PART II

THE CRISIS IN LATIN AMERICA:
ORIGINS, RESPONSES, CONNECTIONS AND COMPARISONS
The Financial Crisis, its Diverse Economic Effects and Responses from Latin America: A Global Crisis?

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Introduction

This chapter was written in two different phases and with a focus on interconnected but also different goals. It was initially thought of as a cold description of the effects of the 2007-2008 financial crises on the Latin American region. The aim was to show how the crisis spread through the region, and also to identify its consequences as well as the responses of governments in the region. As an outcome of this first goal, I arrived at three main conclusions: a) in Latin American terms, the crisis was far from being ‘the worst in history’ as many analysts had put it; b) although negative effects could be traced in most cases, it was inaccurate to talk about a single crisis for the region as a whole; and c) it seemed that rather than being a global process it was a crisis which originated in the North but with heterogeneous effects over the Latin American region – and this diversity could be explained by the local characteristics of each country.

These three conclusions lead to a set of questions that, eventually, became the second goal of this text: to debate the actual global scope of the crisis and to open a discussion about what globalization means from a South-South perspective. The argument suggests that the specific form of the crisis and its impacts were different from what most analyses of the crisis produced in the North have predicted. First of all, the correlation between the crisis in the North and the crises in the South was (at least in some areas) less than expected: the crisis heavily affected some countries but had a weaker
effect on others. Second, the responses to the crisis were not exactly the same throughout the region: compared to past crises, national governments showed greater room for making political decisions. The argument suggests also that this crisis was not, in essence, different from other financial crises that previously originated in the world capitalist system. However, the main and very important difference was that it started in the North and not in the South, as the typical ‘crisis of globalization’ of the 1990s did – including the Mexican crisis (or tequila, 1995), the Asian crisis (1997), the Brazilian crisis (or samba, 1999), and the Turkish and Argentina ones (2001-02).

What was striking about the 2007-08 crisis was the ‘globality’ of its categorization and that was, in my view, largely because it originated in the United States. Due to the dominance of the US and, indeed, the North in terms of global power relations, that characterization was promoted for obvious reasons. I argue that calling the crisis ‘global’ is not only inaccurate; it also moves the focus of who was primarily responsible for the crisis in a sort of ‘Fuente Ovejuna’ effect.¹

In other words: while the Mexican, Brazilian, Turkish and Argentina crises were seen as the consequence of these countries’ mistakes, the term ‘global’ seems to address no one but the system as a whole as the cause of the crisis and, in that way, it actually exonerates those who were fundamentally responsible.

In order to address the above issues, this chapter is divided into three parts. First, I will provide a general definition of the term ‘globalization’ because that will be useful to set the discussion around the scope of the crisis and the meaning of the term from a South-South perspective. I will also define the main characteristics of the financial crisis and its main effects over the Latin American region. In the second section, I will analyse how the crisis arrived in the region, identifying its effects in different sub-regions and countries; I shall argue that differences had to do with a set of economic and institutional variables as well as the political responses of key local actors. Finally, I will open a discussion on the meaning of globalization for the South and the consequences of thinking global processes exclusively as a North-South relationship.

Methodological Approach

This chapter is based on data from two different sources. Firstly, it is based on secondary data on the economic and political evolution of the Latin American countries between 2007 and 2011. Data are available at public statistics offices and international institutions such as the United Nations (UN), the International Monetary Fund (IMF), the Economic Commission for Latin America and the Caribbean (ECLAC), and the Organisation for Economic
Co-operation and Development (OECD). I used these data in order to create a typology which classified the countries of the region according to how the crisis affected them and how they responded to it.

The second source was based on in-depth interviews conducted between 2008 and 2011 in several countries of the region with experts (economics, sociologists and policy makers) with the aim of understanding the situation of the countries and the effects of the financial crisis both at the macro and micro level. Interviews were conducted in Argentina, Bolivia, Paraguay, Chile, Peru, Colombia, Dominican Republic, Ecuador, Venezuela and Costa Rica.

By combining quantitative and qualitative sources, this chapter seeks to show how, with the large and complex Latin American region, homogeneity and heterogeneity coexist.

Theoretical and Conceptual Framework

The chapter explores the thinking in three areas of conceptual debate:

a) the discussion on the scope and meaning of the crisis;

b) the meaning of globalization, its consequences and effects and, also, its connection with the current notion of crisis; and

c) the sociology of development, focusing on the problems of state formation, autonomy and capacity as well as the problem of political decision-making.

Sociology of crisis (Holton 1987) opens a set of relevant questions concerning the issues of this chapter: What is a crisis? How can we distinguish crisis from normality? What does crisis imply at the macro and micro levels? A crisis is a deep change in the structures of a given society. It may be economic, institutional, cultural, social or all of these together. Usually, a period of crisis implies that going back to the previous situation is not possible or is very complicated. A crisis, to this extent, changes the general situation of a society and opens a period of great uncertainty. Generally, it includes both an objective and a subjective dimension: on the one hand, it is possible to identify a set of indicators of the crisis; on the other hand, it is also explained by the way the population ‘reads’ the critical situation. In fact, as soon as the population interprets a condition as critical, new microeconomic strategies emerge, deepening even more the already existing situation. Finally, there is a critical question concerning what causes the crises and how countries respond to them. Although globalization theory tends to assume that both causes and responses may be explained by external forces, others suggest that internal factors are critical to explaining them. Gourevich (1986), for instance, argues that each country’s responses to crisis depend on the characteristics of
dominant sectors within this country, meaning the context and the type of coalitions created in this particular context.

The scope and meaning of globalization will be discussed in the next section. Globalization is considered in relation with the problem of crisis based on two assumptions: a) it implies a greater level of exchange and contact among countries increasing the possibility of global crises that are ‘contagious’; b) processes (effects and its responses) exist that are greatly homogeneous – in the extreme, this implies that the crises may assume the same form in different places around the world. This second assumption will be discussed and questioned here.

Finally, the concepts connected with the sociology of development will be discussed in the last section. The argument presented here is that national states still matter and that decisions made by national governments have effects both in the way the global crisis affects local economies as well as the way local economies deal with its effects. In other words: globalization has homogenizing effects, but the level of transnational convergence is weaker than mainstream theory argues (Guillén 2001).

Literature Review

Castells (1996) argues that in the latter part of the twentieth century, a new economy emerged around the world. This new economy is characterized by three main features: a) productivity and competitiveness are a function of knowledge generation and information processing; b) firms and territories are organized in networks of production, management and distribution; c) the core economic activities are global – i.e. they have the capacity to work as a unit in real time on a planetary scale (Castells 2001: 52).

Castells defines globalization as a specific process taking place in a specific time, adding some precision to the more common definitions: a shorthand way of describing the spread and connectedness of production, communication and technologies across the world. That spread has involved the interlacing of economic and cultural activities. Although globalization, in the sense of increasing connectivity in economic and cultural life across the world, has been happening for centuries, the current situation is fundamentally different from what has happened before. The speed of communication and exchange, the complexity and size of the networks involved, and the sheer volume of trade, interaction and risks give what we now label as globalization a peculiar force (Smith and Doyle 2002).

Globalization has not been described only as increased interconnections, but also as the source of important political changes. According to this view, poorer, ‘peripheral’, countries became even more dependent on activities in
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‘central’ economies where capital and technical expertise tend to be placed. There has also been a shift in power away from the nation state and toward multinational corporations (Beck 2004).

Economic globalization is measured in terms of international trade and foreign direct investment (FDI); political globalization is measured in terms of international organizations and international treaties and collaborations; and social globalization is measured in terms of telephone lines, personal travels, personal transfers of money, transnational families and the number of internet users. As Ortiz (2004) points out, it is necessary to distinguish between ‘globalization’ and ‘worldlization’. According to him, what became globalized are the market and the technology, while the culture goes through a process of ‘worldlization’. Due to this distinction, it is possible to differentiate a process that can be assumed as an economic and technological strategy for the expansion of corporations, from another that projects a net of ideas and representations through cultural industries. This second process appears in everyday life.

Although this distinction is important for a better understanding of the global processes, the most dynamic and visible aspect of globalization is the transformation of the financial system. In fact, the exchange of goods has reached only a fraction of the dynamism shown by the financial system due in part to the high levels of protectionism in the core countries.

This is one of the reasons why globalization is usually equated with financial globalization. From this point of view, globalization can be described as a process led by the developed countries and the bigger multinational corporations. From a financial viewpoint, two-thirds of the population became even more marginalized than in the past, as 71 per cent of the origin and 85 per cent of the destiny of financial flows is concentrated in the northern hemisphere (World Investment Report 2011).

The discussion about globalization frames the debate about the relationship among nations as well as North-South relations. The base of this debate is the increasing dependency among states and societies on a worldwide scale. This assumes that decisions and activities in one part of the planet have effects on societies far away from them. When talking about interconnection and its effects, most theories describe the processes taking place at the economic and financial level rather that in the cultural sphere. Thus, globalization is usually seen as the spread of capital, rules and values from the North to the South. Therefore, when globalization is thought of as a one-way process, the northern countries are usually thought of as the active ones while the southern countries are thought of as passive/receptive.

There is not, of course, agreement on this point. In fact, a good deal of the more interesting debates on globalization discusses the way globality and
locality intersect. Giddens (1990: 64), for instance, has described globalization as ‘the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa’. Interestingly, the vice versa side of globalization had captured much less attention than the worldwide effects of the interlink processes.

For this reason, analyses of globalization which primarily focus on assessing its effects on the developing world have tended to focus on identifying its threats to these economies. The literature distinguishes five negative consequences of globalization: a) unequal distribution of the advantages, b) incomplete globalization because only some factors (not including labour, for instance) became globalized; c) absence of coherence in macroeconomic policies in attending to local issues and demands; d) weakening of political institutions to regulate the processes and to discipline capital; and e) problems derived from financial globalization.2

Globalization represents a complex process of intensification of both the economic and cultural interlinks among nations. Economic globalization is critical for the Global South as it defines the types of relations that are established with the North. Globalization, however, does not need to be thought of as a one-way process but may include a more interactive and proactive set of relationships among nations.

In the next section, before opening a discussion on the conceptual and political consequences, I will discuss the main characteristics of the financial crisis of 2007 and 2008 and its effects on Latin America.

The Financial Crisis and its Effects on Latin America

The financial crisis that began in 2007 was produced by the interplay of valuation and liquidity problems in the United States banking system. The bursting of the US housing bubble caused the values of securities tied to US real estate pricing to plummet, damaging financial institutions globally. Problems regarding bank solvency, declines in credit availability and investors’ confidence impacted on global stock markets, where securities suffered large losses during 2008 and 2009. Economies worldwide slowed during this period. Although there have been aftershocks, the financial crisis itself ended sometime between late-2008 and mid-2009.

The crisis was characterized as the worst since the early 1980s recession with negative 2009 growth for the US, the Eurozone and the UK. With a recession in the US and the increased savings rate of US consumers, growth elsewhere has been also affected: in 2009 the decline in GDP was -2.7 per cent in the US, -5.6 per cent in Germany, -6.2 per cent in Japan, -4 per cent in the UK and -6 per cent in Mexico (International Monetary Fund).
The effects of this crisis on Latin America are still being debated. However, when the current crisis and previous ones are compared, two conclusions can be extracted. First, the results as well as the responses were heterogeneous and there was not a single regional pattern that explains the crisis. Second, at least for some countries, the crisis was less severe than expected and the path to recovery was faster compared to past experiences such as the debt crisis in the 1980s and the financial crises of the late 1990s. From a Latin American perspective, the 2007-08 financial crisis produced a set of clearly negative consequences, but it was less drastic than what had been foreseen during 2007. What is more important: the crisis was not interpreted as such by the populations of many Latin American countries – in part, because the parameter for what a ‘real’ crisis means is higher in the region than in other regions of the world. In conclusion, the ‘global’ 2007-08 crisis had its more severe effects in the North, when it originated, and the way in which it spreads to the South depended on the type of relationships the southern countries previously had with the northern ones – i.e., Mexico and most Caribbean countries, more dependent on the US economy than those from the South, were more directly and deeply affected by the crisis (see León-Manriquez 2013).

**Different Realities, Different Impacts: the Heterogeneity of the Crisis in Latin America**

Looking at the Latin American countries and their different realities allows a better understanding of why the crisis did not hit the whole world with the same intensity. Although sharing a set of common features (their peripheral position, lack of industrial development, high degree of social inequality and the weakness of the financial system among others), there are very different realities within Latin America. Differences have to do with divergent historical developments, political dynamics and economic structure.

In the context of the crisis, a set of variables became critical in explaining the different effects, performance and responses that emerged throughout the region. The first variables are economic: the type of goods produced in each country, the level of diversification of the economy and the variety of market allocations for the exports were key during the process. The second set of variables is linked to the political dimension. They include the political orientation chosen by the governments, their options in terms of public policy and the capacity of each state to act autonomously. To this extent, both political decision-making and state capacity were critical in defining the type of responses. Generally speaking: the stronger the capacity to define autonomous responses, the greater the chances to escape from the negative effects of external threats. In fact, in the context of the crisis, more or less dynamic and aggressive responses implied different performances during and
after the crisis. However, state capacity does not itself explain the political options: Mexico, for instance, is an example where the absence of state intervention was rather the result of an ideological-political orientation than the result of lack of state capacity.

Different performances show that the crisis did not have equal effects on the whole region. In fact, some countries were severely affected (for instance, in terms of domestic consumption and GDP growth). From these countries, some recovered very fast while others (such as Mexico and Costa Rica) took a longer period of time to get back to their pre-crisis condition. In other countries, on the other hand, the effects were less severe. In some cases, like in Colombia, the crisis was less severe because it hit gradually; in others (like Argentina, Chile and Peru) this was because both the price of primary goods and low dependence on the US market counterbalanced the negative effects.

Taken together, both economic and political variables explain the diversity of situations that can be traced throughout the region. At the same time, they show to what extent crises, and the possibilities of avoiding them, are the result of a complex combination of different factors.

Size of the economy and type of production: While some countries have benefited from their export position due to the rise in the prices of food (Argentina and Brazil), oil (Brazil, Bolivia, Mexico and Venezuela) and mining (Chile and Peru), others did not (ECLAC 2011). Clearly, producers of commodities with high international prices were in a better position. This position was fueled by the growing demand from Asia, which also explains why these countries diversified their markets in the last decade. The strongest global position of these diversified their markets in the last decade. The strongest global position of these countries, then, was more the result of an increase in the demand from China than the outcome of a national trade strategy. In any case, it was the turn towards Asia which produced the impulse of these economies and reduced their vulnerability in relation to the US market. While in 2000 China accounted for just one per cent of Latin America’s exports, by 2010 it accounted for 8 per cent of exports. Also, Asia as a whole increased its participation from 3.5 to 15 per cent, becoming more important than Europe (and behind the US and the region) (ECLAC 2012). Therefore, mid-size countries like Peru, Chile or Argentina, were in a better position to face the crisis than a much bigger economy like Mexico.

The reality was very different in another set of countries of smaller size and located closer to the influence of the US economy. Particularly, those countries from the Caribbean and some from Central America were not producers of those primary goods that were boosted by the price rise. They were not oriented to the Asian markets and were highly dependent on the demand from the US economy. As a result, their economies were more
fragile and vulnerable not only to external shocks but, even more important, to the fluctuations of the US economy.

Thus, while the producers of primary goods from the South had benefited since 2000 from the increase in the value of the products they export, in Central America and the Caribbean the importance of these types of products decreased. Therefore, the performance of the sub-regions of Latin America was linked to the participation of primary and non-primary goods in the export baskets of each country. In South America, in the last decade, prices showed greater increase than exported volume. Conversely, in Central America and the Caribbean that were less favored by the increase of commodity prices, exports grew more in volume. If during the 1990s the dynamic of exports was defined by the increase in the volume, in the 2000s the incidence of prices was higher (ECLAC 2012).

*Level of diversification of export allocation:* Diversification of markets seems to be one of the recipes to avoid global crises. The more diversified the markets, the lower the risks of being affected by the negative performance of a key economic partner. In the case of Latin America, the region was historically highly dependent on United States politics and economy. Being the ‘backyard’ of the US meant having a constant dispute over political and economic autonomy. Due to some political processes inherent to the region and to the shift in the foreign policy of the US, there occurred a change in this situation in the last two decades. Part of this change had to do with the relative position of the Asian countries in the global economy, which became one of the main destinations for Latin American exports. Under these circumstances, some Latin American countries were able to diversify their markets. The Peruvian case is pertinent: after signing the Trade Promotion Agreement with the United States, their exports diversified equally among the US, European and the rest of the markets.

However, as the table shows, the level of autonomy regarding the US economy is not equal throughout the region. While the bigger countries from the South (particularly Brazil, but also Chile and Peru) have diversified their markets, the countries from the north of Latin America are still highly dependent on the United States economy – not only due to the smaller sizes of their economies, but also the geographical proximity to the US, like in the case of Mexico.
Mexico and the Caribbean, the two sub-regions more dependent on the US, felt the crisis more deeply than the rest of the region. In the case of Mexico, the country suffered a decline in its exports to the US and a drop in remittances, and this ultimately had a negative effect on domestic demand (León-Manríquez 2013). As León-Manríquez argues, since the signature of NAFTA in 1994, Mexico focused its exports on the United States market. By 2009, this constituted around 80 per cent of the country’s total exports. Such level of concentration increased Mexico’s vulnerability, which was even worse since the crisis originated from its main trading partner.

A similar situation faced the Caribbean countries such as Dominican Republic and, to a lesser extent, the Central American ones such as Costa Rica. In the case of Costa Rica, the retraction of US demand implied a different transmission process as compared to Mexico. In the case of the Dominican Republic and other countries of this sub-region, remittances are among the main economic resources and the drop in remittance flows affected not only their economies as a whole, but also the domestic economies of families.
As a consequence, in Central America and the Caribbean, the effects of the US crisis were much more severe than in those countries that had diversified their markets. Depending on just one economy was critical for those countries that, at the same time, were not able to produce goods that would allow them to look for new markets when the crisis hit them.

Size of the economy, type of goods produced and level of diversification of the markets are three key economic variables. They are not always acting together, as there are countries which are highly dependent on the US but their economies are among the bigger and more sophisticated of the region (like Mexico); and others whose economies are smaller but have a more diversified export basket than others from the same size (like in the case of Uruguay). So, if each of these variables is taken separately, it would not explain the difference in performance; if they are taken together, they provide a better understanding of the differences.

The economic features of each country help to understand the diverse effects of the crisis. However, the political capacity of these countries is perhaps the most critical aspect that explains not only their fragility, but the type of responses they followed during and after the crisis. At the same time, the economic causes of the crisis show to what extent the crisis was not ‘global’ but originated in the US.

State capacity: State capacity can be decomposed into two broad dimensions. The first one is an intrinsic component, namely, the cohesiveness of the state as a strategic actor which can formulate and implement policy in a coherent fashion. The second is an extrinsic component, which is the state’s ability to extract performance from private firms (Wade 1990; Chibber 2003). Both components were critical in allowing governments to take autonomous decisions. In the case of Latin America, the lack of state capacity has been a historic trait; this capacity was further reduced between the 1970s and 1990s. Although in the 2000s some countries made some efforts in order to reinforce the state’s position, this political shift did not mean a higher level of institutionalization but the existence of more powerful governments. The change was limited, but it gave some countries more room for manueuvre when facing critical decisions. The difference can be found not in the institutional capacity but in the political strength of each country vis à vis their northern counterparts. During the crisis, those countries with more powerful states were able to use wider instruments of political economy than weaker states. Nevertheless, lack of state capacity is still a common feature that characterizes the whole region.

Orientation of public policies: Different conceptions on the orientation of public policies led to different responses to the crisis. Although there is wide agreement at the macroeconomic level (fiscal balance, surplus, savings, etc.)
differences emerged in the way governments define whether the state should intervene in the economy or not. In countries like Brazil and Argentina, state intervention was the core of the government agenda. In spite of the lack of state capacity and the weakness of political institutions, those governments defined instruments of political economy in order to regulate the markets and behaviours of the economic actors. During the crisis, some forms of state intervention were adopted in practically the whole region while some countries (Mexico, and to a lesser extent, Costa Rica and Peru) decided to follow more orthodox paths. Basically, those countries that decided to follow more interventionist strategies defined more dynamic responses to the crisis, expressed, among other indicators, in the levels of public spending.

The types of strategies followed by these countries are part of an ongoing process of debate on the orthodox alternative and its consequences during the 1990s. As part of this debate, some countries like Argentina, Brazil and Venezuela led a shift in the region towards more Keynesian policies, while others like Mexico, Chile and Peru stayed closer to the orthodox view. The case of Mexico is interesting, because here the orthodox conception was so strongly rooted that even when facing the worst stage of the crisis, government officials decided to stay on this course without introducing important modifications – as was done in Chile, where the state played a leading role by injecting money from its reserves into the economy.

In terms of policies then, the region also shows great variety. There are at least three groups of countries: those that are critical of liberal orthodox policies and have moved towards a new type of Keynesianism; those that are ‘orthodoxically’ orthodox; and those that have applied a more flexible orthodox view on the economy.

**The Crisis in the Latin American Countries**

Taking both the economic and political variables into consideration, it is possible to say that Latin America shows at least two very different realities that explain the different levels of performance existing in the region. Then, Latin American countries can be grouped as follows:

a) *Those that belong to South America:* They have relatively diversified economies, numerous and relatively developed internal markets, and an export position that has improved in the last decade. Although they are still exporting mainly commodities, the destination of their sales has been diversified, reducing their dependency on the economy of the United States. Some of them have oriented their policies towards a stronger position of the state compared to the previous decade and, in most cases, they have reached a high level of political stability,
b) *A set of smaller countries, most of them located in Central America and the Caribbean.* With some exceptions (like Costa Rica) the production is not diversified and neither are their markets: they have the United States practically as the only destination of their exports. Also, they do not produce the type of primary goods (energy, mining and food) that have shown a greater increase in prices during the last decade. Finally, the fact that a high percentage of families in these countries live on remittances increases their dependence on the United States. In these countries, the states generally have lower capacity of intervention and have not developed regulatory policies.

c) *Mexico is a hybrid case.* It is, on the one hand, one of the biggest economies of Latin America. It has a highly diversified basket of export products and is a big producer of oil, one of the goods that explain the growth of the region in the last ten years. However, at the same time, Mexico’s exports are concentrated in the US and hence it shares the same vulnerabilities as the much smaller economies of the Central America and Caribbean sub-region.

To make this distinction is important as the crisis was much more severe in the second set of countries (plus Mexico) than in the first. This was not only because of the size of their economies but also due to a set of locally defined variables: the type of state and the type of intervention, the availability of regulatory policies and the responses of local actors. Differences among countries help to explain the extent to which the ‘global’ scope of the crisis is not equal under any circumstances, but dependent on a set of critical local characteristics of each nation.

In fact, the more severe effects of the crisis were evident in the countries closer to the US. The effects were deeper in the second semester of 2008 and the first of 2009, producing a drastic reduction in GDP. The cut in exports to the US, the impact of declining tourism, and the reduction in remittances were among the main causes of the fall. In countries like El Salvador, Honduras and Guatemala, the level of activity was sustained during this period through public expenditure, though state intervention was confined to injecting money into the market in order to maintain the level of consumption.

Most countries were hit by the crisis in 2009 and then showed some degree of recovery in the next years. However, the impact of the crisis and the rhythm of the recovery vary among them.
Considering the sub-regions defined above, the South American countries were the least affected during the period. In average, they grew 4.9 per cent annually between 2007 and 2011. Although in some cases (like Brazil, Paraguay, Colombia and Uruguay) they did not return to the rhythm of growth previous to the crisis, by 2010 these economies were again growing. Within this sub-region Venezuela is an outlier, with a worse performance than its neighbours: between 2007 and 2011 it grew 13.5 per cent or 2.7 per cent annually.

Table 2.2: GDP Year-to-Year Variation (2007-11)

<table>
<thead>
<tr>
<th>Central America</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>El Salvador</td>
<td>3.8</td>
<td>1.3</td>
<td>−3.1</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>5.0</td>
<td>2.9</td>
<td>−1.4</td>
<td>3.1</td>
<td>5.1</td>
</tr>
<tr>
<td>Honduras</td>
<td>6.2</td>
<td>4.2</td>
<td>−2.1</td>
<td>2.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Guatemala</td>
<td>6.3</td>
<td>3.3</td>
<td>0.5</td>
<td>2.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Panama</td>
<td>12.1</td>
<td>10.1</td>
<td>3.9</td>
<td>7.5</td>
<td>10.8</td>
</tr>
</tbody>
</table>
According to their economic performance, the second group is the one of the Central American countries. This sub-region grew 3.8 per cent annually during the period. In general, the sub-region was more affected by the crisis in 2009 than the previous group of countries. Similarly to them, however, all returned to growth by 2010, although the rhythm was much more modest. Within this group there is also an outlier: Panama. During the same period, this country grew at an average rate of 8.9 per cent more than doubling the sub-region’s mean. Without Panama, the sub-region just grew 2.6 per cent on average per year.

Table 2.3: GDP Year-to-Year Variation (2007-11)

<table>
<thead>
<tr>
<th>Mexico</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.4</td>
<td>1.2</td>
<td>−6.0</td>
<td>5.6</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Source: Cepalstat

The third case is the one of Mexico that shows poor performance during the period: it only grew 1.6 per cent on average every year. Mexico shows one of the most drastic drops in terms of GDP during 2009 (only surpassed by Bahamas, a very small economy compared with the Mexican, one of the biggest in Latin America). Mexico was severely affected also in 2008, a year that showed practically no negative effects within the southern countries.

Table 2.4: GDP Year-to-Year Variation (2007-11)

<table>
<thead>
<tr>
<th>The Caribbean</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>96</td>
<td>0.0</td>
<td>−11.9</td>
<td>−7.9</td>
<td>−5.0</td>
</tr>
<tr>
<td>Bahamas</td>
<td>1.4</td>
<td>−2.3</td>
<td>−4.9</td>
<td>0.2</td>
<td>1.6</td>
</tr>
<tr>
<td>Barbados</td>
<td>1.7</td>
<td>0.1</td>
<td>−3.7</td>
<td>0.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Belize</td>
<td>1.3</td>
<td>3.6</td>
<td>0.0</td>
<td>2.7</td>
<td>2.3</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>8.5</td>
<td>5.3</td>
<td>3.5</td>
<td>7.8</td>
<td>4.5</td>
</tr>
<tr>
<td>Haiti</td>
<td>3.3</td>
<td>0.8</td>
<td>2.9</td>
<td>−5.4</td>
<td>5.6</td>
</tr>
<tr>
<td>Cuba</td>
<td>7.3</td>
<td>4.1</td>
<td>1.4</td>
<td>2.4</td>
<td>2.7</td>
</tr>
<tr>
<td>Jamaica</td>
<td>1.4</td>
<td>−0.8</td>
<td>−3.5</td>
<td>−1.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>4.6</td>
<td>2.3</td>
<td>−3.0</td>
<td>0.0</td>
<td>−1.4</td>
</tr>
</tbody>
</table>

Source: Cepalstat
Finally, the sub-region with the worst economic performance was the Caribbean. Taken as whole, the region grew only 0.9 per cent per year. Within the sub-region, the negative effects of the crisis emerged as early as 2008 and continued to affect some countries like Jamaica, Antigua or Haiti until 2010. Even by 2011, countries like Antigua and Trinidad and Tobago were still decreasing without signs of recovering. The outlier of this sub-region is the Dominican Republic, with a much better performance than the average of the region. It grew, between 2007 and 2011 at an average rate of 4.5 per cent. Without considering the Dominican Republic the average rate of growth of the sub-region is practically inexistent: 0.3 per cent annually.

Besides the macro effects of the crisis, the situation was perceived very differently in each region. In the case of the Caribbean and Central America, the increase in the unemployment rates heightened the sense of instability and uncertainty. This was fuelled by the problems originating in the US economy. Negative expectations then impacted on consumption strategies, thus affecting domestic demand and deepening further the effects of the external shock.

Within the South American countries, the situation was different. In fact, thanks to the previous performance of these countries and to the continuity in the high prices of commodities, the crisis was, at least between 2007 and 2008 imperceptible for the population. During this period, most governments injected money into the economy in order to keep consumption going. Infrastructure investment (like in the case of Bolívia) and consumption credits (like in Argentina and Chile) kept the domestic economies dynamic.

One consequence of these policies was inflation. Inflation emerged as an important problem for Argentina and Venezuela, where the rates are between 25 and 30 per cent. In other countries inflation is also an issue, but less worrisome: in Uruguay and Paraguay the inflation rate is between 6 and 10 per cent. At the other extreme, the rest of Latin American, Central American and the Caribbean sub-regions show very low inflation rates – below 5 per cent. Another problem, fuelled by the crisis was the high level of households debt, like in Chile (where 6 million people are not able to repay their debts) and Argentina (where credit for consumption has being one of the main means to acquire products).

The Answers to the Crisis

The answers to the crisis were different in the Latin American countries regarding two dimensions: state capacity and the political orientation of economic policies. Some countries showed greater levels of state intervention and regulation than others. Also, the option adopted in each case had more to do with the political orientation of the governments than to the structural characteristics of the countries. State intervention was the option chosen by Argentina and Brazil, but also by El Salvador and Costa Rica. On the other
hand, other ‘big’ countries like Mexico opted for more orthodox solutions while traditional liberal ones like Chile gave to the state a more active role.

Most countries kept the same level of public expenditure or even increased it. The overall trend all over Latin America between 2007 and 2009 was the use of the public expenditure as a means to counterbalance the effects of the external situation. With a few exceptions counter-cyclical measures were undertaken, even in cases like Chile and Peru. As León-Manríquez (2013) argues, Mexico was an exception as it remained in its orthodox position even in the middle of the crisis. Interestingly, in most countries (with the exception of Venezuela and Argentina) there was also, and simultaneously, a wide acceptance of some of the more important predicaments of orthodox economics: fiscal balance and inflation control.

Political orientation and state capacity worked together to define the type of state intervention. In most countries it was assumed that the state needed to be a tool to minimize the effects of the crisis and/or to restore the economic balance. However, success on such intervention depended on the capacity of the state to make the intervention effective. As state capacities in the region had been weakened during the 1980s and 1990s, in many countries the institutional instruments for intervention were not available or were not as efficient as was needed. Then, there was not only a problem of political decision-making but also of counting on the adequate instruments to produce positive intervention. In other words: one of the lessons of the crisis is that if state intervention is needed to face global crises and external shocks, the countries from the region need to reinforce state institutions and tools in order to be able to intervene appropriately.

**Figure 2.2:** Total Public Expenditure Year-to-Year Variations

![Figure 2.2: Total Public Expenditure Year-to-Year Variations](source: Cepalstat)
The diverse spectrum of situations identified in the Latin American region shows diverging degrees of vulnerability under different conditions. This opens a set of questions regarding the policies applied in the years previous to the crisis as well as during and after 2007 and 2008. It also opens a set of questions regarding the room some nations have in order to create adequate responses to external threats. In economic terms, the type of goods produced and the diversification of the export markets seem to be the key. In political terms, the development of stronger state capacities and the type of political decisions are also critical. Political responses have to do not only with internal strategies, but also with coordination among countries. The collaboration between the South economies emerged in this context as one of the best answers for a crisis originated in the North, showing that the South-South relations are not only important politically but also in terms of economic perspectives.

The current situation of the global economy indicates that this collaboration will be even more important in the near future. By 2012, and after five trimesters without economic growth, the crisis is deepening in the Eurozone (Cepal 2008). At the same time, the Eurozone crisis is affecting the economies of the US and China. In this context, world trade is de-accelerating: according to the WTO, global volume will grow at a rate of 3.7 per cent, compared to the 5.1 per cent of the last decade. Together with the crisis of the Eurozone, in 2012 the US showed a very low growth rate and high levels of vulnerability.

In this context, it is expected that for the next decade the global economy will have two speeds: the emergent economies will duplicate the expansion of the industrialized ones. The UN projects a low rate of growth (2.5 per cent) for the North between 2013 and 2020. For the South, the UN projects a rate of 5.6 per cent, and the IMF and the OECD are even more optimistic. Then, South-South trade will be more dynamic than the North-North trade. This is to be explained, to a great extent, by the continuity of the primary goods cycle influenced by the demand from China and the other emergent economies (Cepal 2008).

This process, finally, leads to debate on the meaning of globalization and its effects on the Global South. In the first place, questions concern both the scope of the homogenizing effects of globalization and the diverging effects in the South of a process originated in the North. The crisis was not equally ‘global’ for all nations and its effects were asymmetrical in different regions and countries – in fact, some countries practically did not experience deleterious effects stemming form the crisis. It is time now to return to the definition of globalization and discuss its implications for South-South relations.
Crisis and Globalization

In Latin America, the effects of the financial crisis were not homogeneous. The crisis, in fact, arrived in each country via very different paths, depending on a set of economic and political variables. This diversity on how the crisis reached each country opens the room for a debate on the meaning and scope of the processes of globalization: to what extent are global processes actually global? What are its limits? How do the processes of homogenization work? How do the mechanisms of re-localization work?

These questions can be set within the debates on the way global processes spread throughout the world. As part of this debate, some authors have analyzed globalization, stressing convergence (meaning: homogeneity) over the differences (heterogeneity). These authors usually look at the increasing similarities among national societies (Strange 1996; Dicken 1998; Slaugther 2000; Geschiere and Nyamnjoh 2001). According to this view, globalization is an isomorphic process that affects institutions, behaviours and organizations that become more and more similar (Di Maggio and Powell 1991; Schofer, Ramirez and Meyer 2000).

From this viewpoint, both political and economic dynamics need to be understood by looking at their global scope. For this reason, they call for an epistemological turn in social sciences, as its objects of research should not be the nations taken in isolation but the world as a whole (Wallerstein 1979; Robertson 2000; Beck 2004). According to them, both the economics and the culture of the global scene should be analysed as being connected to the general structural and action features of the global system.

Although not always on an explicit basis, these views usually share the assumption that globalization is mainly about North-North or North-South relations. For those who analyse these global processes as the extension and reproduction of a system of domination (Hardt and Negri 2009; Wallerstein 1979), the peripheral societies are the receptors of patterns generated in the North and spread to the South. The perspective that focuses on the mechanisms of isomorphism goes in the same direction: each type of isomorphism (normative, mimetic and coactive) implies a kind of power relationship and the extension of some legitimized models from some countries to others. This view has impregnated most political and economic analysis produced from Latin America, where globalization is usually seen as synonymous with neoliberalization.

Economic globalization, stability and the peace of millions of people depend on the United States. It is the US that has promoted and supported the neoliberal ideas that serve its particular interests and privileges. Dressing up its ideology as science, neoliberalism pretended to discover how to solve
the evils of capitalism. Globalization is at the service of the big multinationals because it allows them to increase their gains (Isaza 2004).

This critical view on globalization is by no means false. It shows the logic of international power and domination of states and corporations. However, it is a simplistic view because it only pays attention at one side of a much more complex process of globalization, meaning the whole set of macro and micro dynamics implied as well as the active role of the ‘subordinate’ countries in this process. What these visions criticize is the notion of globalization promoted by multilateral organizations such as the IMF, the World Bank and the World Trade Organization. In these views, globalization is in fact equated to economic globalization and to the spread and imposition of liberalizing policies.

In the case of South-South trade, a clear expansionist tendency can be observed, although the regional scope is limited. It is evident that South-South trade encloses a potential dynamism that can make the highest benefits more efficiently with new liberalization policies. This conclusion should neither detour our focus from the need to adopt new policies in order to liberalize North-South trade, nor should we underestimate the importance of creating the appropriate normative environment that would facilitate this trade. Commercial regional agreements have multiplied in the last ten years. The consequences of these agreements may be both positive and negative. The consequences are positive when the agreements contribute to narrowing the relations among regions, when new opportunities for trade are created, and when they imply that more countries are able to access to these markets. The consequences are negative when the agreements discriminate excessively against third parties and frustrate the achievement of multilateral goals. Governments should compose themselves in order to firmly promote the multilateral goals and ensure that those agreements will serve to support the WTO system and not to compete with it (WTO 2003).

The view on globalization supported by the WTO leaves no doubts: globalization should be a patterned process in which all countries must adopt the same type of trade agreements. Those governments that sign their own agreements with particular partners going against the free-trade logic are seen as promoters of discrimination. As well as providing the most critical perspectives on globalization, this view understands the global processes as a one-way track from the North to the South that results in the acceptance by the later of the rules defined by the former.

But this view is not monolithic among the theorists of globalization. Robertson (1995, 2000), for instance, argues that globalization is best understood as indicating the problem of the form in terms of which the world becomes united, but by no means integrated in naïve functionalist mode. Other authors have shown, in the same line, that globalization does
not necessary mean convergence or, that a globalized world does not mean a homogeneous world (Guillén 2001; Fourcade-Gourinchas 2001; Fourcade-Gourinchas and Babb 2002; Dezalay and Garth 2002). Some of them have stressed that globalization implies both, and simultaneously, homogenization and heterogenization (Mann 1997; Helvacioglu 2000; Ortiz 2004).

To this extent, Ortiz (2004) argues that the features commonly associated with globalization do not imply complete homogeneity. In fact, he adds, when looking at its effects on the different domains of modern life, pattern should be distinguished from standard. He suggests that every society has a given pattern of social organization; this pattern, however, does not necessary mean that every unit of that society would be standardized. The same principle works for societies in the process of globalization. For Ortiz, there is no conceptual opposition between the common and the diverse.

From looking at the effects of the financial crisis in Latin America, it seems evident that global processes do not reproduce identically in each society. Rather than this, the way they reach each country should be explained, taking into account mechanisms of re-localization shaped by the characteristics of each locality and the decisions made by local governments and economic actors. Re-localization implies that global trends are re-defined and reintroduced by the *structurant structures* of each society (Ortiz 2004).

When looking at globalization from a South-South perspective, the idea of re-localization goes beyond the notion of ‘resistance’. It implies a more dynamic and active position of the Global South. It implies a much more complex approach to globalization, assuming that global processes are at the end produced both at the centre and the periphery. Globalization, then, is not only a process of domination but also a process of creation that opens new room for thinking the political dynamics of the South. Globalization, as a general process of increasing the inter-links among societies is a tool that may facilitate the integration of the Global South.

While the scope and power of multinationals appear to have grown significantly, neither they, nor individual national governments, have all the control over macro-economic forces that they would like. Globalization also brings the possibility of more fluid and durable exchanges among countries from the South and facilitates the dialogues among cultures. It also opens the chance for diversifying the export markets for peripheral economies. And it opens the possibility for some economic actors to develop based on a global strategy even without great investment in economic capital – like in the case of the creative industries.
Policy Implications

According to the experience of the countries of Latin America during the crisis two types of implications may be identified.

Externally, it is clear that the countries from the South need to diversify the destination of their exports. Having a unique partner increases the level of vulnerability and links the capacity to recovery to the performance of that partner. Also, as the emerging economies are growing – and they are expected to grow at a faster rate than the industrialized ones – the focus should be on this area for the next decade. This includes, of course, China and India, but efforts may be made in enforcing South-South trade also with other regions and countries. The internal agenda of innovation and competitiveness should have the goal of increasing the link with these regions.

Internally, as state intervention seems to be an important instrument for dealing with the crisis, the countries from the South need to reinforce state instruments and tools in order to be able to produce more effective interventions. In Latin America, as well as in other regions from the South, there is a lack of state capacity that limits the ability to intervene in contexts of crisis.

Even more important than this, there is a need for an epistemological review in the way South governments define their position in relation with the North. The 2007-09 crisis opened an opportunity to redefine the symbolic relations between the South and the North. If there is a causal link, as Stiglitz suggests, between globalization and bad policymaking, there is now a chance to redefine the rules that govern globalization. These rules should be designed so as to guarantee social justice, while considering the needs of different countries and regions in the world.

Conclusion

The characteristics assumed by the financial crisis of 2007-08 in Latin America led to two conclusions: a) the effects of the global crisis were highly heterogeneous; b) the crisis was less deep in Latin America than other crises of the past. These conclusions led also to a set of questions regarding the scope of the crisis and the meaning of globalization for the Global South.

In the first place, it questions to what extent, in comparison to the region’s history, this crisis was actually a crisis for the Latin American countries. Although there were some negative effects, they were apparently less severe than those that had been brought about by other crises in the past. Most countries were able to recover in the short term. The crisis that emerged in the North and then spread to the South seems to have had less severe
consequences than previous crises. In the second place, it questions to what extent the crisis should be considered global or, to be more precise, it must be considered as another crisis of the capitalist system originated in one region with negative effects in the others. What is the difference between this crisis and those that originated in Asia, Russia, Mexico or Brazil in the 1990s? Perhaps most important is that the crisis started in the North; besides that, there seems to be no difference with the other crises.

The third question regards the way in which the crisis spread from the North to the South. Its effects were not homogeneous, meaning that the crisis left some room open for autonomous responses. This connects directly with the isomorphism versus lack of convergence debate. The characteristics of the crisis in different countries showed that there is no unique way of spreading from the North to the South, opening space for debate about the meaning of globalization and possible answers to global challenges that might be conceptualized and thought about within the South.

As for the solutions, the experience of the crisis shows some lights and shadows. Among the lights, the existence of some room for diverse responses allows us to think about the need for and importance of greater autonomy and to re-conceptualize globalization not just as a North-South relationship, but also as having South-South and South-North implications. The crisis made clear that many countries from the South are still highly vulnerable to external crisis and that their institutional tools are not strong enough to provide successful answers to crises. This leads to the second limitation, which is the lack of coordination and solidarity among the South countries when confronting the crisis. In fact, most answers were just at the national levels; there were just a few answers coordinated at a regional level. In other words, if the potential for greater autonomy emerges as a positive conclusion from how the crisis affected each country, lack of coordination remains one of the main flaws of the region as a whole.

Notes

1. *Fuenteovejuna* is a play by the Spanish writer Lope de Vega. The play is based upon an actual historical incident that took place in the village of Fuenteovejuna, Spain, in 1476. A commander, Fernán Gómez de Guzmán, mistreated the villagers, who banded together and killed him. When a magistrate sent by the king arrived at the village to investigate who had killed the commander, the villagers responded only by saying ‘Fuenteovejuna did it.’

2. The crises of the 1990s have been called ‘crises of globalization’ due to its causes: 1) de-regulation of the bank system and its internationalization; 2) financial volatility producing an acceleration in the income and exit of financial investments; 3) the high risk of contagion; 4) its long term effects on the real economy. In terms of the
developing countries, the crisis came mostly from abroad via external shocks that rebounded in the domestic market. As León-Manríquez argues in this book for the cases of Mexico and South Korea, these shocks were transmitted through the external sectors and the financial market.

3. In the case of the other countries they not only produce high prices commodities, but they are also big players in the international markets. That is the case of Argentina and Brazil with soy and other grains, Chile with cooper, Mexico and Venezuela with oil, Peru with gold, etc. This gives them an additional privileged position in the global markets.

4. DiMaggio and Powell (1991) identify three mechanisms through which institutional isomorphic change occurs: 1) coercive isomorphism that stems from political influence and the problem of legitimacy; 2) mimetic isomorphism resulting from standard responses to uncertainty; 3) normative isomorphism, associated with professionalization.

References

Beltrán: The Financial Crisis, its Diverse Economic Effects and Responses


