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Contagion in Emerging Markets: When Wall Street is a Carrier

| Chapter

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Latin American Economic Crises

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Abstract

Prior to the Tequila crisis of 1994–95 in Mexico, balance-of-payments crises in emerging-market economies were quickly attributed to macro-economic mismanagement — the first and foremost suspect always being an ‘unsustainable’ fiscal deficit. The Mexican crisis questioned this conventional view because the country was emerging from a long period of stability during which important structural reform had been undertaken and, on the whole, fiscal deficit had been brought under control. However, conventional wisdom started to shift towards focusing not just on fiscal deficit, but also on the current account deficit —

undoubtedly a more encompassing measure of a country's deficit. Mexico showed some weakness in this respect, as its current account deficit was about 8 per cent in 1994 and was programmed to rise to 9 per cent in 1995. This was considered 'unsustainable' for Mexico, given its poor growth record.¹ The new crisis paradigm had hardly begun when Asia fell into disarray. The unsustainability flag could not easily be raised in this instance, especially for countries like Korea and Indonesia. For the first time, conventional wisdom turned its attention to what is likely to be central to all recent crises, namely, financial-sector weaknesses.

Keywords

[Current Account](#)

[Marginal Productivity](#)

[Multiple Equilibrium](#)

[Current Account Deficit](#)

[Fiscal Deficit](#)

These keywords were added by machine and not by the authors. This process is experimental and the keywords may be updated as the learning algorithm improves.

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