Financial Dependency and Domestic Economic Policy Constraint in the New Millennium

(Provisional Draft)

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Introduction

Throughout the 1990s successive capital account crises hit several developing economies, regardless of their productive structure and export diversification. Their common root was the accumulation of short-term liabilities brought about by high financial openness. This evolution accentuated their financial dependency on capital inflows subordinating the economic domestic policy to international finance led by US and multilateral agencies as IMF. Neoliberalism and Washington Consensus policies were implemented as responses to capital account crisis.

In the first decade of the new century, still under the predominance of the US dollar and Wall Street, commodities prices soared and China became the most important powerhouse for manufacturing production and huge importer of natural resources. Capital outflows and FDI directed towards development countries strongly increased until the Global Crisis (GFC) of 2008-9 and although most of the developing countries have not implemented comprehensive developmental agenda, they did not suffer any disruptive external crisis achieving high growth pushed by exports, public and private consumption and investment. The main macroeconomics difference from the nineties was the accumulation of high levels of dollar denominated reserves, the adoption of a flexible exchange rate and the introduction of money market regulation of capital inflows. In the subregion of Latin America formed by South America Countries (SAC) a progressive economic policy agenda was adopted (a political movement dubbed “pink tide”) connecting this external cycle with distributive policies and higher national control of natural resources.

After 2010 the world economy entered in a different phase with higher geopolitical and geoeconomic dispute between US and China, lower rate of growth and fall in commodities prices. Under these new circumstances developing economies were mainly affected by lower demand and lower prices of their exports, affecting especially the oil and mining economies. FDI and other capital inflows were initially reduced but they expanded afterwards for most of SAC until Covid 19 pandemics. The common ‘boom-bust cycle’ of the last century did not appear. However even without a general Balance of Payment (BOP) crisis, this subregion had lower economic growth and this triggered in many countries a general revulsion from the previous economic policy regime and a rebirth of neoliberalism. This regional growth performance was mainly pulled down by Argentina, Brazil and Venezuela. In Argentina and Venezuela, the external financial channel was the main general explanatory factor.

In Brazil, no external constraints explain the economic slowdown and the deceleration of growth initiated in 2010 and particularly after the 2015 economic crisis was rooted on contractionary domestic economic policy. The others countries under regimes led by exports or by public spending financed by exports were affected not only by the general contraction of world imports but by the high contraction of the major countries in the region. The Brazilian contraction have deeply affected Argentinean exports and MERCOSUR. Thus, we find in South America a paradoxical situation: the deceleration of economic growth that occurred since 2010, greater than that observed in other developing countries, was not due to balance of payments crises and low productive diversification, but it was mainly caused by the contraction occurred in Brazil, the largest country in the region, which, without any external crisis, self-inflicted a strong deceleration in its growth rate by domestic reasons.

In order to explore this interpretation and the role played by external finance, the present article has more five sections. In *Financial Dependency and Economic Growth*, I argue that external finance in financial opened peripheral countries in Latin America and particularly in SAC has been mainly governed by push factors that have autonomous dimensions and are independent of the currency necessary to finance balance of payment (BOP). In the *Old Financial Cycles in Latin America* I briefly describe the 1920, 1970, and 1990 financial cycles and their connections with economic growth; in *Growth and Financial Cycle in SAC in the First Decade of New Century*, I discussed the great reduction in SAC financial dependency and the higher macroeconomic and policy space it created, in *The Balance of Payments Constraints and Economic Policy Constraints* I discuss the reversion occurred in macroeconomic regime in SAC and the role played by external financing and Brazilian trajectory. The last section concludes the paper.

Financial Dependency and Economic Growth

The relationship between external financing, exports and economic growth is a central theme in developmental and Keynesian narratives about growth national trajectories and for the contrasts between Asian and Latin American countries. Dooley et all (2003) referred to Asian economies as "trade account countries" and Latin American economies were referred to as "countries of capital accounts". A substantial part of this literature tends to attribute the greater dependence of Latin American economies on external financing on their trade specialization in commodities.

However, as argued in Medeiros (2008), external financing, and the high level of external indebtedness that has historically distinguished Latin American economies, has an autonomous dimension that is independent of the "foreign gap generated by the imbalance of foreign trade elasticities and the pace of growth[1]. In peripheral countries financial cycles were mainly triggered by push factors. This autonomy of financial flows – which is systematically manifested in developing country by overborrowing and increases in external liabilities (net of reserves) above the current account deficit – means that the volume and composition of capital inflows have two dimensions. On the supply side, financial innovations and changes in the international interest rate generates in financial opened countries waves of capital inflows changing the predominant perception of investors on the sovereign risk[2]. On the demand side, loans and capital inflows comes not only to finance deficits in current accounts. Given chronic exchange rate and prices volatility

[1] "The problem of the "foreign exchange gap" model is to assume that indebtedness is always economically needed, but as the economic history of Latin American countries abundantly shows, external indebtedness can be excessive and not explained by current account problems" Medeiros, 2008:81)

[2] As was observed by Gaidar and Braga (2019) on the evolution of several developing economies between 1999-2019, push factors connected to financial liquidity and the international rate of interest are the main determinant of the changes in their risk premium (like the Index created by JP Morgan Chase on returns of sovereign debt instruments of emerging countries in comparison with in yield of US Treasury securities of the same maturity). "Since the country-risk premium, in addition to the foreign interest rate and the expected devaluation of the exchange rate, define the floor for the domestic interest rate, its variation is central to understand the inflow/outflow of capital in developing economies" Gaidar, Braga 2019:8)

in developing financial opened economies most Governments avoid to issue debt in their own currency and companies and wealth holders have a high "preference for holding assets denominated in convertible currency". The combination of both movements, a loan push and an overborrowing, argued in Medeiros (2008), historically engendered a fragile growth trajectory repeatedly interrupted by external solvency crises (measured by the ratio of the rate of exports and the rate of interest on sovereign debt) [3] and liquidity crises (measured by the ratio-between the volume of short-term debt vis-à-vis the reserves)[4].

This financial vulnerability was present in the great debt cycles that occurred in the region in the 20th century, however, as will be discussed about the financial cycle in the current century, this vulnerability does not mean that developing country cannot have deficits in current account. External financing and capital inflows into an economy constrained by foreign exchange displaces the external constraint on GDP growth, raises its income level and, depending on its impact on the autonomous components of demand, may temporarily increase the growth rate; however, growth in the medium term tends to adjust to conditions that ensure external solvency, which essentially depend on the growth rate of exports and the elasticity of imports[5] A country can grow with a deficit in current transactions as long as the solvency conditions are assured[6]. This may happen when capital inflows allow imports of capital goods necessary for import substitution and higher exports or occurred simultaneously with a surge in exports. If the solvency ratio deteriorates, growth, as historically occurred in Latin America, tend to be systematically interrupted by exchange rate crises, that is, liquidity crises. This is historically triggered by external supply

[3] The original idea was developed by Domar (1950) who considered the solvency ratio as the rate of exports and the rate of interest prevailing on sovereign debt. For a discussion of debt sustainability see Abeles et all (2019:275).

[4] The discussion examined here essentially concerns external financing and financial dollarization in peripheral economies and does not address to the more general issues examined in the heterodox literature on financialization in contemporary capitalism, a topic in great expansion particularly after the 2007 crisis. For a critical examination of this literature see Medeiros, Amico (2019)

[5] "There is no necessary link between an over lending and a higher rate of investment and income growth autonomous process from the creditors' banks and from demanders of currency due to wealth motives can generate a speculative trajectory without any correspondence in the real world." (Medeiros, 2008:84).

[6] As observed by Amico, "If the capital flow is sustainable (basically that the export growth rate is greater than the return rate of the net external liabilities), the effect of the capital flow will be an effect on the output *level*, but the long-term growth rate will continue to be linked to the Thirlwall constraint, that is, the import growth rate may not diverge too much from the export growth rate. However, this level effect can be very important in the context of a *development strategy* that aims to diversify the productive structure and promote structural change within the framework of a growth process". Amico, 2020:19

factors but its extension depends on the composition of external liabilities and the exchange rate regime[7].

As argued by Serrano and Summa (2015); Frenkel and Rapetti (2012) and Amico (2017, 2019) in a floating managed exchange rate system the foreign exchange risks of capital inflows other than loans (contractual financial liabilities denominated in dollars) as in securities, portfolio investment, and foreign investment falls on foreign investors and devaluations reduces external transferences (and not increases as happens in external debt in a regime of fix exchange rate with capital inflows).

As will be argued in this text, precisely by this reason and by high levels of reserves achieved, the financial cycle that took place in most SACs in the new millennium did not bring (so far) particularly after the GFC (2008-9) a general BOP crisis as occurred in the 1920s and 1990s when exchange rate regimes were based on convertibility at fixed exchange rates, nor in the 1980s, when despite the floating exchange rate and various capital control mechanisms most of liabilities were formed by loans with interest rates post-fixed.

In contemporary developmental literature, the main effect of commodity booms or financial boom on the productive sector is attributed to a persistent appreciation of the real exchange rate bringing about a premature deindustrialization and primary specialization[8]. This perspective was developed having the evolution in SAC in the 1990s characterized by the great financial boom and by the evolution in the 2000s when a new boom on finance inflows and on commodities prices took place. From our point of view, although this negative effect associated with the real exchange rate appreciation may occur it depends on the economic activity, on the economic

[7] "The interactions of financial flows and exchange rate in peripheral countries depend on some institutional and structural dimensions. In a currency board regime with non-sterilized intervention. a surge in capital brings about (through credit expansion) a strong expansion on current account deficit and, depending on the effects on the wage rate, it causes an increase in no-tradable goods, generating an appreciation in RER. In other exchange regimes, the monetary policy can sterilize part of this monetary expansion through a higher rate of interest and expansion of reserves. It is important to consider that in both regimes, the appreciation of RER has a positive effect on economic growth through the increase of real wages and the reduction of the domestic cost of external debt, stimulating government and firms... But the surge in current account deficit is associated with this rate of exchange demands and a higher rate of interest and a speculative and Ponzi finance…This results in a higher demand for capital inflow to finance a surge in capital outflows. The exchange collapse is the likely outcome of this trajectory." (Medeiros, 2008:84)

[8] Particularly in "new developmentalism" led by Bresser Pereira (2016). For a recent analysis following this line see Feijo (2022)

policy adopted and on international competition (eliminating the positive effect it always has on real wage and on income level)[9], the main negative transmission mechanism from a deregulate financial account on the real economy is the subordination of domestic rate of interest (and fiscal policy) to changes in the dollar rate of interest and external liquidity. Under conditions of high volatility in capital flows and on sovereign risk (affected by external factors and by the liquidity ratio), efforts to maintain the stability of the nominal exchange rate are increasingly frustrated and, as a result, capital flight ends up overturning the exchange rate regime, causing large devaluations. Under this external circumstance real exchange rate strongly depreciate[10]. As sector and export diversification depends on the investment rate induced by expanding domestic and external markets, in a financial deregulated fragile economy short growth boom and bust cycles compromises industrial policies and public investments depressing the private propensity to invest. As argued in the next section this precisely happened in the 1990s, when under Washington Consensus Reforms state led industrialization was replaced by another strategy of accumulation based on trade and financial integration. During the commodity and financial boom in the first decade XXI no comprehensive industrial and developmental strategy were diffused in SAC but due to the accumulation of large reserves and the floating exchange rate system adopted in most countries no general liquidity occurred after the GFC (2008-9) as historically occurred in the past.

Considering the pattern of economic policy, financial dependence means the subordination of the internal economic cycle to the financial push factors generated by the behavior of the international economy, more precisely by the evolution of financial system and the monetary policy of the hegemonic country. In the dollar monetary

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[9] The main limits of this perspective are "First, the price elasticity of exports (and imports) is extremely low. The real exchange rate has no statistical significance on the quantities exported in nine South American economies (although they do on imports), and in particular, they have no effect on industrial branches based on engineering and high technological intensity …The impact of the real exchange rate on external trade is very limited, particularly in relation to exports. This reinforces the need for an industrial and technological policy that modifies the elasticity-income parameters of foreign trade, which implies the full validity of the Prebisch approach at this point. "See Amico, 2020:14. For a critical analysis of this perspective see Medeiros (2020)

[10] "As Patnaik (2002) affirmed, the intrinsic fragility of third-world currencies as a safe means of holding wealth is always confirmed by the final direction of capital account movements. According to Patnaik, in a financially deregulated world, there is a chronic tendency for capital to move away from these currencies, and therefore, there is a tendency for the domestic currency to depreciate. This tendency cannot consistently be eliminated by monetary policy" (Medeiros, 2008:84).

system, the rate of interests in a financial opened country is mainly determinate by the FED rate of interest and cannot be lower than this rate plus the country risk premium and the expected devaluation of the exchange rate (Serrano and Summa, 2015, Serrano and Kaio, 2017; Gaidar, Braga, 2019). Both are largely influenced by external factors. This dependence became deeper when the solvency ratio deteriorates and when BOP crises submitted economic policy to the conditions and prescriptions of creditors and asset holders[11]. Among these, the most important is the defense of fiscal austerity and the refusal to finance the public deficit in national currency. These policies are deep-rooted on orthodox macroeconomics, which considers that both the external imbalance and inflation essentially result from the expansion of public spending. To the extent that national currency loses its sovereignty, the national decision-making centers (as put by Furtado, (1982) move from national Government to creditor countries and to holders of dollarized assets.

Old Financial Cycles in Latin America

The 'outward-oriented development model' (Prebisch, 1949), which was established in the Latin American continent (and specifically in SAC) from the second half of the 19th century until the great crisis of 1929, was from the very beginning a 'financial-export model' (Medeiros, 2008). The financial integration of the primary-exporting economies assumed an essential dimension, both for the configuration of the export complex and for the delimitation of economic policies. Unable to issue debt in their own currency, export-led economic growth was systematically interrupted by changes in international financial conditions.

In this 'growth model', based on free trade and price stability (anchored in the nominal exchange rate), the economic cycle was determined externally and the direction of economic policy was to guarantee the convertibility of fragile currencies through external loans and foreign investment. In this pattern of growth that took

[11] The importance of capital controls for reducing financial volatility and for stabilizing exchange rates is widely pointed out in the post-Keynesian literature and evidenced in comparative studies of the trajectories followed in Asia and Latin America. However, as will be discussed throughout this text based on recent experience, regardless of the greater or lesser effectiveness of capital control mechanisms, the essential factor for reducing the volatility of capital flows is external liquidity and the exchange rate regime.

place in the 1920s (as well as in the 1970s and afterwards), the supply of loans and capital was mainly motivated by autonomous decisions generated by financial markets and the demand was derived not only to finance current account deficits generated by productive asymmetry and the technological gap, but also by the preference for liquidity on convertible currency for private speculative decisions induced by the level of interest rate set bellow the floor for the domestic rate (formed by the international interest rate plus the country-risk premium and expectation of nominal devaluation in exchange rate) and the restrictions on internal financing by governments (Medeiros, 2008, Amico, 2020). Thus, the availability of external financing often resulted in an excess of public and private indebtedness. Prebisch (1939, 1949) had observed about the 1920´s economic cycle in Argentina that only industrialization could reduce the volatility of growth and its financial dependence, but as will be observed in this paper, liquid crisis triggered by financial channel has wider autonomy from productive structure, industrialization is necessary to improve the external solvency but it is not a sufficient condition to avoid systematic currency crisis.

This 'financial-export model' was substantially altered between 1930-1970 when industrialization induced by import substitution- asserted itself in most economies in the region, particularly the larger ones, amid severe foreign exchange shortages and international financial marginalization. Currency sovereignty included both mechanisms of control of financial flows and developmental policies as the allocation of currency for industrial policies, high tariffs and devalued real exchange rates. This state-led growth articulated several national and international economic interests and favored the expansion of the internal and external market (particularly in Brazil). This strategy did not happen in oil rich Venezuela, where the absence of a developmental State did not stimulate the development of industrial and modern agriculture; in other countries, particularly in the largest economies, such as Argentina, Brazil, there was substantial productive and export (manufacture) diversification.

The scarcity of foreign exchange made the internal economic cycle in heterogeneous economies highly conflictive, opposing workers and industrialists on the one hand and exporters of natural resources on the other. As highlighted by O'Donnell (1977), in Argentina the growth regime favoring both national industry and workers was systematically interrupted by inflation triggered by distributive conflicts and BOP crises, giving rise to an economic policy (devaluation and fiscal contraction) favorable to the agricultural-export sectors and internationalized groups[12]. This policy, however, led cyclically to a severe recession, becoming unsustainable. In Brazil, the 1964 military coup squeezed politically the labor power, nominal wages were controlled and real wage declined. In Argentina this 'pendulum' was only partially suspended by the 1976 military coup, which brought down the real wages and industrial employment.

In the 1970s, the explosion in oil prices, the fall in international interest rates, and changes in US legislation on 'sovereign immunity' led to a strong expansion of loans from international banks to peripheral countries and in particular to Latin America. This process generated an overborrowing process. In Brazil this external circumstance occurred in a context of a developmental strategy including capital controls and a floating exchange rate regime. These flows helped the development of heavy-industries and export diversification. However, most of the countries in Latin America, particularly in South America use this abundance of currency simply to finance higher imports and growth without structural change.

This 'growth-cum-debt' trajectory was interrupted in Latin America when the FED increased interest rates in 1979 and by the interruption of financial flows occurred after the Mexican moratorium in 1982. This caused a sudden drop in solvency ratio prevailing in the region independent of the different national path followed in the region. Again, a severe shortage of foreign exchange generated a liquidity crisis and interrupted the accumulation strategy previously followed in the region. The high external sovereign debt vis-à-vis the level of reserves accompanied by massive devaluations pushed by external transfers (official and unregistered capital flight) triggered high inflation pushed by distributive conflict. This evolution shifted the 'national control of decision-making centers' (Furtado, 1982) to the USA and bodies such as the IMF, reinforcing the financial dependence.

In the 1990s, after the negotiations on the external debt under the Brady Plan, a new financial cycle of indebtedness and an increase in the short-term capital inflows emerged. In Latin America a pure financial cycle took place as commodity prices and

[12] For a recent discussion see Alvarez, 2020

terms of trade were unfavorable to exporters of primary goods. This was the basis for price stabilization based on fixed nominal exchange rate in the region in a context of more general reforms encapsulated in the Washington Consensus[13]. These transformations sought the implementation of a neoliberal or “integrationist” accumulation strategy (Amsden, 2007), based on greater commercial and financial integration with the central economies, in particular with the USA. This strategy replaced the previous state-led-growth strategy followed in many countries. It major attended the interests of banks, multinational companies and the owners of dollarized assets[14]. The increase in the nominal interest rate in order to pull continuous financial flows to sustain fix nominal exchange rate, together with successive rounds of privatization, generated short cycles of growth marked by appreciation of the real exchange rate and followed by large devaluations, preceded by massive capital flight.

The volatility of financial flows and the fragility of the balance of payments, expressed in the high weight of short-term liabilities in relation to reserves (and the consequent threat of capital flight), made the economic policy based on defending the stability of the nominal exchange rate fully subordinated to capital inflows and IMF prescriptions. This economic policy regime increased the financial dependency in most countries and resulted in a low investment ratio and deindustrialization.[15] Several productive segments were dismantled (particularly those dependent on public purchases). The abundance of capital flows and, at the same time, a low sovereignty of

[13] “The return of international financing, largely due to credits from international financial institutions related to the process of privatization and trade liberalization, allowed the establishment of fixed nominal exchange rates, which function as nominal anchors to control inflation. Large inflows of capital are directed at peripheral countries, but the rapid accumulation of external liabilities and the low growth of export value will eventually lead to even greater external and financial crises.” Amico, 2017:18)

[14] The stabilization policy based on the nominal exchange rate affected economic sectors unevenly. Indeed, while national companies exposed to international competition demand a depreciated real exchange rate (as prevailed in the period of industrialization by import substitution), highly integrated actors in international trade, investment and finance want to a stable (preferably fixed) nominal exchange rate (Frieden, 2015). This preference is also that of companies and national states indebted in dollars

[15] New developmentalism considers the appreciation of real exchange rate the main culprit for this evolution, but as matter of fact, “trade liberalization was not carried out solely through a price channel. The protection consisted of high tariffs, *para-tariff* barriers and also the *prohibition* of importing a very wide range of goods. But, above all, changes in the use of public procurement were fundamental” (Amico 2017: 250).

national currency and autonomy of domestic economic policy brought back LAC closer to the characteristics of the primary-export model of the 1920s.

Growth and Financial Cycle in SAC in the First Decade of the New Century

In the early 2000s, the risk of sovereign debt, capital flight and the collapse of the exchange rate constituted the main obstacle to the resumption of South America´s economic growth. Unemployment and social conflict became acute, particularly in Argentina. The election of Hugo Chaves in Venezuela in 1998 inaugurated a new direction in national strategies in the region favoring social inclusion, popularly referred to as the 'pink tide', but this new direction only asserted itself in Venezuela and in other SAC after the changes that had taken place in international trade and financial conditions. The great turning point was the increase in external liquidity and increase of demand and commodity prices[16] pushed respectively by US monetary policies[17] and by the huge demand of China for commodities. After the collapse of exchange rate occurred in SAC in the last years of 1990s and in the beginning of 2000s, the new conditions allowed significant appreciation of exchange rate and increases in real wage.

In Brazil, aiming to appease the tempers and speculation of international investors, Luís Ignacio Lula da Silva of the PT published on the eve of his election in 2002 a 'Letter to Brazilians' (dubbed the 'letter to please the bankers', Campello, 2015), announcing the maintenance of the tripod macroeconomic regime (inflation target, primary surplus, floating exchange rate). The following year, the Peronist Nestor Kirchner came to power in Argentina after a strong political movement and a moratorium on foreign debt. In both economies, governments elected by coalitions of left-wing parties took different economic measures. In Brazil despite the maintenance of the macroeconomic tripod, fiscal constraints were relaxed after 2006 and Argentina, with greater degrees of freedom resulting from the moratorium and popular support,

[16] As discussed by. Annina Kaltenbrunner Juan Pablo Painceira (2019: p45) the gross capital flows directed to emergent economies based on data of Finance International Institute quintupled from 2000 to 2014 and international reserves grew around 15% annually in these economies

[17] In their analysis on the evolution of EMBI+ for several developing countries Gaidar and Braga observed that “the trajectories of the country risk premium curves have in common a sharp decline after 2004 and to rise in the years of the subprime financial crisis. The matrix of simple correlations among the country risk series reinforces the suspicion that there are common generating factors in these series.” (Gaidar, Braga 2019:13)

launched a set of economic policies, aiming to obtain a higher growth rate and protect the national industry. In both countries, the following years were characterized by a significant resumption of growth and economic policies that included new economic and social priorities.

In both countries, the liquidity ratio and consequently the sovereign debt risk premium dropped substantially. In the case of Argentina, the default on external debt in 2002 and subsequent debt restructuring reduced financial transfers. This wave of financial capital and change in the international context enabled a new political and economic strategy followed by most of South America countries. Different from what occurred in 1990s when the wave of capital inflows was connected with neoliberal reforms in the first decade of Millennium this external liquidity and high demand for commodities allowed very different policies under progressive governments[18]. This included a higher trade and investment integration through MERCOSUR.

As discussed in Freitas, Serrano and Medeiros (2015) this better situation occurred for most developing countries generating a decoupling process between the rate of growth of developed and developing countries. Developing countries and rising regional big countries such as China, Russia and Brazil have formed new platforms and trade and investment arrangements such as the BRICS bloc, introducing not only a new institutional framework, but also a new geography of international trade in which the US and the EU lost the position they previously held as final consumers and drivers of growth for peripheral economies. Even though the US preserved the dominant financial hub through the dollar, China has become the first foreign market for a dozen commodity-exporting countries and evolved from a marginal investor to a prominent investor, particularly in the oil, gas and minerals sectors.

The reduction of external financial dependency occurred through a boost in exports and substantial accumulation of reserves.[19]A greater autonomy vis-à-vis the

[18] Such as Tabaré Vásquez in Uruguay (2004), Evo Morales in Bolivia (2005), Rafael Correa in Ecuador (2006) and Fernando Lugo in Paraguay (2008). The reelection of Chávez in 2000 and later in 2006, Lula in 2006, the election of Cristina Kirchner in 2007 and Dilma Rousseff in 2010

[19] In LAC " las reservas de divisas en Chile, Colombia y México aumentaron de 16.000 millones, 13.000 millones y 64.000 millones de dólares a 40.000 millones, 47.000 millones y 196.000 millones de dólares, respectivamente, entre fines de 2004 y 2014 (FMI, 2016). .el incremento de las reservas de divisas en el

IMF was the common denominator of these experiences, which, moreover, had wide internal differences, according to the different economic structures and political coalitions. A most important policy was the abandonment of a fix nominal exchange rate regime for a floating managed regime[20] The strategy of growth, which began to take hold in the region was based on commodity exports, investments, especially those induced by these exports, government spending (especially in mining economies with public revenues linked to the export sector) and household consumption, resulting from the growth of wages and government monetary transfers to the poors. The appreciation of real exchange rate was functional for an increase in real wage and in the wage share without trigger the inflation rate and distributive conflict (Serrano, Summa, 2012)

This new direction of economic policy and particularly in Brazil, this higher financial sovereignty, was not accompanied by comprehensive industrial policies necessary to reduce the technological gap, the high levels of "structural heterogeneity" and to induce export diversification. Some initiatives were introduced and, above all, a new regionalization was sought to induce greater regional articulation and expansion (as in Mercosur and Unasur). It substantially enlarged the market for manufacture exports and initiated a trade integration in regional value chain particularly important for Argentina and Brazil. In both countries, the rate of investments between 2003 and 2010 was much higher than the rate of the previous decade, but the productive structure that was established in this decade was similar to the one that existed in the 1990s. This new growth cycle in both Argentina and Brazil, did not reverted the "regressive specialization" (Hiratuka; Sarti, 2015) mainly occurred in the 1990s with the loss of important links in the production chain, resulting in a high propensity to import (Abeles; Cherkasky 2020).

Brasil, que aumentaron de 50.000 millones de dólares en 2004 a 364.000 millones de dólares en 2014." Kaltenbrunner, Painceira (2019p49)

[20]"Among the most important changes in macroeconomic policies is the almost generalized adoption of heavily managed *flexible* exchange rate regimes, which prevents speculative attacks and avoids the possibility of currency crises. In particular, the floating (managed) exchange rate allows avoiding large devaluations." (Amico 2017:20)

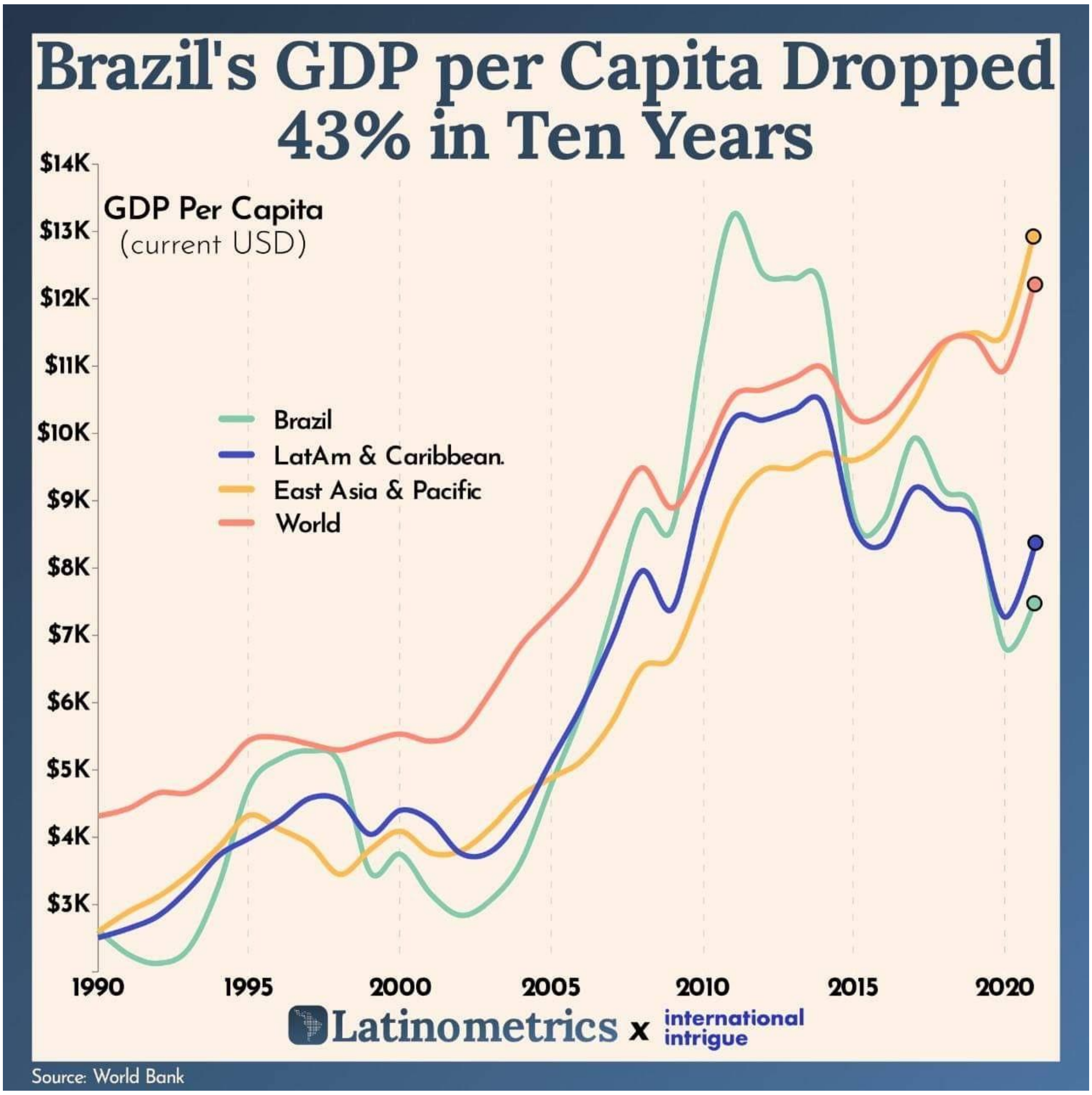
The Lost New Decade in SAC: Balance of Payments Constraints and Economic Policy Constraints

GFC (2008-9) interrupted the previous expansive cycle. Afterwards some changes occurred in the world economy with a strong impact on developing economies and, in particular, on the South American ones. The reduction of global economic growth, particularly the rate of growth of goods trade (ECLAC, 2020) was remarkable as well its shift to Asia, particularly to China, that became the world's manufacturing center and main regional "cyclical center". Trade and geopolitical dispute between China and US for external markets became much stronger. Although in the second decade of the millennium the price of commodities was lower than the levels of the first decade, they remained well above those that had been established in the 1990s. Along these years private borrowing and other capital inflows strongly increased pushed by the rate of interest and monetary policy (quantitative easing) established by the FED to recover the economy from the strong macroeconomic crisis[21].

The impact of these changes on the growth rate of developing economies was significant. The regional differentiation between Asia and Latin America (particularly SAC) was back again, in what could be called a "second division". But unlike the first occurred in the 1980s, this was not based on the depth of the external liquidity crisis nor in the different export orientation. Indeed, notwithstanding the deficit in current account that after 2010 became predominant within the subregion (after a period of substantial surplus in the first decade, ECLAC, 2020), there were no general balance-of-payment crises and although the rate of growth stepped down in most of the countries particularly in those led by exports this deacceleration was very differentiated among developing countries. South America as a whole had a much lower performance than developing economies in general, but this result was essentially determined by the evolution of three countries: Argentina, Brazil and Venezuela. The other countries had an evolution closer to the average. However politically, this evolution led to a

[21] As Caldentey (2019) observed the main impact in international liquidity did not appear on international credit but on the expansion of several financial assets through the portfolio rebalancing channel. The decline in risk premium stimulated spending through wealth effects

generalized distributive conflict and reversion of the progressive regimes (“pink tide”) in SAC.



Let´s examine this new financial cycle in SAC initiated after the great 2008 financial crisis and its main difference from the old cycles.

The fall in the terms of trade that occurred shortly after 2008, and the reduction in international demand changed the current account balance and a growing deficit was consolidated, financed (with the exception of Venezuela and Argentina) mainly by massive flows of FDI, private debt and short-term capital (ECLAC, 2020). As widely documented in Bortz (2019), Akyus (2015) and discussed in Serrano and Summa (2015), the expansion of external liabilities and current account deficit after GFC did not essentially compromise the indicators of both solvency and external liquidity obtained in the previous decade. In fact, in this new cycle, stimulated by the monetary policy practiced by the FED, private borrowing and short-term capital inflows in carry trade speculative movement were massive generating strong increase in corporate indebtedness, but not in sovereign debt.

Although the net transfer of resources (net inflows of capital minus net payments of profits and interest) has declined and has turned negative in many countries (ECLAC, 2020), it was not the growth of this deficit and accumulation of short-term liabilities that interrupted and even led to an abrupt reversal of previous accumulation strategy. The fall in exports (due to lower commodities prices and lower demand) can explain the lower growth of investment in these years particularly in the mining and oil exporters economies (as Bolivia, Ecuador, Venezuela) where exports were central source of public finance (more or less adjusted to the rents from exports)[22]but different from other cycles there was not a currency crisis that historically interrupted growth and created political space for orthodox policies. The maintenance of high reserves vis-à-vis external liabilities and the relatively low level of the public sector's external debt kept debt risk premiums relatively low and under managed floating exchange rate regimes there were no massive capital outflows. The bond spreads of both public and private (EMBIG+) Latin American economies rose sharply in 2008 but fell substantially in subsequent years. (ECLAC, 2020, Serrano and Pimentel, 2019, Aidar and Braga, 2019). In most countries but particularly in Brazil, FDI strongly enlarged.

A notable difference, in stark contrast to what happened in the 1990s (almost unnoticed in contemporary structuralist literature[23]), is that when a country has a

[22] "Since the 2000s, investment growth has been closely linked to the behavior of commodity prices. During the commodity super cycle, investment experienced a sustained expansion lasting four years, with growth rates of over 9%. However, the global financial crisis put an end to this growth streak, and investment contracted by 8.1% in 2009. Its recovery after the global financial crisis was slow; and the decade of 2010 was one of stagnation, with investment posting its lowest average rate in the period studied, apart from the lost decade. In effect, the COVID-19 pandemic deepened a crisis that had been brewing since a decade earlier." ECLAC, 2022:132)

[23]This new circumstance was commonly underestimated. *Annina Kaltenbrunner Juan Pablo Painceira*, (2019) considered that "subordinated financial integration" brought about by accumulation of reserves enlarged financial fragility and volatility in the region but they fail to see that different from what happened in the nineties, due to managed floating exchange rate and large reserves no general currency crisis occurred in SAC after the GFC. Roberto Frenkel and Martin Rapetti (2012) is an exception from this perspective. For them, thanks to the high level of reserves, floating exchange rates and low

floating exchange rate, large reserves formed with capital inflows, mainly in the form of FDI[24] and the purchase of securities denominated in national currency and not in the form of sovereign debt – a crucial dimension of monetary sovereignty- the risks of speculation fall entirely on the investor and not on the exchange rate regime. In addition, in order to reduce capital volatility several measures of capital control were introduced[25]. This general evolution was particularly important in Brazil that received very high volumes of FDI and loans (Medeiros, Sarti, 2022).

Thus, the large volume of financial inflows that occurred mainly in Brazil, Chile, and Colombia did not result in a "sudden stop" and the well-known sequence of appreciation-currency crisis-devaluation, typical of the 1990s. From this history only Argentina and Venezuela have had a very different evolution closer to the old pattern.

Argentina seemed to follow the old pendulum pattern: from 2002 to 2007 economic growth occurred with current account surplus and low level of external financing, from 2007 to 2015 the current account turned into a deficit and reserves fell down interrupting the growth trajectory. In 2015 a short cycle of public overborrowing took place.

In fact, since the foreign debt default in 2002 and until 2015, Argentina has been excluded from financial markets. The new economic policy included increases in

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indebtedness, Latin America had much better external conditions than those established in the 1990s. "Interest payments have to be paid in foreign currency – typically US dollars – and since they are contractual obligations, they constitute a source of foreign currency outflow that is delinked from the business cycles. On the contrary, FDI dividends are largely obtained in domestic currency – making their value in foreign currency depend on the exchange rate – and are highly correlated to the business cycles. This implies that in the case of a capital inflow deceleration or reversal, the magnitude of FDI dividend payments tends to contract due to both the depreciation of the domestic currency and the deceleration or contraction of domestic economic activity" (Frenkel; Rapetti, 2012, p. 5).

[24] Although FDI does not necessarily include investments in fixed capital and a large part of mergers and acquisition operations include speculative activities and tax evasion strategies, not differing from other short-term flows (La inversión extranjera direct en América Latina: algunas implications macrofinancieras , Martín Abeles Facundo Grimberg Sebastián Valdecantos, 2019) they do not constitute liabilities with fixed remuneration defined in dollars and, consequently, the foreign exchange risk belongs to the investor.

[25] The 1970s were characterized by high regulation of financial flows, with the external debt crisis of the 1980s and especially in the 1990s there was an intense financial opening that lasted until 2001, with the exchange rate crises in Argentina and Brazil when some control measures were introduced. Again after 2007, new regulatory measures were implemented. For details see Bastourre and Zeolla (2019)

nominal wage, devaluation of nominal exchange rate[26] and very low rate of interest[27] discouraging capital inflows and making exports of commodities directed towards China and manufacture exports mainly directed toward Brazil the main way to obtain the necessary foreign exchange. Until 2009, high commodities prices and high demand generated current account surplus but this situation changed in the beginning of the new decade and reserves fell down. When commodity prices fell after 2012 and the Brazilian economy significantly reduced its growth rate [28], restrictions on foreign assets purchases were introduced bringing about a dollar black market, an informal dollarization (a structural characteristics of Argentina)[29] and capital flight. Devaluation in the nominal exchange rate, increases in tax on commodities triggered the inflation rate and the distributive conflict. Argentina seemed to return to the historical pattern previously considered when devaluation of nominal exchange rate is followed by nominal wages increasing inflation and expectative of new devaluation. In this circumstance the preference for holding dollar assets results from a lower interest rate in domestic assets than its floor (given by the international rate plus the high-country premium risk and expectations of nominal devaluations in exchange rate). In 2015, under a neoliberal government Argentina removed capital controls paid the "vulture funds" and introduced strong fiscal adjustment (Amico, 2017). It was back to financial market and attracted a huge volume of debt but growth did not respond and expectative of higher devaluation not offset by domestic rate of interest triggered capital flight with substantial impact on the level of reserves and (as has happened in

[26] "Argentina maintained a persistent tendency to *devalue* the nominal exchange rate, which combined with relatively low interest rates, discouraged the inflow of capital and stimulated capital outflows. This was the main reason Argentina failed to finance its small current account deficit" Amico, 2017:28

[27] "In practically the entire period from 2005 to 2013, economic policy maintained a *negative* internal-external interest differential (net of the country risk premium), generating incentives in an *opposite* direction to the application of controls." Amico 2017:78; "By the middle of 2011, when foreign exchange controls began, the central bank's foreign exchange reserves reached U$s 52 billion, while at the end of 2014 they had fallen to 28 billion. In that same period, the price of the dollar in relation to the peso had increased more than 100%. The nominal exchange rate was the main determinant of inflationary acceleration …producing a sharp fall in real wages in 2014 and contributing to the sharp decline in GDP in that year" (Amico, 2017: 79)

[28] The Brazilian economy is the main market for Argentine industrial exports, particularly in the segments integrated into the automobile industry. Thus, the slowdown in Brazil had a strong impact on Argentine industrial exports. This impact, in turn, had another impact on Mercosur countries, as Argentina is a strong importer from Uruguay, Peru, Bolivia.

[29]The preference for dollarized assets stems, as previously mentioned, from the fragility of the balance of payments and the consequent volatility of the nominal exchange rate and high inflation not offset by the domestic interest rate.

the 1990s)[30]. A BOP crisis took place in 2018 and in 2019 a strong capital flight and high inflation occurred and the capital account became strongly negative. (ECLAC, 2020). Nowadays the main economic policy is conditioned by debt negotiation with IMF. Presently almost 80% of public debt is denominated in foreign currency, mainly in dollar[31] and financial dollarization (the ratio of deposit and loans in dollars in total deposit and loans) is very high. In consequence of this evolution from 2011 until 2019 the average annual rate of growth in Argentina was 0.4% (ECLAC, 2020) only inferior the trajectory occurred in Venezuela.

Venezuela, Bolivia, Colombia and Ecuador were the countries where the reversal of terms of trade were the most intense but only in Venezuela the growth rate became negative after 2013. In this country, between 2011 and 2019, average annual growth was -8.5% (ECLAC, 2020). The average rate of growth in Bolivia was 4.7%, 3.6% in Colombia and 2.7% in Ecuador. And only in Venezuela had a trade and current account surplus and a negative capital account. In the other countries current account became negative but capital inflows, particularly FDI, were substantial. In all those countries total external debt increased but only in Venezuela this increase in total debt was not private but public. In Venezuela (as happened in Argentina) sovereign spreads on EMBI Global strongly enlarged, in the other countries they fell down from 2015 until 2020 (ECLAC, 2020). Thus, although the Venezuela´s high dependency on oil exports (more than 90% of all exports) has been higher than in the other mineral and energy exporter in SAC (that also fund their social programs with oil rents) the deep macroeconomic crisis after the great crash in the oil prices in 2014 cannot be fully explained by the global, or regional context[32]. In all these countries the decline of oil prices and consequently on the rate of exports brought about lower economic growth

[30] For a recent discussion along these lines see AMICO, Fabian; SERRANO, Franklin, VERNENGO, Matias (2022)

[31] "By currency, the stock of public debt of the countries of the region is mostly denominated in dollars. At the country level, around 80% of the total debts of Argentina, the Dominican Republic, Ecuador, Panama and Paraguay is denominated in foreign currency, with large percentages in dollars. The countries whose debt is mainly in local currency are Chile, Colombia and Costa Rica, with shares of dollar-denominated debt of less than 40%. In Brazil, the vast majority of public debt is denominated in local currency, and in dollarized countries such as Ecuador, El Salvador and Panama, financing is 100% dependent on other economies." ECLAC 2022:98)

[32] Bolivia and Ecuador followed a geopolitical trajectory close to Venezuela, strengthening a regionalization distant from US strategic interests. The path followed by Colombia, as well as Chile and Peru, was distinct and aligned with American strategic interests, including free trade agreements.

and increased distributive conflict but only in Venezuela occurred a huge liquidity crisis and explosive hyperinflation. When Nicolás Maduro assumed the government in 2013 the macroeconomic crisis was already installed. After the fall in oil prices occurred afterwards and under US sanctions implemented in 2014 the economic contraction has strongly increased. (Economist Intelligent Unit, 2021). In fact, with the US sanctions[33] Venezuela could not issue new governments bonds in international market to finance imports and restructure its debt[34] relying exclusively in Russia, China and Iran[35] (US Congressional Research Service, 2021). After 2019 the oil exports to US just collapsed and exports to China increased but this dislocation has not prevented a high drop in Venezuelan crude oil production.

The economic trajectory followed by the Brazilian economy in this second decade, although presenting some common elements, had a strong singularity basically explained by its BOP, public financing and domestic policy. Its average annual growth between 2011 and 2019 was very low, 0.7% only superior the rate observed in Argentina and Venezuela (ECLAC, 2020). This performance was much lower than that observed in most mineral and oil exporter countries in continent much more dependent on exports and most affected by the reversal of terms of trade. Its crisis in 2015 and the recessive policy implemented in this year cannot be explained by structural and balance of payment problems as occurred in Argentina or as in the case of Venezuela where these problems were accentuated by external sanctions. In fact, the shift in economic policy to 'please the bankers' that took place in 2015, shortly after the elections that elected Dilma Rousseff for a second term, took place in a

[33] "Sanctions targeting Venezuela's oil sector generally began in August 2017, with the issuance of an executive order that limited access to debt capital and prevented PDVSA from receiving cash distributions from Citgo, its U.S.-based oil refining and marketing subsidiary. Oil sector sanctions expanded in January 2019, with PDVSA added to Treasury's Specially Designated Nationals list. This action effectively prohibited U.S. persons and companies from transacting with PDVSA, unless Treasury allows transactions under a general license. The sanctions framework also prohibited non-U.S. entities from transacting with PDVSA in U.S. dollars and made non-U.S. subject to having their U.S. property blocked, should it be determined that they *materially assisted* PDVSA (Congressional Research Service, 2021:26)

[34] "The suspension of payments on foreign debt decreed at the end of 2017 and the sanctions imposed by the United States Government have effectively shut down external financing to the Venezuelan Government" ECLAC, Venezuela; Economic Survey in Latin America and Caribbean, 2021:2

[35] That became object of US retaliation. "In 2020, the Department of the Treasury imposed sanctions on two subsidiaries of Rosneft, Russia's state-controlled oil and gas company, for transporting Venezuelan oil and on a Chinese technology company for supplying the Maduro government with digital surveillance software" (Congressional Research Service, 2021, p24)

completely different context from what happened in 2002, when Lula took office in the midst of a great external vulnerability. If in 2002 the level of Brazilian reserves barely reached US$50 billion, in 2015 the reserves totaled US$360 billion, ensuring high liquidity to the country's balance of payments, measured by the relationship between short-term external debt and reserves. Moreover 95% of its public debt is denominated in local currency and almost 90% is owned by domestic creditors (ECLAC, 2022). Financial dollarization is much lower than in all other SAC. Thus, the 2015 turn in economic policy must be explained by self-inflicted internal decisions[36] (Serrano and Summa, 2015; Serrano and Pimentel,2017; Bastos, Aidar, 2019), which express both the ideas and the interests that were formed inside and outside the government. As a matter of fact, this inflection in domestic demand was already present since 2011, even without a balance of payment constraint, when fiscal policy (particularly in public investment) became contractive changing the previous strategy of growth.[37]This new strategy was adopted to reduce the interest rate and the real exchange rate considered much above the level required by manufacture exports. This new policy underestimated the role played by an appreciated exchange rate for real wages and to keep inflation rate at a low level [38]. The devaluation in nominal exchange rate in an economy with high level of employment started a distributive conflict and contractionary fiscal policies were taken in order to follow the inflation target (Serrano and Summa, 2017). As a result, there was a reduction in the rate of private investment and real wages.

[36] "Despite the 'comfortable' external conditions, the Brazilian short 'golden period' in the first decade of 2000 was suddenly interrupted. Therefore, we call it a self-inflicted crisis" (Bastos; Aidar, 2019, p. 4

[37] "…between 2005 and 2011 the wage share improved at the same time as the pace of economic growth accelerated (SERRANO & SUMMA, 2012). There was also a reduction in the real interest rate in that period. On the other hand, fiscal policy had its most expansive bias precisely during that period (especially in 2006 and 2009), but in 2011 fiscal policy became contractive. The abrupt reduction of the growth rate between 2011 and 2012, even with a declining interest rate, quickly led to an increase in the debt-to-household income ratio. In short, from 2011 fiscal adjustment policy was an additional factor that broke up the gradual improvement of the sustainability condition of household debt that had started in 2005" (Amico, 2017:91)

[38] "These two things together usually mean that in Brazil (as in many other countries), exchange rate depreciations tend to decrease aggregate demand because the negative effect on real wages and consumption and also on private investment, which is insensitive to profit margins, is much stronger than the possible positive direct effect on net exports … Conversely, a nominal and real appreciation tends to increase rather than decrease aggregate demand." Serrano, Summa 2017:5

This deacceleration in growth rate and this shift in economic policy had a strong contractionary impact on MERCOSUR affecting mainly Argentina particularly its manufacture exports. Other SAC were directly or indirectly affected as well.

Historically, as observed, balance of payments crises cyclically interrupted growth, imposing an austerity policy aimed to gain “investor confidence” and to reduce wage pressures. This was the political meaning of financial dependence in which national economic policy in a peripheral country became subordinated not only to the interests of creditor countries through the conditionalities imposed by the IMF, but also to the interests of the internationalized fractions of capital and owners of dollarized assets. In Argentina this historical mechanism reappeared fully in this decade. But in Brazil under the new external circumstances this factor ceased to occur.

Michael Kalecki's (1943) analysis of political aspects of full employment in developed capitalist economies can be considered particularly in the Brazilian case. In fact, despite the deceleration in output growth between 2010 and 2014, the level of employment remained high[39] and real wages grew above productivity, as well as the indirect labor costs arising from social transfers financed by the government and companies. With higher nominal devaluation in exchange rate occurred after 2010 (a devaluation of 60 per cent between 2011-2014, Serrano and Summa, 2017), the inflation rate increased and the distributive conflict became more intense and this unified different fractions of capital in the defense of an orthodox policy based on fiscal contraction, labor and social security reform. The recession initiated in 2014 was deepened in 2015 through a contractionary economic policy package under the new PT government. Next year these reforms were implemented after the impeachment of Dilma Rousseff.

The crisis not only created opportunities to reform labor relations and change the distribution in favor of capital, it also consolidated a new direction in developmental strategy (followed by a far-right government elected in 2018), through the implementation of reforms similar to those predicated by 'Washington Consensus'

[39] Although very distant from full employment, the level of wage bargain was very high. Substantial increase in real minimum wage and in union density contributed for this situation. For discussion, see Serrano and Summa, 2017

and based on dismantling developmental organizations, privatization and greater external opening.

Thus, the new lost decade after 2010 and the reversal of progressive policies that occurred along these years in several SAC cannot be fully interpreted as an outcome of a balance payment crisis engendered by a “primary export-financial model”. Only in Argentina and Venezuela an external liquidity and balance of payment crisis evolved along these years. The mediocre Brazilian performance was mainly induced by changes in its domestic economic policy. In Argentina and Brazil this evolution created opportunities for a political U-turn and for the rebirth of Washington Consensus reforms. The other economies in South America had a moderate growth performance not so different from the other peripheral economies exporting commodities, although they have suffered a negative impact of Argentina, Brazil and Venezuela. In this context the economic elite in the region took the opportunity to regain power and a wave of right-wing governments occurred in SAC. However, this turn appears to have been very temporary.

Final Notes

The pandemic accentuated certain structural features that were already underway in the world economy, such as the growing geopolitical rivalry between the US and China, the resurgence of nationalism and the decrease in trade flows structured in value chains led by TNCs. In the international monetary and financial system, the 'flexible dollar' standard and the predominance of Wall Street in international financial markets remained. Due its huge effect on employment the pandemic not only reduced interest rates in the main economies at their lowest level, but the previous fiscal austerity policies were consistently dismantled through extensive transfers and subsidies.

The recovery of employment and nominal wages post pandemic crisis was especially significant in the US. Increase in nominal wages and inadequate supplies of inputs and intermediate goods engendered unprecedented cost pressure and in response to these prices increases the FED ended the previous expansionary monetary policy. As a result, there was an increase in the exchange rate of the dollar in relation to other currencies. The war in Ukraine further accentuated this macroeconomic evolution. The rise in the price of oil and other commodity prices spread inflationary pressures all over the world[40].

In this external context developing countries and particularly SAC face several challenges. At the macroeconomic level, the current prospects include increases in commodity prices, in international interest rates, in debt services burden and in the risk premium on sovereign spread.[41] The present situation of external sector includes reduction in FDI [42] and higher exchange rate volatility. The technological and infrastructure gaps increased as well as poverty and income concentration.

It has been under this external context that SAC have initiated a new shift in their socio-economic priorities since the victory of Alberto Fernandez in Argentina in 2019. Several center-left progressive governments (in Chile, Peru, Colombia) were elected. Although increases in commodity prices triggered by the war in Ukraine can increase exports particularly in oil exporters economies, it is the demand for the volume exported that is the most important variable and, despite its growth resulting from the post-covid recovery, the world demand and the medium-term growth in China, the main market for these products, should be lower than in the previous cycle.

[40] "In 2021, a post-crisis rebound in demand, coupled with supply and demand problems, high international transport costs and rising commodity prices had already resulted in rising inflation in several developed and emerging economies. The war in Ukraine has accentuated several of these trends. In particular, rises in food and fuel prices and appreciation of the dollar have led to higher production costs and in several cases domestic inflation rates that had not been seen in decades" (ECLAC, 2022:38)

[41] "As noted by ECLAC (2019 and 2021), one of the main impacts of the rise in interest rates is on the price of demand for financial assets. There is a direct negative correlation between the present value of bonds and the discount rate (i.e. interest rate). The higher the interest rates, the lower a bond's present value. On the supply side, a higher interest rate increases the cost of external borrowing (to which must be added current and expected exchange-rate depreciation), which reduces the incentive to issue bonds on the international market as a form of financing. On the demand side, there is also a disincentive to hold bonds due to the loss of present value, which translates, all else being equal, into a decrease in the value of the asset on any balance sheet. These transmission mechanisms wield a powerful effect on developing countries. All regions of the developing world, without exception, have reported increased levels of both government indebtedness and debt service measured in terms of exports of goods and services, as a consequence of the policies implemented to deal with the effects of the pandemic" ECLAC 2022:45)

[42] "Following the 2008 global financial crisis, FDI inflows and cross-border mergers and acquisitions fell in 2009 and recovered rapidly the following year. At the time, there was no decline in the number of project announcements and while amounts dropped by 13%, the values remained very high (above US$ 100 billion). The 2020 crisis, however, had a different impact on the business outlook of transnationals. Project announcements fell to levels not seen in more than 10 years, with the lowest number of announcements since 2007." ECLAC, 2022:14

And in the case of SAC, the Brazilian economy remained stagnant, hampering the recovery of other countries

Although the level of foreign reserves had not substantially changed and is still high in several economies, and except for the Brazilian economy the external financing conditions are now less favorable and financial dollarization has increased in many countries[43] (ECLAC, 2022). A resumption of growth in SAC necessarily includes increases in public spending, infrastructure investment and higher domestic consumption This perspective restores, in new conditions, the crucial role played by Brazilian economy that does not have external constraints to resume a higher growth rate and to re-articulate through Mercosur a more favorable external environment for the resumption of growth of the other countries of the subcontinent. Only in an environment favorable to higher investment rates is it possible to change productive structures upgrading and diversification of exports and imports the very old challenge of SAC.

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[43] "The capital flow volatility closely associated with extreme exchange rate fluctuations may intensify exchange-rate pass through via the financial channel and adversely impact domestic financial conditions. High exchange-rate volatility triggers currency mismatch risks —in particular where countries engage in considerable foreign-currency intermediation— both directly, for bank balance sheets, and indirectly, for household and corporate balance sheets. As a result, persistent local-currency depreciation can push up the debt burden and the cost of debt servicing, and, in turn, increase credit risk, triggering sudden capital outflows along with tighter financing conditions and successive exchange-rate depreciations. This is in addition to the impact of the exchange rate on capital markets with a large share of more risk-averse international investors." ECLAC, 2022:110)

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