The Rise of China, Its Impacts on Latin America and the Main Challenges Faced by the Region's Labour Movement

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Summary

This article discusses the main features of the economic and geopolitical relations that have grown up in recent times between China and the countries of Latin America, stressing what could the main impacts on labour movement in the region.

The first part contrasts the development styles of China and Latin American countries in the 1990s.Then – taking Latin America as a whole – the article traces an overview of trade relations between the two regions. The third section discusses more specifically China's economic relations with Mexico/Central America, Argentina/Chile/Peru, and Brazil.

The fourth part of the article summarises China's foreign policy, highlighting what this new world power seeks in Latin America. In the light of that description, it discusses the challenges posed for Latin America by China's rise. It also examines the China-Latin America "partnership" from the viewpoint of Latin American labour movement, which for the time being haven't discussed the "China phenomenon" in depth, while governments and businesses position themselves – and even then on an approach that is topic-specific, bilateral and focussed on the short term – to respond to China's economic and geopolitical advance in Latin America.

1. China and Latin America: Distinct Macroeconomic Trajectories in the 1990s

During the 90s, Latin America and China followed quite divergent macroeconomic trajectories. While, on the one hand, both regions interacted increasingly with the international economy, they pursued their roles as players in globalisation according to sets of diverse, if not opposing, assumptions and policies.

What first stands out when their two economies are compared is the pace of expansion. From 1990 to 2002, per capita income expanded about ten times faster in China than in Latin America (at 8.8% against 0.9% per year), according to ECLAC and UNDP data.

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China's vigorous GDP rests on high rates of investment, which can be explained by its booming exports, high levels of public spending and a domestic market that is burgeoning – from low plateaus and with unprecedented growth potential – in a context of extreme caution towards relaxing controls on the capital markets. In parallel with this, trade liberalization has come about gradually, so much so that trade surpluses grew substantially after China entered the WTO. In 2006, according to WTO figures, China already accounted for 10% of total manufactured exports, against a Latin American total of 4% or so.

This is because China has been upgrading its exports, 91% of which are of manufactured goods, while Latin America is rationalising production by de-verticalisation and by boosting imported content, especially in the most dynamic trade sectors and wherever productivity is highest. The result has been a dual process in which exports have concentrated in natural resource-intensive products, while *maquiladoras* – exporting manufactured goods with little value added on the domestic market – have proliferated (Cimoli and Katz, 2002).

Latin American industrial exports are insignificant in terms of world trade. The exceptions are commodities and fuels, which account, respectively, for 11.5% and 9% of global foreign sales. In manufactured goods, Latin America's position is marginal: it contributes from 4% to 5% of natural resource-intensive and low-to-medium-technology manufactures and only 3.4% of world sales in high-tech exports, using UNCTAD trade methodology.

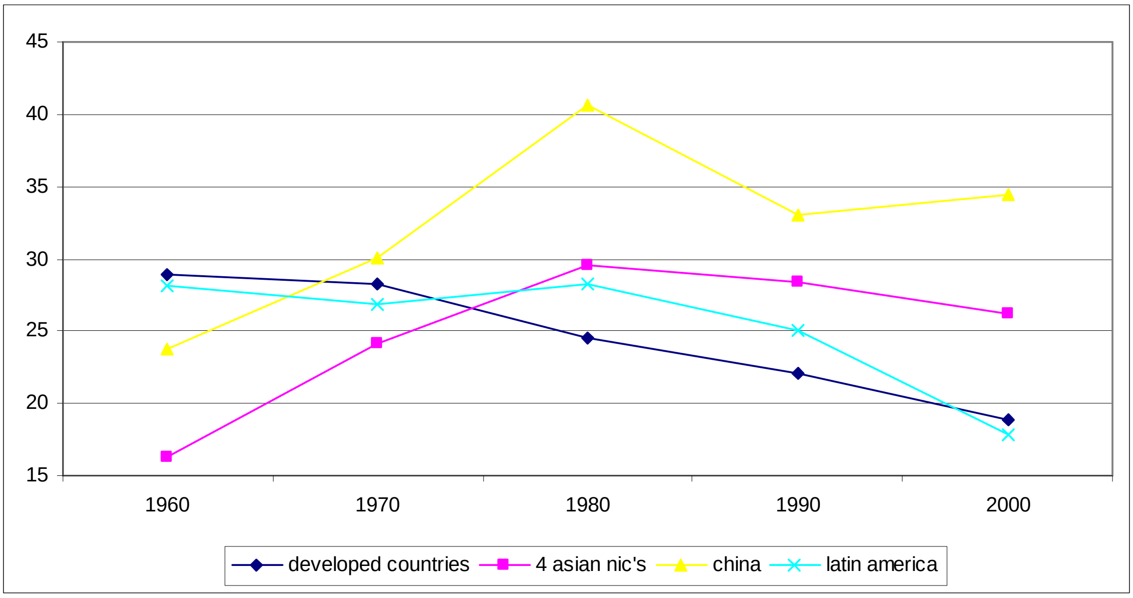
In addition, China's policy model for attracting multinationals favours joint-ventures with local firms, rather than the simple privatisation that predominated in Latin America in the 90s. Although such companies do play a strategic role, they contribute only 5% of gross capital formation in China and 30% of manufactured output, 60% of which is earmarked for the domestic market (Lardy, 2006). That is, the external market and foreign investments are strategic especially because they feed back into an endogenously-driven process of capital accumulation.

In other words, the essential difference between the two economic regions seems to lie in the nexus between exportation and investment, which has enabled China to expand its industrial capacity and has even helped strengthen the domestic market. In Latin America, meanwhile, exchange volatility – due to the rapid and automatic deregulation of trade and finance – prevented that nexus from forming, instead bringing abrupt shifts in the pace of growth and investment and forcing its countries to resort to rigid monetary policies.

According to the categories set out by UNCTAD (2003), China could be classed as a rapidly industrialising country, transforming the structure of its industrial base toward sectors of greater productivity. Latin America, meanwhile, forms part of the capitalist periphery in the process of early deindustrialisation, even though differences between the region's countries is striking. By early deindustrialization, we mean that the industrial market share is declining not because the structure of industry changed to incorporate value-adding services, as in the developed countries, but because the industrial base inherited from the import-substitution model of industrialisation is actually shrinking.

While it is true that this downward trend in industrial market share was also seen in the first-generation Asian tigers, it was far less pronounced because it was associated with a more complex industry mix. China's manufacturing industry, meanwhile, besides being increasingly diversified, accounts for 35% of GDP and is leveraging expansion in the service and agricultural sectors, although the latter comprises a vast body of extremely low-productivity activities.

Graph 1 – Share of manufacturing industry in GDP, by group of countries (%)



Source: UNCTAD.

In summary, the differences between Latin American countries and Asian countries, especially China, stem largely from their particular conceptions of industrial policy and the strategic options of integration in the international economy (Chang, 2004).

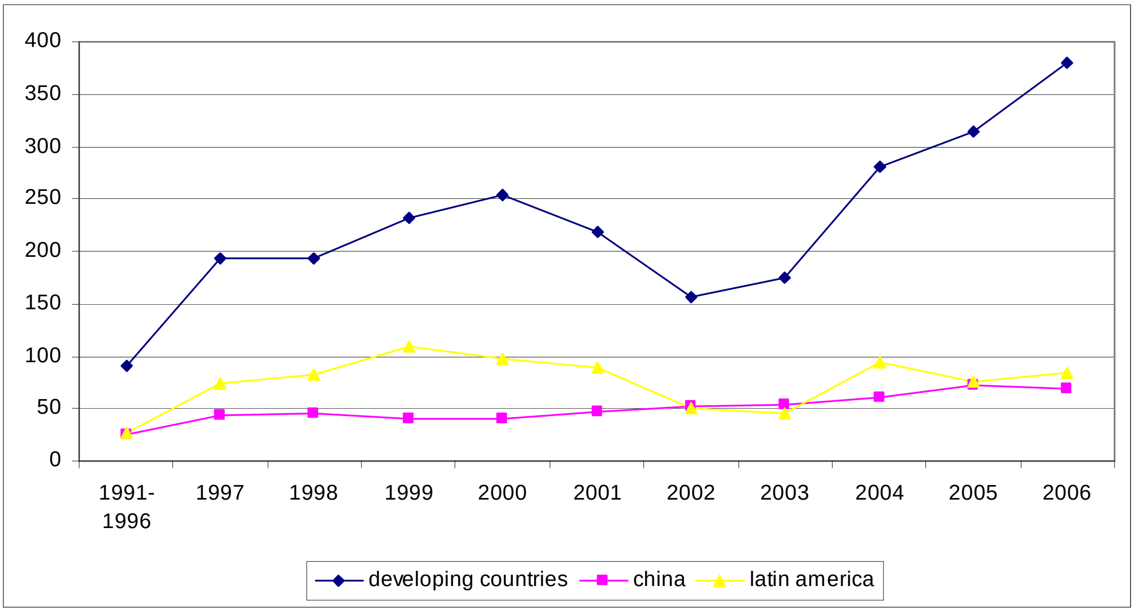
Asian countries such as South Korea and Taiwan applied policies directed to developing domestic high-technology capabilities, while the model adopted by the other Asian tigers – Malaysia, Thailand and Philippines – hinged on attracting multinational corporations to become export platforms in high-tech sectors (Lall, 2001).

In the countries of Latin America, from the 90s onwards, horizontal industrial policies predominated, assimilating the so-called "good policies" recommended by the developed countries. Alternatively, free-trade agreements were signed between some Latin American countries and advanced economies, which tended to subordinate trade flows to the decisions of multinational corporations.

Nonetheless, industrial restructuring – pursued in this context of trade and financial deregulation, with exchange rates appreciating in several countries and economic instability resulting from substantial current account deficits – came in various styles: in Chile, de-industrialisation with reorientation outwards; in Mexico, radical integration northwards; in Argentina, export de-sophistication; and in Brazil, defensive restructuring (Bielschowsky and Stumpo, 1995). These styles resulted from varying combinations of macroeconomic, structural and institutional factors. In parallel with this, the multinationals' decisions varied according to the nature of the adjustment, the dimensions of the respective domestic markets and the options in terms of trade agreements.

The differences in terms of macroeconomic and industrial dynamics can be summarised from how foreign direct investment (FDI) behaved in these two economic regions. In China, investments rose continuously, buoyed up by the development and diversification in the country's industrial and service base, while in Latin America, their behaviour is exogenous; that is, they rise when total investment to developing countries rises, and fall when the world economy is hit by crisis, as in the period 2001-2003 (graph 2).

Graph 2 – Foreign Direct Investment in Developing Countries, Latin America and China – 1991 to 2005

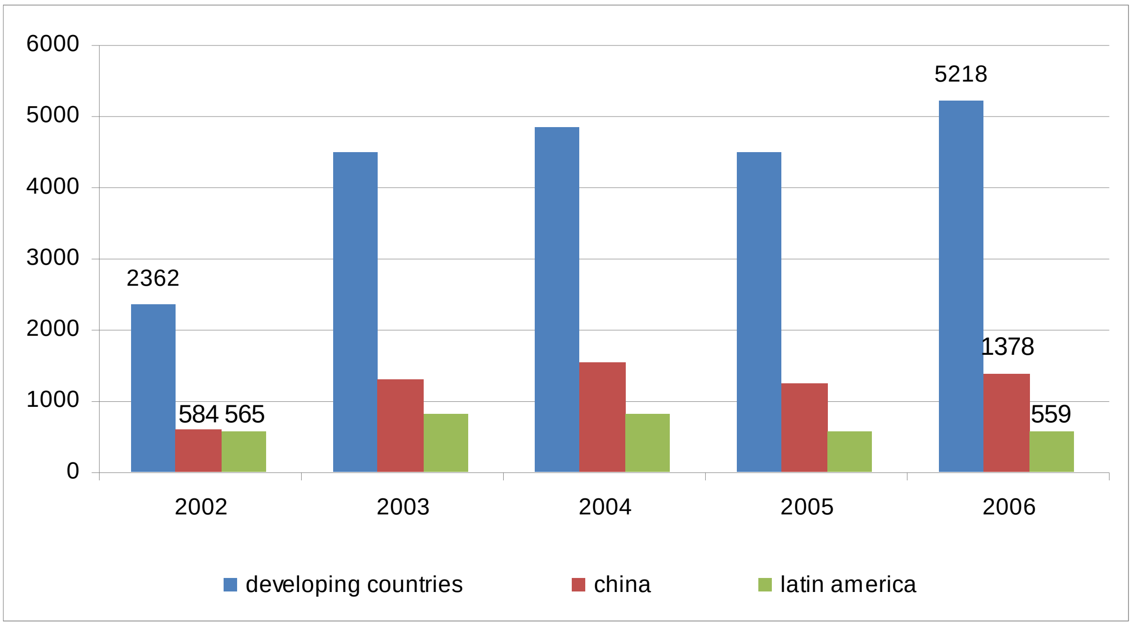


Source: UNCTAD.

The rate of new FDI projects seems little affected by the degree of economic liberalisation or State regulation. Multinational corporations have expanded their projects in economically dynamic countries, such as China, while reducing them in Latin America, whose economies offers less diversity and domestic markets with less potential for expansion.

Although China is a long way from substituting all foreign production – and such a situation seems hardly feasible in view of its own contradictions and the regionalised dynamics of the global economy – it does host more than a quarter of all new investment projects by multinational corporations in developing countries, while Latin America accounts for only 10% (graph 3).

Graph 3 – Number of "Greenfield" Projects by Multinational Corporations in Developing Countries, China and Latin America



Source: UNCTAD.

These contrasts between the industrial, macroeconomic and international integration policies of China and Latin American countries are helpful for explaining the type of economic interaction that has developed between the two regions in recent times, as will now be examined in greater detail.

2. China and Latin America: An Overview of Trade Relations

Let us start this bilateral analysis with how important Latin America is to China's trade transactions. WTO figures for 2005 show that only 2.3% of China's exports are destined for Latin America. If taken together, Latin America and Africa – two regions where Chinese foreign policy has made vigorous inroads (accompanied by intensive coverage in the western press) – account for only 5% of Chinese exports. Brazil ranks 14th among China's suppliers in aggregate terms, while no other Latin American country shows up in the list of the 20 main exporters to China (Jenkins and Dussel Peters, 2007).

These two regions of the South thus appear marginal to China's export performance, which prioritises access to developed country markets (more than 50% of its exports go to the USA, EU and Japan), besides the nearly 30% destined for Southeast Asia, according to WTO data.

Meanwhile, these two regions of the South are the source of 7% of China's imports. An analysis of trade distribution reveals that South and Central America account for 20% of the agricultural products consumed by China and for 10% of the mining products, including fuels (Table 1). The percentages for Africa, according to WTO figures, are 3.9% and 38.2%, respectively. In other words, a quarter of the agricultural goods imported by China come from these two regions, and the percentage rises to 50% for fuels and mining products, the former predominantly from Latin America and the latter from Africa.

Table 1 – China's Imports from Latin America, by Product Category - 2005

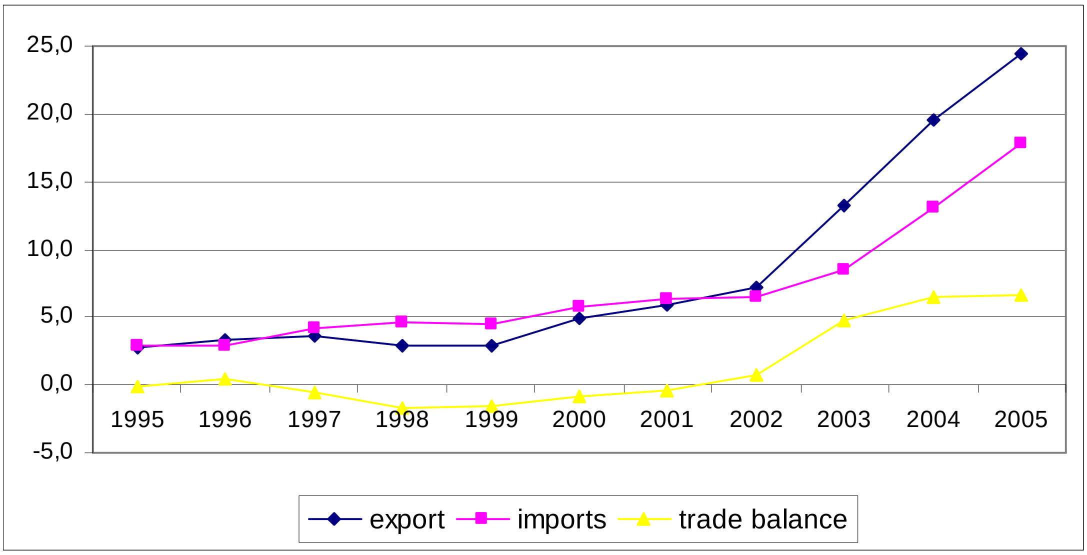
	US$ bi	% total China imports from LA	% China imports of these goods
Agricultural products	8.6	35.1	20.3
Fuel and mining products	12.3	50.2	10.3
Manufactures	3.6	14.7	0.7

Source: WTO.
Obs: Latin America excluding Mexico and the Caribbean countries.

To this concentrated array of exports from Latin American countries, add China's thirst for foods, agricultural raw materials, mining products and fuels, and the formidable growth experienced by the region's exports to China is understandable.

Graph 4 below shows how Latin American exports to China have expanded, with foreign sales to China growing around 8 times from 1995 to 2005. By the end of the period, in 2005, the trade balance in Latin America's favour was US$ 6.6 billion.

Graph 4 – Latin America's Exports to, Imports from, and Trade Balance with China from 1995 to 2005



Source: WTO.
Obs: Latin America excluding Mexico.

The bulk of the export surge (80% of 1995-2005 growth) is concentrated in the post-2002 period, which can be explained both by continuing growth in the Chinese economy and by higher commodity prices, factors that bear some relation to each other. Indeed, China's growth accelerated in this period, especially in the energy, metallurgy and infrastructure sectors.

Yin (2006) argues that part of this expansion was due also to the reduction in China's average import tariff after it entered the WTO. From 1998 to 2005, it fell from 17% to

9.4%. In any case, it is as well to remember that China's tariff structure continues to feature peaks, especially in the agricultural sector where tariffs stand above the mean (ECLAC, 2006).

No less important is the upturn in Latin American demand for Chinese imports after 2002. In fact, from 2002 to 2005, the gap between exports to and imports from China narrowed, the former increasing 3.4 times and the latter 2.7 times. In 2005, compared with the prior year, China's exports to Latin America grew even more rapidly than its imports, stabilising Latin America's favourable trade surplus.

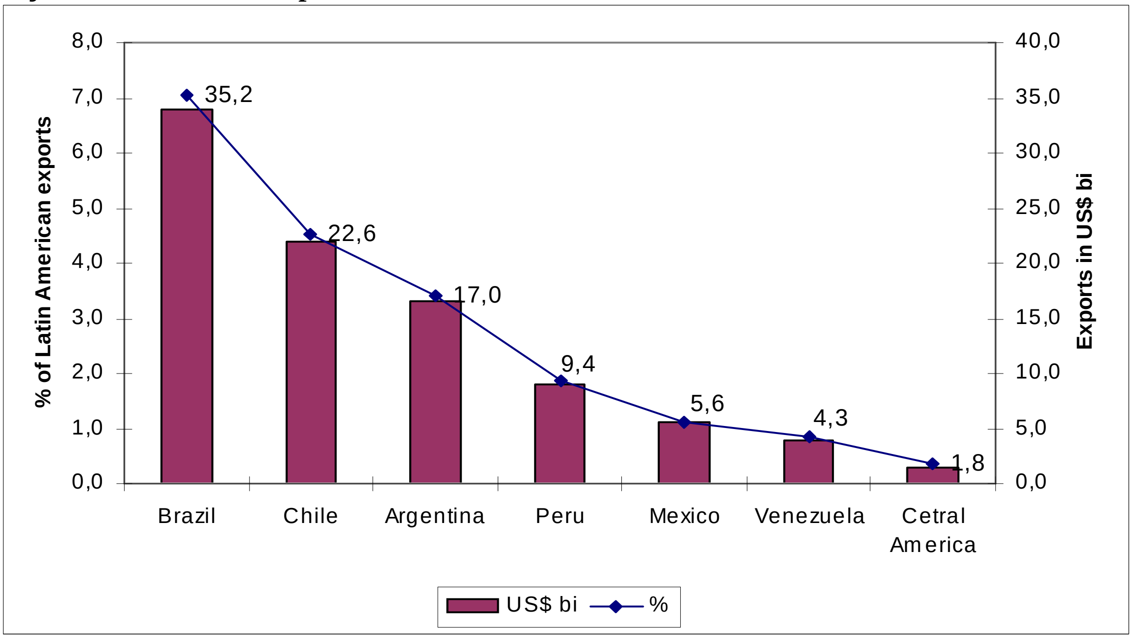
However, 93% of imports to South and Central America from China are manufactures. In 2005, textiles and garments represented 25% of the total, and machinery and equipment, 44% (Alden and Alves, 2007). It is not to Latin America alone that China is selling a larger proportion of more technology-intensive products. The changing structure of its domestic industry led to a shift in the export mix in the late 90s. From 2002 to 2004, China's total labour-intensive exports expanded by 67%, against a 100% surge by medium- and high-technology products (Yin, 2006). This was especially true of standardised products like PCs, mobile phones and DVD players.

The figures above have invited some hasty assumptions. Is the volatility of primary material-based economies a thing of the past? Will China prop up the world economy, leaving Latin American countries' foreign accounts less vulnerable by virtue of the improved terms of trade? These questions have to be approached with caution, because they lead to generalisations with little empirical foundation, besides disregarding specific features of the various countries in the region.

Graphs 5 and 6 below show the position of several Latin American countries in terms of their trade relations with China. Firstly, some 80% of the region's exports to China – here including figures for Mexico – originate from only 4 countries: in decreasing order, Brazil, Chile, Argentina and Peru. Secondly, while on average less than 4% of Latin American countries' total exports go to China, in these four countries the figure is 6% or more. Particularly Chile, Cuba and Peru now export to China something in the order of 10% of their total foreign sales.

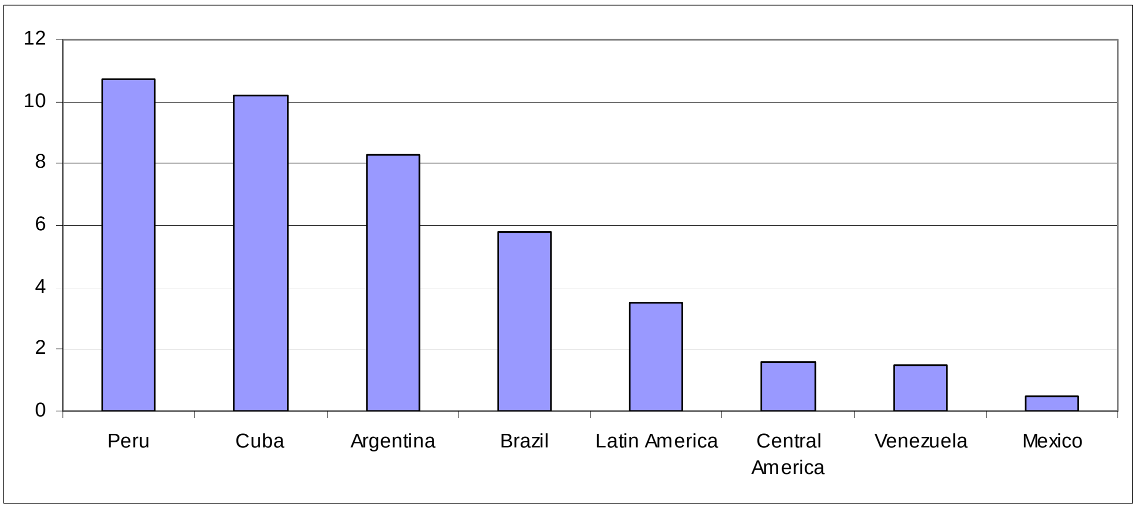
From 1999 to 2004, China accounted for about 20% of export growth in Argentina and Chile, 16% in Peru and 10% in Brazil. Even more striking was Costa Rica, where China contributed 35% of foreign sales growth (Rhys and Dussel Peters, 2007).

Graph 5 – Total Value of Exports (in US$) from Latin America to China and Participation by Major Latin American Exporters – 2005



Source: ECLAC.

Graph 6 –China's Share in Total Exports from Latin American Countries (%) - 2005



Source: ECLAC.

Latin American exports are extremely concentrated not only by country, but by product. Brazil has the least concentrated portfolio and nonetheless iron ore and soy alone represent 2/3 of its exports. Around 80% of what Chile and Argentina export to China comprises a single product, as can be seen in Table 2 below.

Table 2 – Percentage of Leading Products in some Latin American countries' Exports to China - 2004

	% main products	first	second	third
Argentina	78.5	soy		
Brasil	67.7	iron ore	soy	
Chile	76.2	copper		
Peru	85.2	copper	fish flour	iron ore

Source: ECLAC.

3. China and Latin America: Various Regional Patterns of Economic Relations

We now turn our attention to the patterns of trade and investment between China and the various sub-areas of the Latin American region.

The first pattern of economic relations involves Chile, Argentina and Peru. These countries' trade balances are clearly favourable as a result of their industrial specialisation and export portfolios. In this case, Chinese investment tends to be concentrated in export activities – such as Peru's iron ore and the oil reserves discovered recently in the north of the country – and in infrastructure activities, such as highways and ports in Chile and Argentina.

Chile has even opted for a free trade agreement with China, signed in November 2005. That agreement can be explained, on the one hand, by the complementarity and proximity of their two economies, and on the other, by Chile's foreign policy of expanding and diversifying its trade relations on the basis of bilateral negotiations.

This pattern is, however, not immune to protectionist policies designed to contain the Chinese "threat". In this regard, Argentina stands at the opposite extreme. In August 2007, the country adopted a set of restrictive measures aimed especially at China. These are automatic import licenses, additional safety regulations and the requirement that importers submit "certificates of origin" to combat under-invoicing. Interestingly in this case, the demand to introduce these measures came from the metalworkers' union, Unión Obrera Metalúrgica (UOM) (Paladín, 2007).

The second pattern of trade can be seen between Brazil and China. Its specific features derive from the more diversified structure of Brazil's exports, the greater scale and integration of its production chains, especially industry, and the fact that Brazil's exports, at least to other Latin American countries, partly coincide with what these import from China.

True – just as in the first case described above – there is also a high degree of specialisation in Brazil's exports to China, given that more than 80% of these foreign sales are grouped in primary and semi-manufactured goods.

Other factors must be added, however, in order to understand their bilateral relations in all their complexity. In the first place, Brazil seems more affected by industrial imports from China than the other Southern Cone countries. This can be seen in the graph 7 below.

The period from 2003 to 2006, when Brazil's trade surplus slumped from US$ 2.4 billion to around US$ 400 million, coincides with an resurgence in its industrial GDP combined, at the end of the period, with strong exchange appreciation. In the year 2007, Brazil presented a trade deficit with China around US$ 1,9 billion, having China become the second largest source of Brazilian imports after US. President Lula summed up this complex situation by saying that "just as China can help, it can also hinder" (interview by *Isto É Dinheiro* magazine, 17 October 2007).

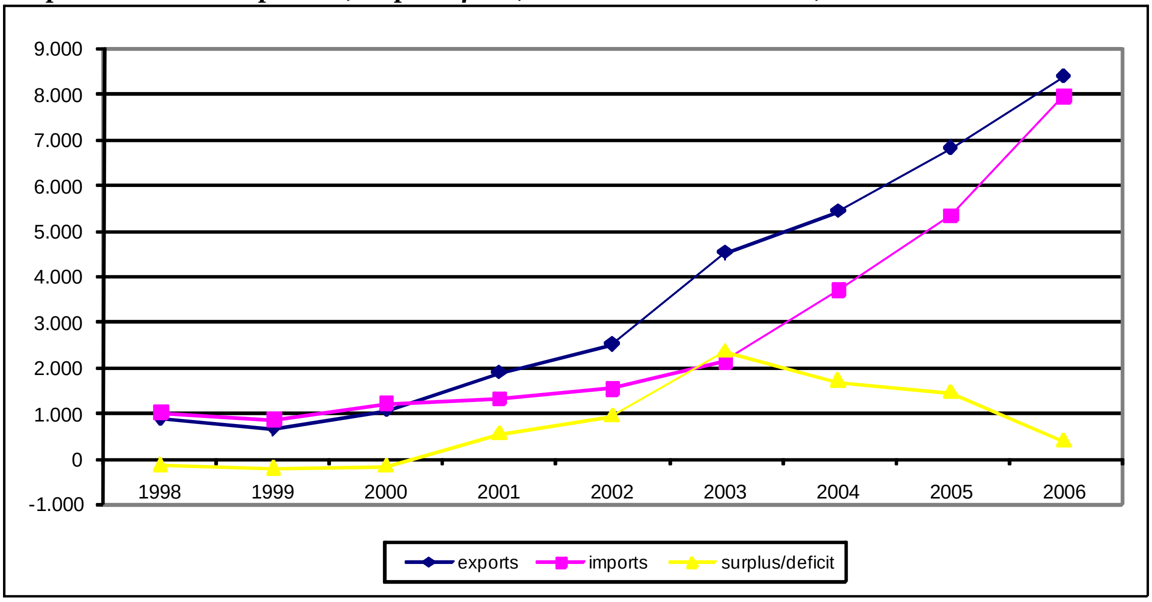
There is incomparably less concentration to Brazil's imports from China than vice versa. The ten main products that Brazil imports from China account for 26% of its foreign purchases (Valls Pereira, 2006). If the present macroeconomic situation continues, the combination between China and foreign exchange appreciation may open up a number of "holes" in Brazil's industrial structure. For the moment, industrial imports from China equal only 1% of Brazil's industrial output, even though this percentage increased threefold from 2000 to 2005 (Rhys and Dussel Peters, 2007). Note, however, that the Brazilian industrial sector's trade deficit with China rose by a factor of 3.6 between 2004 and 2006, jumping from US$ 1.583 billion to US$ 5.681 billion (FIESP, 2007). In the year 2007, this industrial trade deficit maintained its upward trend, getting close to US$ 10 billion.

Up to 2004, industrial purchases from China had no destructive effect on the domestic market, because in many cases, especially in goods with high added value, they were replacing goods from other foreign suppliers (Barbosa and Mendes, 2006). However, everything seems to indicate that more serious effects on the domestic market are appearing.

On the other hand, Brazil – unlike its Latin American neighbours – manages to be a prominent exporter of certain industrial goods. There is thus some room for integrating into Chinese production chains intermediate technology sectors, such as leathers, paper and cellulose; industrial components, such as auto-parts, chemical, iron and steel and electronic products; and machinery and mechanical appliances (Amorim, 2005 and Valls Pereira, 2006).

All the same, it is as well to remember that China tends to import, at most, the production chain links with least added value, thus prioritising cellulose over paper, alumina over aluminium, and iron over steel (Barbosa and Mendes, 2006). Nor should one forget that Brazil, and also the other countries of Latin America, face competition from the ASEAN countries, with which China maintains an intensive network of intra-industry trade. In the natural resource-based manufactures segment, 15.6% of China's imports come from ASEAN and only 7.8% from Latin American countries (ECLAC, 2006). This disparity in shares of the Chinese market is even greater in the more technology-intensive sectors.

Graph 7 – Brazil's Exports to, Imports from, and Trade Balance with, China - 1998 to 2006



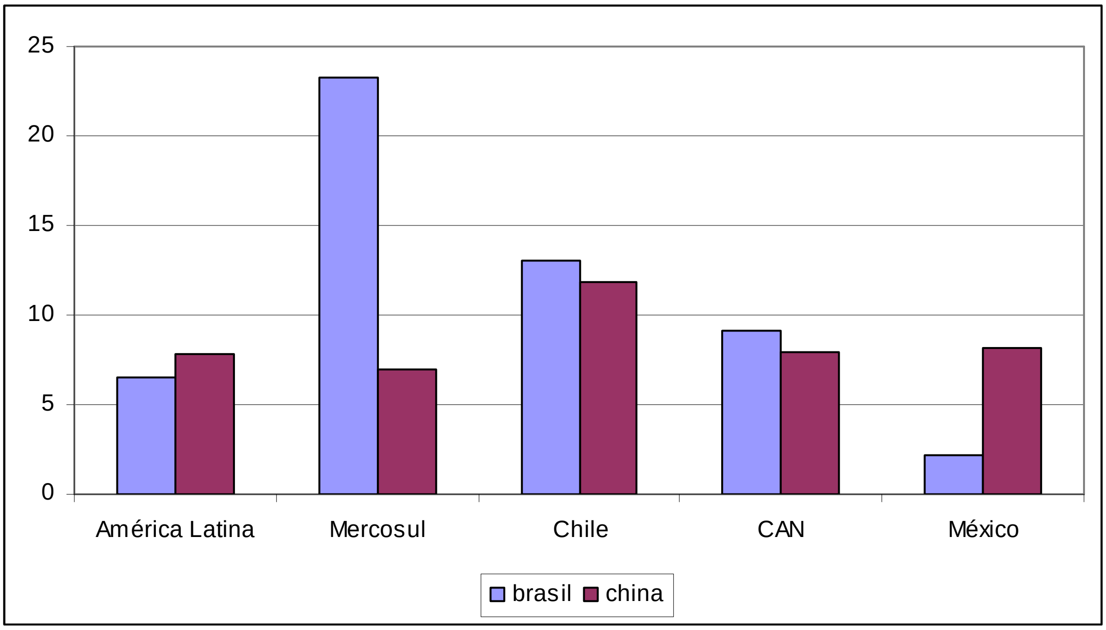
Source: Secex/MDIC (Trade Secretary/Ministery of Development, Industry and Trade, Brazil).

Other issues characterise the pattern of economic relations between Brazil and China. Brazil tends increasingly to be squeezed out of the markets it exports to in its region, where its sales of high added value industrial products are concentrated.

The graph 8 shows that this is not yet happening in the Mercosur overall, where in 2004 Brazil's share in total industrial imports was about 3 times larger than China's. However, everything indicates that the situation is changing rapidly, especially in certain segments. In the case of the metal-machining industry, Argentina's imports from China have now outstripped those from Brazil in the first half of 2007 (Paladín, 2007). The same trend is emerging in trade with Chile and the Andean Community (CAN), where Brazil and China accounted for very similar shares in 2004 (IADB figures). Overall, under the influence of imports by Mexico, China surpassed Brazil in the region in 2004, accounting for 7.8% of industrial imports to Latin America, against 6.5% from Brazil.

This displacement effect is occurring not only on Latin American markets, however. More than 40% of Brazil's market losses to China in the United States are concentrated in two products: footwear and mobile phones (Valls Pereira and Maciel, August 2006).

Graph 8 – Brazil's and China's Shares in Total Industrial Imports by Latin American Countries (less Brazil's imports) - 2004



Source: IADB.
Obs.: Mercosur less Venezuela, and CAN plus Venezuela.

Another feature specific to the Brazilian case is the growing presence of Brazilian multinationals operating in China – by way of joint ventures – which has contributed to driving goods and service trade flows, although at magnitudes well below the available potential. Corporations such as Embraco (compressors), Embraer (aircraft), Weg (electric motors), Sabo (auto-parts) and Marcopolo (buses) have paved the way, and others should take the same road. This is not from choice, but the only way to penetrate the medium- and high-technology sectors of the Chinese market.

The pattern of Chinese direct investments in Brazil is also more diversified. Besides forestry products and iron ore, they focus on machinery (tractors), energy and telecommunications (Oliva, 2005). More recently, a partnership was announced between the Chinese state enterprise, BBCA Biochemicals, and the Brazilian firm, Grupo Farias, to build two major ethanol plants in Maranhão State between 2009 and 2010 (Instituto Observatório Social, 2007).

However, Chinese investments are still insignificant in terms of domestic production and employment, especially when compared with investments possibly postponed in Brazil as a result of various multinationals' having opted to concentrate their plants in China. Of course the regional operations of several of those corporations are based in Brazil, but their expansion plans for occupying world markets are all affected to some extent by the dynamism of the Chinese market and the levels of competitiveness China manages to achieve on foreign markets.

To conclude, note that some Brazilian multinational corporations, especially in the civil construction sector, now fear the advance of Chinese capital in other regions, especially on the African continent (Tachinardi, 2007). It was no coincidence that, on a visit to Africa in October, President Lula announced that the credit facility from Brazil's development bank, BNDES, for Brazilian companies exporting goods and services to Angola is to increase to US$ 1 billion (Valor Econômico magazine, 19 October).

Mexico and the Central American countries represent the antithesis of the pattern found in South American countries, at least those where China participates significantly in trade, such as Argentina, Chile and Peru. Especially for Mexico, the effects of foreign entry and displacement on external markets loom quite large. In 2003, China ousted Mexico from its position as the second largest exporter to the United States. Of Mexico's 20 main exporting sectors, 12 are in open competition with Chinese products. Evidence of pressure on the domestic market is the fact that, up to September 2005, 40% of the antidumping complaints brought against China were filed precisely by Mexico (León-Manríquez, 2006), which had also come out in open opposition to China's entry to the WTO.

Something similar is happening with most of the Central American countries, but here the adverse effects are being felt as displacement, especially on the United States market, and largely in the textiles and garment sectors. Neither can these counties supply agricultural or mining products – with the possible exception of Mexico's minerals – on a sufficient scale or competitively enough to serve as suppliers to China.

The only exception is Costa Rica, which maintains a trade surplus, thanks to the fact that 92% of its exports to China are microprocessors (ECLAC, 2006). This is a case of intra-industry trade, which can be explained by the presence of an Intel plant in Costa Rica. Mexico too is conspicuous for having supplied some electronic goods and auto-parts to China, again as part of trade conducted essentially among multinational corporations. Note also that around 50% of Chinese foreign investments in Mexico are concentrated in companies in the garment sector (Oliva, 2005), with an eye to boosting access to the United States market.

What has happened more commonly, however, is that a number of the multinationals operating as *maquiladoras* in Mexico have transferred to China. That is to say, especially in the case of Mexico, what is involved is a pattern of trade that leads to sizeable trade deficits with China, bringing more pressure to domestic competition, in addition to displacing exports on the US market. Offsetting factors include gains by intra-multinational industrial exports from Mexico to China – although in smaller volumes that in the opposite direction – and an increase in Chinese foreign investment, as in the garment sector.

The cases of Cuba and Venezuela constitute only limited exceptions to the first pattern of trade described above. This is because both Venezuela's oil and Cuba's nickel reproduce the pattern of offering the Chinese market essentially primary products. Some differences do exist, however.

With regard to Cuba, despite the increasing pragmatism of China's foreign policy, the ideological factor plays an important role. It is accompanied by narrower economic relations, to the point where, among Cuba's trading partners in 2005, China ranked ahead of Spain and second only to Venezuela (León-Manríquez, 2006).

Venezuela, meanwhile, is a country seeking to ideologise relations with China, which knows how to demarcate its role in the United States area of influence. This means that China turns a deaf ear to Chavez' anti-imperialist discourse and pursues its plans for investment in Venezuela, although without any intention of displacing the US as the prime consumer of its oil. It is worth remembering that China – whether as trade partner or investor – is not yet as conspicuous a presence here as in the other Southern Cone countries or Mexico.

However, this also may be changing rapidly. On 2007 november, Chinese and Venezuelan governments signed the creation of a joint strategic fund, with US$ 4 billion coming from the Chinese Development Bank. The purpose is to finance projects in both countries (Prospectiva Consultoria, 2007)

Lastly, certain sectors are starting to emerge as potentially the most susceptible to Chinese expansion. Moreira (2006) regards labour-intensive activities as the most affected, followed by technology-intensive activities. His calculations indicate that, from 1990 to 2004, foreign markets lost to China were worth the equivalent of 1.7% of Latin America's 2004 industrial exports, a figure that rises to 2.7% when low-technology products are considered. The two sectors that epitomise labour-intensive activities (textiles and garments) and technology-intensive activities (electrical and electronic appliances) are the worst affected. Remember that these calculations do not reflect domestic production displaced as a result of increasing imports.

Relations between Latin America and China have been relatively centred on trade, which is especially important to Argentina, Brazil, Chile, Costa Rica, Peru and Venezuela, all of which have trade surpluses with China. These six countries, moreover, represent 90% of Latin America's exports to China (Alden and Alves, 2007). Nonetheless, more recently, Chinese foreign direct investments have also been growing, generally mirroring the trade pattern established in each sub-region.

In 2003, 35% of China's foreign direct investments targeted Latin America, and in 2004 the percentage reached around 50% (López and García, 2006). From 2004 to 2006, total Chinese foreign direct investment increased threefold (UNCTAD, 2007), probably with some decline in Latin America's share.

This recent rise in Chinese foreign direct investment can be explained by a series of factors: surplus international reserves, overheated economy, trade tensions with a number of countries, and political/diplomatic goals connected with winning new markets. The great differential is the support they enjoy from the apparatus of State and the major public banks.

In the table 3 below, Peru, Mexico and Brazil stand out as the main recipients of China's stock of capital. Even so, here there can be said to be three patterns of investment by Chinese multinationals. One is more directed to the export and infrastructure sectors (Peru).

Another is more concerned with the export potential of certain commodities, but without neglecting the domestic market (Brazil). In the case of Mexico, the interest derives from Mexican firms' entry points to the markets in the United States, which is increasingly inclined to apply protectionist measures against China.

Table 3 – Stock of Chinese Foreign Direct Investments – Total in US$ and Main Latin American Recipients' Position in the World Ranking - 2002

Country	Ranking as Hoster of Chinese FDI	US$ millions
Peru	7	201.2
Mexico	9	183.7
Brazil	11	119.7

Source: UNCTAD.

However, while on the one hand Chinese foreign investment tends to accompany the established pattern of trade with each country, on the other hand, foreign investment received by China may displace multinationals' investments, and thus trade, away from Latin America. As pointed out in section 1 of this article, China has been an important host for multinationals Greenfield investment projects, while Latin America has lost terrain.

Overall Summary

From this analysis of the patterns of trade and investment between Latin America and China, it is possible to "estimate" the possible economic effects resulting from Chinese expansion. These comprise macroeconomic effects, impact on domestic industry, displacement on foreign markets, and net effect in terms of foreign investments, which combine in various manners in each country or region. This attempt at synthesis is set out in the chart below.

Note that the countries have not been divided into trade blocs or geographical areas, but according to their patterns of economic relations with China. No attempt has been made to forecast, but to point up trends from what is currently happening. The actions of governments, business, workers and civil society can and should influence the process and alter the direction of the trends sketched above.

It should be remembered also that the division between favourable and adverse impacts reflects the potential opened up in terms of economic relations between these two areas, which – depending on how they are conducted – may entail social costs for considerable portions of working people, which we will discuss in the conclusion.

The chart does not mention the indirect macroeconomic effects of China's expansion. It is important to note that by financing the United States' current account deficit – and thus at least temporarily offsetting a structural imbalance – the Chinese economy has up to this point assured growth in the world and in Latin American countries indistinctively, and is even helping drive intra-regional trade in the region.

Notwithstanding that, China can be said to aggravate certain tendencies towards regressive specialisation in some economies, such as Argentina, Chile and Peru, even though these countries may obtain considerable economic gains, especially in the short term. Argentina is peculiar to some extent, because the country is engaged in an endeavour to reindustrialise and China may hinder that development strategy.

With regard to the smaller countries, those of Central America are most directly jeopardised by Chinese competition on the United States' market. The other countries, such as Ecuador, may benefit from new investments and access to the Chinese market.

In any case, all these countries' economic relations with China tend to reproduce a typical centre-periphery relationship. León-Manríquez (2006) suggests it may be worth evaluating how applicable the thinking of Lenin and ECLAC is to explaining relations between China and Latin America.

Following Lenin's analysis (1979), besides capturing raw materials, the imperialist powers turned to the "periphery" in the late 19th century in order to apply their surplus capital in other regions as they faced an "excessive maturity of capitalism" at home. That is not exactly the case with China, which is using its companies' expansion not only to gain new markets, but also to secure geopolitical advantages. It is at best a proto-imperialist nation willing to cede even economic advantages in the effort to establish a multi-polar order, in spite of the rhetoric embedded in the concept.

The ECLAC approach, on the other hand - even though it may seem questionable in view of the short-term improvements in terms of trade for the Latin American countries - may help understand a pattern of industrial specialization which does little to bring either structural changes or major productivity increases to Latin American countries.

Contrary to the current view that considers ECLAC's thesis as protectionist, its earlier formulations always insisted upon the need to diversify exports simultaneously with the promotion of industrial development (Bielshowsky, 1998). In the context of present China/Latin American relations – especially if the region simply adapts itself to the inheritance of the 1990s in terms of productive structure and model of international integration depicted in the first section – there is the risk that this new Asian power helps to bury, once and for all, any promise of endogenous Latin American development.

On the other hand, China's ascent coincides with the crisis in a system of inter-State power – as configured at Bretton Woods – which admits a small group of hegemonic nations. In that context of a changing international political order, China can play a constructive role that goes beyond its exclusively economic presence.

Brazil and Mexico are the most problematic cases. China, for different reasons, tends to entail a "trap effect" for these countries, threatening the foreign market strategies they developed in the 90s. Also, the centre-periphery model is less readily adaptable to these two cases and their relations with China, as is also the imperialism hypothesis.

As regards Mexico, this has to do with the declining dividends and mounting costs of the NAFTA option. The *maquiladora* strategy is being called into question, and the new prospects opening up on the Chinese market are not of such a magnitude as to leverage the sectors displaced by Chinese competition with Mexican products, whether from national or multinational firms, on both its domestic market and the US market. In perhaps overly simple terms, China mutes the “beneficial” impact of United States’ imperialism on Mexico, while heightening its adverse effects, and without putting anything in its place.

In Brazil, where economic liberalization did not bring widespread de-industrialisation, the domestic market has continued substantial, and the regional market, especially for industrial products, has grown in importance. There, China’s advance may generate a counter-pressure, hindering its industry’s efforts to diversify outwards and inwards, in addition to putting off investments by multinationals, which thus far had seen the country as a platform for exporting to the region. Here Chinese expansion may hamper the gestation of a new “sub-imperialist” power – as some prefer – at the Latin American level, by undermining even its domestic industrial base. What seems more relevant to us is that if, on the contrary, Brazil is weakened, that would make any proposal for regional integration of any magnitude unworkable in Latin America.

Lastly, this analysis should not serve to blame China for the difficulties Latin America’s industrial systems are encountering in securing a more dynamic external market role. A considerable portion of the dilemmas posed by China’s rise tend to be aggravated by a lack of clarity in Latin American countries’ priorities as regards industrial policies, technological innovation and regional integration. Also lacking is any sound, coherent vision of what can be expected of China in its relations with Latin America – which is something we shall go into in the next section.

Chart 1 –Outlook of Economic Impacts of China’s Rise on Latin American Sub-Regions

	Macroeconomic effects	**Effects on Industry by Sector**	**Displacement Effects on External Markets**	**Net Effect on Foreign Investments**
Argentina, Chile and Peru	**Favourable**: trade surpluses fed by high mining and agricultural commodity prices and Chinese demand (better terms of trade).	**Favourable**: effects limited by small degree of verticalisation in production chains of products exported to China; **Adverse**: mainly in Argentina, where industry is more structured, local producers are at risk of substitution in certain sectors or substantially narrower profit margins with impacts on labour market; The risks extend to the textile and garment industries in all the countries, however.	**Neutral**: No significant competition exists between these countries’ and China’s export products on international markets – with the possible exception of Argentina’s exports in some sectors of the Brazilian market.	**Favourable**: localised investments in the primary and infrastructure sectors; **Adverse**: loss of potential to attract investments in certain niche industrial sectors because of Chinese expansion.
Brazil	**Favourable**: trade surpluses fed by high mining and agricultural	**Favourable**: effects limited by small degree of verticalisation in	**Adverse**: Brazilian exports of industrial goods to Latin America	**Favourable**: Brazilian firms have set up joint-ventures with Chinese firms on the

	commodity prices and Chinese demand (better terms of trade).	production chains of products exported to China; **Adverse**: by virtue of Brazil's more diversified industrial base, entry by Chinese products – thus far limited to substituting other international suppliers – may open up "holes" in industrial structure.	and the United States increasingly losing space.	Chinese market; meanwhile, increasing Chinese investment in the domestic market goes beyond the primary sector. **Adverse**: global Greenfield investments, which Brazil could host are preferring China for its more dynamic market and better service and supplier infrastructure; and Brazilian firms operating on other regions, such as Africa, are losing space.
Mexico	**Neutral**: not a significant supplier of commodities to China, except for certain mining products.	**Adverse**: domestic producers displaced by Chinese imports, especially electrical and electronic appliances and textiles/ garments.	**Adverse**: far-reaching displacement of Mexican products on the United States market, because of strong similarities between China's and Mexico's export profiles; **Favourable**: although not offsetting the above, some firms manage to become industrial suppliers to firms based in China (intra-industry or intra-multinational trade).	**Adverse**: multinationals' activities displaced from plants in Mexico to China. **Favourable**: insignificant compared with adverse effects above, although greater Chinese investments are being made in the textile/garment sector in order to access the USA market.
Other small LA countries	**Favourable**: depend on export profile and "fit" with Chinese imports; **Favourable**: imports of cheaper industrial products not vital to the structure of local industry may improve terms of trade.	**Adverse**: most Central American countries, but also the region's other small countries, tend to suffer from greater pressure of competition in textile/garment sectors.	**Adverse**: displacement on the US market, especially affecting Central American countries.	**Favourable**: investments in export-related infrastructure sectors; **Adverse**: in countries producing on the *maquiladora* model, especially in the textile/garment sectors, there may be a decline in foreign investments not offset by increased investment by Chinese firms in these sectors.

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China's rise probably reproduces some of the strategies of the traditional imperialist nations in their relations with Latin America. However, these nations have not yet "left the field" and nor is Chinese strategy firmly consolidated, leaving space for coordinated political action by Latin American countries, especially in the changing context of the international political order.

4. Chinese Foreign Policy, Latin America and Social Movements

Despite hasty analyses by the international – and especially US – media, China cannot be said to have any long-term strategy for establishing itself as a global power. What it seeks in that regard is a minimally stable international environment – international peace and stability, according to its diplomatic rhetoric – in order to preserve its independence, sovereignty and territorial integrity. China's focus on domestic development means that it prefers to pursue a more relaxed foreign policy, which is taking an increasingly pragmatic approach (Bergsten et al, 2006).

A realistic approach predominates in China's international relations, where economic development is regarded as vital in a context of competition for comprehensive power, because it involves the technological, political and military spheres. The Nation-State is the fundamental locus of action (Le-Fort, 2006).

China's leaders regard its presence in the international economy as offering a legitimate and effective mechanism for accomplishing its national development. China sees itself as a vast and rich civilisation which, after a century of humiliation and defeats, is striving to build a multipolar order, to move beyond the unilateral hegemony that predominated in the world with the end of the Cold War (Cornejo, 2005).

It is in this light that, in place of the international adventurism of the 60s, China has taken part – even if selectively – in the major international forums. Its main diplomatic weapons to that end are pragmatism, flexibility and the ability to learn (Sandschneider, 2006). In summary, this is a diplomacy of caution, tailored to its strategic aims, multi-directional and serving to integrate public and private endeavours (Cesarín, 2006).

More importantly still, there is no strategy to challenge the United States openly, but rather to occupy the empty spaces it leaves behind in Asia and Latin America (Bergsten et al., 2006), by strengthening Chinese economic interests there. Diplomacy in the form of trips by government representatives and trade delegations is intensifying in these regions.

There exists an ingenuous – or perhaps overly self-interested – view that China is pursuing "bad imperialism" in Asia and Latin America, under cover of a foreign policy that claims to be amoral, because it prioritises non-interference in the affairs of these countries. This view contrived by the developed countries (and which supposes there is such a thing as "good imperialism"), in addition to building on a dualist interpretation of the facts – Navarro (2006) is one representative of this view – does not discuss the opportunities that China's ascension offers these countries, especially in a context where the global structure of political and economic power is shifting.

In Latin America, China seeks supplies of raw materials and food, so as to become less dependent on the United States, and support for its geopolitical concerns connected with building a multipolar order. Investments come as a counterpart to these broader goals. No less important, is the relationship with Taiwan: 13 of the 25 countries that maintain diplomatic relations with Taiwan are in Latin America (Cornejo, 2005).

Although these interests are quite clearly delimited, and generally not on a par with most Latin American countries' craving to attract foreign investment, especially in infrastructure sectors, there is a strategic geopolitical possibility in the offing: of setting up a Latin America-China-USA triangle, which would be profitable for all three parties.

Tokatlian (2007) regards this as possible, because relations between the United States and China are more strategic than either of their relations with Latin America, while the United States enjoys considerably more influence in the region than China, which precludes their jockeying for position. China's growing importance could even leverage some of these economies, thus exempting the United States from positioning itself any more decisively in the region, as has been happening since 11 September. Obviously there is room for friction on energy issues and in relation to Cuba and Venezuela, but not to the point of overshadowing disputes between China and the United States in other regions.

In summary, for the moment what can be seen in relations between China and Latin America are diffuse traces of a relationship that is unequal, by virtue of China's needs and the potential of its economy, but also because of Latin American countries' limited export structure, which is generally lacking in investment. This is neither good nor bad imperialism, but an unequal economic relationship, which may lead to a narrowing of Latin American countries' margin for manoeuvre, unless they are able to formulate development policies of their own and of establishing agreements with China, especially in the multilateral field where some interests may prove to coincide.

For the moment, neither there is no strategic partnership as well, given that Latin American nations negotiate largely within parameters set by the Chinese, and bilaterally, without linking cooperation measures with regional agreements.

From the point of view of Latin America's labour movement, there are three issues that deserve discussing.

Firstly, some myths about the Chinese model that are very widespread in Latin America have to be dispelled. The notion that China's competitiveness is due ultimately to low-cost labour stems from a slanted analysis. China is competitive as a result of a series of factors: scale of production, domestic market potential, rising rate of investment, tax incentives and undervalued currency which attract multinationals and encourage exports, State planning and cheap credit. Low labour costs obviously enhance companies' profitability, but there is no correlation between FDI and labour costs, especially in the technology-intensive sectors where China has pushed out into the international market in recent times.

The other myth refers to a supposedly developmentalist and interventionist State with the ability to resolve all the contradictions brought about by economic expansion and structural change. We should bear in mind that, during the 90s, social and regional inequalities widened abruptly in China, where social protection and security systems got weaker. The country also proved unable to meet environmental and energy challenges, many of which stem from rapid and somewhat disorderly urbanisation.

The second issue relates to the invasion by Chinese products, especially on Latin American countries' domestic markets. One view identifies this process with poor-quality or pirated products. Although this does occur and is not negligible, China's recent expansion has been concentrated more and more in technology-intensive goods, squeezing out domestic production partly for lack of trade protection policies, but more importantly because these countries have been ineffectual in developing industrial and technological innovation policies. Once again, there is a need to reinforce regional integration mechanisms so as to build up industrial complementation. Otherwise, the region's tenuous production chains may be disrupted once and for all.

In summary, the Chinese threat is not exclusively related to cheap labour, but also to Latin American countries' inability to develop national and regional development policies. Obviously, if the present situation continues, the impacts will be felt in terms of level and quality of employment, the weakest link in the total costs incurred by firms operating locally. The textile/garment and electronics sectors are the most likely to be affected. That is why social movements must influence the economic, trade and industrial policies introduced by their own countries.

Finally, Chinese foreign direct investment, seeking high levels of return and very often not enjoying the same macroeconomic conditions as in China, tends to turn a blind eye to social, labour and environmental standards. In that connection, field studies and constant monitoring of Chinese firms operating in the region should be among the concerns of Latin American social movements.

China's ascension cannot serve – as the vague concept of globalisation once did – as an pretext for fatalistically giving up on national development and regional integration policies. On the contrary, it makes these policies more urgent than ever.

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