The People’s Republic of China’s (PRC) ideologically motivated involvement in Latin America (LAC), although marginal began from the late 1950-1970’s. This engagement focused on cultural diplomacy and espoused revolutionary rhetoric that held revisionist objectives aimed at destabilisation and strengthening pro-Chinese political parties and movements throughout the region (Tokatlian 2008: 60). In direct contrast to this historical, revisionist involvement in the region, the more recent and comprehensive engagement in Latin America is characterised by pragmatic Chinese initiatives (Cheng 2006, Devlin 2008, Jiberto & Hogenboom, Hirst 2008, Li 2007, Tokatlian 2008). These initiatives have assigned precedence to economic diplomacy—a theme consistent in Chinese foreign policy since Deng Xiaoping returned to power in the late 1970’s and initiated reforms. These reforms dictated that economic development would remain the PRC’s top foreign policy objective. Indeed, leaders such as Hu Jintao have concentrated on China’s ‘peaceful rise’ that requires 20 to 50 years for China to develop its economy and catch up with the advanced countries (Cheng 2006: 508). It is in this context that the current Sino-LAC engagement has taken place.

This essay, throughout, will refer to ‘Latin America (LAC)’ as all countries in the Caribbean, Central America and South America. It is these countries that the essay takes as the ‘implications’ being discussed. These implications are predominately a result of Chinese initiatives (Jenkins 2012, Jilberto & Hogenboom 2010) and have been the most significant in the area of trade (Jenkins 2010, Li 2007 & Stallings 2008). Whilst economic implications are the main implications discussed, there are political, societal, and environmental implications. The essay will utilise an overall assessment of these implications resulting from rising Chinese influence in Latin America. While this is the most comprehensive method of evaluating the overarching implications for LAC, it is important to emphasise nuanced factors. These nuances refer to the predominately economic implications, differentiated along country specific instances within the region, but also are differentiated from sector to sector within each country’s economy. Furthermore, the impact of global capital movements inherent within the process of globalisation holds transnational corporations (TNC’s) as an influential actor.

Owing to the complexities inherent within the relationship, this essay does not focus on a zero-sum nature of the relationship. This is because the Sino-LAC relationship is not zero-sum in nature. Indeed one finds “there is no simple relationship between the different channels through which China affects Latin American economies and the nature of its impact” (Jenkins 2009: 27). There are both short and long term, as well as direct and indirect, differentiated economic implications for the region in the context of Chinese initiatives. Within this context, it is clear that Sino-LAC relations are operating simultaneously along both increasing cooperation, but also increasingly (economically) competitive pathways. As a result, this essay frames the overall implications for the region along a continuum of increasing challenges. These challenges are longer-term economic challenges owing to the growing asymmetric dimension of the economic exchange. These challenges can represent opportunities for the LAC.

However, this can only occur with Latin American economic government initiatives. As of yet, these have been inadequate. The overall continuum of increasing economic challenges is presented in the analysis of three factors: the impact of China on LAC exports, manufacturing, and FDI. Societal and environmental implications are included within these three sections. Short and long term political implications represent matters of potential for the region in
“The diplomatic isolation of Taiwan has been perhaps the highest-ranking key political objective for the PRC in Latin America” (Dosch & Goodman 2012: 7). Currently of the 23 governments that maintain diplomatic relations with Taiwan, 11 of them are in Latin America. Under the PRC’S one-China policy, countries with diplomatic relations with Taipei cannot hold diplomatic relations with China. Central America is particularly important to China, as Taipei is still welcomed in the region. Certain negative economic implications, therefore, result for those countries that do not have diplomatic relations with the PRC, and thus have not benefited from China’s extraordinary economic growth rates. Indeed, while China accounted for 5.4 percent of the regions exports in 2007, shares for Mexico, Ecuador, Paraguay and several other Central American countries accounted for 1 percent or less (Jenkins 2009a: 29). Moreover, countries such as Chile, Costa Rica, Cuba, and Peru experienced over 10 percent of these countries’ exports to the PRC; all have diplomatic relations with China. Furthermore, while China accounted for over 9 percent of the regions total exports in 2010, the Dominican Republic, Ecuador, Paraguay, and several other Central American countries experienced less than 2 percent of this growth (Jenkins 2012a: 1339). Meanwhile, Brazil, Chile, Cuba, and Peru experienced over 15 percent of exports to China. “One obvious reason is that all those countries which had a low share of exports to China, apart from Mexico and Ecuador, recognise Taiwan and therefore do not have diplomatic relations with the PRC” (Jenkins 2012a: 1339). As this example demonstrates, recognition of the PRC has, to a certain extent, conditioned the economic benefits countries that have experienced from China’s growing significance as an export market.

Similar to Taiwan, as it concerns matters politically in the Sino-PRC relationship, is the PRC’s courtship of fostering cooperation on South-South political matters. A shared experience of colonisation, “common trends of foreign domination, poverty and a struggle of independence underpin south-South cooperation” (Lanxin 2008: 45). This cooperation represents an opportunity for South American countries’ increasing economic and political independence from the U.S., connecting primarily economic, but also political dimensions of Sino-LAC relationships. This has resulted in a convergence of interests between the PRC and South American countries. “In fact, Latin America is a potential partner in China’s on-going quest to establish a just and harmonious world” (Shixue 2008: 35). This convergence revolves around a shared preference for a multipolar, multilateral world that reflects, amongst other things, the changing nature of globalisation (Jilberto & Hogenboom 2010). For example, “effective multilateralism” has resulted in observer and consultation status of the PRC in many bodies including MERCOSUR, CARICOM, and regional banks. The latest development in this area was the creation of the Community of Latin American and Caribbean States (CELAC). The Beijing Review (2011:14) proclaimed:

advancement of political, economic, social and cultural integration . . . CELAC is possibly the third largest economic powerhouse in the world. The overall implication of these developments: any superiority of US-backed models of market reform in the region can no longer be taken for granted (Dorsch & Goodman 2012: 4).

Despite the opportunity that South-South cooperation provides for South American countries in particular, there are limitations. Notwithstanding several instances of China’s support for developing nations such as in the G-22 WTO Doha round, China’s actual record in supporting the agenda of the developing world has been patchy. Indeed, “China displays more interest in influencing than leading the movements of the South on specific demands” (Hirst 2008: 92). Here, South American countries lose out by 2 owing to China’s hierarchy of international relations, placing developing nations at the bottom.

Another implication of South-South cooperation has been the accentuation of the North-South divide in the region owing to Sino-Taiwanese rivalry. While Taiwan has fostered economic cooperation with Central America for political support in the UN, South-South (American) cooperation has been promoted by the PRC fostering economic development, particularly scientific and technological progress (Hirst 2008). By showing support in this way, China hopes to win the backing of LAC countries on important issues in such forums as the United Nations (UN). An example of this is China and Argentina in their ‘quid pro quo approach’ (Dosch & Goodman 2012:7). More specifically, following Argentina’s abstention from voting on U.S. sponsored resolutions investigating Chinese human
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rights, the PRC supports Argentina’s position on The Falkland Islands in the UN Committee on Decolonisation.

Beijing has also established several “strategic partnerships” in the region (Mexico, Venezuela, Brazil and Argentina). This intensification of relationships appears to confirm a neorealist perspective that Beijing uses trade, investment, and diplomacy in an attempt to offset regional and global dominance of the U.S. (Dosh & Goodman 2012). Indeed, Li (2008: 195) argues that China is taking advantage of a power vacuum in the region. However, despite certain developments such as increasing LAC military personnel trained by the PRC, there is no evidence this is affecting the regions’ strategic relationship with the U.S. Indeed, the region’s convergence with Washington remains firm on matters in the Security Council (Hirst 2008). In summary, China’s presence in Latin America is innocuous with respect to the regional security agenda and does not represent a threat or deterioration in strategic relations between the LAC and the U.S. However, “PRC does at times act as an extra regional ally in matters of international politics” (Hirst 2008: 95).

Nevertheless, “China’s strategic agenda with Latin America is driven primarily by economic interests” (Roett & Paz 2008: 16). Indeed, China’s trade with the region in 2010 reached $180 billion, evincing not only an increase of 50 percent from 2009 alone, but continuing the pattern of sharp growth since 2000 when China-LAC trade volume stood at just $13 billion (Dosch & Goodman 2012: 3). Furthermore, in 2011, the trade volume climbed to $241.5 billion, with the trade volume expected to continue its growth at an annual 30 percent over the next five years (Beijing Review 2012: 17). Owing to the volume of trade between the two entities, Chinese initiatives are the most profound and extensive of all contemporary Sino-LAC implications for LAC. These differential implications are evident in three main categories: the growing significance of China as a market for the regions’ exports, the effect of Chinese competition in third markets, and the growth of Chinese exports and Foreign Direct Investment (FDI).

The growing significance of China as a market for Latin American exports holds implications that impact the future of the LAC’s export structure, and indeed, its overall economic development. China’s enormous appetite for primary commodities and natural resources has created a wealth of export market opportunities for LAC in China that compliments the abundance of primary resources that Latin America holds. This represents real, new, economic growth opportunities for the region’s exports. For instance, early analysis emphasised the complementary and positive nature in the economies. “China’s growing demand for food and services has had a positive and significant impact on LAC exports” (Gallagher & Porzecanski 2008: 187). High demand and high prices were very much welcomed by the LAC. After China’s accession to the WTO in 2001, the commodity boom (2002) particularly benefited the region’s Southern economies. Indeed from 2000-2004, China’s Gross Domestic Product (GDP) growth rate directly contributed to 7 percent of LAC’s export growth in 2004 (Gallagher & Pozecanski 2008: 188).

However, increasing economic challenges that the LAC region faces are evident beyond short term trade surpluses. Jenkins notes the differentiated impact on countries in the region and also within these countries (Jenkins 2010: 834). This is supported in a later study that elaborates, “LAC exports to China are heavily concentrated in a handful of countries and sectors, leaving the majority of LAC without the opportunity to significantly gain from China as a market for their exports” (Gallagher & Porzecanski 2010: 136). This not only emphasises the differential impact the PRC has had on the LAC, but also that increasing concentration of LAC export structures reflects the regions’ lack of diversification. This had led to fears that the real ‘Dragon in the room’ is the deindustrialisation of Latin America (Gallagher 2011).

This process has negative connotations for future growth scenarios for the region (Moreira 2007: 22). For instance, Argentinean soybeans account for the bulk of its exports while exports in Chile are comprised of around 80 percent of its exports. Meanwhile, Brazil soy bean and iron exports dominate, while Peru relies heavily on exports of copper and fishmeal (Jenkins 2012: 1350). Moreover, there is no evidence that these Latin American exports to China are becoming more diversified; indeed the contrary is occurring (Jenkins 2012: 1351). As Moreira states, “[T]he risks of a pattern of specialisation based on natural resources are there for everyone to see... there are success stories, but they seem to be exceptions” (Inter-American Bank 2007: 27). While China has used a range of state backed industrial and trade policies to develop certain stages of its global value chain, “Latin American producers are increasingly specialising in the early, low-value-added stages of the chain” (Jenkins 2010: 823). This is creating a risk of the ‘primatisation’ of export structure to the PRC (Jenkins 2009: 31).
The overall implication, then, is: Sino-LAC economic relations are being increasingly conducted in an asymmetric context that much rather resembles a North-South trade model (Jenkins 2012: 1348, Lanxin 2008: 54 and Tokatlian 2008: 61). The result of this emerging asymmetry indicates a possible return of the centre-periphery trade pattern that has long been at the core of scholarly and political discourses in the region since the 1940s (Jenkins & Dussel Peters 2009: 9-10).

The key challenge for Latin America is to use the substantial windfalls to invest in export diversification and move up the global export value chain. This would avoid instances of 'Dutch Disease' that countries predominately exporting raw material could be exposed to. Chile has set an excellent example in how to offshoot such problems. Not only has the country created a stabilisation fund to avoid cyclical decreases in copper prices, it has enacted policies to deal directly with market failures that hinder the economy from devoting resources to potentially dynamic industries (Devlin, Estevadeordal & Rodriguez-Clare 2006: 217). Chile’s 2004 Innovation Fund for Competitiveness is based upon a new tax on copper exports. The fund is used to support learning, innovation, and R&D in non-traditional agriculture-based exports and industries in which it has a comparative advantage (Devlin, Estevadeordal & Rodriguez-Clare 2006: 217).

There is also a feeling within LAC that gains associated with natural-resource-intensive exports are not widely spread (Lederman, Olarreaga, & Perry 2006). As Gallagher points out, only four sectors (Copper, Iron, Soya beans and Crude Petroleum) represent 83 percent of overall trade to the PRC (Gallagher 2011). Jenkins indicates the ‘winners’ as the multinationals and the losers as industrialised workers facing pressure from lower wages in China (Jenkins 2010: 836). Furthermore, if South American nations are not proactive, there are negative implications environmentally. Taking the copper industry as an example, if Chile takes no precautions in its extraction, once this non-renewable resource has been exhausted, not much remains for neither trade nor the environment.

Increasing Chinese competition in third markets is a well-espoused fear for LAC region, particularly Central American countries. This predominately concerns the manufacturing sector. While this is an indirect effect of rising PRC in Latin America, a more direct effect is Chinese competition in domestic manufacturing markets. Competition in third markets relates to Gallagher’s assertion that Latin America may be in the process of deindustrialisation, and is what Gallagher explicitly refers to as ‘The Dragon in the Room’. This should be viewed as a positive challenge, as Devlin (2008: 111) states: “(China’s) increasingly competitive prowess is, in effect, a wake-up for the region.” Indeed, “a more strategic long-term strategy for innovation and export development is required” (Devlin 2008: 111).

Although Chile has set a benchmark for what pro-active government initiatives can achieve in respect to this challenge, with the exception of Brazil, no other country in the LAC region has an R&D percentage expenditure of Gross Domestic Product (GDP) over 0.5 percent (Gallagher 2011). Indeed, some countries, particularly in the Caribbean Basin, are already feeling the pinch of Chinese competition in third markets for manufactured goods, and the entire region has experienced domestic pressure in one economic sector or another (Devlin 2008:113). Not surprisingly, countries that share a similar export structure to the PRC have and will continue to suffer the most.

The important point is that for Latin American economies to continue export growth, export diversification and upgrading are essential. However, if these countries attempt this process of recognised key ingredients for sustained growth (Devlin 2008), this will lead to a convergence of the two regions’ export structure, with the PRC the most competitive manufacturer in the world currently (Gallagher 2011). Moreover the current threat to Latin American from Chinese manufacturing is evident: in 2009, 92 percent of all manufacturing exports in LAC were threatened by Chinese manufacturing exports, 37.9 percent of all LAC exports (Gallagher 2011). This is a much more grave assessment than earlier assessments on the impact of China in this area.

Direct competition from China in manufacturing is such that Chinese imports are now outcompeting Latin American countries in their own markets. The much-espoused case is of Mexico, but also in Brazil. Brazil has experienced upwards of 15 percent in Chinese imports, of amongst others, medical instruments, batteries, and accumulators (Jenkins 2012: 31). Furthermore, the level of penetration was over 10 percent in a number of other sectors including date-processing equipment, radios, and TVs (Jenkins 2012: 31). As a result of this import penetration from China,
Brazil amongst other Latin American nations has introduced several anti-dumping measures against cheap Chinese imports.

The overall picture is one that is characterised by increasing challenges by China in manufacturing markets. This is the case both in world markets, but also domestically. However, there are a few advantages to this increased competition. As mentioned earlier, this represents a motivational call to LAC nations to increase their competitiveness, and there are examples of cheap Chinese imports that positively affect consumer welfare. Consumers can now start to afford cheap Chinese imports that otherwise they would not have been able to do. The overriding contemporary implication, however, is that many companies are going out of business in the face of increasing Chinese competition.

Another implication stemming from increased Chinese economic influence in the region regards Chinese direct FDI investment, but also fears of FDI diversion to China. Chinese inward investment in the region has been beset by high expectations of significant inflows for a number of years. These have remained relatively low until 2009 and have been mainly driven by the same factors as trade: the acquisition of raw material and access to the Latin American market for Chinese exports (Jenkins 2010: 827). Since 2009, however, Chinese FDI in LAC has grown steadily and includes the largest ever single Chinese offshore investment in the history of China—in Rio Tinto mining (Brooking Institution 2008). However, in contrast to growing trade links between China and LAC, information available on FDI flows is much more limited and problematic in terms of quality (Jenkins 2012: 1341).

A major factor is Chinese FDI in the region is through foreign subsidiaries. “Despite these caveats, the most striking feature of bilateral investment flows is their relatively modest level” (Jenkins 2012: 1342). Indeed, although Chinese FDI flows to the region were less than $1 billion in 2010, Chinese exports of goods were more than $175 billion in the same year (Jenkins 2012: 1342). As Jenkins points out, this represents a fifty fold increase over the 2003 level, but LAC share of worldwide Chinese FDI was only a little over 1 percent of the total. Moreover, Chinese investment in LAC increased ten-fold over the same period to $3 billion in 2010, while the share of global Chinese investment was less than 1 percent, almost exactly the same as 2003 (Jenkins 2012: 1342).

More interestingly is the case of FDI diversion In Latin America. The prima facie case that the growth of China has led to a diversion of FDI is based on the observation that inflows to China grew rapidly in the 1990s while investment in LAC lagged (Jenkins 2010: 828). While certain studies find FDI in China has had a negative impact in LAC—not surprisingly Mexico the worst affected—there are important sources indicate this is changing (Economist 2012). A common problem of these studies is that they neglect significant impacts played by TNC’s. This is clearly illustrated within the PC industry. China gained three-fold in the share of US imports of PC’s, whereas Mexico’s fell by almost half. “[T]his was, to a large extent, the result of TNC’s, such as IBM and Selectron referring production to China” (Jenkins 2010: 822). This illustrates the close connection between competition in export markets and FDI diversion, resulting in LAC workers losing out.

In conclusion, the implications of rising Chinese influence for LAC countries are found within the context of Chinese initiatives. These predominately economic initiatives can be most accurately viewed along a continuum of increasing long-term economic challenges to the region. These include: the primatisation of LAC’s export structure that also affects societal inequalities and environmental degradation, competition in both world and domestic manufacturing markets that has a direct effect on employment and, the ability of Latin America to continue export growth and continue its development. These challenges have provided Latin America with a motivational wake-up call and lie only at the door of LAC themselves. Only Chile’s copper stabilisation fund and emphasis on innovation, and Brazil’s increased negotiation leverage in iron extraction and emphasis on R&D, have taken up this challenge.

As a result, the region is becoming increasingly subject to an economic asymmetrical nature. This asymmetry is reflected in the composition of Sino-LAC trade and LAC’s export concentration outlined above. This has culminated in an economic relationship that resembles more North-South, centre-periphery characteristics than South-South. It’s the exact conundrum the region has fought against for the last 100 years within American and European externally imposed economic policies. If LAC governments do not respond to these increasing challenges, the consequences could be grave. Kevin Gallagher argues that the numerous free trade agreements that countries like Chile, Costa
Rica and Peru are signing with China could “ship such countries back to the 19th century” for they are neglecting the importance of a diversified economy (Gallagher 2011). LAC countries should ease off free trade agreements that they are making with China and take stock of these implications, whilst deciding whether the current route of development will allow a more diverse economy to develop.

This essay has argued that the impacts of rising Chinese influence in the region are differentiated from country to country, but also within each country’s economic sector. The biggest ‘losers’ of the increasing economic exchange are labour intensive industries that have suffered at the growth of capital intensive resource extraction industries. Indeed, employment is actually decreasing in sectors where countries have benefited from the commodity boom (Gallagher 2011). Furthermore, competition in third markets and domestic manufacturing markets have resulted in the working conditions for large sections of the labour force being increasing negatively affected. While there can be little doubt over the benefits accrued over the last decade, the problem is for the future: the future of local industry and development of individual countries economic structure.

Regarding Taiwan, it is individual countries’ responsibility to exploit this issue, maximising gains from PRC-Taiwan rivalry. The wider political context holds matters of potential LAC countries. South-South cooperation is an important way to increase leverage with the region’s South American dealings with the U.S. There is no evidence to date that Chinese intentions fit neo-realism assumptions of U.S. assertions. However, LAC cannot escape the geopolitical implications that its increased economic exchange with the PRC is creating. One cannot help but feel a sense of urgency on behalf of LAC in meeting the increasing challenges posed by PRC economically. If LAC’s governments can initiate policies to guarantee sustainability of both its economic future as well as address the societal and environmental issues that culminate from increased economic exchange, then the future for LAC may be as bright as the Latin American spirit.

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*Development*, 35(3): 335-76.


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Date written: May 2013