# 40 years of devalutions, recurring crises, and deregulation

"Good-bye Financial Repression, Welcome Financial Crash!" by Carlos F. Díaz Alejandro is a lesson to all those countries that have implemented financial deregulation and liberalization policies, under the auspices of more inclusive development funding, but which have only ended up in financial crises, whose effects have prompted structural changes in their economies and on the global economic and financial circuits.

The recurring crises that all countries have experienced from the 1970s up to the present day shows the transition from regulated financial systems to national financial systems embedded in global financial circuits. Beyond that, the public policy response to financial crashes, the outcome of financial deregulation and liberalization, has subordinated monetary, fiscal, and financial policy to market interests and the growing process of financialization.

Through the lens of 40 years of current devaluations and now that the fixed exchange rate principle of the Bretton Woods monetary system has been broken once and for all, the price of exports from underdeveloped countries has been determined by the fluctuations of the exchange rate between national currencies and the international references, as well as the interest rate, whose main benchmark is set by the United States Federal Reserve (Fed).

Accordingly, since the first exchange rate devaluation in Mexico up through to recent fluctuations between the peso and the dollar, the international equivalent reference, Mexico has gradually subsumed the heart of development and economic growth to international financial bodies It must be noted, then, that it is the International Monetary Fund (IMF) which has set monetary policy for over 40 years, beginning with its first adjustment plans in 1976, the three renegotiations of foreign debt in the 1980s, and up through to the signing of the Brady Plan, and the return to financial markets in the 1990s.

At present, three major crises have shaken the Mexican economy: the currency devaluation of 1976, the foreign debt crisis of 1982, and the banking crisis of 1994. These three moments reveal the development of the national economy as one of the best-managed experiments conducted by the Central Bank, not only in terms of its adjustment plans and payments to creditors at interest rates far above the international averages, but also in terms of the conditions stipulated in the signing of stabilization agreements.

The signing of the first stabilization plan between the Mexican government and IMF authorities set the conditions for the financing of an enterprise strategic to the Mexican economy, but necessary for the interests of the United States at the time. Petróleos Mexicanos (Pemex), a leader in the oil sector, allowed the Pentagon to satisfy its oil reserve needs in an environment in which the Organization of Petroleum Exporting Countries (OPEC) held vast control over oil reserves and prices worldwide. The stabilization plan laid the groundwork for financial fragility in the short term.

When the Fed's interest rates rose and the oil supply became a surplus in the global market, oil exports from Mexico plummeted, and the foreign debt service would become manifest in a "cash crisis" in August 1982, which led to the Rescue Package negotiated among the Mexican Finance Ministry, the IMF, the World Bank, the Fed, and the International Payments Bank, and which involved the United States making advanced purchases of oil reserves, once again. Following the restructuring of the Mexican economy pursuant to the guidelines of the Washington Consensus and the indiscriminate liberalization of national financial circuits, the banking crisis hit Mexico, frequently mentioned as the first global crisis of the twenty-first century.

Mexico was one of the countries in the world whose banking crisis pointed to a close relationship between institutional investors, principally from the United States, and Mexican government bonds,[1] which were unable to endow the market with financial stability. In fact, it was entirely the contrary. The fragile and unstable economy and risk in the country in an electoral year succumbed to the inability of a new administration, which in the face of capital flight, had no choice but to devaluate the peso in December 1994, with which stability plans rapidly became austerity plans.

Recurring austerity plans became a constant due to the macroeconomic conditions driven by NAFTA in matters related to monetary, fiscal, and financial policy. However, high oil prices helped the country deal with its foreign debt service payments without major difficulties. The foreign debt service ratio to oil exports improved and advanced payments were made, even to the IMF, between 2005 and 2006. A respite, before succumbing.

Mexico, just like other Latin American countries, saw an economic boom and social reforms that diminished poverty indicators, not due to inclusion in the financial circuits, but rather to speculation on export prices. Commodities economies, whose prices were sold in the futures market as high-yield derivatives, were once again undermined by the subprime crisis, the antecedent to the Big Financial Crisis of 2007/2009.

The rapid recovery in 2009 thanks to the intermediation of the central banks created new bubbles and the underlying austerity policies prompted reduced growth. In its October 2015 meetings, the IMF announced slight growth. However, by the August 2016 meeting, the growth forecasts had been adjusted downwards again. Facing this situation, for countries like Mexico, the Flexible Credit Line (FCL) was created to prevent potential imbalances and economic crises.

Mexico was the first country to benefit with an amount equivalent to 47 billion dollars (31.5 billion Special Drawing Rights) in the framework of a precautionary FCL, with a prediction that the funds would not be used, in response to the good behavior of economic policies that the government had so firmly enforced, in the words of the IMF.

After this initial FCL, Mexico renewed it in 2010, 2011, 2012, 2014, and 2016. The first agreement with Mexico in the framework of the FCL was approved on April 17, 2009 for 47 billion dollars and was renewed on March 25, 2010 for 48 billion, and then another four times, until the approved credit line reached 88 billion dollars in May 2016.

It is in this way that Carlos F. Díaz Alejandro, in his seminal work, demonstrates that financial deregulation and liberalization have led to the application of austerity policies that only exacerbate indebtedness, even in the precautionary lines adopted starting in 2009, and up to the present day. In light of this fact, all that's left is to ask: are the economic policies adopted a viable alternative, or do they run contrary to fair and sustainable development?

This edition of the journal *Problemas del Desarrollo* begins with the article "Social Reforms in China: 2016-2020," by Andoni Maiza and Ricardo Bustillo. China has implemented a series of social reforms in the framework of the 13th Five-Year Plan 2016-2020, aiming to remain as the dynamic pillar of the global economy. The country must increase employment

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[1] The so-called "Tesobonos" were created by the Mexican government to avoid showing internal imbalances in the economy in light of the recent signing of the North American Free Trade Agreement (NAFTA).

and the number of jobs available, as well as improve schooling, health insurance, and unemployment insurance. No less important will be overhauling the pension system to include rural workers, who, due to the *hukou* model, are at a disadvantage as compared to urban workers. To this are added the one-child policy and demographic aging. Average rural wages represent only 40% of average urban salaries, but are now triple what they are in other Southeast Asian countries. However, they are still considered very low, and jobs are being moved to other countries in the region.

Manuel Pérez García, in his paper "Internationalization and Reforms in the Higher Education System in China," examines the topic of the "brain drain" and how it has affected countries like China and the European Union nations. Notable are the higher education system reforms in China derived from an internationalization project aiming to find a "new nationalization of the academic sector." Currently, there is a significant number of Chinese students living in the United States, which reflects increased interest in America and the European Union. Chinese universities are making an effort to consolidate a network of academics in Europe, Latin America, and Africa. Economic development over the past decade has strengthened interest in deepening cooperation among academic institutions to bolster ties from a global space based on academic mobility. In the long term, mutual understanding will lead to a win-win for China, Europe, and the participating regions and countries.

The construction of *hegemony* and *populism* in *Kirchnerism* is the result of the configuration of Argentina in the post-convertibility age, resulting from the Monetary Council crisis, as commented on by Gastón Ángel Varesi in his work, "Accumulation and Hegemony in Argentina in the Age of *Kirchnerism*." The post-convertibility era favored a productive-export model in the face of a spike in commodities, a revenue policy boosted by withholdings made possible the diminishment of poverty and the return to state control of enterprises, the restructuring of the foreign debt, which improved economic indicators, and a break with the IMF, which made possible a social compact. The period 2008-2011 was ushered in amidst a fractured industrial sector, energy crisis, decreased participation of financial conglomerates, the impact of the global economic crisis, and an agrarian conflict that gave rise to the formation of a conservative and liberal alternative.

"Ecuador in the Middle-Income Trap," written by Rafael Domínguez and Sara Caria, notes to what degree the developmentalist State is able to overcome the middle-income trap (MIT), making Ecuador an example for other countries in Latin America. A country whose economic development is based on reliance on primary products, and where the exploitation of natural resources is predominant, is a driver behind imperfect structural change. The State has increased public investment, education, and innovation, but this impact will be felt in the medium term- The high degree of dependency on oil export prices in the global economic cycle has an impact on pro-cyclical fiscal policies and recurring economic and political instability. Social policies have been determinants in the economic model, improving human capital, as investment in infrastructure has helped the public sector advance- Even so, structural change is still far off.

Edel J. Fresneda, in the paper "Cuba, Development, Dependency, and Structural Heterogeneity," addresses the historical development of the island beginning with the triumph of the Revolution, which emerged in the context of the Cold War in the 1960s. The State assumed control of production under the aegis of real socialism and excluded the endogenous capacity of own production strategies. The eradication of the private property system did away with business innovation and the value chains in a process of worldwide internationalization. The need for investment and industrialization, as well as financial imbalances, has required the country to take on external debt to protect marginalized social sectors. The reproduction of external dependency and structural heterogeneity prompted a vicious cycle that entailed a rupture with the present.

The current state of affairs of refining in Mexico is the outcome of poor economic policy management at the end of the 1970s. Daniel Romo, in a paper entitled, "Oil Refining in Mexico and Prospects for the Energy Reform," asserts the lack of an industrial policy that fits the needs of the country based on oil byproducts, greater investment in refining at Petróleos Mexicanos (Pemex), and the political decision not to encourage other forms of transportation, all of which have led to the indiscriminate liberalization and importation of gasoline and has had an impact on the oil trade balance deficit The Energy Reform and the necessary participation of private enterprise must not only be centered on exporting crude oil, but also on the capacity to process it. Pemex, as a leading company in Mexico will play a key role in articulation with the national and international private business sector to adjust to the needs the country demands.

Luis Huesca and Gloria Ochoa, in their paper, "Wage Inequality and Technological Change Along the Northern Border of Mexico," deal with the liberalization in the framework of NAFTA that has driven changes in the wage structure and the composition of employment, related to the impact of technology on the labor market. Wage inequality along the Northern Border is studied through a classification into skilled and unskilled workers, but the paper offers a variation by also classifying jobs into the types of tasks involved in them: abstract, routine, and manual. By using the Gini index for the tasks mentioned, they are able to measure with precision changes in wage inequality, obtaining interesting results as to the impact of technology on the labor market.

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