At first glance, China’s expansion is a very positive development for Latin America and the Caribbean as trade figures show steep rises. Several countries greatly benefit from China’s enormous demand for energy, minerals and other primary commodities. Yet to other countries the ‘China effect’ is mainly trade competition in local and global markets. With respect to foreign investments the effects of China’s expansion are diverse, too, involving competition for MNC investment, but also new Chinese (joint) investments, especially in the exploitation of Latin America’s natural resources. However, the contrast between China’s rise and Latin America’s low and volatile growth figures lead to the question what Latin America can learn from the Chinese miracle. In particular, this contrast stresses the crucial role of the state in developing countries to maintain or broaden their economies’ position in global markets. In Latin America, as elsewhere, the issue of China’s expansion is also about ‘the future “spaces”’ open for the development of industrial exports in a liberalized world in which PRC is pre-empting many markets for products that developing countries can export’ (Lall and Weiss, 2004: 23).

The rapid liberalization and globalization of the 1980s and 1990s have not only had a major impact on the economies of developing countries, they have profoundly changed South-South relations. The relations between China and Latin America serve as an interesting case of the complex shifts within the ‘global South’. The end of the global Cold

1 A substantial part of this paper is based on a research project on the effects of the rise of China on Latin America and South-South relations that Alex E. Fernández Jilberto (University of Amsterdam) and I have been working on since 2006. The main results of this project are published in Latin America Facing China: South-South Relations beyond the Washington Consensus (forthcoming edited volume), and The 'China effect' on South-South Relations: A New Dimension of Globalization for Developing Regions, Africa and Indonesia and The 'China effect' on South-South Relations: A New Dimension of Globalization for the Middle East, Russia and Latin America, two guest-edited special issues of Journal of Developing Societies 23:3&4 (2007).

2 Lecturer in Political Science at the Center for Latin American Research and Documentation (CEDLA) in Amsterdam, the Netherlands. Apart from publications on effects of the rise of China (see note 1), her recent publications include the co-edited volumes Big Business and Economic Development: Conglomerates and Economic Groups in Developing Countries and Transition Economies (Routledge, 2008), Good Governance in the Era of Global Neoliberalism: Conflict and depolitisation in Latin America, Eastern Europe, Asia and Africa (Routledge, 2004) and Miraculous Metamorphoses: The Neoliberalization of Latin American Populism (Zed Books, 2001), and the monograph Mexico and the NAFTA Environment Debate: The Transnational Politics of Economic Integration (International Books, 1998).
War and of China’s Maoism has eased the relations between Latin America and the People’s Republic of China as well as the latter’s relations with other developing countries. The importance of the situation became particularly clear during the 2003 Cancun summit of the World Trade Organization (WTO). Although China had only entered into the organization in December of 2001, it joined Brazil, India, South Africa and the other members of the G20 in a successful attempt to change global politics and policies. For the first time since the start of the debt crisis in the 1980s there was a genuine South-South cooperation, resulting in a deadlock in international trade negotiations that has still not been resolved.

Politically, the rise of China has thus contributed to a growing influence of the ‘Global South’ in international relations. It may help Latin America to limit US influence in the region, allowing for more political room and for development policies that no longer follow the Washington Consensus. But to what extent are the interests of the world’s largest developing country coinciding with those of Latin American countries? And are their new relations with China making much of a difference for Latin America’s development? This paper first reviews how China’s miraculous growth and globalization have been economically affecting Latin America, and some of the different experiences within the region. Secondly, the new relations between China and Latin America are studied. In the third and final part of the paper these economic and political dimensions are used to analyze the complex links between the rise of China and the prospects for development of Latin America.

1. Complementarity and competition in globalized production

China is the absolute winner of economic globalization in the era of neoliberalism. At the beginning of the twenty-first century China has become the third largest importing as well as exporting country, the fourth economy in the world (after the United States, Japan and Germany), and one of the top three destinations of foreign direct investment. The figures of its increasing world export market share in the period of 1985 to 2000 show that China has profited more from globalization than any other country. China achieved an average annual export growth of 4.5 per cent, while the second and third country on this list achieved no more than 1.8 per cent (the United States) and 1.1 per cent (Korea). Its annual growth of real GDP from 1980 to 2000 was even more spectacular with an average of 10 per cent. Over this period developing countries on average only grew 3 per cent, and the average growth of the rest of Asia was 4.5 per cent (UNCTAD, 2005b, 2004, 2003, 2002b).

China has become a central place for production, investment, import and export, which are all heavily tied up to China’s role as ‘the factory to the world’. Between 1980 and 2003, China’s share in world trade increased more than fivefold: its exports rose from 0.9 to
5.8 per cent and its imports from 1.0 to 5.4 per cent (UNCTAD, 2005b: 133). With its rapid 
economic growth and expanding export production, China has become a major consumer of 
natural resources and commodities, many of which originate from other developing countries. 
Internationally, it is the second largest consumer of energy, and the largest importer of 
several important commodities, such as iron ore. In 2004 China consumed 40 per cent of the 
world’s coal, 25 per cent of the nickel, and 14 per cent of the aluminum. This massive 
Chinese demand has contributed to rising commodity prices, which is beneficial to exporting 
developing countries that suffered from years of low world prices and related worsening 
terms of trade. The metal price level in 2006, for instance, is about twice as high as the 
average price level of the 1980s and 1990s (IMF, 2006: 54-63).

Although to China the trade relations with Latin America and the Caribbean are 
relatively modest compared to those with Asia or the United States, China’s imports from 
Latin America have grown substantially, as shown in Figure 1. The increase of these imports 
from $5.4 billion in 2000 to $21.7 billion in 2004 implies an average annual growth of 42 per 
cent. Most of the imports come from Brazil, which with $8.7 billion represented 40 per cent of 
the region’s total in 2004. Other important countries are Chile (17 per cent), Argentina (15 
per cent), Mexico (10 per cent) and Peru (7 per cent) (CEPAL 2005b). Latin America exports 
consist mainly of primary products, and manufactures based on natural resources, which 
represent respectively 46 and 30 per cent of the exports in 2004. China depends on Latin 
America for products like sugar and fruits, soy oil (e.g. from Argentina), minerals (Brazil) and 
copper (Chile). While Latin America is providing mostly raw materials, China’s exports to 
Latin America are strong in low technology products (e.g. clothing and footwear). These 
Chinese imports threaten local production, especially in Mexico, Central America and the 
Caribbean. Moreover, low Chinese production costs in these sectors are harming Latin 
America’s chances for export production for the US and European markets, as will be 
discussed further along (CEPAL, 2005b).

3 The most direct competitor of Latin America and the Caribbean on the Chinese market are ASEAN 
countries, although the Asian exports to China differ substantially. Of the ASEAN countries’ exports to 
China only about one third of the products compete with Latin American exports, while another half 
involves high technology products.
Both Latin America and China are important recipients of foreign direct investment. From 2001 to 2004 China received $202 billion and Latin America $258 billion. However, compared to 1999 Latin America’s investment inflow decreased whereas flows to China increased. As number one destination of FDI to developing countries, in 2004 China received $62 billion whereas Latin American and Caribbean countries in total received $69 billion. Latin America has generally been disfavored by the compatibility of the Chinese economy with the traditional business strategies of transnational companies. These strategies give priority to investments in regions that successfully combine the existence of a large internal market, low labor costs, abundant natural resources and stimulus for investments with a high technological component. Compared to Latin America China is in better conditions to satisfy the priorities of transnational investments due to the combination of economic strategies that are based in the search for financial means to exploit natural resources, formulating the necessary policies to assure the efficiency of the size of the market, applying a high technological development and offering its abundant labor at low cost. The latter is China’s largest competitive advantage as compared to Latin America as it possesses a labor market of 712 million workers who on average hourly cost $0.61 instead of the $2 in Mexico. In the manufacturing sector labor costs in China are 3.7 times lower than in South America’s poorest country, Bolivia, and 12.5 times lower than in Chile. As a result, China is favorably competing with Latin America in the labor intensive segments of the international markets (CEPAL, 2004b, 2005a; Gutiérrez, 2003; Shafaenddin, 2002).
While China is a big shark in the sea of foreign capital, many Latin American countries are profiting from the fact that Chinese investments abroad have grown substantially. Although mostly directed towards industrialized countries, to Latin America and the Caribbean Chinese FDI is also relevant (see the examples in Table 1). Primarily driven by its growing demand for natural resources, China has become the world’s sixth foreign investor in developing countries, with its direct investments reaching $11 billion in 2004. Of the top 50 non-financial multinational companies from developing countries, in 2004 seven were Chinese. These Chinese multinationals are generally controlled by the state and their rise is the result of the government’s determination to create China’s own ‘global champions’, which are internationally competitive while operating under state control (Economist, 2 July 2005).

Important Chinese investments (joint ventures) were agreed on in the context of the bilateral negotiations on China’s entry into WTO, which will be reviewed further along. In general, South-South investments are becoming more important, while FDI to developing countries as a share of total FDI has increased significantly from 17 per cent in 1995 to 30 per cent in 2004. These tendencies are a result from the ongoing transnationalization of Asia, Latin America and the other developing regions.

While illustrating some general trends in the relations between Latin America and China, these regional trade and investment figures hide the large differences from one national (Latin American) economy to another. For instance, Peru has one of the region’s highest percentages of exports to China (10.7% in 2005, including fish flour, copper and iron), but to its neighbor Bolivia the Chinese market is marginal (0.7% of Bolivia’s total exports in 2005) (CEPAL 2006b). A short comparative overview of Brazil, Chile and Mexico shows the diversity of China relations in the region (see also Table 2). As we will see further along, these different economic relations translate into different political and diplomatic relations.

In 2000 Brazil still had a trade deficit with China of $266 million, but in the following years Brazilian exports to China increased with 60 per cent or more, resulting in a high trade surplus. Already in 2002 Brazil exported more soy (31 per cent) and iron (22 per cent) to China than to any other country. Although considerably less than its exports to the United States, in 2005 Brazil’s exports to China valued $6.8 billion (5.8 per cent). Chinese imports in Brazil are mainly electronic and chemical products. The dominance of electronic and communication technologies in these imports has to do with the global production strategies.

---

4 These seven largest Chinese MNCs were CITIC Group (no. 5), China Ocean Shipping Co. (no. 8), China State Construction Engineering Corporation (no. 19), China National Petroleum Corporation (no. 24), Sinochem Corporation (no. 28), TCL Corporation (no. 44) and China National Offshore Oil Corporation (no. 47). This is a noticeable change compared to the list for 1993 that does not contain one single Chinese company. Only CITIC is majority-owned by the Chinese state (UNCTAD, 2006: 283; 1995: 30-1).
of vertical specialization that are used by MNCs in this sector. Companies like Philips have some of their production processes in China, then send parts for assembly to their Brazilian factories, and either sell the end products in Brazil, or re-export them to other markets in the region (Mesquita Machado and Tinoco Ferraz, 2005; Pimentel Puga et al., 2004; CEPAL 2006b).

**Table 1**: Chinese FDI in (Seeking) Latin American Raw Materials: Some Examples of Alliances and Cooperation, 2004-2006 (in millions of US dollars)

<table>
<thead>
<tr>
<th>Chinese firm</th>
<th>Foreign firms</th>
<th>Type</th>
<th>Sector</th>
<th>Country</th>
<th>Stake/project</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Minmetals Nonferrous Metals Co. (2005)</td>
<td>CODELCO</td>
<td>Alliance</td>
<td>Copper</td>
<td>Chile</td>
<td>Investment and supply agreement</td>
<td>2000</td>
</tr>
<tr>
<td>China National Petroleum (2005)</td>
<td>EnCana</td>
<td>M&amp;A</td>
<td>Petroleum</td>
<td>Ecuador</td>
<td>Oil reserves and pipelines</td>
<td>1420</td>
</tr>
<tr>
<td>Government of China (2004) (CNOOC)</td>
<td>…</td>
<td>Credit</td>
<td>Petroleum and natural gas</td>
<td>Venezuela</td>
<td>Exploration of natural gas and crude oil reserves</td>
<td>400</td>
</tr>
<tr>
<td>Sinopec (2004)</td>
<td>Petrobras</td>
<td>Alliance</td>
<td>Petroleum</td>
<td>Brazil, China and others</td>
<td>Oil drilling in several countries</td>
<td>…</td>
</tr>
<tr>
<td>Government of China (2004-2006)</td>
<td>…</td>
<td>Loans</td>
<td>Infrastructure</td>
<td>Brazil</td>
<td>Natural gas pipeline and export corridor</td>
<td>…</td>
</tr>
<tr>
<td>Yanguang Group (2005)</td>
<td>Vale do Rio Doce / Itochu Corporation</td>
<td>Alliance</td>
<td>Coal</td>
<td>Brazil</td>
<td>New Company</td>
<td>…</td>
</tr>
</tbody>
</table>

*Source*: CEPAL (2005b; 2006a)

Chile has benefited greatly from China’s growing demand as well as from the related rise of world prices as its economy is basically complementary to China. Chile imports Chinese manufactures like textiles, cloths, footwear, toys and electronic products, and exports primary commodities like agro products, cellulose, marine products, chemicals, but most of all copper to China. Since the 1990s trade between Chile and China increased at an enormous speed: from $91 million in 1990 to $5.1 billion in 2004. China has turned into
Chile’s second trade associate (only after the US); above traditionally important trade partners like Argentina, Japan and Brazil. With Chile’s exports to China of $3.3 billion and China’s exports to Chile of $1.9 billion, in 2004 Chile’s trade surplus with China equaled $1.4 billion. This trade surplus has much to do with China being the world’s largest copper importer, consuming 20 per cent of this mineral’s global trade, and Chile being the world’s main producer and exporter (DIRECON, 2005; León, 2005).

On the contrary, the economic relations between Mexico and China are mostly about competition. Mexico’s exports to China are relatively modest compared to its imports, resulting in a huge trade deficit. China became Mexico’s second largest trade partner in 2003, but mainly due to massive Mexican imports of Chinese goods. Next to these legal imports, there are large amounts of illegal goods: possibly more than half the garment consumption in Mexico is of illegally imported products, mostly from China. Chinese competition is strong in the production of manufactured goods for the local market and for export to the United States, especially in textiles and electronics. In 2002 China replaced Mexico as the second largest exporter to the US market. Intimately linked to this trade competition is Mexico’s competition with China for foreign investment in export production. So far Mexico lacks an effective competitiveness strategy vis-à-vis China in the context of globalized markets.

Table 2: Total Trade (imports plus exports) of Mexico, Brazil, Chile and Argentina with China, 1995-2004 (in millions of US dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Mexico</th>
<th>Brazil</th>
<th>Chile</th>
<th>Argentina</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>542</td>
<td>1,621</td>
<td>678</td>
<td>894</td>
</tr>
<tr>
<td>1996</td>
<td>798</td>
<td>2,369</td>
<td>888</td>
<td>1,305</td>
</tr>
<tr>
<td>1997</td>
<td>1,293</td>
<td>2,380</td>
<td>1,094</td>
<td>1,877</td>
</tr>
<tr>
<td>1998</td>
<td>1,722</td>
<td>2,052</td>
<td>1,229</td>
<td>1,849</td>
</tr>
<tr>
<td>1999</td>
<td>2,047</td>
<td>1,619</td>
<td>1,016</td>
<td>1,500</td>
</tr>
<tr>
<td>2000</td>
<td>3,083</td>
<td>2,436</td>
<td>1,815</td>
<td>1,954</td>
</tr>
<tr>
<td>2001</td>
<td>4,309</td>
<td>3,370</td>
<td>2,040</td>
<td>2,191</td>
</tr>
<tr>
<td>2002</td>
<td>6,730</td>
<td>4,218</td>
<td>2,326</td>
<td>1,424</td>
</tr>
<tr>
<td>2003</td>
<td>9,864</td>
<td>6,863</td>
<td>3,105</td>
<td>3,199</td>
</tr>
<tr>
<td>2004</td>
<td>15,446</td>
<td>9,491</td>
<td>5,057</td>
<td>4,031</td>
</tr>
</tbody>
</table>

Source: Cornejo (2005a)
2. Interests and politics in globalized markets

With the economic liberalization initiated by Deng Xiaoping as of 1978 China started to strengthen its relations with Latin America and the Caribbean. China abandoned its political strategy of expanding Maoism to Latin America, as was previously done by creating Red Flag or Revolutionary Communist Parties. In 1986 the People’s Republic of China solicited admission to GATT, which started a process of fifteen years of multilateral and bilateral negotiations that ended in 2001 with the entry of China into GATT’s successor: the WTO. In the multilateral negotiations the totality of the GATT / WTO members, including the Latin American and Caribbean countries, determined the terms and conditions of the accession of China. In the bilateral negotiations China had to negotiate the conditions and compromises of mutual market access with each of the members. Government officials discussed the tariffs on industrial and agricultural products, and the obligations that China had to meet with respect to its internal market and access of foreign providers of services. Later on the bilateral negotiations were ‘protocolized’ and ‘multilaterized’, enabling China to be recognized as ‘most favored nation’. This whole process culminated in the WTO Ministerial Conference in Doha, Qatar, on 10 November 2001, when the member states approved the terms of China’s accession.

In the context of the WTO negotiations, since the early 1990s China has actively intensified its diplomatic relations with Latin America. This is a politically interesting development as it contrasts with China’s previous international isolation. It also contrasts with the ideology based support for liberation movements in the 1960s: economic interests and pragmatism prevail. Since 1990 China has attended the annual meetings with Foreign Affairs ministers of the countries of the Group of Rio (a permanent regional consultation mechanism), mainly to search for joint positions in international institutions. In 1991 China became a permanent observer of the InterAmerican Development Bank, and in 1994 of the Latin American Integration Association ALADI. In 1998 the People’s Bank of China became a member of the Caribbean Development Bank. Moreover, China has established mechanisms of permanent dialogue with MERCOSUR and with the Caribbean Community and Common Market (CARICOM), and in 2004 it became a permanent observer of the Organization of American States (OAS) and of the Latin American Parliament. In addition, China signed more than one hundred agreements with Latin American countries on scientific and technological cooperation, ranging from satellites industry to agriculture (Cornejo, 2005b; Gutiérrez, 2003: 23).

The expanding economic relations between Latin America, China and the rest of East Asia have also stimulated cross-Pacific cooperation and exchange. In 1989 the Asia-Pacific Economic Cooperation (APEC) was created that integrates 21 countries with a joint
population of 2.5 billion inhabitants, representing almost 60 per cent of the world’s GDP and 50 per cent of international trade. Among APEC’s members are several Asian countries including China, Hong Kong, Japan, Singapore, South Korea and Taiwan; from Latin America (only) Chile, Mexico and Peru; and the United States and Russia. In 1994 APEC announced that it aimed to achieve free trade between its developed economies by 2010, and between all its economies by 2020. Because most Latin American and a number of Asian countries are not in the APEC, in 1998 Singapore initiated the Forum for East Asia-Latin America Cooperation (FEALAC), involving 17 Latin American and 15 East Asian countries. With respect to bilateral relations, apart from China it is primarily Japan that is actively relating to Latin America, but in the 1990s China replaced Japan as Latin America’s leading Asian trade partner.

Due to China’s rapidly increasing economic importance, many Latin American countries have intensified their relation with the People’s Republic of China. The Chile-China relations are friendly, due to their economic complementarity, and the two countries have cooperated in international institutions such as the UN, the APEC and the FEALAC. In line with its strategy of a dynamic ‘open regionalism’, Chile accepted the accession of China into the WTO relatively early, in 1999. Since then, Chile has aimed to achieve a privileged position in attracting Chinese FDI, in particular in its mining sector. In 2002 China proposed to Chile to extend their economic relations and they started preparing a so-called third generation agreement, including not only trade and investment but also educational, environmental and cultural accords. In November of 2004, during the APEC conference in Chile, the presidents of the two countries announced the official start of the free trade negotiations. In 2005, the free trade agreement between Chile and China was signed. That same year a leading Chinese metal company, Minmetals Non-ferrous Metal Co., and the world’s largest producer of copper, Chile’s state company CODELCO, established a strategic alliance to meet the growing Chinese need for this mineral and exploit the Chilean reserves (see Table 1).

Venezuela is equally interested in close relations with China, but has been less successful than Chile. In the economic relations between the Bolivarian Republic of Venezuela and the People’s Republic of China oil is the main commodity. To President Hugo Chávez (since 1999) China forms an alternative to its dependency on the United States for the sales and investments in the energy sector, and between 1999 and 2004 he visited China three times. In 2005 China provided Venezuela a credit of $4 billion for the development of energy projects, and agreements on energy, agriculture, railroads, telecom,

---

5 Interestingly, Chile was also the first South American country to establish diplomatic relations with the People’s Republic of China, shortly after the start of Salvador Allende’s presidency in 1970 (in Latin America as a whole this was only preceded by Cuba in 1960).
mining and financial and technical assistance were ratified. Venezuela’s promise to daily export 600,000 barrels of fuel oil, and 1.8 metric tons of orimulsion for the production of electricity (CEPAL, 2005a), however, is way above the 2005 level of 68,800 barrels per day. According to Corrales (2005) there are various reasons for which it is unlikely that China will soon end Venezuela’s dependency on exports to the United States. Politically, it does not seem in China’s interest to support Chávez’s anti-US policies since they could be causing serious energy problems to its primary export market, with all kinds of implications. Technically, China lacks the type of refineries that are necessary to refine the heavy crude of Venezuela, while the transport costs would be relatively high since these shipments have to go via Africa, taking some 40 days. On the other hand, in its search for energy China is making plans and investments in order to solve this transport obstacle. China and Venezuela want to jointly build an oil pipeline from Venezuela to the Pacific Ocean and China has recently been heavily investing in refineries. China has also favored a rapprochement between Colombia and Venezuela as Chinese investments in the exploitation of untouched oil reserves in Colombia by the Chinese PETROCHEM enhanced the decision to construct an oil and gas pipelines between Colombia and Venezuela, which are essential for the export of Venezuelan and Colombian combustibles to China.

China’s most privileged Latin American associate is Brazil. In 1993 the Chinese government defined its relations with Brazil as a ‘strategic alliance’, implying that through their bilateral relations they can achieve more just global trade rules, in particular to improve developing economies’ access to the US and EU markets. Of all Latin America countries Brazil has also put the most efforts in intensifying its economic relations with China and the two countries have been cooperating in several high technology projects. Already in 1988 the countries started preparations that resulted in the creation of the China-Brazil company Earth Resources Satellites Projects (CBERS), which in 1999 and 2003 constructed two satellites that provide information on (new sources of) natural resources and the environment. An alliance between Brazil’s AVIBRAS and China’s Great Wall Industrial Corporation materialized in the International Satellite Communication (INSCOM) company. In 2002 the Brazilian aeronautic company Embraer and the Chinese Air Company (aviation) established a joint program. In addition, there is extensive cooperation in the fields of biotechnology, information technology, pharmaceuticals and new materials, and Brazil has promised to export uranium to China in return for Chinese funding for its Nuclear Program, including the enrichment of uranium (CEPAL, 2004b; Lei, 2004; Mesquita Machado and Tinoco Ferraz, 2005).

Brazil supported China’s entry into WTO from early onwards because it was convinced that the economic benefits would not only involve investments but even more so the opening of an important alternative market that could compensate for the negative effects
of US and European protectionism. Under President Lula da Silva (since 2003), Brazil has extended its international political project by strengthening its relations with China, India and Russia. In May of 2004 Lula visited China in order to consolidate their ‘strategic alliance’ on trade, technological development and defense. As a result of this visit the National Development Bank of Brazil reached an accord with the Chinese investment agency CTIC on easing the finance of ‘mixed’ Chinese-Brazilian companies from the two countries. Also the mining company Vale do Rio Doce signed association agreements with Baoshan Iron and Steel and other the Chinese companies to produce iron and aluminum in the North East of Brazil (see Table 1). With the Chinese firm Yanguang this Brazilian company agreed to invest in oil products for export to third markets. And the state companies Petrobras and Sinopec started to jointly explore and produce oil in Africa and the Middle East (Cornejo, 2005a; Mesquita Machado and Tinoco Ferraz, 2005).

The relations between Mexico and China differ greatly from those of Brazil, Venezuela and Chile. Mexico was the last Latin American country to accept China’s WTO membership. The long negotiations of Mexico with China had to do with the strong Chinese competition on the US market of labor intensive products. Mexican exports are predominantly directed towards the United States, especially since Mexico’s entry into the NAFTA in 1994. As almost 90 per cent of its exports are to the US market, Mexican entrepreneurs feared for major problems with greater Chinese trade competition. In the final bilateral accords their demand for a guarantee against unfair competition was watered down, but Mexico did use the clause to apply compensation tariffs ranging from 800 to 1000 per cent on Chinese products in the sectors of tools, toys and textiles (CEPAL, 2004a; Cornejo, 2005a; Dussel Peters, 2003; León, 2005). Together with the US, Mexico also brought complaints about illegal Chinese subsidies and tax breaks to the WTO, which the organization started to investigate in 2007. These conflicts over China’s competition, Mexico’s lining up with the United States vis-à-vis China, and the limited Chinese interest to invest in Mexico have resulted in bilateral relations that are far from strategic and friendly.

The first years of China’s WTO membership have not been without disputes and differences with Latin America, including several anti-dumping claims against China. Problems have surged from the competition for third markets, above all the United States, and from the competition of Chinese products in the internal Latin American markets, while also the protection of China’s internal market is an issue. To protect their economy from unfair competition from China, until 2016 members of WTO are entitled to use the so-called non-market economy (NME) methodology towards Chinese products. China aims to soon become officially recognized as market economy (instead of NME) by as many countries as possible, but especially by its main export partner: the United States. Contrary to the United States and the European Union, countries like Brazil, Chile, Argentina, Venezuela, Peru
already granted China the status of market economy. Other countries, however, have acted with less pragmatism. For example, MERCOSUR was unable to reach a joint consensus on the recognition of China as market economy because of the opposition of Paraguay. As a result of its anti-communist stand during the dictatorship of Alfredo Stroessner (1954-1989), in 1957 Paraguay had recognized Taiwan, Republic of China, which has been unacceptable to China. One of the priorities of President Hu Jintao’s visit to the region in 2004 was to achieve the recognition of China as ‘market economy’ by MERCOSUR as a whole, but in the end China only signed bilateral accords on this with Argentina, Brazil and Chile, whereas Uruguay postponed a decision because of its presidential elections (Oviedo, 2005).

Apart from Paraguay also the diplomatic relations of some Central American and Caribbean countries with Taiwan complicate the relations with the People’s Republic of China. Since the early 1970s, when China was accepted and Taiwan was expelled as member of the United Nations, and as part of its ‘One China’ policy, China demands from countries to end diplomatic relations with Taiwan before establishing economic relations of any sort with China. In the 1990s this requirement has been softened in the case of developing countries and turned into an approach that China calls ‘economic diplomacy’. Yet China and Taiwan continue their competition for diplomatic relations with as many countries as possible, which has had some curious effects. In return for $100 million Taiwanese support, in 1990 Nicaragua ended its diplomatic relations with China, and in 2006 Nicaragua even signed a free trade agreement with Taiwan. Also the Central American countries of Panama, Guatemala, and Belize diplomatically recognize Taiwan, and between 1998 and 2004 Taiwan supported Central America with $240 million for various development projects (Cornejo, 2005a; 2005b; Domínguez, 2006). Costa Rica, however, decided in 2007 to recognize China, and ended its relations with Taiwan.

3. China’s rise and Latin America’s development

While most Latin American countries have gained from its economic rise, China’s competition in trade and investment has been hitting Mexico extremely hard, especially since China’s accession into the WTO in 2001. Mexico is the manufacturing giant of Latin America, exporting more manufactured products than the rest of the region’s 17 countries all together

---

6 Important for this decision was that such recognition does not impede the application of a flexible mechanism of anti-dumping claims. Another reason was the ASEAN countries’ recognition of China as market economy, which was improving the trade possibilities of these Asian countries with China. The acceptance of China as ‘market economy’ was awarded with additional deals. With Brazil, for instance, agreements were signed on investments by China Southern Airlines in the joint fabrication of airplanes, investments in infrastructure, energy, natural gas, biotechnology and minerals, and other agreements on information technology and the financial sector.
(respectively 3.0 and 1.9 per cent of world market share in 2002). Despite Mexico’s advantages as neighboring on the United States and being in the North American Free Trade Area, in 2002 China replaced Mexico as the second largest exporter to the US market. China is competing in twelve of Mexico’s twenty main export sectors to the United States, such as textiles, footwear and clothing as well as industrial machinery, televisions and video players. China’s WTO membership reduced the NAFTA-based preferential advantages of Mexico at the US market. Since the late 1980s Mexico has concentrated its exports in chains of global subcontracting (outsourcing) for the US market, but since the late 1990s China has swiftly been replacing Mexico on several points of these global production chains. For instance, in 2003 China took over Mexico’s primary position in the US market of processors, equaling a loss of 21,000 jobs and $500 million investments (Dussel Peters and Xue Dong, 2005; Dussel Peters, 2005; CEPAL 2004a; La Jornada, 9 May 2005).

Cheap Chinese products and aggressive Chinese policies to attract foreign investments have caused a process of industrial South-South delocalization that particularly harms maquiladora (assembly) industries in Mexico as well as Central America and the Caribbean. Despite US policies of limited taxation that have favored imports from these countries, China has become the world’s number one in the production chain from yarn to textile to garment (YTG). China’s textile capacity is ten times bigger than Mexico’s, and in terms of jobs its YTG chain is almost forty times bigger than that of Mexico. In China this chain has been stimulated by a mix of economic liberalization and high state subsidies, resulting in a coordination of companies based on public-private interests. Computers are another important export product for Mexico in which China is a direct competitor. While 90 percent of the PCs produced in Mexico go to United States, China is increasingly replacing Mexico in this market. Chinese exports and the number of companies are growing as a result of government policies that promote high-tech innovation since 1984. China’s five year development plan for 2001-2005 considered the high-tech sector as strategic, focusing public sector efforts on stimulating industry, higher education and high-tech industrial parks, and providing a series of funds, credits and tax advantages (Dussel Peters, 2005).

The substantial economic damage of China’s success on Mexico has been triggering a renewed debate on Mexico’s development model and its competitiveness. From 1998 to 2004 moved down from position 34 to 48 in the competitiveness rankings of the World Economic Forum (WEF). Although China has been going through a profound process of neoliberalization too, its successes as ‘champion of globalization’ are not based on free market principles alone, but instead on a particular kind of mixed economy in which a strong state plays an active and intervening role in the economy. Next to the negative effects of China’s successes on Mexico, this new reality indicates that Mexico’s neoliberal economic model with privatization and regional integration as central elements may be part of the
problem. As in most of Latin America, and many other parts of the world, after more than twenty years of neoliberal policies Mexico has experienced that the economic growth based on free market principles is lower and more volatile than anticipated, and unsuccessful in producing the kind of social progress Keynesian policies did before. This shows, above all, in employment: liberalization and privatization resulted in a wide and structural gap between formal jobs and employable persons. Almost half of Mexico’s population employs one or several informal economic activities, and some forty percent of GDP is in this informal sector.

In many Latin American countries, like in China, policies of economic opening were initiated by an authoritarian state that excluded any form of participation of civil society, or of an independently operating political society. In Latin America, the economic liberalization reforms were largely of ‘imported’, in the sense of US government pressures followed by IMF and World Bank conditionalities during the debt crisis, and the so-called Washington Consensus. Since the late 1980s, processes of democratization allowed for the compatibility of neoliberalism with democratic political regimes. In the case of China, on the contrary, the initiative of economic reforms came from within; from 1978 onwards the aim was to gradually restructure the economy under the control of the state party. Starting in 1992 (after the Tiananmen events of 1989) the centrally planned economy became subordinated to market mechanisms as instrument for assigning productive resources in the economic process. With these last reforms the political class of the Chinese state hoped to maintain its position, thus using the economic successes of China’s capitalism to legitimize its monopolized control over the state and political processes.

As a result of these different trajectories of liberalization, the Chinese state still maintains the capacity to regulate and control the process of globalization of China’s economy, whereas Latin America’s neoliberal model has basically left the state as subsidiary to economic globalization. Several Latin American analysts claim that the larger intervention capacity of the Chinese state in its economy’s globalization is a weakness, hindering corporate governance and market discipline. Compared to the extensive financial liberalization in Latin American countries, China’s limited deregulation of the financial sector is similarly seen as negative for its access to credit (Lora, 2005; Cornejo, 2005b). The consequences of China’s rise on Latin American and the Caribbean, however, tell also another story. Mexico, Central America and the Caribbean have been negatively affected by the Chinese competition in the US market, forcing them to reformulate their still rather new insertion in global production chains. With its integration in NAFTA Mexico had obtained important advantages in the US market for manufactured goods produced in its so-called

---

7 For this shift it was necessary to neoliberalize the ideologies of the old populist parties that from the 1940s to the 1970s had applied Keynesian principles for economic development (Demmers, Fernández Jilberto and Hogenboom, 2001).
The free trade agreement between the United States, Central America and the Dominican Republic (CAFTA-RD) signed in 2005 is meant to provide similar advantages to these countries, especially in the US textiles market. However, it is doubtful whether these advantages are sufficient to bring the Chinese penetration of the US markets to a halt (Dussel Peters, 2003, 2004; CEPAL, 2005a).

Chile and Brazil have been more successful than Mexico and Central America in their strategies of insertion in global markets, and they greatly benefit from economic relations with China. Chile is one of the most neoliberalized economies of Latin America and the model with which Chile has inserted itself in the global economy consists of an extreme form of ‘open regionalism’. A free trade agreement with the United States, trade accords with the European Union, and numerous trade agreements with countries in Latin America and Asia have strengthened Chile’s position as exporter of goods and services as well as natural resources. Although not without difficulties, Chile’s relative globalization success stems from its capacity to integrate and ‘fit’ its production according to the exigencies of dynamic transnational production and trade networks. Together with the efficiency of its services and professional capacities of its managers, Chile has turned into the commercial platform of South America (Castells, 2005; Ffrench-Davis and Stallings, 2001; Fazio, 1999). Brazil has followed another rather successful strategy of global economic reinsertion. It uses MERCOSUR as regional platform to globally launch its economy, which may be seen as an alternative to the Free Trade Agreement of the Americas that the United States had hoped to realize by 2005 (but failed due to clashing economic interests and views, in particular between Brazil and the United States). Simultaneously, Brazil furthers its economic relations with other large upcoming markets, such as China and India. For Brazil, China and India are not only counterparts in bilateral economic negotiations but also supporters in international economic negotiations such as in the WTO (Sader, 2005).

Between China and Latin America there are substantial differences in the role and the impact of foreign direct investment on the economy. To accelerate its economic growth, China has greatly diversified and expanded its export markets, assigning an important role to local companies. Although recently transnational companies have gained terrain in China, in the first phase of its neoliberal policies (1978-1985) local companies benefited directly from the growing foreign investment. The Chinese state has actively used diverse instruments to profit from all the effects of the productive development generated by foreign direct investment such as capacitating local human resources, transfers of technology, and the development of production chains. Contrary to China’s broad policy spectrum, in Latin America privatization was central to neoliberal restructuring. This gave way to a process of substantial economic concentration in economic groups and conglomerates. While temporarily attracting large sums of FDI and being profitable to both Latin American and
transnational companies, privatization together with policies of liberalization and deregulation did not bring about the envisioned development and modernization of the region. Aimed at helping major private companies to take over the role of state companies as the motor for economic growth, this strategy failed because little was done to deal with Latin America’s weaknesses in infrastructure, human resources and technological development. Moreover, rather than stimulating entrepreneurship, the massive support of the public sector for ‘big business’ and the close relations between technocrats and important entrepreneurs – during as well as after privatization – gave way to the creation of a new oligarchy. With their globalized assets and capital, this new oligarchy has limited interest in the development of the domestic economy (Díaz Vázquez, 2003; Fernández Jilberto and Hogenboom, 2004; 2007).

Conclusions

As part of the new South-South relations in a (post-Cold War) multipolar world, Brazil and China, together with India and Russia, have become strategic allies. This was enabled by the changes that President Lula Da Silva’s made in Brazil’s foreign policies. Both Brazil and China aim to improve their economies’ added value and the international prices for primary and manufactured products, prioritizing investments that involve technology transfers. Their new collaboration in the Group of 20 within WTO has had important results in the trade negotiations of the Doha Round. In this group of developing countries, Brazil, India and China played key roles in the degree of influence achieved by the Group of 20, especially on agricultural issues. In the fifth ministerial summit of WTO in Cancun, Mexico in September of 2003, the Group of 20 rejected the joint proposal of the European Union and the United States, proposing instead to eliminate US and EU agro-subsidies. Also in the WTO negotiations on services, intellectual property and investments Brazil and China have by and large had coinciding agendas, following from several similar interests.

Although these new South-South relations are an unexpected development in the era of global neoliberalism, evidently the other side of the coin of similar economic interests is competition. Even Latin American countries that so far have not been threatened by the ‘China effect’, like Brazil, in the longer term may well face some serious problems as future efforts for technological upgrading are likely to meet a major competitive threat by China. Compared to China, Latin America and the Caribbean will remain a high wage region, which can only be offset by high levels of technological competence or skill. Together with the relatively weak position of Latin America’s global production networks (except for Mexico and Central America) there is thus reason for concern about the region’s competitive position in
the world economy. Lall and Weiss (2004) stress the striking tendency in the bilateral trade between China and Latin America and the Caribbean (LAC) of the latter specializing in exporting primary products and importing manufactures. ‘The patterns of the two regions are almost a classic textbook illustration of trade between developing and industrialized regions’, in which Latin America strengthens its specialization in primary products and processes resources while China does the reverse. ‘What is surprising is that LAC is the richer region, with a longer history of modern industrialization, higher human resources, more FDI per capita and with more liberal trade and investment regimes. The result is arguably a massive downgrading of comparative advantage in a dynamic sense, surprising for such a relatively industrialized region’ (Lall and Weiss, 2004: 23).

In the end, then, the rise of China is forcing Latin America and the Caribbean to once again reconsider its model of development. Both the Mexican and Central American focus on assembly industries for the US market, and the Brazilian and Chilean expansion of the resource-based industry ‘[h]ave relatively low domestic-value-added content, and neither provides the kind of transformation of the domestic production and export pattern that would allow trade to become an engine of growth’ (UNCTAD, 2003: 141). From Mexico’s recent problems one might easily conclude that maquiladoras are not the road to modernization, at least not in a liberalized world economy in which China is able to offer massive amounts of similar products at a lower price. However, the economic growth achieved by some other Latin American countries largely based on providing primary products to industrialized as well as rapidly industrializing countries may not bring about much pro-poor development either. Since the years of economic wonders in this region (the 1940s to 1960s), the puzzle of how to end dependency and achieve sustainable high growth rates has not been solved.

Rather than bringing quick and easy solutions to this puzzle, China’s current and ongoing economic wonder is triggering new regional debates on the possibilities for development under global neoliberalism, and on how to reform economic policies, regional integration, and the global economic system. The apparent paradox is that economic liberalization has been as central to China’s miraculous growth as the strong state and its active economic role. However, China’s success is consistent with other findings on capital accumulation regimes and economic growth of developing countries that ‘raise serious questions about the strategies adopted in a number of developing countries for activating a dynamic process of capital accumulation and growth through a combination of increased FDI and reduced public investment and policy intervention’ (UNCTAD, 2003: 84). In this respect, China’s rise shows developing countries that there a viable alternatives to free markets policies. Interestingly, this comes at a time of economic and political circumstances that have rendered Latin America open to discussing its development model and integration in the global economy. For two decades since the 1980s, the mixture of debt crisis, lost decade(s),
technocratic dominance and Washington Consensus meant almost a deadlock to Latin America’s development debate, but recently the weak economic and negative social results of this period have contributed to a surprising political shift in Latin America while the extension of South-South trade and cooperation offers possibilities for a new development agenda of the Global South.

References


