

## **La crisis mundial del siglo XXI y sus efectos para América Latina y México**

***The world crisis of the 21st century and its effects for Latin America and  
Mexico***

***A crise mundial do século XXI e seus efeitos para a América Latina e o  
México***

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### **Resumen**

La crisis internacional actual es mucho más que una crisis económica o financiera. Sus consecuencias son por demás nefastas, no solamente en los países altamente industrializados, sino en todos los continentes. Entre los efectos macroeconómicos en América Latina se pueden citar: la contracción de las exportaciones, la disminución del ingreso de capitales y de los ingresos fiscales, el deterioro de la cuenta corriente, la reducción del consumo y de las inversiones, tasas de interés más altas e inestabilidad de la tasa de cambio. Estos impactos fueron diferentes en cada país de la región. La resistencia popular y las movilizaciones sociales lograron cambios políticos alternativos y surgieron gobiernos "progresistas" que implementaron medidas anticrisis, en particular programas contra la pobreza, la

desigualdad y el desempleo. Sin embargo, esto es insuficiente frente a la economía de mercado. Código JEL: F01

**Palabras clave:** Economía. Crisis. PIB. Política Fiscal. América Latina.

### **Abstract**

The current international crisis is much more than a financial or economic crisis. The consequences of this crisis are extremely dire, not only in highly industrialized countries, but on all continents. Among macroeconomic effects in Latin America may be cited: the contraction of exports, the decline in capital inflows, declining tax revenues, the deterioration of the current account, the reduction in consumption and investments, higher interest rates, and volatility of the exchange rate. These impacts were different in each country of the region. Popular resistance and social mobilizations have emerged alternative political changes and "progressive" governments that implemented anti-crisis measures, particularly programs against poverty, inequality and unemployment. However, this is insufficient to cope with the market economy. Code JEL: F01

**Keywords:** Economy. Crisis. PIB. Fiscal Politics, Latin America.

### **Resumo**

A crise internacional atual é muito mais do que uma crise econômica ou financeira. Suas conseqüências são ameaçadoras, não apenas em países altamente industrializados, mas em todos os continentes. Entre os efeitos macroeconômicos na América Latina podem citar-se: a contração das exportações, a diminuição das entradas de capital e as receitas tributárias, a deterioração da conta corrente, a redução do consumo e os investimentos, taxas de juros mais elevadas e instabilidade da taxa de câmbio. Esses impactos foram diferentes em cada país da região. A resistência popular e as mobilizações sociais alcançaram mudanças políticas alternativas e surgiram governos "progressistas" que implementaram medidas anti-crise, em particular programas contra a pobreza, a desigualdade e o desemprego. No entanto, isso é insuficiente em comparação com a economia de mercado. Código JEL: F01

**Palavras-chave:** Economia. Crise PIB. Política Fiscal. América Latina.

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## Introduction

This work is the result of the research of the members and research collaborators of the Academic Body Institutional Development of the School of Public Accounting of the Benemérita Autonomous University of Puebla, which has the purpose of contributing to the systematized discussion of the world environment in terms of economic, political and social. It is an updated thematic research contribution for the teaching of the subjects: Current problems of Mexico in globalization, International trade in undergraduate and Fiscal economic policy in the postgraduate.

The current international crisis is much more than an economic or financial crisis. Its consequences are ominous, not only in highly industrialized countries but on all continents. Among the macroeconomic effects in Latin America can be cited: the contraction of exports, the decrease in capital inflows and tax revenues, the deterioration of the current account, the reduction of consumption and investments, higher interest rates and instability of the exchange rate. These impacts were different in each country of the region. Popular resistance and social mobilizations achieved alternative political changes and "progressive" governments emerged that implemented anti-crisis measures, in particular programs against poverty, inequality and unemployment. However, this is insufficient compared to the market economy.

*“Six years after the financial crash <sup>1</sup> that put the world on its knees, the red lights have turned on again in the control panels of the global economy. The eurozone is on the verge of a possible third recession, with high unemployment, growth to the downside and a real deflationary risk. Emerging markets, which were the engine of growth in the early stages of recovery, are now slowing. The conflict in the Middle East and the illegal actions of Russia in Ukraine added to a dangerous backdrop of Instability and uncertainty”* (Navarrete, 2016).

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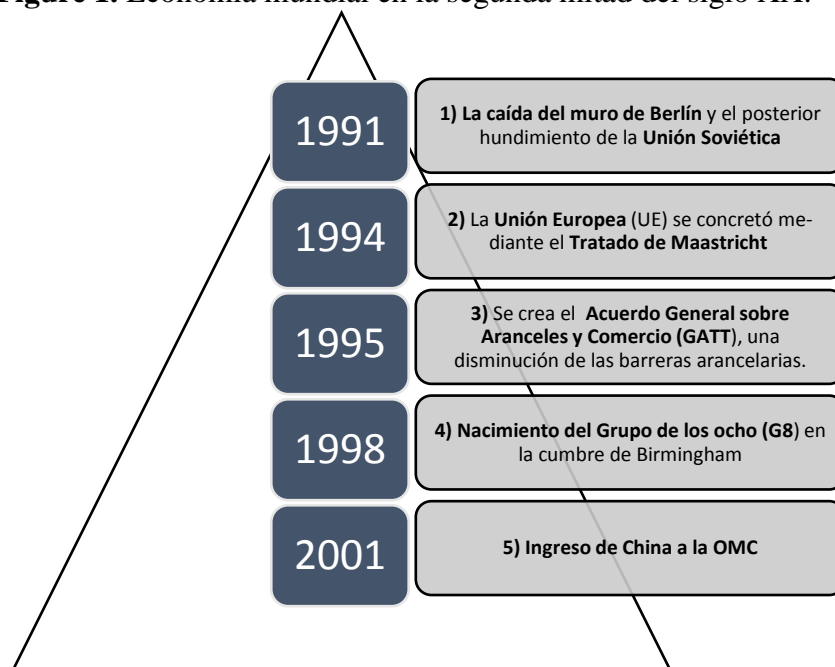
<sup>1</sup> ‘Quiebra’, ‘crisis’.

*It is not easy to read the final statement G-20 the debate on the basic orientation of the policy, in previous documents was inclined above all by the recovery of growth and the creation of new posts (Navarrete, 2016).*

## Background

After the Second World War, the economy of the western bloc experienced a great growth that allowed the consolidation of the middle classes in Europe and the United States, mainly. In the Soviet bloc, the advance of industrialization stagnated in the sixties, and the lack of a strong industry affected the quality of life of the population (Maldonado, 2010).

**Figure 1.** Economía mundial en la segunda mitad del siglo XX.



Source: Elaboración propia.

## **1.1 The European Economic Community**

It was started in 1957 by the Treaty of Rome. From the beginning, it was proposed to achieve the free circulation of the market, goods and services throughout the member countries. Over the years, the Community grew with the incorporation of new countries; the last ones were Sweden, Finland, Austria and Norway in 1995 (Maldonado, 2010).

## **1.2 Economic globalization**

The phenomenon of the formation of regional markets has been the most outstanding feature in the economic panorama during the decade of the nineties. The case of the European Community has not been the only one, as many other countries have begun to formalize free trade and regional integration agreements, among which the Free Trade Agreement (FTA), agreed between the United States, Canada and Mexico, has stood out. . This treaty began operating in January 1994 and aims to expand to other countries in the coming years. Likewise, Mercosur, which groups the countries of the Southern Cone and Brazil, has gained momentum; the Association of Southeast Asian Nations (ASEP) and the Association of Southeast Asian Nations (ASEAN) (Maldonado, 2010).

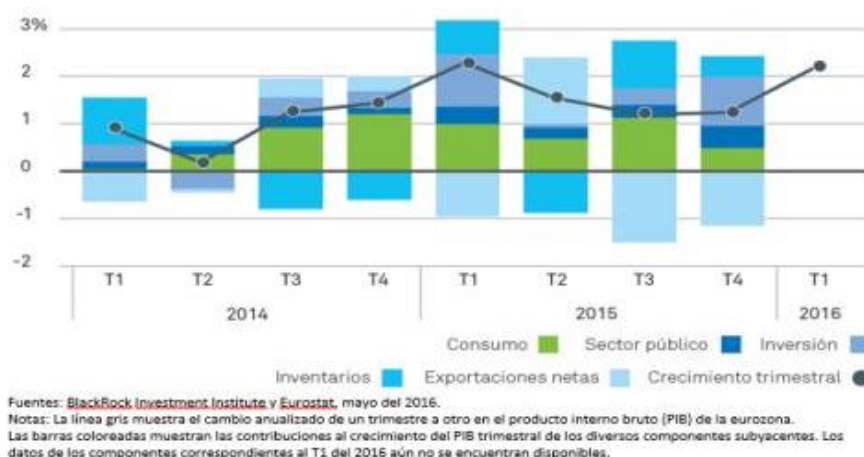
## **1.3 The great recession**

Throughout 2014, the sixth year of the great recession, the debate on economic policy options gained enormous significance, in parallel with the examination of the determining factors of the dismal economic performance, which continues to be poor and uneven, and the creation of jobs . This debate continued at the beginning of 2015, encouraged, moreover, by events whose scope and scope were not clear. Three could be highlighted: the unexpected depth and persistence of the collapse of international oil prices; the reappearance of warlike confrontations in the east of the Ukraine and the greater confrontation in this respect between the West, as well as the electoral victory in Greece, by margin much greater than expected, of a proposal clearly contrary to the conventional orientation of the economic policy.

Perhaps one of the most obvious manifestations of the fact that the great recession is far from having been surpassed when reaching its sixth anniversary is in the generalized and systematic downward revision of the forecasts and expectations of economic growth elaborated by the international financial organizations, even the most recent.

In almost all the groups, areas and countries the slippage of the forecasts was confirmed. The deterioration in the growth expectation was notable, appreciated at the beginning of 2015 with respect to the one announced at the beginning of 2013, in the cases of Brazil and Russia. Other downward corrections of more than one percentage point occurred in the Latin American and Caribbean regions and Africa, as well as in China and Mexico, although at very different levels in the last two years.

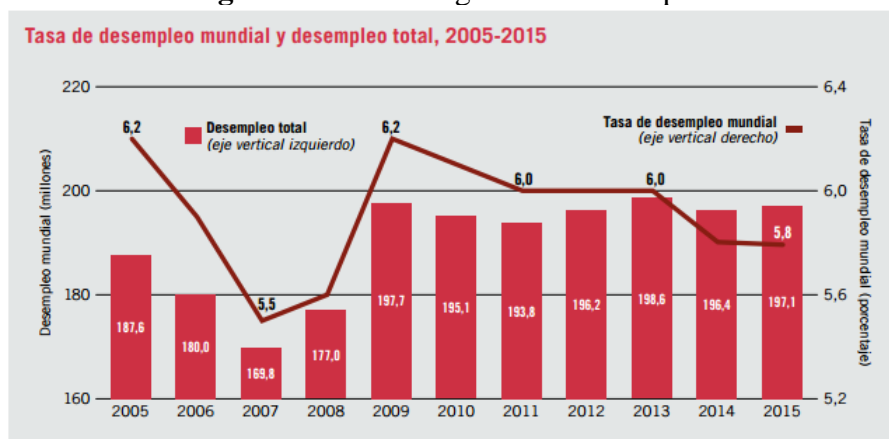
**Figure 2.** Crecimiento trimestral del PIB Eurozona 2014-2016.



Source: BlackRock Investment Institute y Eurostat.

The analyzes released between 2011 and 2015 by the International Monetary Fund show, with differences of emphasis that are often important, that, during the second decade of the century, the expectations that were considered founded at the beginning of the year, in general, they became frustrated and led to much more modest behavior than expected. Although the narrative about the behavior of the world economy is usually built around the real economic growth rate, the situation and prospects of employment must also be understood.

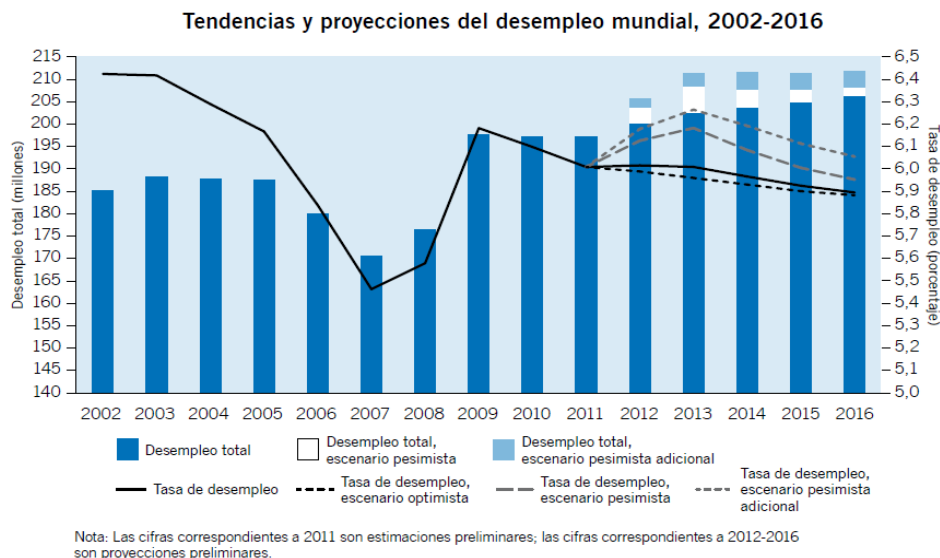
**Figure 3.** La brecha global de desempleo.



Source: Organización Internacional del Trabajo. Cálculos sobre la base de modelos econométricos de las tendencias. [www.oit.org](http://www.oit.org)

The global employment outlook will continue to deteriorate over the next five years. The global unemployment in 2014 reached 200 million, 30 million more than before the crisis. To close it and absorb the new jobseekers, it will be necessary to create 280 million new jobs in the five-year period 2015 - 2019. Unemployment affects young people disproportionately. The young unemployed aged 15 to 24 years old totaled 74 million, and the youth unemployment rate, 13%, more than double the general unemployment rate. The "ninis", as they are told in Mexico, reached a quarter (Navarrete, 2015).

Figure 4. Las brechas de empleo y de salarios.



Source: OIT: Modelos Econométricos de Tendencias. [www.oit.org](http://www.oit.org).

The global employment gap, which before the crisis was estimated at just over 30 million jobs, has doubled since 2008 and, if one considers the workers who have left the labor market, it now reaches 61 million. . If they were working, the global wage bill would increase by 1.2 trillion dollars, this being the amount that equals Australia's GDP. About 2/5 of this gap are found in the European Union, a region that has been affected by very slow growth and high unemployment, more than any other.

#### 1.4 The effects of the global crisis in Mexico.

As Enrique Cárdenas (2015) points out in "The long course of the Mexican economy", the recovery of the macroeconomic crisis of 1995, in which real GDP fell 6.2%, was very rapid. By the end of 1996, the hiring had been almost reversed in its entirety. The GDP grew 5.1% in 1996 and 6.8% in 1997. It was a crisis in V, as it has been called: sudden fall and recovery. As mentioned in the previous chapter, 1995 was a year of important macroeconomic adjustments: a strong devaluation of around 100%, the increase in taxes and reductions in public spending, raising interest rates to a peak of 75% in April, but still in December were almost 50%. Evidently, the public deficit and private spending contracted and there was a strong loss of wealth due to the devaluation of the peso.



The rapid recovery was stimulated by two main factors related to the external sector. The boom of the United States of America economy and the export expansion due to the entry into force of NAFTA. In 1994, the first year of the treaty, merchandise exports grew 17.7%, 30.2% in 1995 and 18.2% in 1996. Had it not had the export boost, the 1995 contraction would have been much more serious. On the other hand, given the rapid contractionary adjustment of 1995, macroeconomic imbalances were eliminated and relative prices were adjusted. The fiscal and current account deficits and the overvaluation of the peso were eliminated, at the cost of a contraction of the population's standard of living, both of salaries and of payments to capital. The adjustment, then, laid the foundation for resuming growth quickly. Given these new price conditions, the export stimulus was strong.

The performance of the economy since that year of recovery, 1996 to 2012, has been better than that observed with the years after the 1982 crisis, but much lower than the boom period of the 1930s until 1981.

To a large extent, the performance of the Mexican economy was marked by the swings of the American economy. While it maintained high growth rates during the second half of the 1990s, which coincided with most of Ernesto Zedillo's six years, Mexican exports stimulated the growth of the National GDP. Its increase was of 12.9% average between 1996 and 2000. When the economy of the United States of America strongly reduced its growth between 2001 and 2003, and before the greater competition of China when entering the World Trade Organization, exports and the economy Mexican also resented it. The GDP stagnated when growing only 0.7% in annual average. The second half of the presidential term of Vicente Fox, 2004-2006, and the first year of President Calderón, the economy once again resumed its rate of growth encouraged again by the external sector.

Although external shocks entered the country via the balance of payments as in the previous occasions, this time they did not affect the money supply or the real exchange rate, largely due to the new floating exchange rate regime that the country adopted as a result of the 1995 crisis.

With this transformation in the economic structure, the exchange policy and the effective autonomy of the Bank of Mexico practically eliminated two traditional instruments of economic policy that the Mexican government had frequently used. On the one hand, a theoretically flexible exchange rate should not be overvalued or underestimated, so that the balance of payments trend should in principle be towards equilibrium if the fiscal balance is also balanced. If there is a public deficit, there will be a trend towards a current account deficit. Along with this scheme, and the unique mandate of the Bank of Mexico to maintain the value of the currency and thus be able to control inflation, which effectively continued after the economic crisis, monetary policy also significantly reduced its active interference in macroeconomic management. This does not mean that it is not relevant, but that its role is concentrated in the policy of interest rates and the accumulation or not of international reserves.

Although there was a flexible exchange rate, from 1998 onwards, the peso was overvalued, especially between 2000 and 2008, despite the fact that Banco de México followed a policy of accumulation of international reserves, which increased from 17 thousand. 509 million dollars in 1996 to 156,067 million in 2012. Nevertheless, the peso remained overvalued throughout the first decade of the 21st century.

As already mentioned, the contractionary adjustment imposed by the government and the macroeconomic crisis were very severe, but they did not prevent inflation from reaching a maximum of 37% in April 1996.

Thereafter, a downward trend was recorded. Ernesto Zedillo left the presidency in November 2000 with inflation at 8.9%, and continued to fall in 2012 to 4.1% on average. One of the effects of the effective autonomy of the Bank of Mexico and of the commercial opening has been that Mexico has since then an inflation similar to that of its most important commercial partner.

While in the 1991-1993 period, the total investment was 18.7% of GDP on average, for 2006-2008 it reached 22.2% of GDP. For 2011, its level was 21.5% due to the low levels of capital accumulation, which still resented the ravages of the global crisis.

Although, at the macroeconomic level, the Mexican economy recovered a certain level of growth, although still insufficient given the huge demand for employment of the growing workforce, its structure and composition has undergone changes in the period 1996-2012. The greatest growth has occurred in the manufacturing sectors and in tertiary activities, so that the socioeconomic structure has gone through changes due to the successes and shortcomings of the first structural reforms, especially the NAFTA, which has especially transformed the manufacturing and , to a lesser extent, to export agriculture, to the rethinking of social policy, as well as to the new political conformation after the fall of presidentialism.

The share of trade in GDP for Mexico went from 33.7%, between 1984 and 1993, to 63.3%, between 2010 and 2011. Likewise, being an economy that essentially exported oil and other raw materials at the time of import substitution, from the commercial opening, the most important component was the export of manufactures, representing approximately 80% of total exports between 1994-2012.

The comparative advantage of Mexico contracted in the low-tech manufacturing products once China entered the world commercial scene. Therefore, the variety of manufactures was also notable, each time with a more advanced technology component, but strongly concentrated in transnational companies. However, the transformation of the export sector towards high-tech manufactures has continued in a wide variety of products. For example, in the industry of auto parts and automotive vehicles, in the second half of the decade of 2000, it went to airplanes and even to a development of the aeronautical industry. However, Mexico is the fourth largest exporter of light vehicles worldwide.

Due to the above, the economic crisis accelerated a series of profound reforms in banking regulation and in the systems of transparency and regulatory supervision in the financial system.

The adoption of the Basel Accords towards prudential supervision and the principles of the United States Generally Accepted Accounting Principles (USGAAP) allowed the authorities to gradually improve the supervision of the banking authorities.

The approval of a Commercial Bankruptcy Law in April 2000, which replaced the old Bankruptcy and Suspension of Payments Act in force since 1943, significantly improved the legislation to deal with severe problems in companies and also in banking.

The global financial crisis of the late 2000s originated in the United States and, shortly afterwards, spread throughout the world and, in particular, to Mexico.

For Mexico, the beginning of 2008 marked the first differences between the assessments of the Ministry of Finance and the Bank of Mexico. While the former still considered that the impact of the crisis in Mexico would be rather limited and that the macroeconomic position of the country was very solid, the Bank of Mexico already expected that GDP growth would be much lower. Given the financial events in the United States, it was already evident that Mexico needed to take certain countercyclical measures.

Almost all analysts mark September 15, 2008 as the outbreak of the financial crisis. That day, the US Federal Reserve made a very controversial decision by refusing to grant guarantees for a possible buyer of Lehman Brothers, one of the largest investment funds in the United States and the world.

For Mexico, 2009 was a year of serious economic recession. In addition to the continued instability and deterioration of the lack of international liquidity and the paralysis

of capital flows, the contraction of the export sector and the reduction in the price of oil were added.

For 2012, the deceleration of the world economy due to its debt reduction, whose growth rate decreased from 4% in 2011 to 3.2% in 2012 and the growing volatility of the financial and debt markets, impacted the Mexican economy, especially after of the second semester.

The challenges of the Mexican economy at the end of 2012 were enormous: the growth rate was very slow, factor productivity growth was still negative and deep structural problems persisted in the energy, telecommunications and agricultural sectors. Labor markets remained imperfect and the informality of most of the economically active population was also growing. On the other hand, public finances continued to depend heavily on oil, which already showed incontrovertible signs of exhaustion. Inequality and poverty, in spite of enormous public expenditure efforts, did not decrease in a structural way. Poverty continued to be perpetuated, in the absence of social mobility, and slow growth exacerbated violence and crime.

### **1.5 Improves the average in the north and deteriorates in the south**

Unlike what happened in the first years of the decade, it is now evident that the employment perspective improves in the advanced countries, seen as a whole, as it deteriorates in various regions and countries of middle and developing income. (Navarrete, 2015).

### **1.6 The changing nature of work**

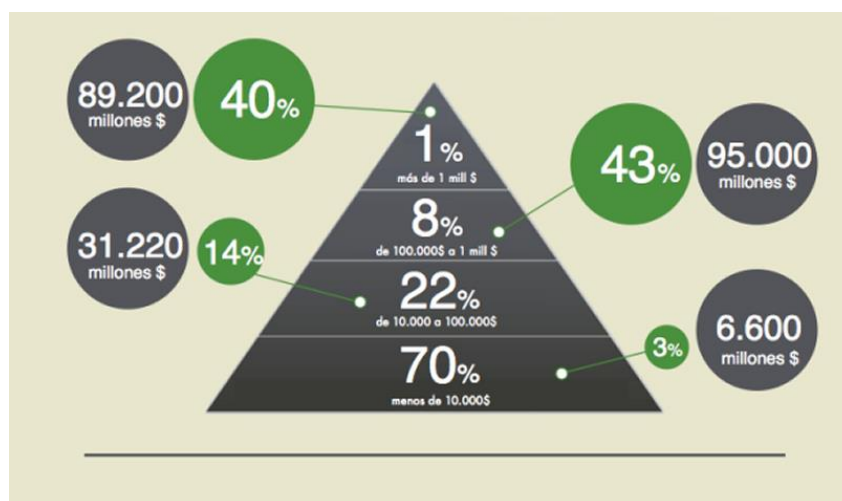
It points to the increase in part-time work and the less creation of permanent jobs in all countries and, in particular, in some developing countries, to fewer opportunities for gainful employment. Policies must take these circumstances into account. It is not enough to increase the number of jobs, but it is necessary to consider the quality of employment, the security of

income of workers and social protection, so that the promotion of new jobs is important and lasting. (Navarrete,2016).

### 1.7 Vulnerable employment will remain high

It includes self-employment and that provided by family members around 45% of total employment in this and next year. The number of vulnerable employees in the world rises to 1440 million, 27 million more than in 2012.

**Figure 5.** El aumento de la desigualdad de ingreso y riqueza.



Source: Pirámide de la riqueza mundial. [www.uniciencia.com](http://www.uniciencia.com).

On average, for those countries for which data are available, 10% of the richest people receive between 30 and 40% of total income, while the poorest 10% correspond to 2%. After the crisis, levels of inequality have converged in advanced and developing economies. As a result, average-rated people are now competing for low-skilled jobs (Navarrete, 2016).

### 1.8 Unemployment and tension

Social tension has worsened to the extent that unemployment persists, especially unemployment among young people.

Not only are there insufficiency and instability in the growth rate, but also in the permanence of a socially unacceptable level of unemployment and the persistent malfunctioning of financial apparatuses and institutions. The European Commission, now chaired by Jean Claude Juncker, announced its forecast for the autumn of 2014: the expected economic growth in 2015 for the European Union as a whole stood at 1.1%. The downward correction reflected the greater weight and the less favorable global economic outlook. In the opinion of the European Commission, the picture changed.

### **1.9 The European Central Bank, the rescue**

At the beginning of the year, there continued to be growing arrests in the European Union and, especially, in the Eurozone. In particular, three factors contributed:

- The resumption of hostilities in eastern Ukraine.
- The persistence of the fall and the low prices of oil.
- The concern associated with the parliamentary elections in Greece.

The most up-to-date assessment of the economic situation and the monetary outlook of the European Union was offered on June 3 by the president of the European Central Bank at the end of a meeting of its Governing Council. In the first quarter of 2015, the economic loss in the euro area expanded at an annual rate of 0.4% marginally higher than the 0.3% observed in the previous quarter. The impulse came, as has been the case in the recent past, from domestic demand, especially private consumption. In the elapsed of the second quarter this modest growth persists. The strengthening of the factors that favor the continuous expansion of demand is expected later. Low oil prices expand in the disposable income of families and the profitability of companies, while the competitiveness of exports is stimulated by the devaluation of the euro. Growth estimates remain virtually unchanged (Navarrete, 2016).

For 2017, a rate of 1.8% is expected, close to the goal. Monetary policy focuses on maintaining price stability in the medium term and continuing to facilitate economic activity.

Fiscal policies are aimed at strengthening the recovery, within the limits set by the observance of the stability and growth pact (Navarrete, 2015).

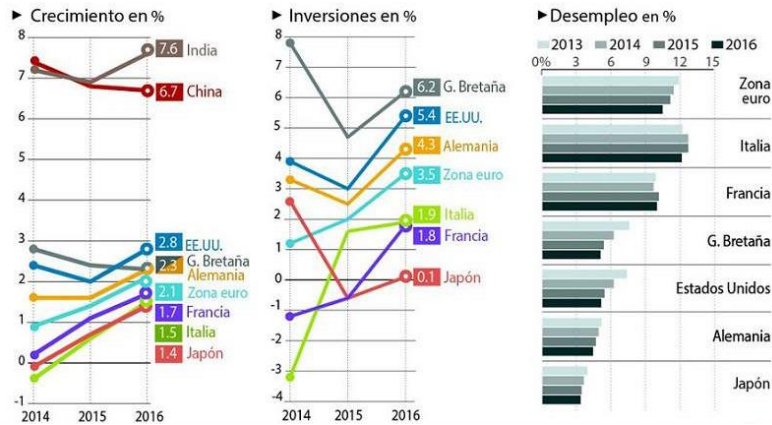
### **1.10 United States: the ups and downs of resuscitation**

Moderate growth is not, in itself, unsatisfactory. The problem lies, rather, in that a modest growth will not be enough to repair the damages of the great recession and, from there, it reaches higher levels of production, employment and wages. The days in which the American economy was the driving force behind other weaker ones belong to the past. The economy is still, in a word, hurt and the path of recovery necessarily passes through the government (Navarrete, 2016).

The dynamic elements corresponded to the consumption of family units, the investment of companies and the accumulation of inventories. On the other hand, there was a lower contribution of net exports, which shows that the weakness of external demand now acts as a brake on economic activity in the United States. In the first quarter of 2015, there was a decline in economic activity and growth expectations were reduced for the rest of the year and 2016. The OECD, for example, cut its growth forecast for the US economy at one point, placing it in 2% for 2015 and 2.8% for the next year (Navarrete, 2016).



Figure 6. Previsiones de la OCDE. Crecimiento, inversiones y desempleo.



Source: Estrategia y negocios. OCDE recorta perspectiva mundial de crecimiento.

[www.estrategiaynegocios.net](http://www.estrategiaynegocios.net)

### 1.11 South America and the rest of Latin America

In the mid-2000s, an extraordinary economic boom was experienced in South America and, to a lesser extent, in the rest of Latin America. On the other hand, at least eight of the ten Ibero-American countries of the South had at some time governments that could be classified, in different degrees and in a different way, as left-wing. In the rest of the region at least three others could be considered as such. Simultaneously with this change in political orientation, a great economic boom started, driven in large measure by the Chinese demand for raw materials from the region. There is a dramatic improvement in the terms of trade (the coefficient between the prices of exports and imports) and it is growing at very high rates.

Around 2012, China begins to decelerate rapidly and the "supercycle of commodities" is exhausted, roads, dams and airports are already built, the demand for soybeans reached a very high level and hence can not continue to grow so exponential. On the other hand, after aggressively facing the Great Recession, the United States begins to withdraw liquidity from the international market, pushing up interest rates. There is the inevitable fall and when the bubble burst it became evident that the reforms had not been of depth, and that many social programs could no longer be financed as they had been years ago. Few investments were

made capable of a thorough long-term transformation. Worse still, a clear deindustrialization was induced when the famous "Dutch disease" collapsed due to the massive influx of dollars, due to exports of primary goods. (Luiselli, 2016).

### **1.11.1 Brasil**

Due to its enormous size, it is in itself one of the causes of the South American economic collapse, since the contraction of its market affects everyone, mainly its Mercosur partners. The Brazilian economy is in its worst recession in at least 80 years and, sadly, millions of jobs have been lost and, at least in part, many of the social gains of the Lula era. After almost 10 years of unsustainable incentives to the consumption of a middle class in excess of debt, fiscal overdrafts and macroeconomic laxity, Brazil is facing a very painful adjustment and should, in adverse global circumstances, also rebuild its lost industrial competitiveness (Luiselli, 2016).

### **1.11.2 Venezuela**

Hugo Chávez, who for a time shared wealth and had successes in his social programs, led to authoritarianism and a chaotic statism. Venezuela nowadays has become a bankrupt oil autocracy, with a president notably incapable and without the charisma and the enormous oil resources of Chávez. Things have gone too far and the country is still in free fall, deteriorating in plain sight. The economy this year will decrease again by 8% and, despite the slight rebound in oil, it is expected to fall again in the next. The impoverishing inflation, which already exceeds 500% in the year, continues to accelerate, the economy seems a bottomless pit. At the end of 2015, the Maduro government had a very serious setback in losing, overwhelmingly in the legislative elections, the new National Assembly, now dominated by the opposition, where it faces the kidnapping of other institutions of the Venezuelan State by the government (Luiselli, 2016).



### **1.11.3 Argentina**

The triumph of Mauricio Macri at the end of 2015 marks a profound change of direction in a large country and one of notable influence in the region. The adjustment is not making hope, but it occurs in the middle of a recession also derived from the end of the export boom of soybeans. The hard turn of Macri's Argentina, however, maintains a good degree of acceptance, especially since inflation begins to give way and light is seen at the end of the tunnel. Argentina maintained a closed model, of cut seventies, which could not be sustained and less at the expense of nearby countries, which applied the well-known recipe of impoverishing the neighbor (beggar thy neighbor): I wanted to sell everything and not buy anything (Luiselli, 2016).

### **1.11.4 Chile**

The growth has practically evaporated and the social tension is on the streets, since the proverbial inequality of Chilean society becomes more visible. The unrest has led to Michelle Bachelet's misguided second government at approval rates of less than 20%. It does not do much to do TLC with anyone, if you do not have much more to offer besides copper, fish, fruit, wine, wood and paper. Even so, Chile has broad institutional strengths, macroeconomic gaps and, despite its setbacks, the region is now the region's leader in terms of per capita income and security. In the Andean heart of South America, things are different: neither in Peru nor in Bolivia there is an economic crisis, only a slowdown. While both countries have different political leanings, their region for the first time is a leader in growth (Luiselli, 2016).

### **1.11.5 Perú**

Peru is the country with the highest growth in the last 15 years. As in the previous cases, its exports, especially from a broad portfolio of raw materials, have fallen, but it keeps growing at around 4%. Peru has been transformed in the last 15 years, improving all its economic and social indicators, although poverty, especially in the Andes, is still very high (Luiselli, 2016).

### **1.11.6 Bolivia**

Bolivia has presided over Bolivia's longest stage of economic expansion. The private sector has prospered in a climate of internal peace and macroeconomic stability, beyond the purported resurrection of Tiwanaku. It is true that Ecuador will see its economy go down this year, but it does not suffer from a crisis overwhelmed, much less (Luiselli, 2016).

### **1.11.7 Colombia**

The economy of this country has suffered the collapse of external markets, but its growth, however weak (2.3%), remains positive and its government, firmly devoted to the Pacific Alliance, is far from being populist (Luiselli, 2016).

### **1.11.8 Uruguay**

He took advantage of the decade of the boom and has adjusted reasonably to the restrictions of the new times. Its growth is already scarce again, but it maintains a reasonable balance. However, it can hardly be said that Uruguay is in crisis and that it has had some dramatic change of political sign. Uruguay, with minimal corruption and responsible macroeconomic management, is the best example (Luiselli, 2016).

### **1.11.9 Paraguay**

The Paraguayan case is different. The country maintains a growth of around 4%, so it is not possible to speak of crisis, at least economically. The government of Cartes, after the interlude of populist ex-bishop Fernando Lugo, was dismissed for incompetent (Luiselli, 2016).

## **1.12 In northern Latin America, Central America, Mexico and the Greater Antilles**

The region maintains a modest but reasonable growth. Central America continues to advance in its integration with more pragmatism and less rhetoric, but without altering the inequality that remains extraordinarily high (Luiselli, 2016).

Latin America depends excessively on raw materials, averaging over 70% of its exports; it has little to offer global markets, dominated by supply chains in increasingly integrated and technology-intensive manufactures. Mexico is the exception, since only 15% of its foreign sales are raw materials, the rest manufactures, but it has not diversified its trade, nor does its manufacturing expansion have internal chains of its internal market. As with the other countries of the region, it would be advisable for it to have greater trade and integration. On average, Latin America does not trade or even 20% of its foreign trade, despite decades of discourse about integration (Luiselli, 2016).

### **1.12 The challenges and opportunities for Latin America and Mexico**

As pointed out by the OECD, ECLAC and CAF (2016), the difficult transformations, as a result of the economic slowdown of several countries, may lead to the appearance of volatility in some local and international financial markets, however, coupled with a process of rebalancing that goes from investment to consumption and, from an industry-based economy to a service-based economy, can represent both challenges and opportunities for Latin America, that is, Latin American economies could take advantage of an alliance intense and improved, for example, with China. The transformation of China could not only stimulate growth at a time of economic slowdown in Latin America, but also help the region face its traditional challenges.

The main emphasis is placed on China, since it is expected that this country's contribution to world growth will reach 30% in the period 2016-21, a figure that contrasts with the contribution of 5% of LAC. Trade links between Latin America and China have

exploded, becoming the main trading partner of Brazil, Chile and Peru. Financial links have also increased: Chinese loans to Latin America have become the most important source of external financing (USD 125 billion between 2005 and 2015), surpassing other international financial institutions in the region. To this we must add direct investment in infrastructure (especially in energy and transport) and mining.

To benefit from these trends and face the challenges that accompany them, Latin America should diversify and modernize its productive structure, as well as advance its integration. The change of orientation of China towards consumption and its changes related to the urbanization and consolidation of its middle class, will reduce the demand of many raw materials (especially of some metals and energy). However, these changes also open up opportunities for Latin American exports from the agri-food and services sector.

To take full advantage of these opportunities, Latin America could try to position its companies in higher value-added productive stages, incorporating various types of services. Financing (investment and loans) will continue to promote the partnership with China beyond trade, but this requires better regulation, greater government capacity to develop profitable projects at the regional level, environmental sustainability and a greater commitment to transparency. Finally, the technological exchanges between China and Latin America, such as the current science and technology programs in Argentina, Brazil, Chile and Mexico, are mutually beneficial.

However, the Latin American "integration" in its economic aspect, which starts with the Cepalin studies of the late fifties, or perhaps further back, after six decades of continuous and repeated failures, continues to elude us. It is still invoked as a mantra by politicians and academics, but there is no longer a single "Latin American voice". Integration has not occurred, nor will it occur, while Brazil and Mexico are gravitating in different orbits and do not show real interest in dialogue and seeking true and substantive agreements. Mexico and Brazil are the main obstacle, both for different reasons (Luiselli, 2016).

The fact that the joint population of Brazil represents more than a third of the region and its economy just over 60% of the regional GDP can not be ignored. Mexico, for its part, has not managed to build a new Latin American narrative since NAFTA, beyond the Pacific Alliance. Their elites and their government look with indifference towards the south. Brazil and Mexico look at each other with distrust (Luiselli, 2016).

The key is to seek once again a common voice, a frank dialogue and start by an agreement between Brazil and Mexico that, logically, extends to the other countries: thus, integration would be mutually beneficial and the convergence between the south and the north of the region would be possible (Luiselli, 2016).

**Figure 7.** Previsiones de crecimiento del FMI para América Latina



Source: Fondo Monetario Internacional. [www.imf.org](http://www.imf.org).

## Conclusions

2016 was the year of the greatest Latin American disenchantment in decades. It is not only the second consecutive year of economic recession, but also very marked changes of political direction, not seen in a long time. The Latin American economies, as a whole, decreased by almost one percentage point in 2016, and had already fallen by 0.5% in 2015. The entire region faced an uncertain and restrictive international environment. Hence the deep pessimism. After the great boom of the 2000s, Latin America seems to have lost its way again.

The crisis is far from being uniform: it is severe in some countries, moderate in almost all, and, even, there is no such in others. Actually, the problem is more South American than the rest. In Central America, Mexico and the Greater Antilles, the crisis is much more tenuous and some economies are growing vigorously, as in the Dominican Republic, Panama and Costa Rica. Mexico, with its already proverbial lethargy, grew at last, just over 2%. Even in South America itself, countries such as Paraguay, Bolivia and Peru are expanding at more than acceptable rates, close to 4% (Luiselli, 2016).

Finally, and as a prior OECD since 2011, whatever the rate of recovery, the recession will have long-term economic and social consequences, some of which may not be evident in the years to come, even with a view to Consider some of these long-term effects. It should be noted that the OECD likewise raised five questions for the future:

- What is the long-term economic effect?
- When will government policy return to normal?
- Has the global balance changed?
- Can the crisis become a green opportunity?
- Is it necessary to rethink the economy?



Now, the current position is: were these questions answered with actions that have succeeded in rethinking new perspectives for the future? Or do we still not be able to react to the obvious challenge of how to consolidate the economy of Latin American countries by compensating for their low productivity, their informal economy, their political, economic and social imbalances, managing to move to a modern Latin America with higher wages and with state-of-the-art technology, since unfortunately it continues to be segregated throughout its history?

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