EMERGENT MARKETS AND FRAGILITY (LATIN AMERICA AND MEXICO)

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I. Financial Crisis and Deregulation; II. Financial Globalization; III. Changes in the Financial Markets; IV. Concentration within Financial Markets; V. Capital Flows towards Developing Countries and Net Tranfers; VI. Bank Crisis.

Abstract

Scholars from the South have studied globalization, deregulation, liberalization and financial crisis as a process that creates great instability and fragility in their emergent markets economies. For the last three decades, economic policy has been dominated by a changing model that can bedefined since Bretton Woods as "an open and integrated financial market without rules." The financial liberalization process hasn't been as successful as the mainstream promises. The main factors: financial markets, international financial organizations, and states have been preoccupied by the results of the process during the last decades. The results can be seen in the emergent economies of Asia and Latin America, and specifically in Mexico. There is a gap between productive structural economic performance and native financial systems that do not correspond to a globalized and integrated financial system oriented towards stability and economic development. Innovation and technological change in financial services have encouraged financial market's integration in a globalized context.

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I. FINANCIAL CRISIS AND DEREGULATION

Like the 1929 crisis, the current financial crisis will be remembered as one of the most serious in the history of world capitalism. The increasing difficulty experienced by the financial authorities of the major economies and by international financial bodies in limiting the most devastating effects of events on the world economy makes it difficult, in turn, to handle banking and financial crises. The current institutional composition of the markets, the deregulated nature of those markets and the vast liquid assets in private hands have even placed limits on concerned action by national governments. This does not allow to anticipate stabilization, but, on the contrary, it might be alleged that episodes of large volatility or even crises might follow, whether these are limited to consortia, national or international spaces.

Since the mid nineties, repeated deep financial instability and detriment in the quality of financial assets have occurred, as well as decline in prices, and breakdown and rescue of financial and non- financial enterprises, attached to economic spaces or presented and revealed as an international financial crisis.

So, as Michel Camdessus, director of the International Monetary Fund has described it, the current financial crisis is the first global crisis of the 21st century, followed by the Asian, the Russian, the Brazilian, and the Argentinean crises, and in the year 2001 it was followed by recession in United States and Japan, deepening an international crisis.[2]

National financial crises multiplication and their internationalization as part of financial liberalization, have not been able to achieve financial markets' soft landing, to prevent effects upon the economic growth and employment within the world economy or to exhaust the stabilization model promoted by the International Monetary Fund, prolonged in the economic policies in the same United Sates.

[2] Probably in history it will be considered as the crisis: 9:11, because the financial crisis seems to have been removed, or incorporated to the events that followed to the events on September 11.

In this paper it is discussed the notion on globalization and financial crisis, followed by an account of the main transformations within the financial markets during the last 20 or 30 years. Expansion, deepening and concentration with a new competence re-distribution in the financial markets synthesize their tendencies. It is also analyzed capital flows behavior towards the so called emerging economies, to sustain that these flows far from representing net resources to finance the economic activity, have sustained the funds' outflow of these economies. Then the relationship between financial deregulation and bank crisis are analyzed, to conclude that the gap between the financial assets' remuneration, and the tendencies of the productivity's growth rhythm and employment maintains conditions for financial fragility to reach new episodes of financial and bank crisis. The paper concludes to point out that deregulation and the successive financial crisis have destroyed local monetary patterns as well as the financial structures that represented conditions to expand productive capacities.

II. FINANCIAL GLOBALIZATION

The new international relationship which started with the fall of the Soviet block, and the economic and political transition in several countries, completely modified, at the end of the XX Century, the political geography of a bipolar world. Together with the fact that through several socialist countries economic reforms were realized to build "markets societies", there was a huge number of research about globalization". Therefore, in a first approach, globalization may refer to the universal tendency for a market society, as a concept that looks to emphasize the disappearance o a bipolar world.[3]
Furthermost, the concept of globalization refers to the universalization of a certain model of market society, characterized as open and private, because its hypothetic character (model) confers such condition to the same globalization. So, although the fact that several countries have realized reforms to push liberalization, as well as opening and economic privatizations can be attested, we are not in the face of a society of open and private world market, where, for example, there is free movement of work, or where federal or state governments do not participate in the property of very different assets.
Globalization is also considered as a line in the horizon to where the economic world is irremediably an irreversibly developing. This last approach is the argument to develop economic policies than confront very different interests

[3] Even under this conceptualization, it is worth mentioning the presence of political regimes that revindicate socialist or mixed economic models. Therefore, it can not be stated that there is full universalization of the market's society model.

of several social sectors more or less defenseless, imposing the supremacy of the destiny over the will and the reason.

More pragmatically, it is even considered the presence of a globalization that reproduces the political hierarchy of national states, so that such globalization would not be in conflict with the conformation of a unipolar economic world, and with international relationships of dominance-subordination. The globalization character would be given by the economic and political interest worldwide of a small group of consortia. In any case, the globalization, conceived as the world's expansion of the conglomerated economic interests, in not essentially new, and it does not mean the breaking down, but the reinforcement of the national roots of the economic elites, even in the course of the transformations within the block in power and the appointed economic crises within powerful national states in the international relationships (Thompson and Hirst, 1996).

Independently of its several and possible meanings, the expression has been incorporated into the everyday language worldwide; in the academic, political, and financial environment, the globalization even turned out to be the "reason of being" of almost all phenomena in search of an explanation. During the second half of the XX Century several social, scientific-technological, and cultural revolutions have developed that apparently have reduced the world. It is precisely the technological innovation that confines and makes familiar the images that circulate around the world in seconds, offering the idea of a stretch interrelationship, and even convergence in the "way of living", as for values and customs. Therefore, the expansion of the transnational conglomerate that has driven beyond the West world frontiers its consumption and values. Added to the idea of globalization, there is the huge spreading of successive financial crises, -the so called "contagion effect"-, the reiteration of the policies recommended by the International Monetary Fund in the developed world of the "healthy macroeconomic policies"; and the idea of the "investors' trust", built as universal.

The question that arises directly within the topic of the financial economy is: Can we speak of a "global financial industry?" The answer is no. The arguments can be developed in two ways: stating what is hypothetically considered as a "global financial industry" could be, and to contrast it with the current financial industry; and in that way, to show what is lacking for the industry to be our model, whatever this might be, and to analyze the characteristics or the transformations of the financial markets and to put forward a word or concept that allows to describe them synthetically, or if one of the words given to the concept globalization describes them properly. In this text, we will follow the second of the two ways.

According to several authors, within globalization as a tendency of the configuration of a real integrated world economy, it is the financial globalization that presents a higher degree of development. While within production and trading several obstacles can be pointed out for full integration, on the contrary, within financial markets globalization is identified as the irrefutable proof of huge capital movements, which has been achieved thanks to technological changes in communication and data processing. More specifically, when the fact that this transnational movement of capitals is hindering the control of national financial authorities is pointed out, and that these ones assume themselves as unable to reach any modes of regulation, and scarcely have self-regulation objectives among the intermediaries. Probably the fact that might strongly contribute to sustain the hypothesis of financial globalization, there is the hypothesis of several and successive financial and bank crises. At this point, the world seems to be more integrated that ever, there are very few countries that have not suffered one or the other during the last 20 or 30 years, since the downfall of the monetary order of Bretton Woods. In this paper it is studied how huge capital movements, facilitated by the technological innovation applied to the sector, is the result of the dynamic growth of the speculative bubble worldwide that has disarticulated state regulations that had allowed a stable financing for investment in the past. Nonetheless, a global financial industry has not been developed, to the extent that: there are different financial-monetary judicial frameworks; there are also several price and cost structures; there are different monetary patterns even if they have limited liberalizing capacity; there are several frameworks of conglomerate financial monetary interests with limited bonds to national states. At the same time there is a transnational conglomerate competence disintegrating-integrating monetary-financial spaces.

III. CHANGES IN THE FINANCIAL MARKETS

Since the breakdown of the Bretton Woods international agreements, exchange and interest rate instability on the major financial markets has led to genuine structural changes in those markets, although there is still no sign of any new financial structures capable of offering the stable long-term financing essential for the expansion of production capacities. Since then, financial markets are drowned in growing competence within the framework of deregulation and financial liberalization without showing greater efficiency in financing productive activity, or in the promotion of larger economic growth rates (Aglietta, 1995). Liberalized financial markets have been unstable, financial fragility has become into recurrent financial and bank crises in more than 130 countries. "Depressed" markets, now liberalized markets, have not led to increase savings or to investment and growth, neither to real interest rates decrease, for the largest economies as well as for the economies of the so called "emerging markets" (Correa, 1999). The structural financial changes that have occurred over the last 30 years include the following:

1. Exponential growth of liquidity held by private hands. Accelerated growth of financial assets worldwide doubling and tripling the annual rhythm of production and trading worldwide (Aglietta, 1995).
2. The time schedules for financial deposits and instruments have shortened; this has been accompanied by the development of an active secondary market in securities, leading to a blurring of the distinctions between the various concepts of money supply. "In particular, 'money' has been less distinguishable from the other liabilities of financial intermediaries.[4]
3. Bank funds have changed into liabilities yielding a return and originating mainly in the money markets; there has been a growth in the securitization of credit, together with an enormous increase in the off-balance sheet operations of banks, particularly involving the use of derivatives and the management of, and trade in, securities; all of this has changed the structure of bank income from one of the margins to one of commissions.
4. The dividing lines, where there existed, between deposit banks and investment banks have gradually disappeared; at the same time, activity on the money and capital markets has increased, while credit activity has declined on the markets, specially in the United States.
5. Investment-fund activity has increased, with financial assets being highly concentrated in the hands of a few managers who shift around large volumes of assets in short periods of time, destabilizing currencies and economies as powerful as those of the United Kingdom in 1992, and as small as those of Mexico, Thailand, Indonesia, and the Republic of Korea.
6. The volume and the size of financial transactions have grown rapidly; the increasing number of off-balance sheet operations has tightened the links between financial intermediaries, a few of whom dominate the markets, and a pronounced trend has arisen towards the building up of true financial mega-consortia.

[4] OCDE, 1995.

7. The problems of financial supervision have grown increasingly complex; at the same time, risk-level assessment and intervention by the financial authorities are becoming more difficult despite the assistance of the Bank for International Settlements, the International Monetary Fund and the World Bank.
8. The government debt has become one of the most important bases for the growth in financial assets, while the interest rates offered by these instruments are the chief means used to pursue exchange-rate and capital flows to finance deficit positions.
9. In general, public budgets have supported all kinds of financial assets remuneration, and of several intermediaries, limiting the capacity to stabilize public expense.
10. The growing inability of nation-states to regulate the activity of the major financial consortia in order to oversee the risk levels of their various operations casts doubt on the financial authorities' ability to control a systemic financial crisis
11. Propagation and deepening of financial crises, when this ability has been steadily eroded by the growing liquidity levels generated by the banks and the intermediaries themselves.

Believing that all these changes in the financial markets are irreversible is as unrealistic as attempting to ignore the profound changes that have occurred in the ownership of assets and in monopolistic competition. In this context, Francois Chesnais (1996, p. 30) states:

> "To declare that financial hypertrophy and its retinue of ills is <irreversible> is to fall into a highly suspect of historical determinism. To put it at its strongest, it would be ascribing to social processes –which are the products of human activity- a status similar to that of the process of biological evolution. For some, uttering the word <irreversibility> often in the same breath as <realism> has always amounted to adopting a position in support of the established order…"

As the history of finance has shown on other occasions, it is possible to return to controlled financial systems in which the state takes back its capacity to regulate and supervise financial markets and intermediaries, even though the latter and the growing fragility of the former are still part of the processes involved in the failure of the terms of surplus and wealth distribution and the new economic division of the world is still an ongoing process. So, growing fragility of the markets may go on as long as exchange and financial protectionist formulas are not developed.

Since the breakdown of Bretton Woods, and the disappearance of fixed exchange rates and of the dollar-gold exchange standards neither national governments or international financial bodies see any solutions to the problem encountered by both developed and developing countries in finding a path to growth which will eliminate the continual financial, stock-market and bank into which more and more countries are falling every day. There is a pressing need for financial markets to be given a new institutional and regulatory framework capable of restricting financial instability and of limiting the damage to production capacity, growth and job creation.

IV. CONCENTRATION WITHIN FINANCIAL MARKETS

Financial intermediation has integrated rapidly during the last years, configuring real mega-consortia that are managing all kinds of financial services with an increasing power in national and international markets. It is estimated that during the nineties, more than 7 thousand 300 mergers and takeovers have been realized in the financial sector with a total value of 1 billion 600 thousand million dollars (BPI, 2001). That is to say, a bit more than the two third parts of the foreign debt of the developing countries in 2002, and three times the amount of what this debt represented in 1980.

During the last years of the last decade the amount of conglomerations intensified with the linkage between BankAmerica, with NationsBank, Chase Manhattan with Chemical Bank, and Citicorp with Travelers, and a series of bank mergers in United States; financial consolidation in Japan with the merging with Fuji Bank-Dai-Ichi Kangyo Bank Industrial of Japan, Sanka Bank-Tokai-Asaki Bank, Bank of Tokyo and Mitsubishi Bank; and in Europe the UBS-Swiss Bank Corp. (Berger, 1999). The dynamics of the integration stimulated in United States the reform Gramm-Leach-Bliley that made possible, for the first time since the thirties, the integration –through holdings- of financial intermediaries as different as commercial banks, investment banks, and insurance companies. What national financial regulation and supervision achieve efficiency within the competitive framework of this conglomeration in financial services?

The bank system in many countries is dominated by few large banks. The share of the five largest banks in total bank assets is around about 40 per cent in Argentine, 50 per cent in India, and 60 per cent in Thailand and Mexico, 27% in United Sates, 30% in Japan, 20% in Germany, 70% in France, 40% in

Italy, 40% in United Kingdom, 77% in Canada, 58% in Switzerland, 78% in Australia, 72% in Belgium, 82% in the Netherlands, 48% in Spain, 84% in Sweden. In most of these countries the concentration is higher in contrast to the one in 1980, and during the successive financial crisis it was the motor of its dynamism. Specially the Asian and Russian crisis, with the accelerated consolidation during the last three years of the century (BPI, 2001).

Financial consortia worldwide up to now has represented the means to face unexpected decrease of financial assets prices, to transfer loss and to consolidate operations in the search of increasing stockholders yielding and avoiding to fall into bankruptcy. At the same time, this consortia is pointing out to design of a new financial power intermediaries operating worldwide, besides a new market structure brought about from financial crisis in Latin America and Asia.

Also, relative weight of large banks worldwide has significantly changed. So, at the beginning of the seventies, 7 from 10 largest banks in the world were North American because of the size of their assets; towards the mid- eighties, 9 of them were Japanese, displacing North American banks completely. By the end of the nineties, as it can be seen in **Chart 1,** there were only 2 Japanese banks and 4 North American ones. Large expansion of Japanese banks during the eighties also demonstrated the revaluation of yen in the face of dollar, and the presence of this currency at the international markets. Nonetheless, by the end of the nineties in the face of strength the dollar and the deep Japanese financial crisis, financial intermediaries of this last country have reorganized their operations in both, the domestic market and the international market, and they have quickly lost their position worldwide giving way to financial consortia in United States and Europe.

Chart 1
The Ten Largest Conglomerates per Assets Worldwide
(Billion Dollars)

Institution	Country	Assets
Mizuho Holdings	Japan	1375
Citigroup	United States	902
Deutsche Bank	Germany	796
J.P. Morgan Chase	United States	715
Fannie Mae	United States	675
BNP Paribas	France	652
Bank of America	United States	642
HSBC Holdings	United Kingdom	641
UBS	Switzerland	606
Mitsubishi Tokyo Financial Bank	Japan	604

Source: Business Week, July 9, 2001

Due to its market value, the North American financial sector represents almost 50% of the market value of this sector worldwide, as it can be seen in **Charts 2 and 3,** even though it should be considered deepness achieved within the structure of the financial market, in contrast to other countries where stock exchange quotation is not so large. Estimated by assets volume, the North American banks relative position decrease at the domestic and international markets during the eighties and part of the nineties, was reverted, as it can be observed in **Chart 1.** Mega-mergers, together with the expansion of their relative participation at the "emerging markets" is leading to a new positioning of these intermediaries in a few years.

Chart 2
World Market Value per Sector, 2001
(Billion Dollars)

Sector	*Market Value*	*Market Value per Sector/Total Market Value (%)*
Total Financial Sector	4261	22.0
Commercial Banks	2382	12.3
Insurance Companies	1159	6.0
Financial Services	720	3.7
Reference Sectors		
Telecommunications	2289	11.8
Computers	3743	19.3
Pharmaceutical	1837	9.5
Petroleum and Gas	1099	5.7
Beverages and Tobacco	423	2.2
Total	19411	100.0

Fuente: *Financial Times* , On line, 2001.

The segmentation of the financial intermediaries in the United States resulted from regulation during the thirties that imposed geographic and operations restrictions.[5] Nevertheless, starting with successive financial reforms from the mid-eighties, and mainly during the eighties, the whole sector has been quickly integrating the whole sector. Among other deregulatory steps there is the creation of subsidiaries of Section 20 that started on April 1987, the slow revocation of the McFadden Law in several states of the American Union. This process culminates in November 1999, with the Financial Services Modernization Act of 1999. By 2001 FHC manage 25% of the North American financial market, excluding pension funds. The 10 largest bank organizations managed in 1980, 22% of total assets of these ones, and in 2001, 45%; the largest 25 increased their presence from 33% to 61% (Olson, 2002).

Chart 3
Market Value in United States per Sector, 2001
(Billion Dollars)

Sector	*Market Value*	*Market Value per Sector/Total Market Value (%)*
Total Financial sector	2292	18.29
Commercial Banks	1010	8.06
Financial Services	708	5.65
Insurance Companies	574	4.58
Reference Sectors		
Computers	3066	24.46
Pharmaceutical	1271	10.14
Telecommunications	851	6.79
Petroleum and Gas	603	4.81
Beverages and Tobacco	352	2.81
Total	12533	100

Source: *Financial Times* , On line, 2001.

[5] North American bank assets in 1994, accounted for 23% of that country's total financial assets, while in Japan and Germany those assets accounted for 79% and 77%, respectively. In 1993, world assets participation of investment funds in United States achieved almost 50%. Considering that bank assets as well as the ones managed by the funds, United States held that year 21% of the world market, only exceeded by Japan with 24%, and Germany 4.3%, while France and the United Kingdom had 6.8% and 3.6%, accordingly. (Barth, 1996).

During the nineties, major investment banks have developed an important internationalization strategy taking position in the most important security markets, as well as in those prospects of quick growth. A small group of consortia is dominant is several areas, the 5 largest ones control more than 50% of the subscription market in United States as well as in Europe (BPI, 2001).

During the nineties, starting with the exponential growth of the derivative products, the growing presence of non-bank financial intermediaries, strength of dollar, and the consortium processes, United States has recovered its dominant position at the international financial market. The process that to a great extent hindered a steep financial crisis outburst by the end of the eighties, was the extraordinary growth of international liquidity achieved through the development and penetration of derivative products. Derivative products market reinitiated its quick development during the last years of the decade of the eighties. It is estimated that at the end of the year 2001, they had accumulated an amount higher than 100 billion dollars of the underlying main. Their explosive growth has been part of the explanation of the increase of the exchange market worldwide. More than half of the operations at the private market are done in United States by the 10 largest financial consortia (CCAN, 2000). Large banks and stock institutions in United States, Switzerland, Japan, France, Great Britain, and Germany are the dominant ones, and middle size and small intermediaries tend to be final users.[6]

As regards institutional investors, these include mutual funds, as well as private pension funds and insurance companies. The United States holds almost 50% of total world assets managed by those funds, followed by France with 12%, and Japan with 11%, Luxembourg and Germany amount other 11% (Barth, 1996). In the United States alone, it is estimated that in 1993 these investors managed assets worth more than 8 billion dollars, about 125% of the product, and by 1996 the cipher had amounted 13 billion dollars (Farnetti, 1996), and it is estimated that at the end of the year 2001 they had managed assets for an amount higher than 16 billion dollars, in spite of the decrease

[6] Since years behind it has been pointed out the high concentration of derivatives. Fifteen members of the International Swaps and Derivatives Association accounted for 93.6% of the derivates activity of the commercial banks. From these 15, 6 of them (Banker Trust, Bank of America, Chase, Chemical, Citicorp and Morgan) are described as the "ruling world derivatives" because they accounted for 89.5% of derivatives held by the 15. As for the North American banks, a study found that banks (as final users as well as intermediaries) have weak capital positions, large assets growth, large charge over net loans, they pay more yielding as dividends, and they use more notes and bonds to fund assets. (Sinkey, Hiles and Carter, 1995, p. 2). There is "… high concentration in derivative activities. Not more than 50 world institutions currently dominate the market with the bulk of activity being carried out by a much smaller number" (Witschi and Hozler, 1995, p. 5).

produced during that last year. The expansion of investment funds has been mainly sustained by credit securitization, the incorporation to capital markets of local and foreign enterprises, these ones starting from several deregulations.

Keen competition between financial intermediaries with regard to the formation of high yield assets in the most varied currency denominations is increasing concentration and centralization in the form of large financial conglomerates, although this does not necessarily mean an improved competitive positions. All this has not necessarily lead to greater efficiency as regards the availability of adequate, stable and low-cost resources for investment. Real interest rates have tended to raise substantially in the major economies during the 1990s and, since the 1980s have stayed well above the economic growth rate in the group of most highly developed economies. The high real rates of the interest resulting from increasing financial fragility and instability –together with surcharges for the various risks (exchange systemic, moral, etc)- are becoming incompatible with increased productivity and with the payment capacity of many firms, particularly those operating on the markets of countries with weak currencies.

The increasing participation of foreign financial intermediaries in developing countries does not necessarily lead to a greater availability of resources for productive local financing which will be both stable and cheap, because their activities do not in themselves reduce exchange-risk surcharges or ensure a drop in bank margins.

Conglomeration at the financial markets and their expansion towards the emerging economies are also contributing to sustain high yielding in deposits and securities in most economies, even though the enterprises and families income growth is lower.

V. CAPITAL FLOWS TOWARDS DEVELOPING COUNTRIES AND NET TRANSFERENCES

The large financial expansion of major commercial banks in the world, specially the North American ones, achieved through bank credit expansion towards a small group of developing countries achieved a first limit with the outburst of the foreign debt crisis in 1982. In fact, net transferences for foreign credit (new credit less interest payment and mortgages) was diminishing years before for most indebted countries.

Starting from a new expansive financial wave at the international markets, developing economies that export net capital, due to exceeding foreign debt servicing during the “lost decade”, came to be receptors of net resources again mainly through foreign capital allocations in public and private securities at the domestic markets (Correa, 1992). The new financial wave from the early nineties towards the so called emerging markets was sustained only during a few years in financial innovation, and specific deregulations that allowed the renewal of the institutional investors activities. As it can be observed in **Chart 4,** the growing capitals inflow towards the emerging markets had grown extraordinarily from the beginning of the decade of the eighties, and during the nineties as portfolio allocations and direct foreign investment (DFI), this last one participating in the privatization processes of public enterprises and mergers and takeovers of local enterprises.[7]

Chart 4
Long Term Net Capital Flow Towards Underdeveloped Countries 1990-2000
(Billion Dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
Total	98.5	123	155.8	220.4	223.7	261.2	311.2	342.6	334.9	264.5	295.8
Official Flows [b]	55.9	60.9	56.5	53.6	48	55.1	31.9	42.8	54.6	45.3	38.6
Private Flows	42.6	62.1	99.3	166.8	175.7	206.1	279.3	299.8	280.3	219.2	257.2
Capital Markets	18.5	26.3	52.2	100.2	85.6	99.1	147.8	127.2	103.5	33.8	79.2
Debts Flows	15.7	18.8	38.1	49.2	50.5	63	98.7	97	87.9	-0.6	31.3
Bank Loans	3.2	5	46.2	3.4	8.7	30.5	33.7	45.2	50	-24.6	0.7
Bonds	1.2	10.9	11.1	36.6	38.2	30.8	62.5	49	40.9	25.4	30.3
Others	11.3	2.8	10.8	9.2	3.6	1.7	2.4	2.7	-3	-1.6	0.3
Capital Flowsl	2.8	7.6	14.1	51	35.2	36.1	49.2	30.2	15.6	34.5	47.9
Direct Foreign Investment	24.1	35.7	47.1	66.6	90	107	131.5	172.6	176.8	185.4	178

NB. It referes to mortgages for net debt contracts, and to DFI net uninvestment. So, these ciphers are sometimes considered as "net" flows.
a. Estimated
b.Based on Information from the OECD.
Source: World Bank. Global Development Finance, 2001.

Nonetheless, capital flows were exerted mainly among the same developed counties, the developing countries participate to a low scale and even in a decreasing proportion during the last 10 years, as it can be observed in **Chart 5.** Therefore, developing countries participated with only 22% of DFI flows in 1991, and in the year 2000 they did only 15.9%, in total private capital they perceived almost 12% of the total, and it fell to 7.6% during that last year.

[7] According to the World Bank, the 10 countries that mostly got funds as DFI from 1991 to 2000 were: China, Brazil, Mexico, Argentine, Malaysia, Poland, Chile, Korea, Thailand and Venezuela. Those which were the objective of mergers and acquisitions during those years were mainly: Brazil, Argentine, Mexico, Korea, Chile, Philippines, Poland, South Africa, Venezuela and China. (World Bank, 2001). To see the tight relationship between the DFI and the privatization processes it can be seen (Vidal, 2001).

Chart 5
Underdeveloped Countries Participation
(Percentage except indicated the contrary)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
Total Private Capital Flows	11.8	12.4	12.6	12.8	12.4	13.2	14.4	9.9	7.6	7.6
Total Capital Markets Flow	9.7	9.4	9.4	9	9	9.8	10.8	6.2	4.7	5.5
Total Direct Foreign Investment Flows	22.3	27.4	29.5	35.2	32.3	34.9	36.5	25.9	18.9	15
In World Production	19.8	19.2	19.7	20	20.7	22.1	23.2	21.6	21.7	22.5
In World Trade	26.5	28.3	28.3	28.4	29.5	31.3	32.4	30.7	30.7	33.4
In World Population	84.1	84.3	84.4	84.5	94.6	84.7	84.9	85	85.1	85.2
Memo items: (Billion Dollars):										
Capital Market Flows	794	850	1226	1501	1928	2403	2929	3033	3910	4324
World Direct Foreign Investment	160	172	226	256	331	377	473	683	982	1118

Nota: Private capital flows are defined as the amount of gross obligations in capital markets plus direct foreing investment.
a. Estimated
Source: World Bank. Global Development Finance, 2001.

The diversification of capital flows to the developing countries, combining portfolio allocations, bank credit and DFI did not mean a stable source of funds, because their flows have had significant variations, and to the extent in which DFI flows have increased, capital outflows have done it, as it can be observed in **Chart 6.** That is why these flows have not represented resources for they do not constitute positive net funds towards the small group of countries to which they come into, but, in any case, during a year in particular for any country that has realized a great privatization. So, the resources volume incoming to these countries have been accompanied by capital outflows sometimes even larger than the first ones. That is why, the World Bank points out that "…in the year 2000, as well as during the nineties, several capital inflows were reflected in capital outflows or 'errors or omissions' at the balance of payment".[8] It must be added that there is only a small group of developing countries that participate in this expansive financial dynamics. These private capital flows have not allowed greater resources availability for investment and growth, in fact, they have been an attractive and profitable assets allocation of these countries by capitals mainly coming from larger economies in search of increasing profitability.

Chart 6
Capital Flows towards Underdeveloped Countries, 1991-2000.
(Billion Dollars)

	1991	1992	1996	1997	1998	1999	2000[a]
Origin of the Funds [b]	143.1	194	354.4	358.7	283.7	246.2	299.3
Long-term Net Flows	123	155.8	311.2	342.6	334.9	264.5	295.8
Short-term Net Flows	20.1	38.2	43.2	16.2	-51.2	-18.3	3.5
Use of Funds	143.1	194	354.4	358.7	283.7	246.2	299.3
Current Account Deficit	76.5	85	114.5	101.3	46.1	-26.8	-60.3
Change in the Reserves	49.7	16	89.6	29.1	49	26.2	53
Capital Outflow, and Errors and Omissions	19.9	93.1	150.3	228.3	188.5	246.9	306.6

a. Estimated
b. It refers to mortgage for net debt contracts and to DFI net uninvestment. So, these ciphers are sometimes considered as "net" flows.

Source: World Bank. Global Development Finance, 2001.

These markets were constituted in spaces with attractive yielding, profiting from liquidity and arbitration opportunities, and from institutional investors portfolio diversification, pension and mutual funds, insurance companies stockbrokerage institutions, and investment banks. To sum up, several elements should be considered:

1. Since the drop in international loans during the 1980s' "debt crisis", the financial markets reactivated their expansion towards the emerging economies through exchange instruments and securities involving greater liquidity and risk. The general use of securitization gives even direct investment greater liquidity be largely blurring the distinction between it

[8] And it still points out that "Errors and omissions show the inability of the international financial statistics to identify a significant part of capital transactions." (World Bank, 2001, p. 34).

and portfolio investment and DFI in terms of their impact on external accounts. (Kregel, 1998).

2. Financial deregulation and liberalization in the various national financial systems started as a consequence of the need to increase intermediation margins and the commissions of national banks. Financial innovation and the growing presence of intermediation and institutional investors are closely linked to processes of marketability of the enterprises, to the increment private debt securitization, and privatizations with specific financial purposes.
3. At world level, a number of the countries are increasing the participation of capital flows by portfolio investment abroad and FDI; this increase and the yields from these flows greatly exceed the countries' economic growth. Asymmetry is thus generated between economic growth rate and the rate of return on financial investments.
4. Developing countries altogether, in spite of a their growing presence in products and trade worldwide, during the nineties they have had a declining participation in private capital flows, in both securities issuing, in bank credit, and DFI.

VI. BANK CRISES

Bank crises have developed during the last fifteen years going hand in hand with the process of international financial deregulation both in the developed and in the developing transitional countries. Crises occur when the active management of balance comes up against currency mismatch problems; when credit is concentrated in certain sectors (for example, oil or real estate) or companies; when interest rates are high during periods of lower economic growth; when there are high leverage levels resulting from rapid privatization or takeovers; or where there is a combination of these factors. (Correa, 1994; Girón, 1998; Girón and Correa, 2002).

Recent bank crises are the outcome of the deregulation and liberalization of national financial systems and of increasing competition in the financial sector.[9] They may be preceded by monetary crises, external-debt crises, stock exchange crises, or sectorial crises. Perhaps the most notable crisis of the last few years have been the bank failures in Thailand, Indonesia, The Republic of

[9] Even the International Monetary Fund pointed out in a recent study that bank crises during the last ten years, among them the Mexican and Asian crises, have reached an explanation in the context of the financial deregulation and liberalization processes as well as the participation of international capital flows and financial innovation. (International Monetary Fund, 1998).

Korea and Japan, as well as those in Scandinavia at the beginning of the nineties and in Latin America since the middle of the decade: for example, Mexico, Argentine, Brazil, and Venezuela. We should not forget the failure of the savings and loans associations in the United States during the 1980s which cost the Federal Reserve 500 billion dollars, nor the bank crisis in Spain, the United Kingdom and Chile during the same period.

Many of the recent bank crises stem largely from greater competition in markets which have become increasingly integrated at world level, and from the participation on non bank intermediaries . In the case of developing countries and transitional economies, however, a comparative disadvantage arises in as much as their sources of liquidity are associated with relatively weak monetary standards.

In these countries, the differential maintained in interest rates in order to achieve a degree of currency instability tend to increase the foreign-exchange component of bank liabilities, and even the liabilities of non-bank enterprises. Abandoning the local market, an influx of short term capital attracted by interest rate differentials and relative currency stability quickly produces a monetary imbalance in the banks and inability to pay on the part of non-bank corporations.

The new competition at world level which accompanies financial deregulation has turned debtor countries' traditional financing and refinancing methods towards credit securitization. At the same time, the stock exchange listing and privatization of firms has provided profitable opening for the expansion on non-bank financial services.

Soundness and fragility of a bank system results from macroeconomic and structural policies that allow or not a tight correlation between the financial sector and the productive system. In Latin America the processes of trade and finance liberalization have not been successful, precisely because they have not helped to rise investment and growth rates, but instead, they have increased financing costs and brought about bank and financing crises. Therefore, independently of bank systems sufficiency in reglamentation and supervision, they are susceptible to macroeconomic changes. So, they are exposed to changes of the national currency's demand or to foreign capital flows, undermining national banks capacity to face obligations.

The fiscal cost of banks restructuring or bailing of banks has been very high in relation to gross domestic product; in the Republic of Korea alone it represents 33.0 per cent, in Japan 31.0 per cent, and in Mexico between 12 and 15 per cent of GDP. However, the cost of bank crises are large: in addition to the fiscal cost of restructuring the financial sector there is the effect of this process on the level of economic activity, as well as the inability of the financial markets to function efficiently for a long period.

Management and settlement of the bank crisis both in the Asian and the Latin American countries have scarcely begun. The various measures taken by governments are aimed, in accordance with IMF' guidelines, at declaring bankrupt and within up certain banks identified as insolvent, at guaranteeing deposits (so far to an unlimited extent) and at transferring a redemption cost to public funds. All of this goes together with the reform of the supervisory institutions of the legal and juridical framework so as to open the way for efficient bankruptcy control and to reduce deposit-insurance coverage. The participation of nation states in the ownership of bank intermediaries is intended in any case to be temporary (bridge banks), thus permitting the speeding repurchase of already restructured banks by solvent banks, chiefly foreign. Progress is likewise being made towards setting up receivership firms along the lines of the winding up of savings and loan associations in the United States, which will enable rapid change to take place in the ownership of firms facing insolvency.

History shows that bank crises are very slow to be resolved. The economic capacity to cope with a volume of liquid assets in the form of deposits tied to loans to insolvent economic operators takes a long time to acquire and may entail sweeping structural adjustments. In any case, monetary austerity makes it more difficult to deal with these bank crises and causes borrowers and the banks themselves to become insolvent. The tax burden entailed in redemptions ties up growing and substantial part of public budgets are ready depleted by recession.

In Mexico, for example, operations are focused on corporate service particularly consumer credit and investment funds. Their profitability will depend both on expansion of their share of the corporate market and on the share they have of the exchange and money markets. They are operating on the scene increasing numbers, particularly as providers of foreign-currency funds to local banks, thus establishing themselves as a determining factor in the cost of financing in both national and foreign currency. National banks are thus not only yielding growth on the local markets but also losing the power to impose their own asset and the liability management strategy on that market.

The risk of loosing national control over the payment system thus arises from two factors: first, the inability of the local bank to restore the payment capacity of insolvent bank borrowers and, second, the increase in the number of foreign financial intermediaries who gradually impose their own margin and cost structure on the operation of the bank system as a whole.

Financial opening and liberalization in economies, such as those known as "emerging economies", in the economies of countries in transition, or even in the developed economies like the Japanese, jeopardize monetary sovereignty (De Brunhoff, 1996; Kregel 1996).

The recent international financial crisis and the financial bankruptcy of Argentine, highlight the inability of local financial authorities to cope with it and the need to have recourse to the United States Federal Reserve and International Monetary Fund as lenders of the last resort.

Recurrent financial and bank crisis have been deteriorating, if not bankrupting, the coherence of national productive spaces, therefore, financing terms are subordinated to the dynamics of the international financial markets, particularly to the North American dollar, and the domestic reference in terms of earnings and prices are linked to that one.

Current opening and financial deregulation represent for several countries not only the end of the lost of sovereignty and of control over the monetary policy, but also, and specially, to lose capacity to use the exceeding, to move resources and expand credit for the process of accumulation. Therefore it is and economic and political problem when financing of accumulation is conducted from another political space.

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