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Introduction: China and Latin America: Processes and Paradoxes

Author(s): James M. Cypher and Tamar Diana Wilson

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# Introduction

## China and Latin America

### Processes and Paradoxes

by  
James M. Cypher and Tamar Diana Wilson

How has the increasing economic influence of China, especially since 2000, affected Latin American countries? Has China's recent impact led to a structural shift in the underlying political economy of the region? Has this effect been, on balance, positive, negative, or too complex to be reducible to a normative analysis? Is it the case that, because of ongoing dynamics and the generation of ever newer accords, reached annually if not biannually between China and various Latin American countries, such an assessment lies only in the future?

Latin American and Chinese economic relations are often viewed in terms of either complementarity or dependency, and this approach informs many debates about China's impact on the region. As Fercheny (2011: 57) puts it,

On one side of the emerging debate are those, including most prominently the Chinese government itself, who claim that the China–Latin America economic relationship reflects fundamental complementarities and therefore has a positive effect for both sides. In contrast, other observers have emphasized that what boosters see as complementarity is really just a renewed form of Latin American dependency. They argue that while rapidly expanding trade and investment ties may have short-term benefits for both sides, the commodity-based nature of the relationship ultimately reinforces dysfunctional patterns of Latin American development that many countries in the region long ago renounced and have been attempting to move away from for over half a century.

Most of the literature seems to fall along a continuum with complementarity at one pole and dependency at the other, with various views as to whether China will emerge as a hegemonic power in Latin America. Jenkins (2012: 1350), for example, finds a growing *asymmetrical relationship* in the current configuration, noting that

the structure of trade between China and Latin America has been increasingly characterised by the centre-periphery type of relation, with Latin America exporting primary products and resource-based manufactures in exchange for Chinese manufactured goods. Thus, whereas in 1990 roughly two-thirds of

James M. Cypher is a professor-researcher in the doctoral program in development studies at the Universidad Autónoma de Zacatecas and a participating editor of *Latin American Perspectives*. He is the author of *The Process of Economic Development* (4th edition, 2014). Tamar Diana Wilson is an independent researcher in Los Cabos, Mexico, and an associate editor of *Latin American Perspectives*. Her most recent work is *Economic Life of Mexican Beach Vendors* (2012). The collective thanks them for organizing this issue.

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Latin American exports to China were primary products and resource-based manufactures and two-thirds of imports from China were non-resource-based manufactures, by 2008 the respective shares had both increased to almost 90%. Moreover, the types of manufactured goods imported from China have become increasingly technology-intensive over time. In contrast to the rhetoric of South–South cooperation, then, the reality demonstrated by the trade pattern is the type of centre-periphery exchange that has been a concern in Latin America for more than half a century.

Nonetheless, he rejects the idea of an emerging Chinese hegemony in the region, underscoring that “China is far from becoming the dominant economic power in the region that the USA was in the past” (1356).

The nature of China’s new role in Latin America has been addressed by many, but only partially. The framework for commentary has rarely spanned “Latin America”—a vast region of increasing heterogeneity. Given the dispersion of the historical dynamic, convincing generalizations regarding “Latin America” are often not feasible. For example, the “commodities boom” that began in late 2002 and generally lasted until late 2011 (lingering on in oil- and gas-exporting nations until mid-2014) affected most nations of South America but not so much Central America and even less Mexico. The following sections will consider some of the aspects of Chinese involvement in the region from the perspective of Latin American countries.

## UNDERLYING CONDITIONS AND CURRENT TRENDS

China played a major role in the commodities boom both in “hard” commodities such as minerals and in “soft” commodities such as monocropped agriculture and livestock in various Latin American countries; its demand for commodities has increased on a scale unlike that of any nation in modern history (Table 1). During the boom, respectable rates of economic growth were experienced across South America. The average annual rate of real per capita income growth was 4.1 percent from 2003 through 2011—including the crisis years 2008 and 2009 (CEPAL, 2015).<sup>1</sup> Thus, South America experienced an impressive 78 percent improvement in the average annual per capita income growth rate from that attained during the period 1990–2002 (which was 2.3 percent). A combination of favorable events including higher export prices and volumes and the stimulus effects of record low international borrowing (interest) rates and high international liquidity (particularly after 2007) boosted national production and enabled credit expansion, all of which promoted increases in aggregate demand (measured in terms of consumption, capital investment, and government spending, including public infrastructure investments). Stronger growth also underwrote appreciable increases in social spending in many nations, which tended to induce further growth. Poverty rates fell at an impressive rate in several countries. Income dispersion between the middle class and the poor was reduced somewhat. The latter effect was widely hailed as evidence that Latin America’s notorious levels of income inequality had been somewhat undercut (López-Calva and Lustig, 2010). Alas, the measure used to calibrate income and wealth inequality in Latin America generally fails to capture the vast property incomes of the oligarchs and the well-hidden

TABLE 1  
Commodities and World Consumption Growth, China vs. Latin America,  
2002–2012

Year	% of World Consumption, China		% of World Consumption, Latin America		% of World Consumption Growth, China
	2002	2012	2002	2012	2002–2012
Aluminum	16.2	44.8	4.0	3.5	81.1
Copper	18.2	43.3	5.2	5.1	113.4
Nickel	7.1	47.7	2.3	1.3	132.3
Oil	6.8	11.7	8.7	9.6	48.2
Cotton	29.7	33.6	7.8	7.4	74.9
Corn	20.1	23.9	13.2	13.5	33.7
Pork	46.5	50.0	5.1	6.0	69.8
Rice	33.4	30.8	4.2	3.9	13.6
Wheat	17.5	18.0	5.2	5.3	22.6
Soybeans	18.5	29.5	33.1	33.4	59.6

Source: Data presented in UNCTAD (2013: 54).

income transfers appropriated by the ever-churning members of the “political class” (Cypher, 2011; Fairfield and Jorratt de Luis, 2015). Therefore, the touted “improvement” in the distribution of wage and salary incomes hardly demonstrates that, overall, there has been any leveling of income and wealth. There is every circumstantial reason to believe that the contrary is true.

While we can argue that China was the main driver of the commodities boom (ignoring the important role of India and other South nations that import growing amounts of South America’s commodities), the socioeconomic impact of China’s new role was much less in Mexico and Central America and in much of the Caribbean. This is because in the 1980s or somewhat later Mexico and several Central American countries adopted the maquiladora model, based on cheap-labor manufactured exports. (Mexico’s 1965 Border Industrialization Program had produced some new work opportunities in maquiladora assembly plants to offset the abandonment of the U.S.-Mexico Bracero Program of 1942–1964, which had primarily employed poor workers in the northern and border states.) Although the surge of China’s exports served to undermine the viability of very-low-wage assembly in apparel, shoes, and textiles, Mexico and Central America had become path-dependent entities that were not easily converted to specialization in primary goods exports. In the Caribbean the dynamic was generally distinct, with service sector specializations (particularly tourism) remaining prioritized as drivers of the accumulation process. However, Jamaica relied upon bauxite and aluminum for nearly 60 percent of its exports during the commodities boom. Unsurprisingly, from 2002 to 2008 aluminum prices more than doubled. Surging commodity prices significantly affected many other Caribbean and Central American nations. Even Mexico was impacted in the later years of the commodities boom as Canadian (and Mexican) mining companies rushed into old mining areas using new environmentally destructive technologies to exploit low-grade mineral deposits.

In South America “soft”-commodity farming (such as soybeans) and “hard”-commodity mining (such as copper) boomed while the growing number of petroleum-producing nations enjoyed the outsized economic rents that often accrue to this “exceptional” commodity. Here, generally, the impact of China’s enormous demand for commodities was larger, but, again, important distinctions must be made. The distribution of resources is ultimately reducible to the vagaries of geography and the capacity of nations to discover and develop their national resource bases. Historically, Latin American nations have been slow to cultivate such capacities (David and Wright, 1997) and too willing to play the role of passive “partner.” Traditionally, much resource wealth has been conveyed abroad through the workings of colonial and neocolonial economic structures (Carmangani, 1976). Such structures have proven resilient right up to the moment, even when confronted by ostensibly “revolutionary” regimes such as Bolivia’s, where “nationalization without expropriation” under President Evo Morales left transnational corporations in full control of 64 percent of gas production (Kaup, 2013: 142–144). Higher commodity prices commonly combined with a higher percentage of merchandise export volume—particularly in Bolivia (where the volume index rose 119 percent from 2002 through 2013), Colombia (a 98.5 percent leap in the same period), Ecuador (with a 95.5 percent bound), Peru (up 73.4 percent), Uruguay (with a 71 percent surge), Brazil (rising 66 percent), and Chile (expanding 52 percent) (CEPAL, 2015).

While rising commodity exports generally explain the strong performance of exports in South America, heterogeneous dynamics cannot be ignored. A considerable portion of Argentina’s increased export volume of 71.8 percent in the 2002–2013 period was due to *manufacturing products* that were not directly linked to commodity production or other exports to China. From 2007 to 2012, for example, the volume of nonagricultural-based manufactures rose by 40 percent, shifting manufactures up from 31 to 34 percent of total merchandise exports. During these years income received for primary product exports stagnated (Fanelli and Albrieu, 2013: 28–29). The overall growth of exports (an almost 52 percent rise from 2002 to 2013) in Chile, the most representative nation regarding “hard” commodities production and exports, did not stand out, but the windfall of the boom was nevertheless very large in constant U.S. dollars (2009 = 100) because copper prices rose by more than four times their 2002 level by 2011 (ICSG, 2013: 33). The world’s largest copper exporter, with more than 33 percent of world production, Chile has steadily fallen behind in advanced processes such as smelting (with only 8 percent global share in 2012) and refining (ICSG, 2013: 10, 17). Moving upward along the value-added chain, China has rapidly become the world’s largest single smelter, refiner, and producer of copper semis—such as wire and ingots. China maintained 39 percent of global copper semis production capacity in 2012, while Chile did not even register among the top 20 nations in this regard (ICSG, 2013: 25–27). Thus, China has continued to advance into higher value-added industrial activities while Chile’s industrial capacity has withered. In 2012 South America’s copper semis production (overwhelmingly determined by Chile), as measured in metric tons, was *lower* than it had been in 1980. South America’s *mined* copper production growth led the world, rising fivefold in the same period, but its rentier elite, working in close relation with transnational capital, was increasingly



content to export more and more raw materials, leaving the complex higher value-added activities to others, particularly China (ICSG, 2013: 9, 25).

The greatest divergence from these larger trends was registered in Venezuela. While petroleum prices consistently reached high levels, its exports (by volume) actually *fell* at an annual rate of 1.84 percent from 2002 through 2013. Here, internal disputes involving the management of PDVSA (Venezuela's national oil company) undermined production capabilities. Since September 2013 oil prices, too, have fallen—by roughly 53 percent in U.S. dollars—through January 2015 (IMF, 2015).

Meanwhile, Brazil's export volume grew rather slowly (43.9 percent from 2002 through 2013), but there was an important qualitative shift toward primarization of the entire export sector as Latin America's largest, deepest, and most technologically advanced industrial sector faced deindustrialization—a phenomenon that would support the idea of a new dependency. Notably, Brazil's performance as a “progressive” or neodevelopmentalist regime during the commodities boom has been subject to much analysis and debate.

## RESEARCH ISSUES

Analytical work by Latin American specialists has generally been conducted at the national level. As a consequence, the expertise and the groundwork for the development of broad hypotheses that sweep across Latin America have been infrequent. Few have asked how China's growth has affected Latin America, since their expertise has been limited to a single nation. There are, however, exceptions, such as Ellis (2009) and Fornés and Philip (2012), and large research institutions such as the Economic Commission for Latin America and the Caribbean (ECLAC) have explored the new roles that are emerging in the interactions between China and Latin America. Focusing on trade and direct foreign investment issues, ECLAC writers Rosales and Kuwayama (2012: 11) warn that a new center/periphery structure could emerge instead of a new structure of South-South “cooperation”:

Despite the region's closer trade and investment ties with China, the quality of its trade integration into the global economy has not improved. The expansion of the sectors associated with natural resources has not boosted the development of new technological capacities in the region and the productivity gap with the countries that are considered to be at the forefront in that regard has widened. The region's trade relationship with China therefore presents both opportunities and challenges. One major challenge is to prevent the growing trade with China from reproducing and entrenching a centre-periphery trade pattern in which China emerges as a new centre and the countries of the Latin American and Caribbean region as a new periphery. What is required, then, is progress towards trade relations that are more in keeping with the economic and social development patterns that this region needs.

Even here, however, another inhibitor to deep analytical labor becomes apparent. Researchers have great difficulty receiving and processing new phenomena, and they do not do so quickly. Thus, in addition to the fact that Latin American studies tends to be a country-bound field of analysis, one could

reasonably argue that it is simply too early to tell what have been and will be the consequences for Latin America of the rise of China. However, the current moment may prove propitious, at least in terms of extracting some provisional answers.

The other side of the extremely important question we commenced with needs to be faced: China “experts” are generally not Latin American specialists and vice versa. There are many foreign-based analysts who specialize in the study of China, and they may have mastery over issues of its language, culture, and socioeconomic dynamics, but this hardly qualifies them as experts on the political economy of Latin America; likewise for the Chinese. It is rare indeed to find the analytical combination needed to dig below the surface generalities that lurk on both sides of this construct. Finally, neither China nor Latin America is known for its transparency, as Song and Zhang (2013: 216) note in the case of China:

Strangely, in contrast to a large amount of controversial though groundbreaking research on the Chinese political model and the Chinese cultural-ideological model, discussions of the Chinese economic model have been largely marginalized. Views and arguments are often ambiguous. More importantly, relations between the Chinese model and the Chinese political and cultural-ideological system are ambiguous as well.

“Opacity squared” is not a promising point of departure in social science research. The available research on the China–Latin America construct reflects these limiting realities. However, Confucius Institutes, sponsored by China, have been established, the first in Mexico in 2006 and the second in Argentina in 2008, and others are present or planned for various other countries in Latin America. These institutes sponsor the learning of Mandarin and Chinese culture. On the opposite side of the Pacific, the Instituto Tecnológico de México, a private technological university, has branches in Beijing, Shanghai, and Guangzhou (Ellis, 2009: 212). Student exchange, a relatively long tradition between Cuba and China, is now becoming more common between other Latin American countries and China as well.

### IMPACT ON LATIN AMERICAN COUNTRIES OF ECONOMIC RELATIONSHIPS WITH CHINA

To a significant degree, the literature on Chinese involvement in Latin America is concerned with the negative impacts of the trade relationships between the two. At least three such impacts are constantly reiterated. First, it is pointed out that various Latin American nations, including Brazil, Argentina, and Chile are overdependent on the export of primary products, such as mineral resources and/or agricultural commodities (e.g., Dussel, 2011; Fernández 2010; Fernández and Hogenboom, 2010; Fornés and Philip, 2012; Gallagher and Porzecanski, 2010; Jenkins, 2012; León-Manríquez, 2011; Malena, 2011; Oliva, 2010). This demand for primary products is explained by China’s export-oriented industrial production model, its national infrastructure and heavy industry needs for building the national industrial base, and the fact that the rise in

China's standard of living has outpaced the growth of its agricultural sector, necessitating massive imports to meet internal food-related demand. As a result of these conditions, Chinese exports to Latin America are highly diversified while Latin America's exports to China are "highly concentrated" (Dussel, 2011: 95). Since primary commodities are subjected to boom-and-bust prices on the world market and a decline in (real) prices over time, this "reprimarization" of Latin America's exports orientation increases the volatility of the external sector, creating turbulence and external vulnerability (Fornés and Philip, 2012: 77–78; Gallagher and Porzecanski, 2010: 7; León-Manríquez, 2011: 171).

Second, it is pointed out that both high-tech (e.g., computers, electronic goods) and low-tech (e.g., clothing, footwear) exports from China have caused various Latin American enterprises to be marginalized or to go out of business entirely (Gallagher and Porzecanski, 2010: 8, 56; León-Manríquez, 2011: 164). Because of this threat, antidumping measures against some Chinese exports were implemented in Brazil as early as the 1990s (Altmani de Oliveira, 2010: 47), and Argentina has imposed quotas on such items as toys, tires, and electrical equipment (including computers) (Oliva, 2010: 106). China has meanwhile become the main supplier of consumer goods to Chile, including clothing and the items on which Argentina has imposed quotas (León-Manríquez, 2011: 165). Cheap consumer goods from China have also flooded the low- and middle-income markets in Mexico and Central America, leading to these countries' experiencing what some scholars identify as "massive trade deficits" with China (e.g., León-Manríquez, 2011: 164). Overall, China's share of total Central American imports rose from 1.5 percent in 2001 to 8.7 percent in 2013, while China absorbed only 1.9 percent of Central America's exports in 2013 (Cordero, 2014: 20, 33).

Third, it is argued that China was for several years out-competing countries like Mexico and Brazil in Latin America for export of manufactured goods to the United States and on the world and regional markets (Fernández and Hogenboom, 2010: 21; Fornés and Philip, 2012; Hogenboom, 2010; Jenkins, Dussel, and Mesquita, 2008: 236; León-Manríquez, 2011: 167). Nonetheless, at least Mexico has relatively recently regained some of its market share in labor-intensive manufactures (Cave, 2014; Chen and Chen, 2013; Kamil and Zook, 2013). This is partially because of rising labor costs in China. Whereas in 2002 Mexico's wages were 2.4 times higher than China's, by 2012 they were only 14 percent higher than those in China, and it was then expected that Chinese wages would eclipse Mexico's within five years (Thompson, 2012, cited in Chen and Chen, 2013: 58). It is notable that, "today, Chrysler is using Mexico as a base to supply some of its Fiat 500s to the Chinese market" (Chen and Chen, 2013: 57).

In 2010 it appeared to Fernández and Hogenboom (2010: 9) that

while Latin America is providing mostly raw materials to China, China's exports to Latin America are strong in low technology products (e.g. clothing and footwear) which generates various adverse effects. These cheap products please Latin American consumers while, simultaneously, they threaten local producers. This double-edged effect has fueled a de-industrialization debate in many nations, particularly Brazil. In addition, low Chinese production costs in these sectors are harming Latin America's chances for export production for the US and European markets.



However, by 2013 rising wages in China had dulled its competitive edge—Mexico's average hourly manufacturing wages were then roughly 20 percent *below* China's (Kwan Yuk, 2013). However, China's *total* average manufacturing compensation (wages + benefits) were estimated for 2013 to be considerably below Mexico's, though the gap was clearly closing at a rapid rate (Sirkin, Zinzer, and Hohner, 2011: 7).<sup>2</sup> Because of these trends, according to Kamil and Zook (2013: 49–50), Mexico had been able to stage a “comeback”; after 2010 its market share of the U.S. market for imported manufactures rose (slightly) at the expense of China's.

China's demand for Latin American primary commodities led to major improvements in the terms of trade in most countries until the commodities boom ended in late 2011 (Cypher, 2014a). Furthermore, China is investing in Latin American economies to ensure a constant supply of the primary commodities it imports and entering into joint ventures in mining and petroleum, as well as funding infrastructural improvements (ECLAC, 2013: 9–10; Ellis, 2009: 3). Whether this is a net benefit for Latin America will depend on how nations are able to negotiate, time, and channel foreign direct investment. Asian nations, including China, have been active in using industrial policy to ensure that foreign direct investment fits into a larger national development project—which has meant that on many occasions they have reserved strategic areas for national capital or otherwise restricted the flow of foreign investment. Until recently, Latin American governments and elites have generally ignored the developmental lessons of Asia's vast accumulated experience on this theme (Cypher, 2013; Kay, 2002).

Finally, it is frequently argued that in addition to “purely economic interests, Latin America is interested in China because of the possibility that the Asian giant will help the region to offset the traditional political, economic, and institutional dominance of the United States, giving it greater freedom of action to pursue a more autonomous course politically” (Ellis, 2009: 28). There is no doubt that the *possibility* of bargaining with competing foreign investors strengthens the hand of the host nation. Thus, the structural conditions enabling bargaining have been improved. But the possibility of bargaining can be realized only if nations have the *will and capacity* to take advantage of it. Once again, the prevailing opportunism of Latin American elites regarding such matters has been painfully apparent.

## CHINESE DIRECT INVESTMENT IN THE REGION

With the end of the commodities boom in late 2011, Latin America's growth slowed—a result of both changes in Chinese demand and the fact that commodity producers had greatly increased capacity, creating conditions of overproduction. From the last quarter of 2011 to the last quarter of 2013, average commodity prices declined by 32 percent. Since then, broad price erosion has continued—the *Economist's* commodity price index fell by 19.6 percent in dollar terms from April 2014 to April 2015 (*Economist*, 2015b: 85). These data exclude the important oil market, which (as noted) has tumbled, affecting especially Ecuador and Venezuela, which depend on oil for more than half their export revenues.

TABLE 2  
Estimated Foreign Direct Investment (US\$ billions), China vs. Latin America,  
2010–2013

Year	China's Investment Flows to Latin America	Net FDI Received by Latin America	China's % of FDI
2010	13.7	83.0	16.5
2011	9.3	127.1	7.3
2012	9.2	132.2	7.0
2013	n.a.	157.6	–

Sources: CEPAL (2015), Chen and Pérez (2014: 13).  
Note: Net investment is the annual summation of FDI received by all Latin American nations *minus* FDI made by Latin American corporations in non-Latin American nations.

Recently, China’s rising demand for commodity imports has coincided with surging capital exports. In the period from 2000 to 2011 Latin American countries became the second-largest recipients of Chinese direct investment (Dussel, 2012: 1; ECLAC, 2013: 7). On the distribution of these benefits, Dussel (2012: 16) writes:

87 percent of the FDI [foreign direct investment] in the region came from public companies (contrasted with only 13 percent coming from private entities), the amount per transaction exceeded 1 billion dollars (vs. 100 million dollars per transaction in the private sector), and 99.58 percent of the public was concentrated in companies and processes involving access to raw materials and energy (while only 7.82 percent of the private was focused on this area).

Although there was little Chinese foreign direct investment in Latin America and the Caribbean until 2009, in 2010 the Chinese invested approximately US\$13.7 billion (Table 2), with Brazil, Argentina, and Peru being the primary recipients (Chen and Pérez, 2014: 13; Dosch and Goodman, 2012: 4). Dosch and Goodman (2012: 4) point out that “China has established itself as the third largest investor in the region, behind the United States and the Netherlands.”<sup>3</sup>

In November 2014 Mexico’s Enrique Peña Nieto and China’s Xi Jinping reached a number of investment accords. If these are fulfilled, China will invest US\$14 billion in Mexico’s infrastructure and energy sectors. Of that amount, US\$5 billion is destined for PEMEX (Reséndez, 2014: 1), the Mexican petroleum company, which earlier in the year had been privatized. China is the fourth-most-important recipient of Mexican exports, following the United States, Canada, and Spain (Chacón, 2014: 2). Until the 2014 announcement China had invested only US\$83 million in Mexico since 2010–2012, only 0.25 percent of its total direct investment (Chen and Pérez, 2014: 13). Thus, an ECLAC report (2013: 11) contends that,

overall, China has become a significant direct investor in Latin America, but it is far from being one of the largest. Only in a few economies, such as Ecuador or (possibly) the Bolivarian Republic of Venezuela, could China be considered among the largest sources of FDI. The United States (25% of the total) and the European Union (40%) continue to be the largest sources of FDI for Latin America, and the share of and other Asian economies remains modest (7%).

China's investments in many Latin American countries have an ecological impact, but this is not a feature particular to China. Canadian mining companies have been the leading force behind the massive environmental degradation that has occurred in recent years (Working Group on Mining and Human Rights in Latin America, 2014). However, as Ray et al. (2015: 2) point out, Chinese trade and investment in Latin America are concentrated in petroleum and mineral extraction and in agriculture, which, they point out, are sectors prone to environmental degradation:

Latin American exports to China are responsible for using about twice as much water and emit upwards of 12 percent more net greenhouse gas emissions per dollar, compared to overall exports. Furthermore, the Chinese-enhanced infrastructure investments (like dams and railways to get the products to port) pose extremely serious threats for deforestation in some of South America's most biodiverse areas.

On the one hand, they underscore that the extensive mineral and agricultural export zones are located in biodiverse areas where many indigenous people live (Ray et al., 2015: 7). On the other hand, they conclude that Chinese investment in those industries has had no greater impact than investment from other countries and, furthermore, that Chinese companies have been willing to bow to governmental environmental protections that are often being attacked internally by the beneficiaries of the commodities boom (12–13).

Kotschwar, Moran, and Muir (2012: 14) point out that "in 2007, China Ex-Im Bank issued a document entitled *Guidelines for Environmental and Social Impact Assessment of the China Export and Import Bank* requiring that borrowers follow host country laws and regulations and specifying the need for social and environmental assessments for overseas projects." They stress that the impact of China on the environment in Latin America will be determined by the regulatory framework and political will of the host country. Others note, however, that exports of beef, soy, timber, and aluminum from Brazil have caused great swaths of deforestation in the Brazilian Amazon (Fearnside, Figueredo, and Bonjour, 2013). Negative effects have also been found for biodiversity and indigenous peoples in Ecuador, primarily because of the powerlessness of affected local communities (Ray et al., 2015: 17–18). In this regard, it is important to consider the planned US\$50-billion 172-mile-long canal crossing Nicaragua, which promises to outperform the Panama Canal by allowing the passage of ships of higher tonnage, including supertankers designed to carry up to 2 million barrels of oil. The Nicaraguan Canal Development Investment Company, which will finance the building of the canal, is headed by the Hong Kong billionaire Wang Jing (Boehler, 2014a; Erlich, 2015). It is, however, an object of indigenous and peasant protest in Nicaragua because of its possible adverse environmental effects and because of the predictable displacement of peasants and indigenous and other rural peoples (Boehler, 2014b; Doerr, 2015 [2014]). In sum, the environmental effects of the export of "hard" and "soft" commodities from Latin America will depend both on the policies of China and other major capital-exporting nations and on the political will of the host countries and the attention they pay to the needs of local peoples.

Although the role of Chinese direct investment is clearly important and multifaceted, Chen and Pérez (2014: 14) emphasize that the analytical focus remains on the underlying dynamics of trade:

Despite the rise in flows since 2010, investment relations between China and Latin America are not on a par with their trade relations. China is now the second largest source of imports for Latin America and will soon be its second largest export destination, in both cases behind the United States. In other words, China's economic influence over Latin America is conducted mostly through trade and not through direct investment.

While, with few exceptions, Latin America has welcomed foreign direct investment, China has well understood that the neoliberal Washington Consensus and the theory of comparative advantage behind it (which anchors development in "free trade") is sheer nonsense (Chang, 2008). Until the late 1990s, foreign investment in China occurred only under conditions of minority-share, joint-venture operations, wherein technology transfers occurred (Chandra, 2012: 107–108). In a 2014 policy change, China allowed entry of foreign direct investment into several new sectors that were either small or already dominated by China. The idea of "horizontal" treatment for foreign capital—now ubiquitous in Latin America—has never been applied. Selective engagement, at China's discretion, continues to be a viable developmental policy.

## THE ARTICLES IN THIS ISSUE

As this issue was being prepared for publication, the steady stream of commentary foretelling China's doom continued. Thus the *New York Times* entitled a typical article "With the Economy Dragging, Lending Plunges in China" (Forsythe, 2014). Reading the article, however, one finds that Chinese economic growth had remained persistently high—7.5 percent—through mid-year. This is an economy that is "dragging"? An early-2015 *Times* article continued with this trope: describing China as having an "upside-down" economy, it stressed the slowdown in the national demand for steel as the pace of infrastructure investments declined—a situation that was largely reversed by the outsized growth of China's steel exports (Gough, 2015). The grave forebodings of the author openly clashed with his account of labor market growth: in 2014 China created 13.2 million urban jobs, nearly a third more than the national target (Gough, 2015). Still, the imbalances and disproportionalities that have become increasingly noticeable in China's contemporary economy could, indeed, be harbingers of a real slowdown. China's current "pivot" strategy will shift somewhat from export-led growth and reorient the economy toward raising consumption levels, which are quite low: "Per person income in China is only 13 percent of that of the United States, placing it behind Brazil and Mexico" (Menéndez, 2014: 1). This is consistent with the fact that China's exports fell by an estimated 15 percent from March 2014 to March 2015, with imports falling at a rapid rate in the same period (*Economist*, 2015a: 8). As a result of this slowdown in the demand for Latin America's commodity exports as well as other



factors, CEPAL (2015) anticipated a zero rate of growth for the region's per capita income for 2015.

The articles in this issue fall along the complementarity-dependency continuum we have mentioned. Richard Harris, in "Understanding China's Relations with Latin American and Caribbean Countries: Research Notes," underscores China's policy papers and stated worldview as a way of understanding relationships between China and Latin America. He points out that the People's Republic of China stresses the importance of South-South relations and its own position as a developing country that wants to promote peace and peaceful development not only in Latin America but throughout the developing world.

The next three articles deal with Brazil's interactions with China and are instructive not merely because of the size and importance of Brazil in any broader discussion of Latin American trends and tendencies but also because Brazil has struggled to move onto a different developmental path. As background, the work of Antonio Barros de Castro (2009: 271), who argues that Latin America has been largely restructured by the growth of a 'Sino-centric market,' is relevant. He maintains that several Latin American nations

were able to adapt to the deep changes brought about by the twenty-first century quite easily. The more natural resources they had, and the more they had previously renounced manufacturing—since commercial liberalization—the easier such an adaptation was. Ultimately, in such cases, there was practically no choice to be made. In other words, those economies that had already accepted the role of raw-material providers prior to the emergence of China had all the more reason to stick to this route as China arose.

This set of conditions has given rise to what Maristella Svampa (2013) has termed "the Commodities Consensus," but not in Brazil. Barros de Castro (2009: 271) has argued that Brazil is distinct because of its ability to maintain continuity regarding its national development project even during the Washington Consensus period from the 1980s to 2002—"relatively idiosyncratic resources which are incrementally accumulated, changed and refined over time" (272). "Brazil relies today on competencies accumulated and matured through time, often under adverse conditions" (271).

Given these conditions, the discussion of the new role that China would play in the early twenty-first century in Latin America was bound to be more controversial in Brazil than in the nations that had either failed to build such national capacities in the first instance or failed to nurture them during the bleak 1980s and 1990s as the Washington Consensus policies were given free rein. The articles by Rhys Jenkins, Maria Cristina Pereira de Melo and Jair do Amaral Filho, and Marcelo Curado reflect their concerns regarding the implications of the spectacular performance of China's economy—which in 2014 surpassed in size (as measured in terms of annual gross domestic product [GDP] in purchasing power parity) that of the United States. As is the case in several Latin American nations, China has quickly become Brazil's main trading "partner." However, as noted above, Brazil's export profile has changed just as quickly—raw materials and scarcely processed



raw-material-based products are flowing out to China, while much of Brazil's industrial sector has been confronted by the extremely efficient and cheap public/private national/transnational export-based manufacturing complex that China has built since the 1990s.

There is a vast development literature, strongly advanced by Latin American structuralists such as Ferrer, Furtado, Pinto, Prebisch, and Sunkel, arguing that it was specialization in raw material production at the expense of building manufacturing capacity that was holding Latin America in a condition of underdevelopment (CEPAL, 1998; Furtado, 1971; Mallorquín, 1998; 1999; Rodríguez, 2006). Manufacturing has long been associated with positive "externalities" such as "learning by doing" that are generally not to be found in the primary sector. As Jenkins points out, this has been well understood at least since Marx's time. Friedrich List (1885 [1841]: 295–296) famously argued that nations such as Britain well understood the advantages of industrialization and that, having achieved economic advancement through various national policies in the eighteenth and nineteenth centuries, they sought to "throw away these ladders" while "preach[ing] to other nations the benefits of free trade."

Jenkins updates this literature, arguing that Latin America has experienced deindustrialization as production for export has shifted to the primary sector, where, in general, the pace and spread of technological change are less than in manufacturing. What is at stake here is the ability to increase the pace of national productivity. Equally important, revanchist elements lodged in the landholding elite and in the financial sector are empowered by the structural shift to primary production, as are transnational resource-based producers. Organized labor, embedded in the manufacturing sector, tends to be disempowered by these structural changes.

However, given the vast internal market in relation to that of the export sector, Brazil has not clearly conformed to these trends. Employment in manufacturing rose by 50 percent from 1999 to 2008 even as the share of manufacturing in GDP declined. Jenkins traces this decline in part to the primarization of the export sector, but by some measures Brazilian manufacturing has been declining as a share of GDP since the 1980s (IBRE, 2010). Furthermore, Brazil's trade surplus in manufacturing has recently turned into a deficit—with China playing a role in this swing, although an extremely overvalued currency and a restrictive monetary policy have been contributing factors (Cypher, 2014b). Although China's share of the domestic market in manufactured products is small (if growing rapidly), the qualitative impact of these manufactures has adversely affected some sectors that are potentially strategic for creating national industrial capacity. Still, Jenkins shows that the role of China in this area has been exaggerated and misunderstood. More important but generally underemphasized have been the barriers to expanding Brazilian manufactured exports both to China and to many other nations that now enjoy the windfall of extremely low Chinese prices as they import manufactured products. Latin American states have, on the whole, been rather slow to impose new royalty revenues from commodity exports. Brazil's two largest commodity exports—soy products and iron ore—face no special taxes. Mitigating the adverse effects of primarization through public sector capture of some of the massive economic rents

created by commodity booms would require political will on the part of the Workers' Party and its progressive allies.

Melo and Amaral Filho also emphasize the double-edged nature of the unanticipated transformations generated by China's economic relations with Brazil since the 1990s. Their article, however, locates Brazil's struggle to overcome semistagnation in the larger context of national forces including the agro-mineral elite and transnational corporations that have influenced the country's economic dynamics, and goes on to consider the role of many external factors of which China—however large it may loom—is only one. Among the internal factors, Brazil's financial sector has on more than one occasion unleashed cumulative vicious-circle effects. This is part of the "double-rentier" focus of the economy; maneuvering to extract natural resource rents and financial rents has become a central focus of Brazil's elite and has served in various ways to undermine the effectiveness and autonomy of national economic policy. It also tends to explain the low rate of national investment, which sets the stage for a low-growth trap. Brazil has struggled to launch industrial policies, but they have been very modest in relation to those pursued in China.

Brazil's industrial policies, particularly those for addressing critical factors relating to technological learning and innovation, have worked at cross-purposes to the restrictive financial policies that drove interest rates to the highest level in the world. This focus on the revival of industrial policies—this time with a clear emphasis on building endogenous technological capacity (particularly through the promotion of a national system of innovation)—has been termed "neodevelopmentalism" (Cypher, 2014b). One of the great ironies of recent Latin American history is that while those who control the commanding heights in Brazil (such as the Brazilian Development Bank) have avidly pursued an active national development strategy in the twenty-first century, this promising policy has been undercut by the commodities boom, which has given the agro-mineral elite (including the Congress's *bancada ruralista*) the staying power and the means to resist the efforts of the development coalition built by the Workers' Party. Melo and Amaral Filho also offer an excellent summary of China's economic development strategy, effectively drawing a contrast with Brazil's inability to achieve the levels of policy coherence that have been institutional fundamentals in China's "catching-up."

Completing the troika of articles on Brazil, Curado argues that the ascent of China has fundamentally changed the economic context within which Brazil (and, by inference, Latin America) has operated. How the role of China will ultimately affect Brazil is as yet indeterminate. The conjuncture holds great potential, but a positive outcome remains dependent to an important degree on the Brazilian state's capacity to maintain a neodevelopmentalist trajectory. (Pivotal to this strategy has been the role of Petrobras as an incubator of a national industrial suppliers' matrix, along with national policies designed to promote and develop a national innovation system.) Curado emphasizes that the income redistribution policies pursued by the Workers' Party have coincided with (and been reinforced by) a flood of imports of cheap "wage goods" from China that has greatly expanded the range of consumer goods available to the masses. These Chinese imports have also helped to contain inflationary

pressures in Brazil as domestic consumer demand has risen because of socioeconomic, employment, and credit-to-the-working-class policies.

In contrast to the two prior articles, Curado's frames Brazil's current dilemma regarding "primarization" in terms of a pioneering body of Canadian literature dealing with development policy in resource-dependent nations. The promising version known as "the staples thesis" (as argued by H. Innis and subsequently M. Watkins) has shared a theoretical focus with its nemesis, "the staples trap." With rare exceptions, Latin American analysts have, surprisingly, failed to engage with this innovative body of literature. Curado cautions us that the primarization hypothesis lacks the relevance for Brazil that it has for most South American nations because, regardless of the changing composition of exports, undoubtedly influenced by China, Brazil's foreign trade sector (merchandise exports + imports) is quite small. According to World Bank (2015) data for 2009–2013, Brazil's foreign trade averaged 21 percent of GDP in contrast to Bolivia's 70 percent, Chile's 59 percent, and Peru's 46 percent. In fact, of the well over 100 countries listed by the World Bank, only Sudan has a lower ratio than Brazil. Furthermore, countries that export agribusiness products into the contemporary world economy frequently do so with the vast support of scientific and technological inputs, as does Brazil. This contrasts with the literature on the export "enclaves" that were so important to the dynamics of Latin America in the late nineteenth and early twentieth centuries (Bulmer-Thomas, 1994), prior to the era of industrialization, as Barros de Castro has emphasized. Equally important if not more so, Brazil's contemporary development strategy is strongly tied to the "exceptional" commodity; the nationally owned oil company has expanded exploration and production ("upstream" activities, according to the petroleum industry) in lockstep with the promotion of linkages via co-production and co-investment programs that range from steel mills and machine tools (backward linkages) to refining and other "downstream" activities as well as shipbuilding (forward linkages).

Similarly to Melo and Amaral Filho, Curado finds that Brazilian analysts have creatively disputed many of the easy generalizations regarding the structural shifts that have occurred there, including those that may or may not be found as a result of an emerging China-Brazil construct. These debates have ranged from the validity of Prebisch's hypothesis that the terms of trade for Brazil's commodity exports have tended to decline over time to whether Brazil is really deindustrializing in any meaningful sense.

Taking up another aspect of China's growing role in Latin America—and following in the dependency approach—Alicia Puyana and Agostina Costantino focus on China's participation in the surging "foreignization" of large landholdings—a concept that includes the recent participation of foreign-registered Wall Street-style "investment funds" in what is conventionally termed "land-grabbing" operations. In a detailed discussion of the growing significance of large-scale land transactions, reconcentration of land ownership, and land-grabbing in South America, Borras et al. (2014: 34) note that

nearly all governments in South America have existing laws and/or recently have passed new policies and laws prohibiting, controlling or regulating foreign ownership of lands. . . . Yet, despite the existence of [such] laws and

policies . . . it is in these countries where massive land investments, foreign and domestic, have been opened up in the past decade [i.e., 2003–2013].

In general, the term “land-grabbing” is still evolving and remains somewhat imprecise. It is intended to describe primarily the rapid concentration into large-scale landholding units by (1) transnational corporations, including those based in Latin America, (2) “domestic or national elites,” who are generally considered the most significant (or prominent) participants in many countries, and (3) foreign governments (Borras et al., 2014: 22). In many instances it is difficult to isolate the role of this “domestic or national elite” because of its frequent participation as co-investors with majority-owned foreign entities. The historical turning point for a new era in the political economy of landholding was the 1990s. “Land-grabbing is generic term that attempts to encapsulate a recent and important trend in land ownership (and/or control) and ‘foreignization’ wherein the mass of privately-owned land in Latin America is *now even more concentrated than it was in the 1960s*” (Gómez, 2014: 2, 16). The term is not limited to agricultural activities but also includes mining, forestry, and petroleum holdings. The dating of this process is significant; it marks the consolidation of the neoliberal Washington Consensus model.

Puyana and Costantino emphasize the mechanisms by which an important portion of South America’s economic surplus (generated from land, including “extractive” activities using subsoil resources) is transferred out of South America by foreign landholding entities. Centering their analysis on land control and use in Argentina and Colombia, they examine China’s recent investments there. As they stress, South American state policy has been a major factor behind the reconcentration and “foreignization” of landholdings because state policy has been focused on the growth-inducing potential arising from the restructuring (including privatization) of landholdings as viewed through the prism of the Washington Consensus model, which claims that economic development arises as a result of the growth of export capacity. This, they argue, can be well understood through a careful reading of Colombia’s National Development Plan for 2010–2014, where one finds an attempt to increase by a factor of five the amount of land dedicated to agricultural use or to agribusiness forestry operations. Whether represented by the term “neo-structuralist,” neoliberal, or neodevelopmentalist, viewed as conservative or progressive, national states have facilitated foreign investment in landholding (including subsoil extractive activities) in conformity with the Washington Consensus model, which prioritizes unrestricted and unregulated direct foreign investment as a primary catalyst for national development. But are Latin America’s elites interested in development or the acquisition of quick economic rents? Puyana and Costantino have provided important documentation regarding two major Latin American nations that will help answer this important question.

In contrast to those who highlight what they consider to be elements of a dependency relationship to which Latin American countries are subjected by their economic relationship with China (with some or considerable agency on the part of their governments), the contributors of the three articles that follow are more concerned with policies than with economic dynamics. Adrian H. Hearn explores the “politics of trust” or of distrust as concerns Mexico’s views



of Chinese economic penetration. Although many of its insights are concerned with policy development as opposed to the economics of bilateral trade, the article is informed by economics in its analysis of the impact of China on Mexico's *maquiladora*, traditional handicraft, informal, textile, and other labor-intensive sectors of the economy. Members of these sectors perceive China, especially since its transition to "market socialism" in the 1980s, as a threat, in tandem with the neoliberal privatization policies being instituted in Mexico. Considering the issue of corruption, Hearn explores the types of contraband and circumvention of tariffs that Chinese companies engage in, often with the aid of Mexican customs officials. The underground economy seeks out and distributes much of this merchandise. Notably, he points out, a few Mexican multinational firms have managed to penetrate the Chinese market and even set up production facilities in that country. Hearn calls for the Mexican federal government to develop a "coherent industrial policy" rather than engage in ad hoc responses to imports from and exports to China.

Mao Xianglin, Adrian H. Hearn, and Liu Weiguang examine some of the "ideological affinities" between Cuba and China given the two nations' adoption of socialism modified by international market-oriented international economic policies. They hold that China, rather than focusing on the penetration of the Cuban economy, has aided the island with technology transfers and more recently, under Raúl Castro, with joint venture investment. Tracing Sino-Cuban relations to 1960, when Cuba became the first Latin American country to recognize the PRC, they hold that "ideology continues to provide an important basis for cooperation." Despite the widespread migration of Chinese to Latin American countries, with flows evident since the nineteenth century (e.g., Martínez, 1981; Pan, 1999; Wilson, 2004), few works on China and Latin America consider the role of these immigrant communities and widespread Chinatowns in the development of bilateral economic relations (for an exception, see Hearn and León-Manríquez, 2011). Mao, Hearn, and Liu underscore the importance of the local Chinese community in Cuba in facilitating diplomatic and business relations between the two countries. The importance of local Chinese immigrant communities in other Latin American countries, especially Mexico and Peru, should be the subject of further research.

Harris's "Chinese Relations with Latin American and Caribbean Countries: A Peaceful Panda Bear instead of a Roaring Dragon" falls at the complementary pole of the complementarity-dependency continuum. He argues that the involvement of China in Latin America has, overall, been beneficial to the region. He underscores that much of the literature on China's trade and investment is marked by a long-standing Sinophobia. This approach, he says, ignores the beneficial loans and investments China has extended to various Latin American countries, most notably Brazil. He argues against a dependency approach by pointing out the low ratios of commodity exports to GDP in countries like Argentina and Brazil and medium-sized ratios in Chile and Peru, which also export to the United States and the European Union. Harris stresses the ecological sensitivity of recent Chinese internal development policies such as the promotion of renewable energy and clean high-tech industries and suggests that such policies could significantly and positively influence the development trajectories of other countries.



## CONCLUSION

This issue offers a range of views on an extremely complex and important subject that has yet to be examined in its entirety. The China–Latin America conjuncture is both relatively new and rapidly evolving—conditions that make further scrutiny of this problematic imperative. Nonetheless, in the informative and carefully constructed articles presented here, readers will have an opportunity to engage with a broad range of current analyses. Given the immense scope of the theme under examination, it was not possible to offer detailed case studies of all Latin American nations. The articles presented here offer originality, depth, and breadth; they also offer theoretical insights, frequently supported by the use of empirical methods that have yielded important findings. Finally, they employ analytical frameworks that can facilitate an understanding of the dynamics of other Latin American nations.

## NOTES

1. This calculation averages real annual growth rates for GDP (2005 = 100) minus annual population growth rates in Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, and Venezuela to produce annual rates of per capita income growth (CEPAL, 2015). The average rate of increase in per capita income fell to 3.1 percent for 2012 and 2013. (Paraguay has been an outlier and is, therefore, not included in the sample.)

2. Wages and benefits are only two of the determinants of comparative labor costs. The third is output per worker per hour, or productivity. Recent data on labor productivity in China are unavailable. Wages have been rising rapidly in China, while labor productivity growth has not been as fast. Thus unit labor costs are rising; the gap between Mexico's higher unit labor cost and China's is closing.

3. It is notable that in October 2014 the multilateral Asian Infrastructure Investment Bank was formed after having been proposed by the government of China in 2013 as an alternative to the World Bank, the International Monetary Fund, and the Asian Development Bank—international financial institutions that the Chinese government sees as dominated by the interests of the United States, Europe, and Japan. As of June 2014 the bank's capital amounted to US\$100 billion. As of April 2015 there were 57 founding members. Although the United States and Japan exempted themselves, most European countries as well as Brazil—the only country in Latin America so far—have become members (*Economist*, 2015c; Macauihub, 2015; Mathur, 2015). The bank is targeting infrastructural development in Asia at this time, but as a rival to other multilateral lending institutions it is possible that it will fund infrastructural development outside of the Asian region in the future.

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