once again reflect on the structural changes happening in the productive and financial circuits worldwide.

The PRC and the region of Latin America have strengthened growth and economic development by deepening their bilateral relations in matters of trade and financial exchange. According to data from various documents published by the Economic Commission for Latin America and the Caribbean (Cepal, 2015),[1] with respect to the 2000s, "…bilateral trade grew 22-fold between 2000 and 2013," even after the financial crisis and the global recession. In 2003-2008, ECLAC data show that the average annual growth rate of the Gross Domestic Product (GDP) was 5% in the region, while in the PRC, the average annual economic growth rate amount to 10% of GDP, which it sustained until before the Great Crisis, subsequently falling to 9%.

In this time period, the region of South America, through Mercosur and the Andean countries, tightened its bilateral trade ties to the PCR with food and mineral exports in return for the growing rise in intermediate products. Latin America also began to export more manufacturing products. The result manifested itself in a virtuous circle of growth and economic development accompanied by policies to increase public social spending, which mitigated poverty indicators and improved the economic situation, principally in South American countries.

On the one hand, the rise in exports to the PCR was underpinned not only by the demand for the aforementioned products, but also by rising raw materials or commodities prices in the financial markets. There is a relationship of causality between the rise in exports, due to a rise in demand, not only from the Asian country, but also due to economic growth needs of other countries at the global scale, and the constant expansion of speculation on commodities prices in the futures markets. This encouraged export countries to engage in withholding to finance public spending in the time period prior to 2008.

When the financial crisis broke out in 2008, imports from the region of Latin America to the PRC fell 18% over the year prior. Although the situation in 2008-2009 was overcome by expansive monetary policies and support policies for economic growth in the PCR, the United States, and other countries, the Great Recession set in and with it, deflation, not only of the financial assets of large corporations but also of prices, all around the world.

One of the biggest concerns of the International Monetary Fund has been deflation. Recent ECLAC studies point out that "…between January 2011 and October 2015, prices for metals and energy (oil, gas, and coal) fell by almost 50%, and food prices by 30% […] energy

[1] Cepal (2015), "Primer Foro de la Comunidad de Estados Latinoamericanos y Caribeños (CELAC) y China. Explorando espacios de cooperación en comercio e inversión", Cepal, Naciones Unidas.

products saw the largest decline in 2015, with prices dropping by 24% between January and October, during which period prices for metals fell by 21% and for agricultural commodities by 10%" (Cepal, 2015: 7).[2]

The Latin American region has been characterized over the past 15 years by heterogeneous growth, due to the varied monetary and fiscal policies adapted by each government in its public policy management. The wave of neo-developmentalist policies penetrated the Southern Cone countries, while nations such as Bolivia and Ecuador centered their policies on the ideas of "good living" and "living well." They managed to reduce unemployment and inequality rates, as demonstrated in documents published by ECLAC.

At the same time, countries such as Mexico, Colombia, and Chile sustained an inflation-targeting policy to maintain economic stability characterized by low growth rates and fiscal balance. Meanwhile, Venezuela distanced itself from inflation targets, which brought on an expansive monetary policy based on oil tax withholdings. Countries in the region benefitted from rising commodities prices and speculation on their raw materials in the financial markets.

In spite of the 2008 crisis, with the participation of central banks, most countries were able to rebound from the fallout of the Great Crisis and deal with the early years of the Great Recession. The insertion of Latin American countries in productive chains also prompted major changes within each country, even in a context of global fragility and uncertainty. Latin American exports to the United States, Europe, and the PCR deepened dependency abroad and the economic slowdown of the consumption of raw materials from the Latin American region had an impact manifest in falling tax withholdings and precarious public spending, all of which was reflected in the rise of social protests, and budget cuts in the public sector to adjust the economy.

The bilateral relationship between the two economic spaces has deepened by way of financial circuits; in the period 2005-2015, the PCR's development banks channeled nearly 125 billion dollars to the Latin American region. The banks that granted this financing were the China Development Bank (CDB) and the China Export-Import Bank (Eximbank). To this is added the participation of the Bank of China, which funneled 280 million dollars to Ecuador, and the Industrial and Commercial Bank of China, which granted billions of dollars to Vale and Petrobras, Brazilian companies.

One of the concerns brought up at the recent G-20 summit was the floating renminbi, accompanied by strong speculation, which has depleted the foreign currency reserves of the People's Bank of China (PBOC, Central Bank), in addition to worries about the "shadow" financial system and "zombie" companies in China. Will this giant emerge from the recession and deflation and bolster its financial fragility to once again embark on a path of economic growth and development, raising the aggregate demand of one-fifth of the world?

The paper entitled "Multipliers and Fiscal and Monetary Coordination for Development Argentina, Brazil, Chile, and Mexico," written by Carlos Fraga, Israel Briseño, and Miguel Heras, delves into a critical examination of the inflation-targeting policies in each of the four countries mentioned in the title. The paper questions the management role of the central bank, coordination between monetary and fiscal policy, and the weight of multipliers in State purchases in the acceleration of inflationary processes. The hypothesis is to demonstrate the lack of coordination between monetary and fiscal policy. The theoretical discussion

[2] Cepal (2015), *Balance Preliminar de las Economías de América Latina y el Caribe*, Cepal, Naciones Unidas.

highlights the so-called New Consensus Macroeconomics (NCM) that underpins the inflation-targeting monetary policy and addresses the fiscal multiplier in both developed and underdeveloped countries, which permits countries to combine this with expansive fiscal policy, driving effective demand, job levels, and economic growth without necessarily setting off inflation. The importance of this work resides in its demonstration of the benefits of public spending in times of fiscal austerity.

"The Electricity Industry in Mexico: Tension Between the State and the Market," written by Víctor Rodríguez Padilla, analyzes the transition from the public monopoly decreed in 1960, consisting of the Federal Electricity Commission (CFE), and the Mexican Light and Power Company (LyFC), to a new public policy for power-related matters, guaranteeing electricity purchases, fuel supply, the return on investments, and the absorption of commercial and market risks by the State. This situation has led the power industry to modify the organizational and regulatory model where vertical and horizontal disintegration of the public monopoly prevails, as do the expansion of competition in generation and the sale of electricity, and liberalization to foreign investment throughout the entire value chain. The paper concludes that the origin of the main problems was institutional, because the country was not lacking for natural, capital, technology, or knowledge resources. The conflict was rather in the interference of the overseeing authorities whose objectives were not always compatible with the performance of the CFE.

In the article "A Political and Industrial Framework for Structural Growth and Change: The Big Question Mark for the Mexican Economy," Juan Carlos Moreno Brid focuses on industrial policy as the backbone of economic development, and shows how the Mexican government has refused to use industrial policy as a tool to support sustained economic growth, because it considers it to be a form of negative government intervention in a market economy, and also holds the dogmatic view that low inflation and a very constrained fiscal deficit are necessary and sufficient to guarantee expected growth. Sector that are not necessarily optimal for the economy have been favored, in the midst of non-competitive profit and above all corruption, distorting markets by making them inefficient. The author analyzes how manufactures are the motor of large economies, critiques Mexico's manufacturing performance since the 1960s, explains the paradox of economic slowdown in the framework of booming sales abroad, sketches out a theoretical framework for industrial policy, describing its presence worldwide and how wealthy countries make use of this tool.

In "Highly Qualified Mexican Migration: 1990-2013," Selene Gáspar and Mónica Chávez aim to quantify the volume of qualified (QA) and highly qualified (HQA) Mexicans living abroad, describing their demographic features, labor profiles, and areas of specialization and employment. Migration flows have changed, insofar as the number of QA and HQA migrants has continued to grow, tripling over the past 25 years. The text highlights the fact that the share of the migration population with upper secondary or lower education has fallen out of the total, while at the same time, the percentage of migrants with at least a bachelor's, master's, or doctoral degree has risen. The share of women in migration and the QA and HQA segments has grown the most, even surpassing men, especially in the United States.

Javier López Prol and Enrique Palazuelos wrote the article "The Profit-Investment Ratio: Economic Growth in Spain 1994-2007," discussing the principal thesis of the Effective Demand theory proposed by Keynes and Kalecki, where investment, as a component of aggregate demand, is the principal variable that determines effective production levels. A first hypothesis refers to the link between the profit and accumulation rates as the principal motors of Spanish economic growth during the time period 1994-2007. This led to an income distribution increasingly favorable to capital, due to the contraction of the unit wage as a result of stagnated productivity. The sectors that benefitted the most during the period of analysis were construction and professional, financial, real-estate, and insurance services (SPFIS), where it could even be said that there is a causal relationship between the results obtained in these two sectors and the aggregate behavior of the economy.

In the article “Financial Economic Reforms in Cuba. Rejoining Capitalism in an Age of Crisis,” Marcia Solorza reflects on how Cuba has been accelerating mechanisms to insert its economy in the global system. The author studies the changes that have happened in the Cuban economy beginning with its market economic reforms. Up until the fall of the Berlin Wall, Cuba had strong aid ties through the Council for Mutual Economic Assistance (CAME). However, afterwards, its GDP and exports shrunk, leading to strong capital flight accompanied by high unemployment in 1989-1993. The economic and financial reforms undertaken by Cuba have been marked by the interest of international investors, who observe high profit levels in sectors such as tourism, the productive sector, mining, and energy, all of which have highly skilled labor.

The analysis in the paper by James M. Cypher and Yolando Alfaro, “The Triangle of Neo-Developmentalism in Ecuador,” centers primarily on three aspects: fostering a national project, building an industrial policy, and consolidating a national innovation system. The "Country Project" was launched in 2008 with the approval of diverse social sectors. In 2009, Ecuador introduced the *2009-2013 National Plan for Good Living*, making the productive matrix the backbone of national development. This idea would later be deepened in the *2013-2017 National Development Plan for Good Living*. Achievements reached between 2006 and 2004 in terms of GDP, minimum wages, the Gini index, poverty reduction, etc., were higher than those attained by other neoliberal administrations. Ecuador considered the three pillars of neo-developmentalist theory, and each of them has received a significant allocation of resources, which have permitted the consolidation of an economic system that has fostered social development. However, the structure is still weak, because this “change” process requires long periods of building a socioeconomic coalition, and moreover, these three pillars have not been developed with the same level of depth or scope.

The reviews section recommends the following books: *How to Escape from the Trap of Slow Growth and High Inequality*?, by Jaime Ros Bosch, reviewed by Leopoldo Gómez Ramírez; *The Global Political Economy*, by Enrique Palazuelos, reviewed by Alma Cervantes; and finally, *“Making Money Without Money.” The Street Vendor Explosion in Bolivia*, by Nico Tassi, Carmen Medeiros, Antonio Rodríguez Carmona, and Giovana Ferrufino, reviewed by Héctor Parra.

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