

Does the China Trade Pay for Latin America?

MATT FERCHEN

At a conference in Beijing in the fall of 2008, I was asked to comment on a paper about China's rapidly expanding economic relationship with Latin America. While I had long been interested in the comparative political economy of development in East Asia and Latin America, I was still new to the details of the burgeoning commercial and diplomatic ties between China and Latin America. My comments focused on two issues that stood out in the paper: first, that something happened around 2003 to spark a massive increase in commodity exports from South America to China; and second, that for all of China's talk about "South-South" relations (on a basis of equality among developing nations) with Latin America, the structure of trade ties looked a lot like historical, and controversial, "North-South" commodities-for-manufactures relations.

A dozen years later, questions about the essence of the China-Latin America relationship are just as relevant and contested. Two new books, *Dragonomics* by Carol Wise and *Dependency in the Twenty-First Century?* by Barbara Stallings, come to quite different conclusions on a range of related topics. Both authors are political economists with a strong background in Latin America.

Their answers to three specific questions highlight the advances, as well as the remaining limitations, in our understanding of contemporary China-Latin America relations. What's new (and what isn't) about China's ties with the region? What does the dynamic mean for Latin American development? And how should we understand the

logic and strategy behind China's engagement with Latin America?

PATTERN RECOGNITION

Both Wise and Stallings begin from largely the same starting point: the dramatic emergence of China as a "new" player in Latin America just after the turn of the millennium. Yet from there, they take different directions to investigate whether China's entry into the region has created new opportunities for its countries as well as risks, or whether it has instead renewed or reignited old patterns of dependence and dysfunction.

Wise is more focused on the novelty of China's commercial activity in the region, and especially the opportunities provided by the China-driven commodity boom that lasted from around 2003 to 2013. For Wise, what is less new, or at least more predictable, is how some Latin American countries (particularly Chile, Peru, and Costa Rica) were able to harness the opportunities provided by the China boom, while others either squandered those chances (Brazil and Argentina) or lost out in a more competitive relationship with China (Mexico).

Whereas Wise explains such different outcomes as a matter of longer-term institutional and governance differences among Latin American states, Stallings situates her much slimmer monograph (at a trim 70 pages; Wise's book is over triple that length) in the rich but largely discredited and maybe even forgotten tradition of Latin American "dependency" theory. (Dependency theories emphasized the obstacles to economic development faced by countries in regions like Latin America due to a combination of entrenched global, as well as local, historical and political forces.) Her title refers to her effort to resuscitate these ideas, which had their heyday in the 1960s

Dragonomics: How Latin America is Maximizing (or Missing Out on) China's International Development Strategy

Carol Wise

Yale University Press, 2020

Dependency in the Twenty-First Century? The Political Economy of China-Latin America Relations

Barbara Stallings

Cambridge University Press, 2020

MATT FERCHEN is the head of global China research at the Mercator Institute for China Studies in Berlin.

and 1970s, and to apply them to contemporary China–Latin America relations.

Stallings views China’s economic entry into Latin America since the early 2000s less as a novel opportunity for the region than as a rerun of a story the region has experienced more than once before. While recognizing important historical differences, she argues that South American exports of raw materials to China are part of a pattern of “reprimarization” of the region’s trade. (In other words, raw materials exports are taking precedence over efforts to diversify economies into manufacturing and higher-value-added sectors.) This means that China holds most of the cards in the relationship.

Wise’s argument, meanwhile, can be boiled down to the proposition (to paraphrase international relations theorist Alexander Wendt) that relations with China are what states make of them. Countries that signed free trade agreements with China, like Chile, Costa Rica, and Peru, were able to capitalize on “openness” as a virtue in their ties with the rising economic power (and more generally).

Although Wise explicitly rejects dependency theory, she argues that Argentina and Brazil squandered their windfalls from the China trade, as well as the space those revenues provided for needed institutional reform during the commodity boom. Both countries fell victim to corruption, budgetary indiscipline, and enhanced protectionism, all signs of what Wise calls the “institutional resource curse.” (Wise also sees countries like Ecuador and Venezuela as irredeemably afflicted by the resource curse in their ties to China, so much so that she mostly leaves them out of her analysis.) Lastly, Wise argues that Mexico failed to pursue effective structural reform policies to allow it to compete more effectively with China in industrial manufacturing and exports, while also missing the chance to take advantage of opportunities for increasing oil sales and infrastructure cooperation.

It’s not obvious that Stallings would quibble with the details of Wise’s case studies, but she looks at the same general picture and sees a much more limited scope for Latin America’s developmental prospects emerging from the region’s ties with China. Her skepticism rests in large part on the structural, commodities-for-manufactures relationship between China and South America. The point is not

that some countries didn’t experience higher growth rates during the China-led 2003–13 commodity boom, or that sustained Chinese demand through the 2008–9 financial crisis didn’t help spare the region from a more severe downturn; it’s that such a relationship was unequal and unsustainable.

Stallings agrees that some countries squandered the gains from the China boom, but she goes a step further. She argues that South American commodity-based exports to China reversed previous advances toward a more diverse manufacturing model in countries like Brazil, and that China has shown little appetite for more value-added Latin American imports or investment. Ties to China based on exports of raw materials have exposed the region once again to volatile, boom-and-bust commodity cycles, doing little to create higher-quality opportunities in manufacturing or the services trade. For its part, Stallings says, China gets what it wants from the region.

THE CHINA SIDE OF THE STORY

The Chinese appetite for some kinds of Latin American goods and not others points to the all-important question of the role China plays in the relationship. Each author takes up the China side of the story in a different way.

Even though Wise declares, in the first sentence of her book’s preface, “This is not a book about China,” she devotes considerable space to explaining the backstory of China’s own economic reform and development experience since the 1980s, and how it compares with Latin America’s. But her primary emphasis is on what she calls “China’s international development strategy,” which in her telling largely boils down to its global search for mineral, energy, and agricultural commodities that are found in limited supply inside China.

Stallings also focuses on the Chinese side of the story, but with a comparative emphasis on how China has established “asymmetrical” relationships with countries in Southeast Asia, Africa, and Latin America to build “leverage” over them. For Stallings, such asymmetries and leverage relegate these regions to a type of low-quality growth that has “done nothing to help promote inclusive development.”

Both authors emphasize that China has approached its ties to Latin America with an assertive

Latin American countries have reacted to China rather than structuring ties in their own interest.

and well-established plan, whereas Latin American countries have largely been passive and lacking in a coherent response. Such sentiments about China's strategic engagement with Latin America, and the region's comparatively ill-organized responses, are a common theme among specialists in Latin American political economy who have joined the effort to make sense of China's arrival in the hemisphere. Yet a closer look at the Chinese side of the equation reveals important details of the drivers, dysfunctions, and (mis)perceptions behind the booms and busts, as well as the expectations China has for the developmental potential of its relations with the region.

It turns out that the commodity boom of the early 2000s was not just the result of China's "natural" growth or even its entry into the World Trade Organization (as Wise claims). Instead, it was driven by a shift in China's development trajectory: domestic (over)investment in capital-intensive sectors drew in imports of South American iron ore and copper to feed overcapacity steel-making and other heavy industrial production, which in turn fed into a debt-fueled infrastructure and property development boom. In addition to minerals, Chinese demand for South American oil and soy was likewise a reflection of the vicissitudes of Chinese domestic economic and political forces—forces that both drove the boom and ultimately played into the bust.

Chinese direct investment and lending flows into Latin America similarly reflect specific drivers and dysfunctions on the Chinese side. The China Development Bank, to take one notable example of the latter, made a large and unwise bet on over \$60 billion in loans-for-oil deals with Venezuela. The Chinese—both government agencies and companies—certainly have had strategies for their forays into Latin America, but how well were those strategies thought through and implemented, and how bound up were they with the intricacies of Chinese domestic political economy? These are crucial but largely missing parts of the story in these two otherwise stimulating books.

Chinese perceptions and expectations about the relationship with Latin America are just as important. Wise and Stallings both agree that China has in many ways been in the driver's seat, and that this reality to a certain extent has framed developmental opportunities and limits for Latin American countries. Yet in its official diplomacy, China has consistently portrayed the relationship,

especially the core trade in South American commodities, as "complementary."

Without saying so explicitly, what Chinese officials and researchers have mostly meant when they invoke complementarity is that the raw materials-for-manufactures basis of China-Latin America ties reflects natural comparative advantage, without which the relationship would lose its main source of ballast. They dress this up in the rhetoric of "win-win," "South-South" relations, implying a type of developing world solidarity.

As Stallings points out in exasperation, whenever she raised concerns with Chinese officials about how such talk of "complementarity" masked limited options for Latin American exporters of value-added goods, the answer was, "These problems are up to Latin America to deal with." For Wise, it is indeed up to Latin American countries to effectively organize their relations with China in a way that maximizes the opportunities and minimizes the risks, whereas Stallings sees the cards as stacked against Latin America (as well as Africa and Southeast Asia).

LEARNING OPPORTUNITIES

These two books point to the need for students of China-Latin America relations to redouble their efforts in three areas. First, researchers and policymakers need to situate detailed studies of trends in a broader comparative framework. Both authors, but especially Stallings, emphasize that the challenges faced by Latin American countries as they navigate the developmental opportunities and limitations presented by ties with China share similarities with regions like Africa and Southeast Asia. Countries in all these regions need to better understand China's political economy. Whether it is a well-oiled strategic machine or improvising and experimenting on the world, China is the elephant in the room.

Second, researchers and policymakers should tap into cutting-edge, comparative academic research about "agency," or the capacity of governments, businesses, and civil society in developing countries to take the initiative to pursue (or sometimes undermine) their own interests in negotiating their countries' ties to China. We need a clearer theoretical and empirical understanding of both the potential and the limitations of such agency. These two books clearly point to the rich possibilities for this kind of analysis.

Lastly, observers of China-Latin America ties must take stock of which actors on both sides have

learned what in the course of the past two decades of this relationship, which is no longer so new. In part because Latin American countries have largely reacted to China, rather than actively structuring these ties in their own interest, the onus is on them to learn how to best maximize the

benefits and minimize the risks of engagement. Depending on China's demand for scarce natural resources may be more precarious than ever, given China's enhanced efforts at self-sufficiency, and at a time when countries around the world are recalibrating the risks of interdependence. ■