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## The Global Crisis and the Arrival of the People's Republic of China in Latin America and the Caribbean

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### Introduction

A couple of processes are of crucial importance to assess the rise of the People's Republic of China (henceforth PRC) and its impacts on Latin America and the Caribbean (LAC). On the one hand, the PRC has become a major purchaser of Latin American commodities; on the other, Chinese goods are competing (whether in local, regional or world markets) with Latin American manufactured goods. If one aims at understanding the complexity of the phenomenon and the players involved, it is important to bear in mind that rising commodity prices (of which the PRC is a major consumer) have negative impacts on Central American nations that are net importers as well. Another deleterious effect has to do with the fact that agricultural and mining activities feature characteristics of a neo-extractive model. This model is embodied in Chinese investments in mining and raw materials in LAC.

This chapter's main hypothesis states that, in the midst of the global economic crisis it has become very clear that the renewed links between LAC and the PRC are strongly related to the interests of both the PRC and the dominant economic sectors within LAC. Within the main hypothesis, it is necessary to point out some secondary hypotheses that are the backbone of this piece of research:

1. In the context of economic slowdown in Europe and the US, the PRC is presented as a powerful engine for Latin America, because of

- its demand for commodities. Nevertheless, the global economic crisis makes evident the asymmetric relationship between LAC and the PRC.
2. This dependent relationship is based on a type of agricultural and mining exploitation under a neo-extractive model that favours the interests of big exporters and fuels a subordinate and dependent relation with the PRC.
  3. Moreover, Latin American nations with some industrial development and *maquila* systems see their interests collide with Chinese products due to intense competition and industrial relocation.
  4. Depending on the socioeconomic structure of each Latin American nation, there are complexities and tensions (latent and manifest) between agro-mineral exporters (who have PRC as a major buyer) and the industrial local sector whose production is threatened by Chinese manufactures.
  5. Despite the PRC's image spread by some journalists and scholars as a benevolent player and strategic partner for the region, the relationship has acquired some characteristics of North-South or center-periphery linkages.

The starting point of this chapter is a brief description of the global economic crisis that started in 2008 which, in turn, is linked to the erosion of US power worldwide. Secondly, the text reviews the PRC's international position and then analyses how it overlaps with Latin America and the Caribbean region. The third part discusses some features of the asymmetrical relation between the PRC and Latin America, while the fourth section analyses Chinese foreign direct investment (FDI) in LAC, mostly oriented to infrastructure and extractive activities. The fifth section of the chapter puts into question the extent to which Sino-Latin America exchanges qualify as a 'South-South' relation. The sixth part debates on the so-called 'Beijing Consensus' and its true scope as a cooperative stance devoid of conditionalities. The final sections wrap up the argument, positing that the economic relation between the PRC and LAC reinforces the new international division of labour in the Global South. Although some nations may have reached a degree of autonomy from the United States or the European Union, 'balancing' on the PRC may still have high economic costs for them.

### **The United States, the Periphery and the Crisis: The PRC in the Eye of the Storm**

Since 1980, the world has undergone more than one hundred global economic crises (Stiglitz 2008), and some analysts have equated the Great Recession with

the crisis that occurred in the 1930s. However, the United States is still the first world power, a position which needs massive resources. Yet as Arrighi points out (2007:203), the centrality of the United States in 1970 was unchallenged in terms of the international economy. By contrast, the crises that started in 2000 and 2008 may be affecting the role of the US as the paramount economic actor, giving way to the emergence of other economic powers.

In this situation, the PRC has created tremendous internal conditions – exceptionally competitive wages, high savings, economies of scale, a disciplined labour force, among others – that have facilitated its active participation in the globalization process and overcoming the global economic crisis. The opening of the PRC and its integration into international value chains of a lower but increasing technological basis has been provoking a relocation of these manufacturing processes from other parts of the globe, to the East Asian giant. This process involves not only the core countries, but the very peripheral ones that must compete with the PRC in this new scenario.

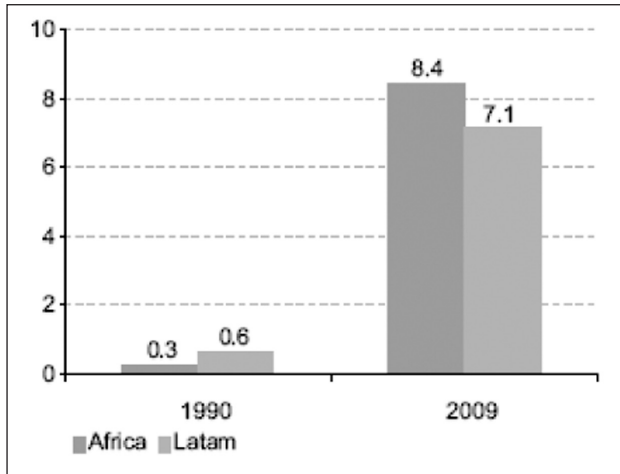
The preliminary outcomes of the Great Recession show that there is no longer a single global economic engine. The PRC and India are beginning to bear their own weight in the global economy. These two countries have a large domestic market to rely on, due to their huge population. Forty per cent of Chinese GDP depends on exports, while 60 per cent relies on domestic consumption. The assets placed in the United States account for 8 per cent of the PRC's gross domestic product. These data mean that if the US keeps on reducing its consumption and growth, the PRC will still have a very important domestic market to face the economic crisis. Not surprisingly, the PRC is becoming a centre in the world's economic actions such as free trade agreements and in its recognition as a market economy (Moneta 2008).

In 2007, the PRC was already the third largest global importer (ECLAC 2010). By February 2006 it had overtaken Japan (US\$ 850 billion) as the main creditor of the US, with US\$ 853 billion. Despite the downward trend in the current account deficit of the US, the PRC has become the main source of US red ink. In 2010, 65 per cent of the US\$ 470 billion deficit stemmed from its trade with the PRC.

In the period 1980-2008 the Asian power grew at an average annual rate of 9.9 per cent. The PRC thus has become the second largest GDP after the US, measured by purchasing power parity (PPP), and the third after the United States and Japan, measured in current dollars (ECLAC 2012:23).

Chinese FDI has begun to compete with the West not only in Asia, its area of natural influence, but also in Africa and Latin America (Kurlantzick 2009). Figure 4.1 reflects the relevance of PRC as a partner for Africa and LAC. These regions' exports to the PRC jumped from less than one per cent in 1990 to more than 7 per cent in 2009.

**Figure 4.1:** China's Imports from Africa and Latin America, 1990 and 2009 (*as per cent of total imports*)



*Source:* COMTRADE (2010) and García-Herrero and Nigrinis (2010)

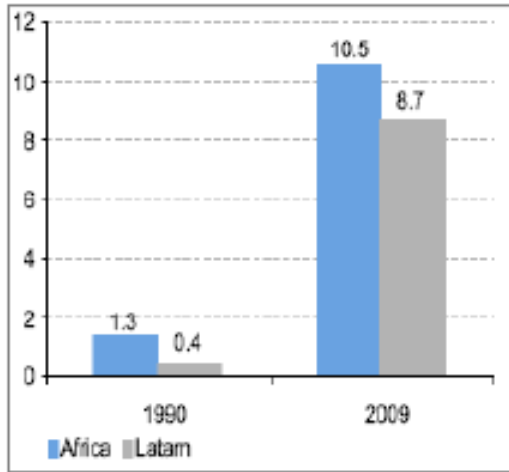
Figure 4.2 shows that Chinese products have successfully penetrated these new markets, in pursuit of the objective of sustaining China's large surplus with all countries or regions. While LAC accounted for only 0.4 per cent of Chinese exports in 1990, it skyrocketed to 8.7 per cent two decades later.

### **Chinese Strategy in Latin America and the Caribbean**

A key aspect for understanding the PRC strategy for Latin America and the Caribbean is the diversification of risk to ensure access to natural resources, with the prior establishment of what Chinese political leadership calls 'strategic policy'. This view is anchored in the PRC's resource-seeking logic in commodities such as oil, iron ore, fisheries, forestry and strategic minerals (Cesarín 2004: 21–22). In this manoeuvre, the quest for strategic natural resources is combined with investment in extractive activities and infrastructure for transporting these materials.

LAC is presented by the PRC as an important area of political stability, peace and non-conflict scenarios. Not least if we consider other places such as the Middle East and Africa. Some scholars (Cesarín 2010), also highlight the place played by Chinese communities in Latin American countries, forming true 'business communities' that foster a meaningful link between the PRC and the recipient country.

**Figure 4.2:** China’s Exports to Africa and Latin America 1990 and 2009 (as per cent of total exports)



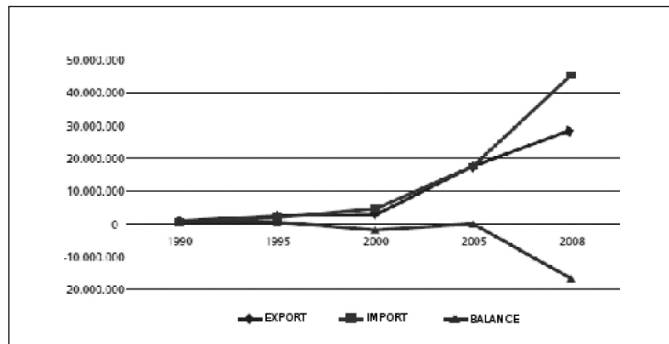
*Source:* COMTRADE (2010) and García-Herrero and Nigrinis (2010)

Chinese diplomacy in LAC has focused on commodity producers like Brazil, Argentina, Venezuela, Chile and Peru. Free Trade Agreements have been negotiated and enforced with Chile and Peru, while all of these countries have granted China the status of ‘market economy’ within the World Trade Organisation (WTO) (Laufer 2010). In turn, México became a key country, albeit not the only one, as the PRC’s products importer.

Some analyses foresee that LAC’s Chinese imports will soon displace those from the classic Latin American trading partners – i.e., the US and the European Union. As for Latin America exports, the Economic Commission for Latin America and the Caribbean (ECLAC 2011:16) has issued the following forecast:

If the current rate of growth in demand for our products in the United States, the European Union and the rest of the world is sustained and the PRC’s demand grows only half the rate recorded in this decade, that country would overtake the European Union in 2014 and would become the second largest market for exports from the region (ECLAC 2011:16).

Between 1990 and 2008 total trade (imports plus exports) between the PRC and LAC (excluding Mexico) grew 64 times. LAC exports to the PRC multiplied by 36, while imports grew 127 times. These data can be seen in Figure 4.3, which also depicts the recurrent LAC deficit with the Asian giant. If we include Mexico in the figure, the deficit in the region would go from US\$ 16.8 billion to US\$ 49.4 billion per annum (Freitas Barbosa 2011:277).

**Figure 4.3:** Trade Balance China-Latin America, 1990-2008 (US\$ million)

Source: Freitas Barbosa (2011:278) on the basis of ECLAC

Note: Mexico is not included in so far as its huge imports may have distorting effects in the overall data.

According to Freitas Barbosa (2011:281), although a trade deficit with Latin America is not a problem *per se*, it may still indicate a structural trend in the type of international integration of the PRC with Latin America and the Caribbean.

### An Asymmetric Relationship

The PRC has acquired a remarkable role as a business partner of LAC in a relatively short period of time. This trend has changed the morphology of Latin American international economic relations. This break-neck process makes it imperative for the region to rethink its international integration with such a dynamic partner. Stallings (2009: 311) emphasizes that:

The fear in South America is that the subregion might become sucked into the old model of progress of the 19th century, when it exported raw materials and imported manufactured goods. This type of exports has shown to have several disadvantages throughout the decades. Prices of commodities have generally been volatile and some analysts say it is likely to have a long-term price fall versus industrial goods. In terms of labor, the production of some raw materials requires unskilled labor, which is something Latin America has tried to refrain from using. In cases where high technology is used, the use of labor is kept to a minimum.

The increasing presence of the PRC in LAC economic relations is shown in Table 4.1. In 14 out of the 17 countries included, the PRC increased its participation as importer and became one of the top five export destinations for Argentina, Chile, Brazil, Costa Rica, Peru, Venezuela and Uruguay. As a source of imports for the region, the PRC jumped from a rather marginal location in 2000 among the top five in 16 of the 17 countries (the exception is Honduras, which ranks in sixth place).

Although several Latin American nations are ‘big players’ in the global market of agricultural and mining commodities such as copper (Chile) or soy (Brazil and Argentina), the PRC has structural power as the main world importer of a large number of basic products. Thus Sevares (2011:36) states that ‘in 1990 the PRC reached 5 per cent of global consumption of commodities; today is the main consumer of aluminum, copper, tin, zinc and soy, and the second largest consumer of sugar and oil’. Needless to say, the effect of Chinese demand in the price of commodities exported by Latin America has been quite positive (Jenkins 2011). High prices notwithstanding, there is a global oligopsony that limits the LAC’s room for manoeuvre.

Figure 4.4 corroborates the pattern of Sino-Latin American trade links. Accordingly, over 90 of PRC’s imports from Latin America and the Caribbean is made of either primary products or manufactures based on natural resources. Commenting on this situation, ECLAC (2011:22) states:

The growing demand from China has been a factor in the return of raw materials in the regional export structure. This is what allows us to speak of a tendency to reprimarisation in the export sector in the region in recent years.

Moreover, the PRC has turned to countries of ASEAN (Association of South East Asian Nations) for natural resource-based manufactures. The PRC also turned to Africa for oil and other commodities. This strategy has provoked a clear competition between these regions, which challenges LAC in terms of increasing value added in raw materials (Phillips 2009:107). Besides, several authors have warned that the region is at the risk of contracting the Dutch disease.<sup>1</sup>

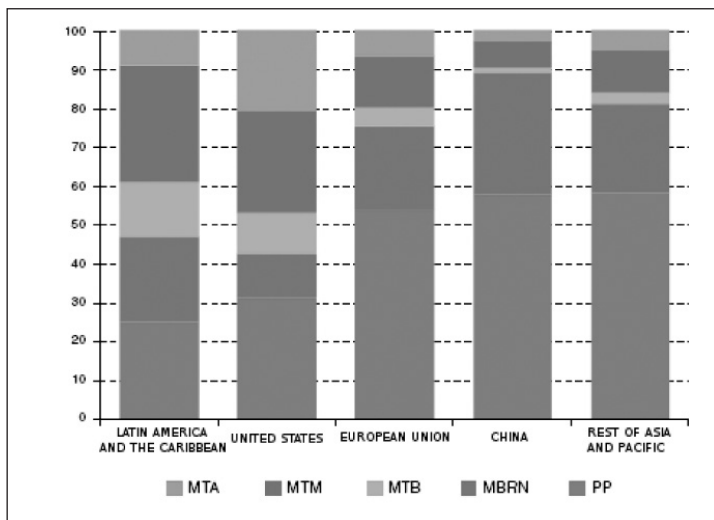
**Table 4.1:** LAC. Ranking of China in Trade by Value, 2000-09

	Export		Import	
	2000	2009	2000	2009
Argentina	6	4	4	3
Bolivia (Plurinational State of)	18	11	7	4
Brazil	12	1	11	2
Chile	5	1	4	2
Colombia	36	6	9	2
Costa Rica	30	2	15	3
Ecuador	18	16	10	3
El Salvador	49	36	23	4
Guatemala	43	25	19	3
Honduras	54	11	21	6
Mexico	19	7	7	2
Nicaragua	35	27	20	4

Source: (ECLAC 2011), on the basis of United Nations, Database Trade Statistics Database (COMTRADE)

Between 2007 and 2009, and according to ECLAC, Argentina had 92 per cent of its exports concentrated in five products (soybeans, soybean oil, crude oil, other cattle, meat and offal), Bolivia 75.9 per cent (tin and alloys, tin concentrate, crude oil, non-coniferous wood, precious metals ore); Brazil 82.2 per cent (iron concentrate, soybeans, crude oil, iron pellets, chemical wood pulp).<sup>2</sup> Chile 92.3 per cent (copper, copper concentrate, chemical wood pulp, iron concentrate, flour inedible), Honduras 92.7 per cent (zinc concentrate, lead concentrate, other non-ferrous scrap, shirts of all kinds, other wastes plastics), Venezuela 98.2 per cent (crude oil, iron ore concentrate, spongy ferrous products, artificial fibres for spinning, other non-ferrous scrap), Ecuador 98.4 per cent (crude oil, other non-ferrous scrap, non-wood conifers, inedible meals, other plastic waste), Guatemala 94.8 per cent (sugar, zinc non-wood conifers, inedible meals, other plastic waste), Guatemala 94.8 per cent (sugar, zinc concentrate, other plastic wastes, other non-ferrous scrap, waste polymers) and the Caribbean Community (CARICOM) 69 per cent (monohydric alcohols, alumina, non-coniferous wood, other non-ferrous scrap, liquefied natural gas). The only country with a smaller concentration in top five goods to PRC was Mexico, with 37 per cent.

**Figure 4.4:** LAC structure of exports by technological intensity and main destination, 2009 (per cent of total)



*Source:* ECLAC 2011, on the basis of COMTRADE

*Note:* Data for Antigua and Barbuda, Cuba, and Haiti are not available. The categories correspond to PP: primary products MBRN: Manufactures based on natural resources, MTB: low technology manufactures, MTM: Manufacturing technology media, MTA: high technology manufactures.



## Chinese Investment

A new PRC policy to LAC has been deployed since the 1990s. The PRC's increased purchase of commodities from this region has been matched with foreign direct investment (FDI) in infrastructure projects related to the extraction and transport of raw materials (León-Manríquez 2006:35). Plenty of these projects were completed in the 2000s by new bodies created for that purpose. The Argentinean Centre for International Economics (CEI 2011:2) has found that through the creation of the China Investment Corporation in March 2007, China aimed at investing abroad a percentage of its lofty international reserves, estimated at US\$ 2.73 trillion, under the model of 'sovereign fund'. The objective of this institution is to acquire strategic assets in selected world locations under the slogan of 'investment manager', responsible for long-term administration of assets entrusted.

This action is framed within the 'go out policy' of the PRC's state-owned enterprises (SOEs), aimed at setting profitable investments abroad and ensuring the supply of sensitive products for Chinese development (Zhang 2010:54). The PRC's FDI in Latin America rose from about US\$ 916 million at the beginning of the century, reaching to US\$ 50 billion by 2008. In 2007-08 FDI investment in LAC underwent an annual growth of 130 per cent. At the same time, global FDI fell by 14 per cent due to the global crisis (CEI 2011:3).

This broader framework makes it easier to understand Chinese FDI for modernizing some Latin American ports on the Pacific Ocean (Ensenada, Callao, Iquique, Manta and Buenaventura), those with access to the rivers but located in the Atlantic Coast (Timbúes in Rosario, Argentina), or huge investment projects with high environmental impact as the bi-oceanic corridors Manta-Manaos, Ilo and Paita in northern Peru. Projects that would link Iquique in northern Chile, with São Paulo in southern Brazil are under consideration. Another investment project is the Belgrano Cargo Railway, which would connect central and northern Argentina to Bolivia and the port of Iquique in Chile (Laufer 2010:5).

However impressive the new Chinese FDI wave in LAC may seem, it is worth noting that 95.9 per cent of it has been channeled to such tax havens as the Cayman Islands and the British Virgin Islands. After these, Brazil (0.7 per cent), Peru (0.7 per cent) and Argentina (0.5 per cent) account for the biggest shares of Chinese FDI in the region. ECLAC estimates that over 90 per cent of the PRC's 'productive' FDI in LAC has led to the extraction of natural resources, primarily oil and mining industries.

Trade agreements and diplomatic negotiations often respond to this type of commercial relationship, which benefits Latin American commodity exporters, but relegates to a subordinate position the domestic industrial sector, especially in Central America and Mexico.

This process is highly complex and entails an irony. While several Latin American governments, especially the Southern Cone, craft discourses with images of 'national and popular' autonomy as well as heterodox economic policies and neo-Keynesian strategies in defence of the domestic industry, their close relations with the PRC benefit the traditional agricultural and mining-export sectors. This new configuration opens the door for the so-called 'neo-extractivism', founded mainly on the exploitation of natural resources such as soybeans, minerals and crude oil (Gudynas 2009:220).

### **A South-South Relationship?**

According to its own rhetoric, the PRC is a developing nation and member of the 'Global South'. Therefore, the PRC should be able to establish strong South-South relations. Yet, as Bolinaga (2007:12) notes:

The per capita economic indicators are often used on the discursive level by (Chinese) central government as an instrument to reduce the economic weight of China and emphasize the 'South-South' idea, so that China retains its leadership within developing countries.

Obviously, this is not a relationship between equals. The PRC is in a superb position to exert influence over LAC through different channels. Coercion is not only used by the PRC, but also by Latin American export elites at the domestic level. Nicola Phillips (2009:101) warns:

The celebration of the export opportunities provided by the emergence of China consequently has something of a strange ring to it, in that most of the long-established anxiety about this form of dependence on raw materials appears curiously to have disappeared from the contemporary discourse. Yet, given what we know from both theory and past experience, the new strategy that is crystallizing around the Chinese demand for raw materials is without question inauspicious for the region's economies.

The PRC's emerging hegemony,<sup>3</sup> a mixture of consensus and coercion coordinated with local LAC elites, encompass the economic benefits of the relationship with the PRC and Latin America's agreement of not interfering in PRC's domestic issues such as human rights or the Taiwan problem. To provide greater certainty and less distrust of political leaders in Latin America and the Caribbean (along with a signal of transparency for skeptical US analysts), the PRC published on 5 November 2008, the first document aimed specifically at the Latin American region.<sup>4</sup> The 'Document on China policy toward Latin America and the Caribbean' was published on Xinhua News Agency website in both Spanish and Mandarin (Xinhua 2008).

## Beijing Consensus Instead of Washington Consensus?

The Chinese approach to the underdeveloped countries has been labelled by some scholars as the 'Beijing Consensus', in opposition to the well-known 'Washington Consensus' that prevailed during the late 1980s and all through the 1990s. Several scholars have placed high expectations on this new 'Beijing Consensus'. In the words of Zhang (2010:58):

China is also promoting the appeal of its model of development. For example, China has recently started to launch the so-called Beijing Consensus as an alternative to the Washington Consensus, the latter of which promotes democracy and capitalism to the developing world. China claims that its economic miracle, amid political stability, is an alternative to the Western model. Although to date, and as can be observed on the current networks linking China with Latin America and the Caribbean, little seems to bring back important gains other than just profit margins to Latin American export elites, and a certain degree of autonomy to governments seeking to take some distance from the US and the European Union.

In turn, Detlef Nolte (2006:20) has noted that:

There is fear in some Latin American countries to take advantage of the 'China card' for a more independent position from the United States. The presence of China in the Western Hemisphere is seen as emblematic of the erosion of US power and its geopolitical position.

However, there is a risky scenario should the LAC take greater distance from the United States and the European Union and looks for 'shelter' in a new 'South-South cooperation' with the PRC. The PRC is certainly a rising power seeking an important place in the world order; it is also expected to become an important provider of the world's public goods (Kappel 2011:3). Nonetheless, the PRC is not a revisionist power. Chinese officials constantly wield a rhetoric of 'peaceful rise' and low profile leadership. The regime denies explicitly any intention of developing a hegemonic foreign policy (Rocha Pino 2006:701; Noesselt 2012). Rather than attempting a radical transformation of the current world order, the PRC is legitimising the core of that very order and taking advantage of its benefits (Tokatlian 2009:79; Hirst 2009:123; Feng 2009:332; Cornejo and García Navarro 2010:81). Given these points it is very likely that, even if the Asian giant becomes a provider of public goods, LAC will find little room for redefining a new pattern of international economic integration.

What can be argued is that the Chinese reform process has become an important complement to the interests of transnational capital, which has moved a considerable part of their production processes into the PRC. This nation was integrated successfully into neoliberal globalization, but does not require (as the core nations did) the full-fledged liberalization of the markets where it operates. Chinese manufactured products can circumvent domestic protectionist barriers due to dumping prices and low production costs.

The PRC's behaviour may be interpreted by some as 'benign' by the absence of explicit demands for liberalization (Breslin 2010b:9). In the same fashion, this attitude could be seen as the empirical evidence that the Beijing Consensus<sup>5</sup> is friendlier and less forcible than its Washington counterpart. The truth is that the PRC's entry into the WTO in 2001 and the ensuing visit by then President Hu Jintao to several Latin American countries in 2004, followed the neoliberal logic of liberalization arrangements 'without obvious demands'. LAC's recognition of the PRC as a market economy was negotiated bilaterally with Brazil, Argentina, Chile, Venezuela and Peru, among others. By granting the PRC the status of a market economy, these and other states hinder their room for manoeuvre for defending their industrial sectors, as long as dumping investigations should as a reference take domestic prices in the PRC and not those of a third country. The Protocol of PRC's Accession to WTO allowed 'market economy' recognition on a sectoral basis. While Canada proceeded this way, most of Latin American countries granted full recognition, thus exposing all of productive sectors to Chinese competition.

The PRC has realized that it is necessary to avoid anti-dumping measures by LAC governments in order to continue exporting its manufactures into Latin American markets. Thus, pressures from local industrialists in such countries as Brazil and Argentina barely find a way into national governments and then trade panels at WTO. Conversely, dumping complaints could be 'dangerous' to the interests of Latin American commodity exporters, to the extent that the PRC could slow their purchases, in retaliation for hypothetical anti-dumping measures pushed by Latin American industrialists. The Chinese government realized very soon after joining WTO that the way to stop or at least hinder the implementation of trade complaints was to be recognized as a market economy, replacing the 'transition economy' label<sup>6</sup>. The latter classification did not allow taking PRC's domestic prices as a yardstick in the evaluation of dumping practices.

The Chinese strategy did not only benefit its interests. It also opened a door for wider opportunities to the agricultural-mineral LAC exporters, while affecting industries linked to the domestic market. To further analyse the effects of the PRC in the region, we turn to a comprehensive approach to the global capitalist development process. This analysis can show better the risks of too much reliance on the PRC as an economic partner of Latin America.

### **The PRC and LAC in the New International Division of Labour**

Since the 1980s the world has been witnessing a new configuration in the international division of labour. The new arrangement is detaching from the previous structure, based on the exchange of primary products from the periphery for manufactured goods in central countries. Nowadays,

production requires different proportions of capital and labour, with the option of de-localizing different parts of the processes where producers can maximize earnings (Arceo 2005:32). Borrowing the description of Giovanni Arrighi (1997:187) in the current international division of labour, the centre undertakes the brain activities of transnational capital while the periphery is the 'locus of the muscles and nerves.'

Under this new scheme, international trade is no longer complementary but eminently competitive. Disputes arise not only within the centre-periphery relationship, but within the periphery itself, in order to accomplish a portion of the production process that multinationals decide to outsource. In practice, this means a race for implementing the recommendations of neoliberal international financial institutions (IFIs).

In different parts of the world, openness to trade and financial flows is leading to the loss of more complex manufacturing, leaving only room to primary or very low-tech production. The nations that liberalize their markets and are integrated with international production networks via the *maquila* processes (Central America and Mexico) can reduce unemployment without curbing poverty. This can be done by such factors as lower costs of labour, a privileged geographic location and a certain level of infrastructure.

Those nations with some level of industrial development protected by tariffs or regional agreements (like MERCOSUR) and abundant natural resource endowments, must face foreign competition that eroded the domestic industry. That is why industrial lobby takes place for anti-dumping or exchange rate devaluation, while primary exporting sectors pressure the government to keep an appreciated exchange rate, which creates great opportunities to dump their products abroad. The global economic crisis and the emergence of the PRC must be framed under this division of labour. Accordingly, Nicola Phillips (2009:117) explains:

The story of the emergence of China, as such, is not one of a single national economy but, rather, one of a particular phase in global capital accumulation driven by mobile transnational capital. Transnational capital has 'landed' in China as a result of a particular set of factor endowments (...) facilitated by internal economic reforms undertaken by the Chinese government since the late 1970s. Therefore, it is misleading to talk about the emergence of China; rather, we are witnessing the consolidation of a particular phase in the evolution of global production and value chains, driven by strategies of transnational capital, within the territorial boundaries of the Chinese economy.

The PRC gains benefits from the neoliberal globalization in a large assembly world. Exporting manufactured goods requires large amounts of raw materials for PRC's internal development process; both processes feature a strong control

from the central government (Duménil and Lévy 2011:5). The other side of the insertion in neoliberal globalization has to do with Latin America and the Caribbean. The main thesis of Nicola Phillips (2009:101) is that:

We are witnessing a contraction of existing and potential development spaces for Latin America and the Caribbean of an order that prompts a set of serious questions about the basis on which the region's economies can pursue their effective insertion into the global production and value chains and transnational division of labour.

Hence it seems wrong to think of the relationship between LAC and the PRC in terms of a 'threat to Mexico and Central America' and an 'opportunity-benefit to South America'.

### **Conclusion: Geopolitical Considerations of the Current Crisis**

Previous sections of this chapter have dealt with two levels of analysis of great sensitivity: one is internal and the other external. The internal is linked to the commoditization process of a neo-extractive model which, on its way, threatens food sovereignty and the safeguarding of natural resources and native populations. The key fact is that this model of exploitation is highly concentrated in a few economic actors—most of them transnationalized. Both the national governments and agricultural and mineral exporters are engaged in dependent associations which reduce countries' degrees of autonomy.

The external risk derives from the fact that the PRC is a big purchaser of commodities exported by Latin America's Southern Cone countries. At the same time, it is a leading challenger for several of them at the global level. Although some Latin American nations are 'big players' in the world market, the PRC's oligopsony power hinders the range of negotiation for LAC nations.

An additional consideration, derived from the pattern of exports from the Southern Cone, is the real fragility which is exposed, both by the vicissitudes of good and bad harvests (in the case of agricultural products), as the volatility and the feasible long-term deterioration of terms of trade. Keep in mind that much of the export sector is based on an array of static comparative advantages, which is exacerbated by Chinese partner's demand. This is due to the pattern of trade where the income elasticity of imports is higher than the income elasticity of commodities in the Chinese market (Musacchio and Robert 2006:22).

The other side of this great benefit and opportunity with regard to the commodity-exporting sectors is the competition faced by either endogenous industry or the *maquila's* sector. This is especially important in Central America and Mexico whose products are displaced in markets like the US and even in their domestic markets. Also noteworthy is the competition suffered by the industrial nations of the Southern Cone, such as Brazil and Argentina, where



governments have granted the PRC market economy status. This move has meant, in practice, a clear benefit for Latin American commodity exporters and a stressful issue for national industries.

Under this situation, national governments are not neutral arbiters between exporters and industrial or *maquila* sectors, but actors in a complex and contradictory setting. Governments' finances are benefiting from increasing duties on the commodities exported to the PRC. These resources facilitate the implementation of social programmes and counter-cyclical economic policies. As long as social welfare improves, civil society eschews a deep discussion of the neo-extractive model and its relationship with the PRC, thus maintaining a certain degree of domestic consensus.

The other side of the coin is the need to protect domestic industries in order to increase the level of economic activity and avoid the loss of jobs. Under pressure from domestic industries, governments have tried to institute major anti-dumping measures against Chinese goods, but lobbying from commodity exporting domestic industries can neutralize the leverage of industrial sectors. As discussed above, commodity exporters fear retaliatory actions by the PRC. An example of this fear was confirmed in 2010 when the PRC stopped purchasing Argentinean soybean oil for several months.

From a geopolitical viewpoint, it is tempting to argue that many nations in the region may have found in the PRC a partner to rely on in order to counterbalance the power of the United States and the European Union. This possibility, however, should not lead to the hasty conclusion that the region stands to gain from the relationship with the PRC. It must be understood that the cost of this national government's 'political autonomy' has its counterpart in a deterioration of the industrial fabric, choked-off by the advance of Chinese goods in both local and third country markets. The consolidation of a neo-extractive model is matched by the possibility of the Dutch disease in exporting commodities countries.

To sum up, the current global financial and economic crisis has reinforced the discussion of the options for boosting Latin America's autonomy by means of the Chinese card. Yet more rigorous research is necessary to avoid falling into hasty or incomplete conclusions. This task is even more important as Sino-Latin American relations feature multiple levels of analysis in which the essence of phenomena is frequently coated with a different appearance. Such an intellectual task is not easy business but it still needs to be done if authentic national and regional independence is to be shaped. LAC should avoid any dependent and peripheral relation and look for alternatives that enhance its societies' welfare. The Great Recession should become an opportunity to rethink Latin America's internal but also external relations with new and old partner-allies. Furthermore, the South as a whole should be able to make

and reflect their own strategic interests, design methods for breaking loose from all forms of dependency and establish new relations on the basis of integration, mutual benefit and equality.

## Notes

1. This is an economic situation where the large increase in commodity prices pushes up currency appreciation, with a negative impact on the competitiveness of the industrial exporters. It takes that name from the symptoms suffered by the Netherlands in the 1970s due to the large increase in oil prices.
2. Sevares (2011:42) observes: 'Brazil registered a marked primaryization of its exports, since the share of primary commodities in their exports increased from 24% to 44% between 2001 and 2010, while that of manufactured goods fell from 62% to 42%.'
3. In this discussion I adhere to the concept of hegemony that is retrieved by Cox, Arrighi and Wallerstein in a neo-Gramscian approach. Here consensus and coercion are separated analytically, but in practice they are part of the same phenomenon. Giovanni Arrighi (2007: 149) defines hegemony as 'the additional power that holds a group by virtue of its ability to lead society in a direction that not only serves the interests of the dominant group but also perceived by subordinate groups as functional to a more general interest'.
4. Oviedo (2009:14) concludes that 'The document does not add anything new to the policy toward the region, at least from the public level, but has the virtue of being a systematisation of various policies and positions that China has reiterated to each of the countries and now presented in terms of region. Its content insists on considering the region as homogeneous, stating a general policy, without understanding the peculiarities of each state. It would be similar to that Latin American states per se establish policies to Asia without distinguishing between its different parts. That is, treat China like Japan and Korea, India or Israel, Iraq or Russia'. For an analysis of the document see Oviedo (2009). For an analysis from the Chinese perspective see Xu (2008).
5. Some authors emphasize that the concept of Beijing Consensus was a creation of U.S. analyst Joshua Cooper Ramo (2004). According to Dauderstädt and Stetten (2005:-9), Cooper Ramo 'sees China emerging as a powerful alternative to the American role model and calls this the "Beijing Consensus". Where Washington has argued in favour of market orthodoxy and a lean state, Beijing is promoting a pragmatic approach to capitalism matched by the so-called developmental state. This approach fits very well with many Southern countries, if the many delegations from developing countries recently visiting the PRC are any guide. What remains to be seen, however, is how proactively the PRC will play the Beijing Consensus card.
6. Diana Tussie (2006:13) states that 'The Protocol provides that each WTO member countries can use the condition of economy is not a market for a period of 15 years, until 2017. A comparison of prices (low) the export of China and the "normal values" determined from surrogate countries, results in obtaining a higher dumping margin than it is to apply the charges in force in China'.



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