Copyrighted Material

The International Political Economy of New Regionalisms Series

GLOBAL ECONOMIC GOVERNANCE AND HUMAN DEVELOPMENT

Edited by
Simone Raudino and Arlo Poletti

Copyrighted Material

First published 2019
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

and by Routledge
52 Vanderbilt Avenue, New York, NY 10017

Routledge is an imprint of the Taylor & Francis Group, an informa business

© 2019 selection and editorial matter, Simone Raudino and Arlo Poletti; individual chapters, the contributors.

The right of Simone Raudino and Arlo Poletti to be identified as the authors of the editorial material, and of the authors for their individual chapters, has been asserted in accordance with sections 77 and 78 of the Copyright, Designs and Patents Act 1988.

All rights reserved. No part of this book may be reprinted or reproduced or utilised in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in writing from the publishers.

Trademark notice: Product or corporate names may be trademarks or registered trademarks, and are used only for identification and explanation without intent to infringe.

British Library Cataloguing-in-Publication Data
A catalogue record for this book is available from the British Library

Library of Congress Cataloging-in-Publication Data
Names: Raudino, Simone, editor. | Poletti, Arlo, editor.
Title: Global economic governance and human development / edited by
Simone Raudino and Arlo Poletti.
Description: Abingdon, Oxon ; New York, NY : Routledge, 2019. |
Series: The international political economy of new regionalisms series |
Includes bibliographical references and index.
Identifiers: LCCN 2018025624 | ISBN 9781138049130 (hardback) |
ISBN 9781315169767 (e-book)
Subjects: LCSH: Developing countries–Economic policy. |
Economic assistance–Developing countries. |
Economic development–Developing countries. | International economic relations. |
Developing countries–Foreign economic relations. |
Developing countries–Economic conditions. |
Developing countries–Social conditions.
Classification: LCC HC60 .G545 2019 | DDC 338.9009172/4–dc23
LC record available at https://lccn.loc.gov/2018025624

ISBN: 978-1-138-04913-0 (hbk)
ISBN: 978-1-315-16976-7 (ebk)

Contents

List of figures
List of tables
List of contributors
List of acronyms

Introduction
Simone Raudino and Arlo Poletti

1 The Global Economic Governance – Human Development nexus
Simone Raudino

2 Wealth and the democratization of Global Economic Governance
Marcel Hanegraaff and Arlo Poletti

3 The World Bank in the post-crisis landscape: Stasis and change after the post-Washington Consensus
Eugenia Baroncelli

4 Competing visions of the Western international economic order and the Chinese Belt and Road Initiative
Uzma Ashraf

5 Normative trade power Europe? The case of EU trade agreements with Asian countries
Daniela Sicurelli

6 Is China colonizing Africa? Africa–China relations in a shifting Global Economic Governance system
Adams Bodomo

7 Economic crises and political downturns in South America: Are MERCOSUR's neoliberal roots a constraint on Human Development?
Roberto Lampa

7 Economic crises and political downturns in South America

Are MERCOSUR's neoliberal roots a constraint on Human Development?

Roberto Lampa

Introduction

This chapter investigates the political and economic dynamics that contributed to trigger fast changes in MERCOSUR's recent past (2013–2016): on the one hand, GDP contraction or stagnation, fiscal adjustments, increasing unemployment, capital flight, external constraints on the BoP and, therefore, sharp devaluations among member states' currencies (CEPAL 2016). On the other hand, the end of the "second wave of incorporation" by left governments in Argentina and Brazil[1] and the regressive changes in Uruguay's economic policy,[2] highlighting sudden developments in the political economy of the sub-regional alliance (IMF 2015a; INE 2017; World Bank 2017). The chapter suggests that, in the period 2003–2012, the inherent tensions between the redistributive national policies of Argentina, Brazil and Uruguay on the one side, and MERCOSUR's hyper-liberal trade, fiscal and monetary policies on the other, produced contradictory and yet positive outcomes. This was mostly possible thanks to the positive external juncture that lasted till 2012.

Beginning in the early 2000s, domestic economic policies inspired by neo-developmentalist (particularly in Brazil) and structuralist (particularly in Argentina) recipes sustained the national aggregate demand of most MERCOSUR countries by means of either fiscal expansionary policies or subsidized consumption, including via concessionary utility tariffs and free access to healthcare and education. During this period, most MERCOSUR governments implemented cash transfer programmes such as the *Asignación Universal por Hijo* in Argentina, the *Bolsa Familia* in Brazil and the *Astori Tributary Reform* in Uruguay, often matched with a robust fiscal stimulus. In the Argentinian case, these measures were complemented with a new attempt to implement import substitution, whereas in Uruguay an ambitious tax reform served as a key redistributive tool. These policies generally resulted in sustained and prolonged growth and a dramatic reduction of poverty; yet, the expansion of consumption and investments also caused an increased need for hard currency reserves to pay for imports.

Since the mid 1990s, MERCOSUR had however been following the theoretical recipe known as "open-regionalism" or *regionalismo abierto* (CEPAL 1994), heavily inspired by orthodox economic theory, whereby

"competitiveness" and "internal and external equilibria" were portrayed as the most important goals. Open regionalism assumed that regional integration and South–South cooperation might have been useful only provided that they did not affect the openness of South American economies to non-regional economies, in order to benefit from so-called open-market globalization policies. In turn, such a relatively high degree of openness implied both the financialization[3] – particularly in Brazil (Bin 2016; Lavinas 2016) – and trans-nationalization[4] of member state economies. These phenomena ignited at their own turn a steady outflow of capitals, which quickly depleted the foreign national reserves of MERCOSUR central banks (Gaggero 2011; Gaggero et al. 2013; IMF 2015a).

Such contradictory forces had not generated major drawbacks in the period 2003–2012 because: i) the terms of trade were favourable to MERCOSUR countries; ii) the out-regional demand – mainly Chinese – for MERCOSUR products remained robust and; iii) the Latin American balance of capital remained in positive territory as a consequence of strong international commodity prices balancing an increasing outflow of foreign reserves due to increased domestic consumption. However, as soon as the external scenario worsened in 2012, increasing legal capital outflows and illegal capital flight on the one side, and a sharp decrease in Foreign Direct Investment (FDI) and Foreign Portfolio Investments (FPI) inflows on the other, led to a severe external constraint on the BoP of the main sub-regional economies, including Argentina.

In 2013–2016, such a deteriorating economic outlook inescapably affected the popularity of the progressive national governments that had been in charge for a decade, including *Frente para la Victoria* in Argentina; *Partido dos Trabalhadores* in Brazil and; *Frente Amplio* in Uruguay. At this stage, the December 2015 electoral success of the right wing government of Mauricio Macri in Argentina and the 2016 soft *coup d'état* carried out in Brazil by a conservative coalition led by Michel Temer, paved the way for severe fiscal adjustments; devaluations and; fiscal austerity policies aimed at undoing many of the inclusionary social policies of the previous fifteen years.

One of the questions surfacing among Latin American researchers is how the successful socio-economic results achieved during those fifteen years could be reversed so quickly. Notoriously, the trade structure of MERCOSUR economies is heavily dependent upon commodity exports, suffering from periodic cycles of volatility. As bull-bear cycles in international commodity markets are notorious problems marring the BoP of economies relying on the primary sector,[5] one would have expected MERCOSUR regional coordination and institutional reforms to complement the redistributive and demand-oriented policies of MERCOSUR member countries with the exporting needs of the block. Instead, a lack of regional initiative left the important social achievements of the progressive governments of Brazil (Lula and Rousseff, 2003–2016), Argentina (Nestor and Cristina Kirchner, 2003–2015)

and Uruguay (Tabaré Vazquez and José Mujica, 2004–2015), extremely vulnerable to a worsening external scenario. A different institutional framework, including an effective implementation of the *Banco del Sur*, a monetary fund established in 2009 with the aim of lending hard currency to member states to prevent recurrent BoP crises, could have avoided some of the most damaging consequences of the external shocks that hit the region since the 2008 financial crisis, while also constraining the implementation of unilateral and uncoordinated national austerity policies.

The chapter is structured as follows: section II recalls the most important social achievements of MERCOSUR countries in the period 2003–2012 (while showing the political changes that made possible such achievements) together with the sudden stop of 2013–2016, which eventually turned into a change in the political cycle in Argentina and Brazil. Section III explores the hypothesis that the crises of several MERCOSUR countries after 2013 might be a product of the inconsistences between the aims of the national policies of these member states and the lack of regional institutions able to guarantee the compatibility between these national policies and the external economic scenario. From this perspective, we recognize two different stages: a first period (2003–2012) in which a positive external conjuncture allowed almost all MERCOSUR governments to pay for redistributive and demand-led policies and; a second period (2013–2016) characterized by a sharp deterioration of the international outlook, which, along with the lack of a regional framework protecting and coordinating national policies, entailed a rapid deterioration of the economic fundamentals of MERCOSUR national economies. Finally, section IV draws some conclusions about the limits of the progressive policies and expansionary business cycles that characterized MERCOSUR in the past decade, suggesting some possible lines of institutional reform.

Economic growth and Human Development in 2003–2016: mixed progress and new crises

Broadly speaking, all MERCOSUR countries experienced similar economic trends during the so-called progressive cycle that began in 2003. During a first phase until 2011–2012, good economic performances guaranteed robust growth and meaningful advances in terms of *Human Development*. In a second phase, the deterioration of the external scenario determined a reversal of such an expansionary tendency, which eventually turned into a severe crisis in 2015, bringing to an end the progressive cycle.

In the 2003–2014 period, Brazilian GDP per capita grew at an annual rate of 2.5%; poverty decreased from 35.8% of the population to 15.9% in 2012; extreme poverty from 15.2% to 5.3%. Accordingly, 31.5 million Brazilians (of which 16 million were in extreme poverty) exited poverty during the first decade of the *Partido dos Trabalhadores'* administrations (Weisbrot et al. 2014). In particular, the *Bolsa Familia*[6] represented 60% of the income for

the population in extreme poverty and 17.6% for the people in poverty. In addition, the share of GDP dedicated to education spending[7] increased from 4.6% of GDP in 2003 to 6.1% in 2011. Accordingly, the Gini index fell from 0.59 to 0.53 and unemployment (which reached 13.0% in 2003) decreased to 5.4% in 2013. Nevertheless, after growing at a rate of 7.6% in 2010, the subsequent year the Brazilian economy entered a recessionary period. Economic growth slowed down to 3.9% in 2011, 1.8% in 2012 and 2.7% in 2013. In 2014, Brazil grew only at a rate of 0.1%, entering into recession for two consecutive quarters (Serrano and Summa 2015).

While these trends were mostly due to the worsening international economic conditions – as witnessed by the sharp decline in the average annual growth of exports in the 2011–2014 and 2004–2010 periods, respectively 1.6% and 5.2% – the macro prudential measures, implemented by the Rousseff government in response to this external scenario, further fuelled them. In particular, the rate of growth of real disposable income fell from 5.3% in 2004–2010 to 1.2% in 2011–2014 (Serrano and Summa 2015). As a result, for the first time in over a decade, the Gini index increased from 0.559 to 0.567 in 2011–2012, whereas extreme poverty also went up from 5.4% to 5.9% in 2012–2013 (Economic Commission for Latin America and the Caribbean (ECLAC) stat). From this perspective, the institutional crisis begun in 2015 and culminated with the parliamentary coup of 2016 determined both a change in the political cycle and a further worsening of the economic outlook. GDP decreased by –3.5% in both 2015 and 2016; unemployment peaked to 13.4% in 2017 (from 6.8% in 2014). The WB recently estimated that – from the beginning of 2016 to the end of 2017 – 2.5 to 3.6 million Brazilians have fallen back into poverty (World Bank 2017).

Coming from the catastrophic crisis of 2001, the Argentinian economy also experienced a dramatic growth of 63% during the years 2004–2014.[8] More importantly, poverty decreased from almost half of the population in 2001 (45.5%) to approximately one-seventh of the population in 2010 (14.3%). Extreme poverty also experienced a sharp decline, from almost one-third of the population in 2001 (29.2%) to approximately one in fifteen in 2010 (6.6%). The Gini index showed a similar trend, decreasing from 0.54 (in 2002) to 0.44 (in 2011). In the same years, unemployment fell from 18.4% to 8%. (Weisbrot et al. 2011). In those same years, the "Universal Allocation per Child" (*Asignación Universal por Hijo*), a social programme aimed at reducing poverty vastly reduced child mortality (Weisbrot et al. 2011). However, in 2012–2015, the unfavourable change in the external scenario severely affected the Argentinian economy, determining a (almost) zero economic growth, as a result of the alternation between two years of recession (2012, –1.9%; 2014, –2.6%) and two years of recovery (2.3% in 2014; 2.1% in 2015). This alternation was determined essentially by the trend of public expenditures (which decreased in 2012 and 2014 and, vice versa, increased in 2013 and 2015), since both investments (–1%) and exports (–8.7%) contracted in this period.[9] The

predictable consequences were an increase in poverty and extreme poverty between 2013 and 2014, from 18% to 20.6% and from 4.3% to 5% respectively, and a lack of progress in the distribution of income (0.423%) between 2012 and 2014, notwithstanding the capital controls introduced in 2012 and the increase in social expenditures.[10] The change in the political cycle of December 2015 (Macri's presidency) determined a further worsening of such economic outlook: in 2016 GDP contracted by 2.3% and inflation peaked to 40.3% (the highest in the past fourteen years), determining a remarkable increase in poverty rates (+3.9%) (UCA 2017).

Finally, Uruguay also displayed similar dynamics. The country's social indicators were seriously affected by the economic recession of 1999–2002 (Ibáñez presidency; neoliberal "Colorado" administration), as shown by *Human Development* analyses (UNDP 2013): in 2004 the education poverty rate[11] got to its highest level (65.8%), the housing crowding rate peaked to 23.4%, and the durable goods index[12] reflected the severe consequences of the crisis by getting to a rate of 0.54[13] in 2006. However, since the political change of 2005 (Tabaré Vazquez presidency; centre-leftist "*Frente Amplio*" administration) Uruguay dramatically improved both social conditions and social inclusion, as shown by a drop in the poverty rate (12.4%) and extreme poverty being almost eradicated (0.5%) by 2012 (IMF 2015b). Accordingly, the number of children below the poverty line shrank to 25% in 2011 (OECD 2014). The Gini index showed a similar trend, decreasing to 0.379 in 2012, whereas unemployment and vulnerable employment rates dropped to 5.5% (the minimum historical value) and 22% respectively. Finally, the education poverty rate fell to 59.8%; the housing crowding rate dropped to 13.73% and the durable goods index shrank to 0.18. Nevertheless, such promising trends significantly slowed down in the following years. Extreme poverty remained unvaried in 2013, decreasing to 0.3% in 2014 and 2015 and, eventually, to 0.2% in 2016. Poverty initially contracted in 2013 (11.5%) and 2014 (9.7%) but stagnated in the following two years. At the same time, the job market was characterized by a meaningful increase in both unemployment and vulnerable employment rates: in 2016, they reached 7.8% and 25.3% respectively. Furthermore, the Gini index showed an increase in the country's inequality, getting to 0.386 in 2015 and rebounding to 0.383 in 2016 (INE 2017). Nevertheless, it is important to stress that Uruguay never entered a recession: differently from Brazil and Argentina, its worst performance was an extremely moderate GDP growth in 2015 (+0.37%).[14]

By way of conclusion, it can be said that, with the partial exception of Uruguay, after 2012 there was a sharp change in the economic policies of the region, which had a strong impact on economic performances and HDI levels. Because this change was also inspired by a changing external scenario, the following paragraphs investigate how both national and regional institutions in the MERCOSUR region were dealing with such external scenario.

Open regionalism as a constraint on Latin America's growth sustainability

CEPAL (1994: 8–12) defines "open regionalism" or *regionalismo abierto* as

> a process of increasing economic interdependence on a regional scale, promoted by means of either preferential agreements or specific policies, carried out in a context of increasing *openness* and *deregulation*, aimed at increasing the competitiveness of regional countries as well as achieving an international economy *more open* and *transparent* … The *final purpose of* open regionalism is that integration policies *become both compatible and complementary* to the economic policies aimed at *increasing international competitiveness*.

From the mid-1990s until the change in the political cycle in the early 2000s, Latin America has often been portrayed as America's backyard, as well as a sort of laboratory for Washington's foreign and economic policies. This is most emblematically visible in Washington's grip on Latin American economies, with most regional trade initiatives being shaped at the White House, the Department of State and the Department of Commerce and subsequently conveyed to capitals in South America.

The most evident episode in this regard might have been the first Summit of the Americas in Miami, in 1994, which discussed for the first time the creation of a new Regional Trade Agreement (RTA), the Free Trade Area of the Americas (FTAA). The FTAA was understood as an expansion of the North American Free Trade Agreement (NAFTA), whereby it was proposed to eliminate or reduce trade barriers among all countries of the America with the exception of Cuba.

It is important to note how the March 1998 FTAA Ministerial Meeting in San José, Costa Rica, had already emphasized how "the FTAA *can co-exist with bilateral and sub-regional agreements*, to the extent that the rights and obligations under these agreements are not covered by or go beyond the rights and obligations of the FTAA" (Carranza 2003: 1030). The relations between MERCOSUR and the US were formalized by the "four plus one" agreements in 1991, which led to the creation of the *Consejo Consultivo sobre Comercio e Inversión* (Consultative Council on Commerce and Investment) of MERCOSUR. Negotiations between MERCOSUR countries and the US on participation in the FTAA were no longer held by each individual country but organized exclusively through this joint council (Fernández-Jilberto and Hogenboom 1997). In addition, the FTAA was aimed at locking-in a deeper economic integration agenda that, if implemented, would have amounted to a virtual free trade area between the Latin American and US economies. Complementarily, and additionally to WTO regulations, the institutional changes of the new RTA would have reasonably removed all existing barriers

to US Foreign Direct Investments (FDI) in the region, thus opening the Latin American markets to a wide range of US service industries (Carranza 2003). These factors suggest that sub-regional agreements played a pivotal role within the broader US economic strategy for Latin America, since the liberalization and openness of South American economies represented a first step towards the introduction of neoliberal rules at the continental level (Escudero 1992; Alvarez 2011).[15]

In this scenario, the birth of MERCOSUR (1991–1995) should not be seen as a stand-alone project of regional integration. It was, firstly and foremostly, a specific "USD 50 billion bet" (Schott 2001) that US companies made on the future of South American economies, since MERCOSUR's destiny was to be absorbed by the FTAA.[16] But it was also, more comprehensively, conceived by the US as part and parcel of its neoliberal-inspired foreign policy agenda among low- and mid-income countries, commonly known as Washington Consensus[17] (Ferrer 1996; Gardini 2007, 2010).

Several domestic factors pushed MERCOSUR governments in accepting the neo-liberal credo in those years. The severe hyperinflation crises that hit Brazil and Argentina between 1989 and 1990 had produced a widespread mistrust towards structuralist economic policies (Sember and Vernengo forthcoming).[18] Vice versa, the effective – at least in the very short-term – monetary stabilization achieved by means of fix exchange rates and commercial openess (since imported goods were cheaper than domestic ones) determined a favourable change of climate towards neoliberal reforms. As a result of these domestic political dynamics, both Brazil and Argentina had already adopted an impressive amount of pro-market reforms before the birth of MERCOSUR. In this context, MERCOSUR was seen as a powerful tool to both deepen and accelerate the ongoing neoliberal transformation of these economies (Manzetti 1993). Therefore, far away from being a mere external imposition on South American governments, MERCOSUR should be interpreted as the result of two convergent agendas, "from within" and "from without" the continent: MERCOSUR was the result of broader changes at the international level *and* of the neo-liberal policies of Presidents Menem of Argentina and Collor of Brazil (Gardini 2007).[19]

By virtue of provisions contained in the MERCOSUR agreement, the degree of openness of member countries rose sharply. The new international trade regulations implied the convergence to a binding common external tariff vis-à-vis the rest of the world's goods and services, as well as the liberalization of intra-member trade, despite the reluctance of both the primary and secondary sectors in Brazil and Argentina, which caused delayed and incomplete implementations (Gardini 2006). At the same time, financial deregulations played a pivotal role: when the mobility of capitals became operative, with no gradualism allowed by the agreements, both the currencies' exchange rates and the net position of the BoP became deeply reliant upon the inflow of short-term capitals, as also evidenced by the severe consequences of the 1994 Mexican *Tequila crisis* on the Argentinian and Uruguayan economies.[20] Increased reliance on short-term flows of foreign capitals limited the room for

expansionary fiscal policies, since in peripheral countries financial investors associate a higher fiscal stimulus to a higher expected inflation. In turn, a higher inflation is associated to a forthcoming devaluation (because, otherwise, inflation would imply a lower real exchange rate, reducing the country's competitiveness), which would inescapably affect their capital gains (being the initial investment denominated in local currency).[21] Finally, the new agreement also imposed a quasi-perfect mobility of labour.

The new political scenario determined by the birth of MERCOSUR also had repercussions on the economic debate: across the region, the traditional *structuralist approach* was surpassed by the rise of *neoclassical economics*. The United Nations Economic Commission for Latin America and the Caribbean (*Comisión Económica para América Latina y el Caribe* – CEPAL) was inevitably affected by the new climate: since the new political scenario was highly unfavourable to economic heterodoxy and hostile to classic CEPAL formulations,[22] the new director Gert Rosenthal – an experienced conservative diplomat appointed in 1988 – acknowledged the neoliberal reforms implemented by national governments in the region, although he opposed some specific elements (Ocampo 2000; Bielschowsky 2009).

In Rosenthal's view, the traditional (*structuralist*) Import Substitution Industrialization (ISI) approach developed by CEPAL in the 1960s was biased by an anti-export and anti-rural prejudice. In light of such a prejudice, CEPAL works had become rather repetitive: ISI, for instance, had been maintained for much longer than the circumstances warranted.[23] Instead, in Rosenthal's eyes, the increased degree of openness of the main economies of the region had proved to be effective in moderating both fiscal and monetary policies and, therefore, in contrasting hyperinflation in the late 1980s, notwithstanding a sharp increase in inequality (Rosenthal 1996). Such a view was expressed in detail in a 1994 document – entirely authored by Rosenthal (Bielschowsky 2009) – which can be legitimately considered as the *Manifesto* of CEPAL's new course.

Underpinning this new course was the concept of open regionalism, namely the idea that both a higher degree of global openness and a deeper regional integration were necessary elements to ripe the benefits of "globalization". Hence, the term "regionalism" did not underscore the need to reduce the *openness* of South American economies. Quite the contrary, in CEPAL's view, regional agreements were to be conceived as tools to further integrate (already) *open economies* in *a more liberalized and transparent economic order* (CEPAL 1994: 23). From this perspective, economic growth was essentially seen as the result of the benign influence from the external sector and inwards FDI.

Accordingly, CEPAL clarified that integration agreements would have been consistent with open regionalism only if they could meet nine requirements: i) an extensive liberalization of markets of goods and services; ii) facilitation of new members' entry; iii) legal certainty and transparent rules; iv) absence of disequilibria in the BoP of the country members; v) moderate levels of protection against third-party competitors; vi) reduction of capital controls

and facilitated convertibility of currencies; vii) agreements favourable to the international transfer of technology; viii) fiscal incentives in order to support the relatively less developed countries; and ix) institutional arrangements in order to promote the participation of each country's social sectors (Fuentes 1994: 84).

Based on such premises, CEPAL explicitly praised MERCOSUR as an example of integration, since it represented an ambitious and consistent commitment to extend free market to all the goods produced by its member countries, differently from any other regional agreement (CEPAL 1994: 45). In other words, open regionalism suggested further integration into the world economy by means of regionalization, since the economic interdependency of Latin American countries was inescapably linked to global liberalization and deregulation. Accordingly, open regionalism constituted a clear shift away from the structuralist concept of economic integration through Import-Substitution Industrialization, since it granted a fundamental role to free market mechanisms in allocating resources in the production process (Fernández-Jilberto and Hogenboom 1997).[24] Considering the above, one may legitimately conclude that, around 1994, CEPAL not only acknowledged the neoliberal reforms already implemented in the continent, but also turned into a powerful Global Economic Governance "shaper" actively promoting such reforms across Latin America.

Notwithstanding CEPAL's enthusiastic forecasts, empirical evidence suggests that MERCOSUR economies began running into problems shortly after open regionalism was adopted. The Argentinian bilateral trade deficit with Brazil immediately became a controversial issue that undermined MERCOSUR's integration (Pinto de Andrade et al. 2003). In 1997, Argentinian President Menem proposed a common currency in order to overcome such a persisting problem. In all likelihood, Menem's proposal was merely motivated by Argentinian political contingencies, since there was no economic justification to such a common currency (Licandro 2000): even adopting Mundell's (orthodox) theory of Optimum Currency Areas (OCA) (Mundell 1961), the question of why Brazil should have accepted to join a similar monetary union remained largely unanswered. On the other hand, it is plausible that further integration would have implied an even more open domestic market as well as a more intense cross-border competition, making exchange rate fluctuations even more disruptive of bilateral trade (Eichengreen 1998).

An aprioristic defence of MERCOSUR continued well into the 2000s by governments pertaining to the new political cycle. Broadly speaking, both financial and commercial openness and the fixed exchange rates were situated at the origin of the catastrophic crises of 2001–2002, since they produced, respectively, current account deficits in MERCOSUR's countries and a sharp increase of the external debt denominated in USD in order to defend the fixed exchange rate (O'Connell 2005; Kregel 2014). Analysing the Argentinian default of 2001, the IMF (2003) – which had previously played a pivotal role in determining such a failure – explicitly questioned the role played by

MERCOSUR. In particular, the IMF highlighted that the imbalanced bilateral trade between the two biggest country members (which concentrated Argentina's exports in primary products to Brazil) represented a major vulnerability (IMF 2003: 18). In light of this evidence, IMF concluded that

> MERCOSUR trading arrangement may thus have amplified the effect of the peso's real appreciation by contributing to Argentina's low export share as well as its vulnerability to adverse commodity price developments and, increasingly, to weaker regional demand, particularly from Brazil.
>
> IMF 2003: 24

Despite all this, in December 2002, when the sovereign debt crises had already hit most MERCOSUR member countries, the governments of Argentina and Uruguay[25] still emphasized that, *because of* the creation of MERCOSUR, both countries had moved from semi-autarkic economies, with strong State interventionism, to *liberal market* economies linked to global trade flows and capital mobility. In those governments' eyes, such an important achievement was possible because MERCOSUR's founding countries had recognized the need to be an integral part of economic "globalization". Notwithstanding the catastrophic economic outlook of those days, both administrations insisted that the challenge for MERCOSUR countries *was to continue integrating their economies in the world*; however, they also insisted that the social dimension should not have to be forgotten, for the purposes of social cohesion (ILO 2002). In particular, member states took note of the remarkable increase in income disparities across MERCOSUR countries during the 1990s. Sub-regional governments also emphasized that the existing institutions were already compatible, in theory, with a *different economic policy* (i.e. redistributive and/or expansionary policies), aimed at reducing inequality. By doing so, they implicitly dissented with several analyses recommending a structural institutional reform of MERCOSUR (Arestis et al. 2003; Blyde 2006).

Figure 7.1 shows that the degree of openness of MERCOSUR economies remained almost unvaried throughout the 2002–2012 progressive cycle and the subsequent economic crisis of 2013–2015, with a sharp increase in Uruguay before the 2008 crisis. Under such scenario, the room for expansionary fiscal policies remained highly dependant upon the external conjuncture and the terms of trade.

From this perspective, what is particularly striking is that no capital controls were introduced (or even proposed) despite the severe financial downturn that had already shaken MERCOSUR member states. The Argentinian government likely represents the most outstanding example of relentless capital liberalization. President Menem's 1992 reform of the central bank had aimed at guaranteeing higher capital mobility – meant as a powerful tool to tie the government's hands – thus moderating both fiscal and monetary policies (Sember and Vernengo forthcoming). Because the

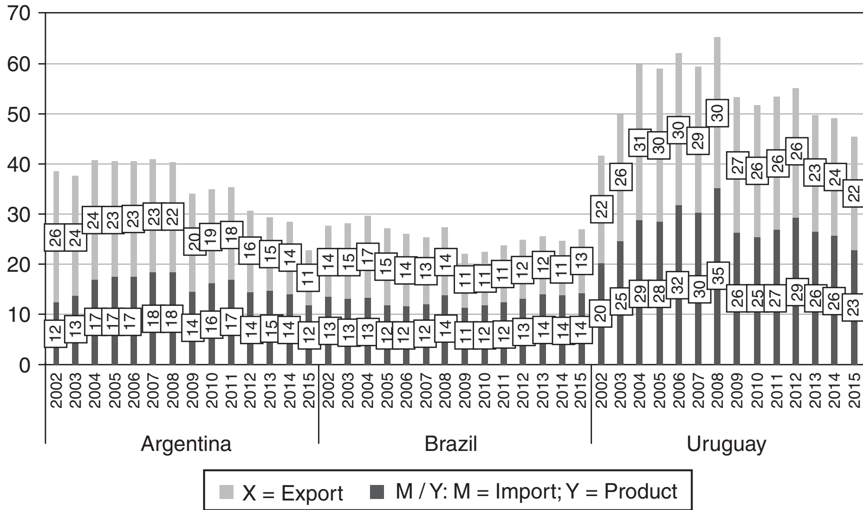

Figure 7.1 Degree of openness (X + M / Y) of MERCOSUR economies

Argentinian and Uruguayan financial sectors were the most open in the region, the 1994 Tequila crisis hit more severely these two countries than any other regional economy. Financialization in Argentina (1990–2003) was so intense that financial investments crowded out real investments, thereby reducing capital accumulation: gross fixed capital formation as a percentage of GDP fell from an average of 20% (1980–1989) to 17% (1990–2005). Only the 2001 sovereign default interrupted such a tendency to financialisation, forcedly closing Argentina's capital account (Demir 2008).

From this perspective, the center-left governments of the region revealed a "revisionist attitude towards multilateralism" according to which the adhesion to regional (i.e. super-national) institutions represented a progressive revival of the unionist (as well as anti-imperialist) projects of Simón Bolívar and Francisco Morazán. However, they deliberately ignored that the increasing trans-nationalization of their economies would have also implied the risk of "middle-income traps",[26] arising from their growing involvement in global dynamics. As a result, Latin America rapidly became more globalized and dependent on transnational dynamics than its political narratives seemed willing to accept (Sanahuja 2017).

At the same time, there is no doubt that the progressive governments that led MERCOSUR member states since the early 2000s imposed a change in the political discourse, which also affected the significance attributed to both MERCOSUR and multilateralism. Nevertheless, the compatibility between an expansionary fiscal policy and the degree of openness (both commercial and financial) of the member states was not even discussed.

The increased dependency on the external scenario inescapably affected the sustainability of the expansionary policies, especially after 2012. Predictably enough, as soon as the external conjuncture worsened, both the current account (particularly in Argentina) and the capital account (particularly in Brazil and Uruguay) reflected the difficult situation of the MERCOSUR economies, imposing fiscal adjustments and social expenditures cuts.

Bilateral trade imbalances and the return of the external constraint on the Argentinian BoP

As anticipated in Section 2, Argentina's economy showed a poor performance starting from 2011–2012. Stated succinctly, two problems affected the economic outlook: first, the bilateral trade with Brazil; second, the extended current account deficit (since 2010 to the present day) which turned into a shortage of reserve currency and, therefore, prompted the introduction of emergency capital controls between October 2011 and December 2015.

Intra-regional trade among MERCOSUR countries has shown structural imbalances since the very foundation of the sub-regional alliance. In short, while MERCOSUR is very important for Argentina's trade patterns (representing more than 30% of its total trade), it is not so relevant for Brazil, accounting for hardly 10% of the Brazilian commercial balance (Noya et al. 2015). Since MERCOSUR countries have a similar international specialization, the sub-regional alliance also operates as an amplifier of global shocks: in the event of an international crisis, not only is Argentina (or Uruguay) directly affected by the global shock, but also by the recessionary effect that the shock produces on other MERCOSUR's partners members, first and foremost Brazil. From this perspective, Brazil turned into a sort of exogenous variable for Argentina's economy, since any slowdown of the Brazilian economy immediately affects Argentina's rate of growth by means of a sharp fall in its exports.

In addition, Argentina also suffers from a structural deficit in the balance of trade with Brazil. In the 2003–2016 period, Argentina ran an uninterrupted trade deficit with Brazil, which summed USD 36.2 billion. However, almost half of such bilateral imbalance (USD 16.9 billion) was accumulated in the 2010–2015 period. In particular, in 2011 trade deficit with Brazil peaked to 5 billion dollars, which represented approximately one third (32.7%) of the passive items of the balance of trade. This amount is largely superior to both the bilateral deficit with the US (USD 3.5 billion) and Pacific Asia (which includes China, USD 3.1 billion). In other words, Argentina's trade deficit with Brazil was a further structural problem of MERCOSUR, since it was independent from the economic conjuncture: not even during the recessions of Brazil (2009, 2015 and 2016), Argentina was able to re-equilibrate its bilateral BoP, as shown in Figure 7.2.

A second problem emerged with the capital account of the Argentinian BoP between 2010 and 2015. For one, it is important to stress that the post-default debt restructuring determined a "forcedly closed" capital account regime in

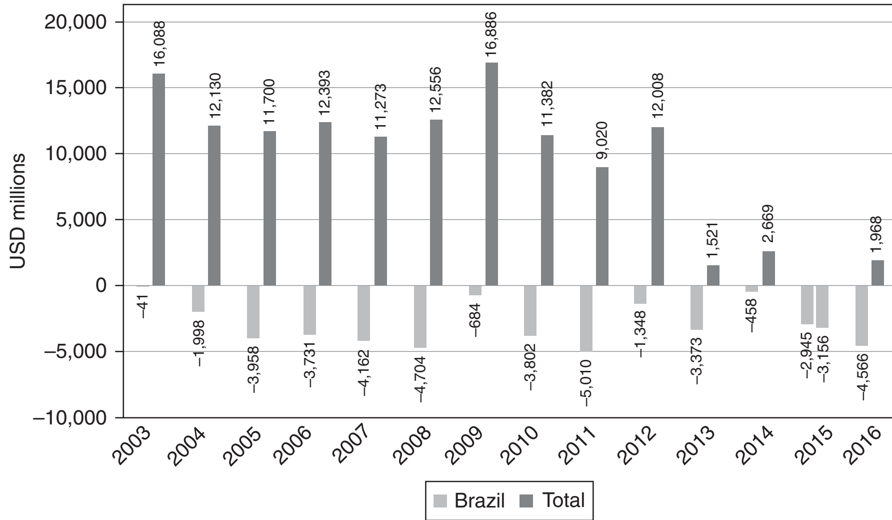

Figure 7.2 Argentina's balance of trade: Brazil versus total (USD millions)
Source: Ministerio de Hacienda (Argentina)

Argentina, a scenario in which capital may not move freely in or out of the country and bond-issuing (denominated in reserve currency) is forbidden. In such a case, any deficit in the current account immediately turns into a stress on the reserve position, since there is no inflow of capital to counterbalance it. From 2010 to the present day, Argentina ran a capital account deficit. On the current account side, no deficit was registered on the balance of trade between 2010 and 2014. Instead, the main determinant of the passive current account was the *investment income* (i.e. the payments to foreign holders of Argentina's debt (via interests) and bonds (via dividends), normally categorized as part of the *Primary Income* or *Factor Income* by the IMF), whose deficit increased of 31.7% between 2009 and 2011 (see Figure 7.3).[27]

This outflow of capital is due to the extraordinary importance that transnational corporations have within the Argentinian industrial sector (Santarcangelo and Perrone 2012). Since the decisions of such firms are highly volatile and independent from any government's economic plan, the deteriorating outlook of 2011–2012 also owes to a change of attitude of such international players, who proved unwilling to leave in Argentina the returns deriving from their investments in Argentina. As no inflow of capital could counterbalance the current account deficit, an impressive outflow of capital severely hit Argentina's monetary reserves in the very same years. Between 2009 and 2011 external assets formation of the non-financial private sector (i.e. the deposits held abroad by Argentinian private and non-financial agents) increased by 67.5%.[28] The combined result was a dramatic reduction

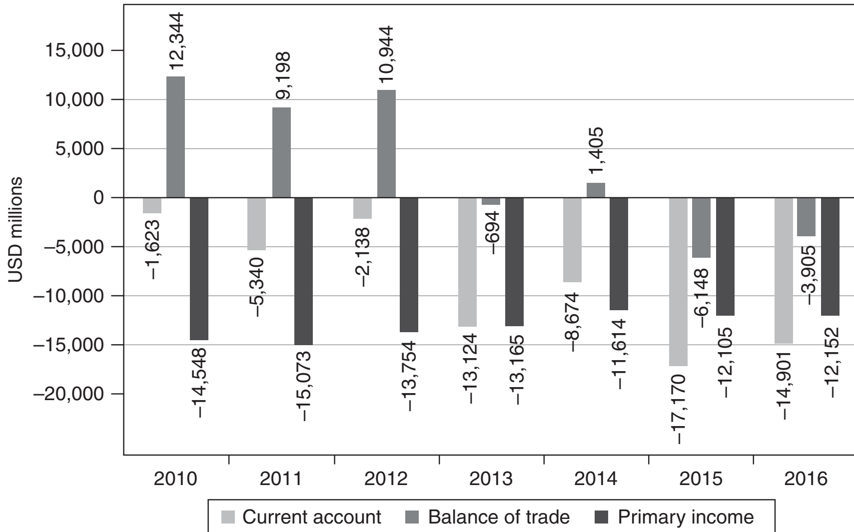

Figure 7.3 Argentina's determinants of current account deficit (USD millions)
Source: INDEC

of international reserve in 2011, corresponding to approximately a quarter of their total amount. The government's response was the introduction of emergency capital controls in October 2011, which however achieved only a stabilization of the economic outlook and not a reversal: in 2015, the investment income deficit was still 16.2% higher than in 2009, while the external assets formation had risen by 32.2%.[29]

What is striking is the lack of a common initiative by MERCOSUR institutions and/or country members. Helping Argentina by means of a credit swap denominated in dollars would have required a minimum effort, particularly for Brazil, whose reserve in dollars amounted to almost USD 400 billion, whereas Argentina's were approximately USD 30 billion, in those days. This notwithstanding, such a rescue plan was not even discussed. At the same time, the Argentinian contingencies of 2011–2015 also highlighted the fragility of MERCOSUR's institutions, particularly in light of the non-implementation of the *Banco del Sur*, MERCOSUR's development bank, whose original mandate was rescuing member countries in the event of a BoP crisis.

Capital volatility and financialization in Brazil and Uruguay

In his inaugural address to the extraordinary 1969 ECLAC session, the Chilean Chancellor, Gabriel Valdés (1969), exemplified a most extraordinary

paradox about capital flows between the mid- and low-income countries of Latin America and their Northern hegemon:

> It is commonly believed that our continet receives a *factual* financial-aid from abroad. The data show the opposite. It is possible to state that Latin America contributes to the financing of United States and other developed countries. Private investment in Latin America has always meant, and still means, that the amount of capital flown-out of the continent is several times bigger than the one invested.

Valdés pointed to the fact that the *Primary Income* voice in the current accounts of the US and Western European countries counted on large amounts of profit repatriation and debt servicing deriving from US investments (equity and loans) across Latin America. These flows easily offset, and largely surpassed, the US and Western European net investments (FDI and FPI voices in the Capital and Financial Account) and ODA (*Secondary Income* voice of the current account) in Latin America. Capital flight, whereby Latin American nationals had long exported capitals to the US via illegal and unrecorded means, contributed in the net outflow of capital from the Latin American region to the US and Europe.

The disruptive role played by an open capital account had been debated in Latin American economic circles for a long time, particularly during the so-called "Developmentalist stage", approximately covering the period between the late 1940s and the early 1980s (Prebisch 1946; Sunkel and Paz 1970). In the 1990s the question of the impact of *short-term* capital movements on the real economy re-ignited the debate: as new financial products and technological developments on capital market infrastructures begun allowing for much swifter, substantial and speculative uses of international liquidity, many saw a qualitative difference between the impact of short-term and long-term capital movements. The Tequila crisis of 1994 provided a most fitting scenario for such revival of the debate (Musacchio 2012).

More recently, even the IMF, which in the 1990s and 2000s was among the staunchest supporters of radical capital liberalization, begun questioning its theoretical premises. In their analysis of the decade going from 2002 to 2012, Kose and Prasad (2012) show how the causal effect of capital account liberalization on growth had been irrelevant in emerging markets. Furthermore, they show how the increases in capital flows from industrialized to developing countries represented a pro-cyclical element, since foreign investors proved willing to lend in good times, but pulled back as soon as the macroeconomic outlook worsened, thus amplifying swings in the peripheral business cycle. Accordingly, abrupt capital outflows acted as triggers of several financial crises in emerging markets.

Ostry et al. (2016) have calculated about 150 episodes of surges in capital inflows in more than 50 emerging market economies since 1980, concluding that capital account openness consistently figured as a risk-factor in those

cycles. In addition, Siddiqui (2014) shows that the overall increase in foreign capital inflows during the last decade had a relevant appreciation-effect on domestic currencies. In turn, such an appreciation induced a restrictive monetary policy, with higher rates of interest. The overall effect was that domestic investors were negatively affected both by the loss of competiveness and by the credit crunch. Therefore, by allowing the unrestricted inflow of foreign capital, emerging countries have often undermined their own domestic market and increased their dependency on foreign investors to sustain higher economic growth rates.

Table 7.1 shows a similar trend in Brazil. The rate of interest remained high, independently from output levels, even during the years of GDP contraction, acting as a pro-cyclical factor of recession. The explanation lays in the necessity to attract a robust inflow of short-term capital, in order to achieve a surplus in the financial account capable of compensating the current account deficit. The importance of this inflow of capital was such that total reserves in USD got to 373 billion in 2012.

Along these lines, Azis and Shin (2015) emphasize that, in the post-2008 scenario, the "easy money" policy (Quantitative Easing and Tapering among others) in advanced economies has negatively affected emerging markets, creating widespread financial instability. In simplified terms, such outcome depended on the negative interest rate policy of the central bank of the northern hemisphere, which displaced speculative capitals towards emerging markets. The relationship between arbitrage/speculative opportunities and "easy money" has been explored in depth by Kaltenbrunner and Painceira (2016). For one, the notorious *carry trade*[30] in the emerging markets should

Table 7.1 Brazil's economic indicators

Year	*GDP variation (%)*	*Annual nominal interest rate (%)*	*Current account (USD million)*	*Financial account (USD million)*	*Total reserves (USD billion)*
2003	1.1	16.3	4,177	–157	49.3
2004	5.8	17.7	11,679	–3,532	52.9
2005	3.2	18.0	13,985	13,144	53.8
2006	4.0	13.2	13,643	16,152	85.8
2007	6.1	11.2	1,551	88,330	180.3
2008	5.1	13.7	–28,192	28,302	193.8
2009	–0.1	8.7	–24,302	70,172	238.5
2010	7.5	10.7	–75,824	125,112	287.6
2011	4.0	10.9	–77,032	137,879	352.0
2012	1.9	7.1	–74,218	92,853	373.2
2013	3.0	9.9	–74,839	67,877	358.8
2014	0.5	11.7	–104,181	111,431	363.6
2015	–3.8	14.2	–59,434	56,714	356.5

Source: WB/CEPAL/Banco Central do Brasil

not be considered an aberration of otherwise perfectly working markets, but a structural feature of the international monetary system, namely financialization.[31] In addition, Kaltenbrunner and Painceira (2016) apply such an interpretative hypothesis to Brazil, highlighting how capital flows have been characterized by extreme volatility over recent years, irrespective of Brazil's sound fundamentals and its position as net currency creditor. Instead, it has been largely shaped by conditions on international financial markets. In Brazil, cumulative 12-months short-term capital flows surged from an outflow of USD 8 billion at the beginning of 2000 to more than USD 60 billion and USD 50 billion at the end of 2007 and 2010 respectively. Brazil's total stock of outstanding short-term external liabilities reached 46.1% of GDP in June 2008 and 39.7% of GDP in March 2011, compared to only 28% of GDP before the crisis in 1999. Foreign investors' participation in the Brazilian stock market increased from below 25% to more than 50% at the end of 2014.

A similar policy also characterized Uruguay and, after change in the political cycle in 2015, Argentina. On September 2016, Argentina, Uruguay and Brazil occupied the three top position in the global ranking of carry trade. The annual expected gain in USD was +5.84%, +5.13% and +4.2% respectively: a exceptional capital gain when compared to the corresponding expected values in the UK (–0.07%) and the Eurozone (–1.88%) (Reuters-El Cronista 2017). The main consequence of these capital movements was a sharp increase in volatility of both capital and exchange rates. Accordingly, rather than letting this excess be "absorbed" in the domestic economy, the Brazilian central bank had accumulated huge foreign exchange reserves as a buffer against sudden stops or capital flight. Foreign exchange reserves in Brazil increased from USD 50 billion in 2004 to USD 364 billion in 2014. Nevertheless, reserve accumulation implied a net resource transfer from Brazil to developed countries: on the one hand, the Brazilian central bank hold low-yielding and safe sovereign bonds; on the other hand, as soon as foreign capital dramatically increased their value, they were repatriated (Painceira 2008). Within this framework, international reserves cannot be used to finance counter-cyclical fiscal policies in times of recession, as illustrated by Table 7.1. Rather, they become the sub-product of financialization and speculative movements of capital. It is noteworthy that Goncalves (2007) reached similar conclusions with regards to Uruguay: notwithstanding the high level of reserves in a country that has a highly dollarized financial sector, further reserve accumulation is constantly needed.

Within this context, regional integration has generally acted as a further element of instability: Azis (2015) stressed that the snowball effect of the Eurozone crisis represented a vivid example of the contagion risk of highly integrated systems. In his view, the market-driven process of regional integration needs to be carefully managed in order to strengthen financial safety and, therefore, to minimize the potential costs in terms of uncertainty and volatility in financial markets.

Many of the aforementioned evidences hold true also with respect to MERCOSUR. Noya et al. (2015) came to conclusions similar to Azis': global shocks tend to affect MERCOSUR countries in similar ways. Furthermore, the second round effects (e.g. the effects produced by the regional linkages as a consequence of an exogenous and extra-regional shock) strengthen the original shock: accordingly, both economic growth and negative global shocks have been amplified by the existence of MERCOSUR. Bresser-Pereira and Holland (2010) noted that MERCOSUR's perfect capital mobility implies that markets avail themselves of arbitrage or speculative opportunities whenever there is some misalignment between active monetary and exchange rate policies. Therefore, contagion and other neighbourhood financial effects could turn regional integration into a controversial issue. Since currencies gradually appreciate until they provoke BoP crises (loss of trade competitiveness often leads to current account deficits, usually sustained by abundant capital flows and, therefore, an excessive "dollarization of liabilities" which increases financial fragility), regional agreements must be modified in order to allow developing countries to neutralize this tendency, or otherwise continue risking that recurring financial crises severely hit member states.

The absence of such regulations, particularly in order to contrast dollarization of liabilities, can be situated at the origin of Uruguay's stress on the BoP in 2015 and 2016. Being a non-industrialized tax haven, Uruguay has always been characterized by both a current account deficit and a Capital and Financial Account surplus. For the very same reasons, capital flight was never an issue: quite the contrary, the country attracted an important amount of flown capitals, particularly from Argentina. However, a sudden tax amnesty announced by president Macri on May 2016 determined an unprecedented outflow of capitals, mostly towards Argentina. In turn, the sudden deterioration of the capital account imposed a fiscal adjustment to the center-left government.

Summarizing, not only did not MERCOSUR implement common controls on capitals, but its member countries did not even coordinate their decisions on this issue. Both the pre-2016 capital flight towards Uruguay and the subsequent capital flight from Uruguay severely question the effectiveness of the MERCOSUR agreements in ensuring effective financial cooperation.

Conclusion

This chapter provides an analysis of three MERCOSUR economies since the early 2000s. Stated succinctly, my argument is that the demand-led and expansionary fiscal policies of 2003–2012 have determined a robust economic growth, which allowed paying for substantial social measures that improved *Human Development* in MERCOSUR countries. Nevertheless, such policies proved to be unsustainable as soon as the external scenario worsened, beginning in 2012. Abrupt changes in the international economic environment

determined an external constraint on the Balances of Payments, which affected both the current account in Argentina, whose imbalanced external sector rapidly determined a scarcity of hard currency, and the capital accounts in Brazil and Uruguay. In both cases, the post 2008 downturn of commodity prices broke the camel's back.

A meaningful part of the problem was represented by MERCOSUR's institutions and their inability to defend the social results that had been achieved before. Two aspects deserve special attention: on the one hand, MERCOSUR's imbalanced trade structure, which led to continuous trade deficits of two member countries – Argentina and Uruguay – with Brazil. On the other hand, the absence of common capital controls that led to capital volatility (in Argentina and Uruguay) and financialisation (in Brazil and Uruguay). Furthermore, the non-implementation of the *Banco del Sur* (MERCOSUR's development bank) contributed to the severe lack of hard currency that affected Argentina, determining the introduction of emergency capital controls between October 2011 and December 2015. All these shortcomings can be ascribed to MERCOSUR nature and origins, which are strictly connected to the neoliberal agenda that the US promoted in the 1990s in Latin America.

This critique to MERCOSUR's neoliberal flaws does not imply an aprioristic defence of the previous theoretical background that underpinned several Latin American institutions. Structuralism died out in the 1980s because of its incapacity to adapt to a changing world. Given the new international division of labour and the pivotal role played by transnational corporations, domestic protection worked in some cases but not in others. Several governments implementing ISI policies failed to grasp the complexities attached to market intervention in the neoliberal era, allowing free domestic competition in industries with high fixed costs: for example, in the late 1960s, the annual output of cars and trucks in eight Latin American countries was just 600,000 units shared by 90 firms, giving an average of only 6,700 units per firm (Baer 1972). Ten years later, similar policies became clearly incompatible with the logic of transnational capital.

Nevertheless, some of the social results that were achieved in 2003–2012 could have been preserved by taking a less radical approach to current account liberalization. For instance, the terms upon which FDI was accepted by MERCOSUR countries may have been better negotiated with transnational corporations (following the example of China, which imposed several conditions to FDI) at a sub-regional level, rather than at a national level, while avoiding altogether short-term capital liberalization. A large crowd of mainstream economists (beginning from Stiglitz 2000) convene that, while open current account transactions have become the staple of economic growth worldwide (even if, lately, there is a reversion in trend, led by the Trump administration, due to Asia's increasing strength), hyper-liberal financial account liberalization has been both destabilizing and driven by the interests of a small and closely-knitted community of Western corporate stakeholders.

Notes

1 According to Rossi (2017), "The 'second wave of incorporation' [is] the second major redefinition of the sociopolitical arena in Latin America, caused by the broad and selective inclusion of the popular sectors in the polity after being excluded or disincorporated by military authoritarian regimes and democratic neoliberal reforms". The second wave of incorporation is the turn towards leftist governments happening in the 2000s as a result of the struggle for economic inclusion by the popular sectors, organized in territorialized social movements. It follows the first wave of incorporation, a process that involved a combination of the mobilization of popular claims by labour and/or peasant movements and the policies for channelling those claims into corporatist institutions during the 1930s–1950s.

2 We are not analysing either the case of Paraguay (because of the country's suspension from MERCOSUR in 2012) or of Venezuela (because of the largely disputed membership of the country to MERCOSUR).

3 Financialization is a process whereby financial markets, financial institutions and financial elites gain greater influence over economic policy and economic outcomes. Its principal impacts are to: (1) elevate the significance of the financial sector relative to the real sector; (2) transfer income from the real sector to the financial sector; and (3) increase income inequality and contribute to wage stagnation. Financialization operates through three different conduits: changes in the structure and operation of financial markets; changes in the behavior of non-financial corporations; and changes in economic policy (Palley 2007).

4 In 2009, 65% of the biggest 500 Argentinian firms was owned by non-Argentinian capital (Santarcangelo and Perrone 2012). In the same year, Brazil's top 20 transnational companies had a stock of USD 56 billion in assets abroad, virtually half of the country's total Overseas Foreign Direct Investment stock (USD 114 billion). The top 20 companies produce and sell goods and services worth approximately USD 30 billion and employ 77,000 people abroad: a magnitude comparable to some developed countries (Ramsey et al. 2009).

5 The expansion of exports in primary products is not in itself a guarantee of growth: dozens of countries have known impressive economic expansions under commodity boom periods to subsequently drag into heavy recessions and debt unsustainability once faced with falling commodity prices. On the theory, see: Prebisch (1949), Nurkse (1953) and Furtado (1961).

6 An assistance program where cash payments are made to poor households, on condition that children are both attending school and being vaccinated.

7 In underdeveloped countries, free education reduces poverty expanding household purchasing power, because children are able to receive free meals in school dining halls.

8 Data retrieved from the open access database INDEC of the Argentinian National Institute of Statistics (Instituto Nacional de Estadistica y Censos). Available at: https://www.indec.gob.ar/

9 Ibidem.

10 Data retrieved from the open access data base provided by the CEDLAS-Universidad de La Plata and the World Bank www.cedlas.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/estadisticas/#1496165297107-cedda6d3-6c7d.

11 For example, the percentage of population which did not study at least for nine years.

12 Which measures the unequal distribution of the main durable goods (cars, TVs, computers, washing machines, DVD readers, microwave ovens) among the population, being 0 a perfectly equal and 1 a perfectly unequal distribution
13 Being 0 a "perfectly equal" (and, viceversa, 1 a "perfectly unequal") distribution of durable goods among the population.
14 From this perspective, the (progressive) Astori tax reform of 2008 played a pivotal role, since the decreasing capital inflow started in 2012 did not force the centre-leftist administration to implement any brutal fiscal adjustment. For the very same reasons, Uruguay is also the only MERCOSUR country in which no change in the political cycle took place.
15 From this perspective, in 1991 MERCOSUR shifted away from the original idea contained in the *Foz de Iguazu Statement* of 1985, signed by presidents Raul Alfonsin and José Sarney. In that occasion, the future creation of MERCOSUR was meant as an indigenous initiative to strengthen negotiating capacity against the US and EC, which not only had to represent a commercial agreement, but also a political advancement in order to struggle for the sovereignty of Brazil and Argentina (Figari 2006).
16 One should not forget that both Argentina (*Plan Convertibilidad*) and Brazil (*Plan Real*) implemented, in those days, a fixed exchange rate regime, which reduced enormously the competitiveness of their industries. Furthermore, the Argentinian industrial sector had severely shrunk during the 1980s, because of the neoliberal policies implemented since 1976 and, also, the severe crisis of 1989–1990 (Schorr 2012). An idyllic scenario for the US companies, indeed.
17 See Williamson (1990). Stated succinctly, John Williamson's decalogue consisted of the following recommendations: 1) fiscal conservatism; 2) redirection of public spending from subsidies toward pro-growth measures; 3) tax reform and moderate marginal tax rates; 4) market-determined and moderate (real) interest rates; 5) competitive exchange rates; 6) trade liberalization implying low and uniform tariffs; 7) liberalization of capital market in order to facilitate foreign direct investment; 8) privatization of state enterprises; 9) deregulation of goods market in order to increase competition; and 10) legal security for property rights.
18 One may even say that hyperinflation played the same role that the 1973 Great Inflation had already played in the northern hemisphere against Keynesianism.
19 Fernando Collor de Mello was the President of Brazil from 1990 to 1992, after he had defeated Lula in a controversial second round election in 1989. His economic plan (*Plano Collor*) was characterized by fiscal adjustment, wage deflation, privatizations and free trade. Carlos Saul Menem was the President of Argentina from 1989 to 1999, his *Convertibility Plan* (a fixed exchange regime according to which ARS 1 = USD 1) initially determined a dramatic reduction of inflation and a strong economic growth. However, after 1994's financial contagion the economic outlook rapidly deteriorated, eventually turning into the country's default, in 2001.
20 The so-called Tequila Crisis of 1994 represents the most outstanding example of financial contagion within Latin American countries. A dangerous current-account deficit (7% of GDP) and a sharp decrease in international reserves in Mexico triggered a sharp devaluation of the Mexican peso (around 50% within six months). This in turn caused the local-currency value of the public dollar-linked debt to swell enormously and a crisis of the whole financial sector. The bankruptcy of several banks caused a regional contagion in other Latin American

economies, showing the risks of an "open" capital account, e.g. of an economy characterized by the perfect mobility of capitals.

21 One may also add that fiscal expansionary measures need to rely on a stable income, which by definition cannot be provided by short-term capitals, which are highly volatile and speculative in nature.

22 CEPAL is the UN Economic Commission for Latin America and the Caribbean, founded in 1948. Since the very beginnings, CEPAL was influenced by structuralist economists like Raúl Prebisch, Celso Furtado and Osvaldo Sunkel. The most important formulations of CEPAL dealt with: Import Substitution Industrialization (ISI); capital controls; agrarian reform; taxation on sumptuous consumption.

23 Rosenthal's critique was probably addressed to the unsatisfactory answers that structuralist economists (particularly, those that participated directly in the Argentinian government, such as Juan Vital Sourrouille and Bernardo Grispun) gave to the late 1980s hyperinflation. Broadly speaking, hyperinflation played a crucial role in the neoliberal turn of the early 1990s, since a vast majority of the public opinion associated the monetary stabilization to an increased wealth and purchasing power, thus accepting silently the dramatic fiscal adjustment and the rise in unemployment (Weyland 1996).

24 Juan Alberto Fuentes – the technical coordinator of CEPAL's sub-regional headquarters in Mexico, in those days – acknowledged that at least five of the aforementioned requirements were definitely *orthodox*, from an economist's point of view (Fuentes 1994).

25 Presidency Duhalde (Argentina) and Batlle Ibáñez (Uruguay).

26 The situation in which a country's growth becomes "institutionally constrained" after reaching middle-income levels. For instance, because of the scarcity of reserve currency determined by the increased level of import or the impossibility to implement effective capital controls, etc.

27 Data retrieved from the open access database INDEC of the Argentinian National Institute of Statistics (Instituto Nacional de Estadistica y Censos). Available at: https://www.indec.gob.ar/.

28 Ibidem.

29 Ibidem.

30 *Carry trade* consists of borrowing in a low-interest rate currency (e.g. USD) and converting the borrowed amount into another high-interest rate currency (e.g. BRL), in order to: (a) place such amount on deposit in the second currency offering a higher rate of interest; or (b) invest it into assets (stocks, commodities, bonds, etc.) denominated in the second currency. After such a financial valorisation, the (increased) amount is changed again in the low interest rate currency, netting the speculators an easy capital gain.

31 The authors assume that monetary conditions in the country with the highest liquidity premium will influence monetary conditions all over the world. Therefore, any change in international liquidity preference can lead to large capital (speculative) movements and exchange rate swings, largely independent of economic conditions, since investors continuously seek protection in the currency with the highest liquidity premium. Such a characteristic of the current monetary system has disruptive consequences on emerging economies, since they systematically have to offer higher interest rates in order to maintain capital

inflows. However, high interest rates negatively affect domestic investment, aggregate demand and growth, re-igniting instead capital flows and exchange rate volatility.

References

Alvarez, M. (2011), 'Los 20 años del MERCOSUR: una integración a dos velocidades', *Comercio Exterior*, 108: 7–55.

Arestis, P., Ferrari-Filho, F., Paula, L.F. and Sawyer, M. (2003), 'The Euro and the EMU: lessons for MERCOSUR', in P. Arestis and L.F. Paula (Eds.), *Monetary Union in MERCOSUR: Lessons from EMU*, Aldershot: Edgard Elgar.

Azis, I. (2015), 'Integration, contagion and income distribution', in P. Nijkamp, A. Rose and K. Kourtit (Eds.), *Regional Science Matters. Studies Dedicated to Walter Isard,* New York: Springer-Verlag.

Azis, I. and Shin, H. S. (2015), *Managing Elevated Risk*, Asian Development Bank, New York: Springer-Verlag.

Baer, W. (1972), 'Import substitution and industrialization in Latin America: experiences and interpretations', *Latin American Research Review*, 7 (1): 95–122.

Bin, D. (2016), 'The politics of financialization in Brazil', *World Review of Political Economy*, 7 (1): 106–126.

Bielschowsky, R. (2009), 'Sixty years of ECLAC: structuralism and neo-structuralism', *CEPAL Review*, 97: 171–192.

Blyde, J. S. (2006), 'Convergence dynamics in MERCOSUR', *Journal of Economic Integration*, 21 (4): 784–815.

Bresser-Pereira, L. C. and Holland, M. (2010), 'Common currency and economic integration in MERCOSUL', *Journal of Post Keynesian Economics*, 32 (2): 213–234.

Carranza, M. E. (2003), 'Mercosur, the free trade area of the Americas and the Future of U.S. hegemony in Latin America', *Fordham International Law Journal*, 27 (3): 1029–1065.

CEPAL (1994), *El regionalismo abierto en América Latina y el Caribe. La Integración Económica al Servicio de la Transformación Productiva con Equidad*, Santiago de Chile: United Nations.

CEPAL (2016), *Fiscal Panorama of Latin America and the Caribbean*, Santiago de Chile: United Nations.

Demir, F. (2008), 'Financial liberalization, private investment and portfolio choice: financialization of real sectors in emerging markets', *Journal of Development Economics*, 88: 314–324.

Eichengreen, B. (1998), 'Does MERCOSUR Need a Single Currency?', NBER Working Paper, no. 6821.

Escudero, A. C. (1992), 'MERCOSUR: el nuevo modelo de integración', *Comercio Exterior*, 41 (11): 1041–1048.

Ferrer, A. (1996), 'El MERCOSUR: entre el Consenso de Washington y la integración sustentable', Inter-American Development Bank Conference, 3–5 September, Washington, DC.

Figari, G. M. (2006), 'Democracy and Argentinian foreign policy 1983–2005', *Relaciones Internacionales*, 2 (30): 69–97.

Fuentes, J. A. (1994), 'Open regionalism and economic integration', *CEPAL Review*, 53: 81–89.

Furtado, C. (1961), *Desenvolvimento e Subdesenvolvimento*, Rio de Janeiro: Fundo de Cultura.

Gaggero, J. (2011), 'La fuga de capitales Argentina en el escenario global (2002–2010)', *Documento de Trabajo N° 29*, Buenos Aires: Cefid-Ar.

Gaggero J., Rua, M. and Gaggero, A. (2013), 'Argentina. Fuga de Capitales (2002–2012)', Discussion Workshop: BEPS and the Future of Corporate Taxation, City University of London.

Gardini, G. L. (2006), 'Government-business relations in the construction of MERCOSUR', *Business and Politics*: 8 (1): 1–26.

Gardini, G. L. (2007), 'Who Invented MERCOSUR?', *Diplomacy & Statecraft*, 18 (4): 805–830.

Gardini, G. L. (2010), *The Origins of MERCOSUR. Democracy and Regionalization in South America*, Basingstoke: Palgrave Macmillan.

Goncalves, F. M. (2007), 'The Optimal Level of Foreign Reserves in Financially Dollarized Economies: The Case of Uruguay', IMF Working Paper, No. 07/265.

ILO (2002), *Report on National Dialogue: Argentina and Uruguay*, World Commission on the Social Dimension of Globalization, 2 December 2002.

IMF (2003), *Lessons from the Crisis in Argentina*, 8 October 2003.

IMF (2015a), *Global Financial Stability Report, October 2015: Vulnerabilities, Legacies, and Policy Challenges Risks Rotating to Emerging Markets*, Washington.

IMF (2015b), *IMF Country Report No. 15/82: Uruguay*, Washington.

INE (2017), *Estimación de la pobreza por el método el ingreso*, Montevideo: Uruguay.

Kaltenbrunner, A. and Painceira, J. P. (2016), 'International and Domestic Financialisation in Middle Income Countries: the Brazilian Experience', *Fessud Working Paper Series*, SOAS, No. 146.

Kose, M. A. and Prasad, E. (2012), 'Capital Accounts: Liberalize or Not?, Finance & Development', IMF, Updated: 28 March.

Kregel, J. (2014), 'An alternative view of the Argentine crisis: structural flaws in structural adjustment policy', in *Economic Development and Financial Instability: Selected Essays*, New York: Anthem Press.

Lavinas, L. (2016), *The Takeover of Social Policy by Financialization: the Brazilian Paradox*, Basingstoke: Palgrave Macmillan.

Licandro, F. G. (2000), 'Is MERCOSUR an Optimal Currency Area? A Shock Correlation Perspective', Documentos de Trabajo del Banco Central de Uruguay, 4/2000.

Malamud, A. (2005), 'MERCOSUR turns 15: between rising rhetoric and declining achievement', *Cambridge Review of International Affairs*, 18 (3): 421–436.

Manzetti, L. (1993), 'The political economy of MERCOSUR', *Journal of Interamerican Studies and World Affairs*, 35 (4): 101–141.

Mundell, R. A. (1961), 'A theory of optimum currency areas', *American Economic Review*, 51 (4): 657–665.

Musacchio, A. (2012), 'Mexico's financial crisis of 1994–1995', *Harvard Business School Working Papers*, 12–101.

Noya N., Lanzilotta, B. and Zunino, G. (2015), 'Macroeconomic challenges for MERCOSUR countries in the post-crisis scenario: a Gvar approach', *Revista de Economía*, 22 (2): 63–100.

Nurkse, R. (1953), *Problems of Capital-Formation in Underdeveloped Countries*, Oxford: Oxford University Press.

O'Connell, A. (2005), 'The recent crisis – and recovery – of the Argentine economy: some elements and background', in G.A. Epstein (Ed.), *Financialization and the World Economy*, Cheltenham: Edward Elgar.

Ocampo, J. A. (2000), 'Nuestra agenda', in CEPAL (Ed.), *La CEPAL en sus 50 Años. Notas de un Seminario Conmemorativo*, Santiago de Chile: United Nations.

OECD (2014), *Multi-dimensional Review of Uruguay. Volume 1: Initial Assessment*, Paris: OECD Development Pathways.

Ostry, J. D., Loungani, P. and Furceri, D. (2016), 'Neoliberalism: oversold?', *Finance & Development*, 53 (2): 38–41.

Painceira, J. P. (2008), 'Developing countries in the era of financialisation: from deficit accumulation to reserve accumulation', in C. Lapavitsas (Ed.), *Financialisation in Crisis*, Leiden: Brill.

Palley, T. I. (2007), 'Financialization: what it is and why it matters', *Levy Economics Institute Working Papers*, no. 525, December.

Pinto de Andrade, J., Falcão Silva, M. L. and Trautwein, H. M. (2003), *Prospects of Economic Integration and Incompatible Monetary Policies among MERCOSUR Members*, Institut für Volkswirtschaftslehre, Universität Oldenburg.

Prebisch, R. (1946), 'Panorama general de los problemas de regulación monetaria y crediticia en el continente Americano: América Latina', in Banco de México (Ed.), *Memoria de la Primera Reunión de Técnicos sobre Problemas de Banca Central del Continente Americano*, México, DF.

Prebisch, R. (1949), *El Desarrollo Económico de la América Latina y Algunos de sus Principales Problemas*, Santiago de Chile: CEPAL.

Ramsey, J., Resende, P. and Almeida, A. (2009), 'Trans-nationalization of Brazilian companies: lessons from the top 20', *Latin American Business Review*, 10 (2–3): 117–134.

Reuters-El Cronista (2017), 'Argentina, segunda entre los países más atractivos para el 'carry trade'', 23 March.

Rosenthal, G. (1996), 'Development thinking and policies: the way ahead', *CEPAL Review*, 60: 7–20.

Rossi, F. (2017), *The Poor's Struggle for Political Incorporation. The Piquetero Movement in Argentina*, Cambridge: Cambridge University Press.

Sanahuja, J. A. (2017), 'A "Rashomon" story Latin American views and discourses of global governance and multilateralism', in A. Triandafyllidou (Ed.), *Global Governance From Regional Perspectives: A Critical View*, Oxford: Oxford University Press.

Santarcangelo, J. and Perrone, G. (2012), 'La cúpula empresarial argentina y su rol en el desarrollo económico', *Problemas del Desarrollo*, 168 (43): 37–62.

Schorr, M. (2012), 'Deindustrialization as axis of the re-foundational project of the economy and society in Argentina 1976–1983', *America Latina en la Historia Economica*, 19 (3):31–56.

Schott, J. J. (2001), *Prospects for Free Trade in the Americas*, Washington: Institute for International Economics.

Sember, F. R. and Vernengo, M. (forthcoming), El Banco Central en Tiempos de Convertibilidad (1991–2002), in M. Rougier and F.R. Sember (fothcoming), *El Banco Central de la República Argentina en la Promoción del Desarrollo (1935–2015)*, Buenos Aires: Lenguaje Claro Ed.

Serrano, F. and Summa, R. (2015), 'Aggregate Demand and the Slowdown of Brazilian Economic Growth from 2011–2014', CEPR Working Papers, August.

Siddiqui, K. (2014), 'Flows of foreign capital into developing countries: a critical review', *Journal of International Business and Economics*, 2 (1): 29–46.

Stiglitz, J. (2000), 'Capital Market Liberalization, Economic Growth, and Instability', *World Development*, 28 (6): 1075–1086.

Sunkel, O. and Paz, P. (1970), *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*, Ciudad de México: Siglo Veintiuno Editores.

UCA (2017), 'Pobreza Extrema e Inseguridad Alimentaria en la Argentina Urbana (2010–2016)', Buenos Aires: Universidad Católica Argentina.

UNDP (2013), 'Desigualdad Multidimensional y Dinámica de la Pobreza en Uruguay en los años Recientes', Uruguay: El Futuro en Foco. Cuadernos sobre Desarrollo Humano, 2: 11–65.

Weisbrot, M., Ray, R., Montecino, J. A. and Kozameh, S. (2011), 'The Argentine Success Story and its Implications', CEPR Working Papers, October.

Weisbrot, M., Johnston, J. and Lefebvre, S. (2014), 'The Brazilian Economy in Transition: Macroeconomic Policy, Labor and Inequality', CEPR Working Papers, September.

Weyland, K. (1996), 'Neopopulism and neoliberalism in Latin America: unexpected affinities', *Studies in Comparative International Development*, 31 (3): 3–31.

Williamson, J. (1990), 'What Washington means by policy reform', in J. Williamson (Ed.), *Latin American Adjustment: How Much Has Happened?*, Washington: Institute for International Economics.

World Bank (2017), 'Country Poverty Brief: Brazil', October 2017.