

China and the New Global Economy: Is Development Space Disappearing for Latin America and the Caribbean?

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Few would question the contention that the extraordinary economic expansion of China since 1978 carries profound consequences for global development. As much in relation to the advanced industrialised economies as for developing economies, observers have absorbed themselves in identifying whether the Chinese economy represents a threat or an opportunity, whether China is poised to become an economic powerhouse capable of rivalling the global economic position of the United States, whether the Chinese development model represents an alternative that will challenge the prevailing neoliberal orthodoxy or a path which is unique to China and cannot be replicated elsewhere, or whether Chinese development is based on an economic model so replete with contradictions and dislocations that it cannot escape eventual implosion. The short answer to these huge questions is quite simple: in many ways, it is too early to tell. Yet at the same time the emergence of China has already had an appreciable impact on the context in which development strategies are formulated and indeed the broader prospects for development across all the regions of the world, inasmuch as it has been pivotal to a redrawing of global production and value chains, the global division of labour, patterns of global demand and terms of trade.

For Latin America and the Caribbean, these changes, together with a set of shifts in multilateral and bilateral arrangements, have put in place a series of fundamental development dilemmas at a time when the region's development performance has been notably fragile. In 2005-2006, despite overall growth figures of around 5% and terms of trade for commodities that were more favourable than they had been for some time, Latin American and Caribbean growth lagged appreciably behind emerging economies in Africa, Asia and Eastern Europe (ECLAC, 2006: 27). Except in certain pockets, particularly those fuelled by high oil prices and high demand for the region's commodity exports, other indicators of social and human development were uninspiring and overall levels of inequality remained the highest in the world. At the same time, a range of development strategies have been rendered obsolete or profoundly threatened by a combination of shifts towards multilateral liberalisation, the bilateral elimination of margins of preference, the emergence of disabling competition from China and India in third markets and, with it, the sharpening of the already profound limits to the global competitiveness of Latin American and Caribbean economies. In short, the argument of this chapter is that we are seeing a contraction of existing and potential development spaces for the region of an order which prompts a set of serious questions about the basis on which Latin American and

Caribbean economies can pursue effective insertion into global production and value chains and the transnational division of labour.

This argument is elaborated in four sections. The first offers an overview of emerging trade and investment relationships between China and the economies of the Latin American and Caribbean region. The second examines the significance of the emergence of China for the region's development strategies and developmental prospects. The third reflects on the early impact of these emerging arrangements on the existing economic relationship between Latin America and the United States. However, the fourth section seeks to inject a challenge into these understandings of the emergence of China based on national economies, and argues instead for a focus on transnational capital and global production and value chains. The conclusion pulls together arguments about the panorama for Latin American and Caribbean development in this light.

Emerging Sino-Latin American Patterns of Trade and Investment

The implications of China's economic expansion for the global economy relate in many ways to the sheer size of the Chinese economy. Using purchasing power parity (PPP) calculations, China now has the second largest economy in the world behind the United States, and is fourth largest using official exchange rates. With a population of 1.3 billion people, the potential Chinese consumer market is the largest in the world. Gross domestic product (GDP) growth has averaged around 9.5% since the mid-1980s, and stood at 10.7% in 2006 (World Bank, 2007). There is every expectation that, if this trajectory is maintained (as it is widely assumed it will be), China will overtake the United States as the world's largest economy, the only question being when in the next 50 years or so this will happen. It is currently the third largest trading nation in the world, with its share of world trade standing at close to 6.5% in 2005. Around 40% of gross national product (GNP) now rests on exports, the bulk of the export sector being sustained by foreign investment of various forms. China's economic rise has generated a new panorama for global commodity markets, given the vast expansion in Chinese demand for energy (including oil), minerals and agricultural products. At the same time, trade in manufactured goods has already been transformed by expanding Chinese production based on very low labour costs – by some estimates, around 3% of equivalent costs in the United States. Chinese overseas investment has also increased, particularly in connection with the strategy of securing supplies of commodities and energy. Of equal global significance is the manner in which United States debt is financed largely by China's purchase of US Treasury bills, which acts simultaneously to constrain interest rates in the United States and facilitate the Chinese strategy of keeping the currency low – a process seen in the United States and elsewhere as one of unabashed currency manipulation.

Quite apart from these indicators of size, weight and emerging role in the global economy, the expansion of China is of significance for the potential consequences of its contradictions and effects. The most often noted of these is the pronounced environmental deterioration occasioned by the rapid processes of industrialisation and urbanisation. Despite double-digit growth, per capita income in China has not significantly improved and is still only around half of Russia's, and unemployment has gradually increased (Breslin, 2005: 736). The 'underbelly' of Chinese growth is seen also in the social and political dislocations caused by mass migration from the

countryside to explosively expanding urban areas, placing what many see as unsustainable pressure on services, infrastructure, employment and the environment. The social consequences of the most rapid process of urbanisation in history are potentially staggering under these circumstances, and have led observers already to be talking about the 'Latin Americanization of China' (Gilboy and Heginbotham, 2004).

A range of other tensions in the Chinese economic model are noteworthy when thinking about the consequences of Chinese expansion for the global economy, including the huge problem of debt and non-performing loans in the financial and banking sectors, patterns of massive duplication of production and competitive urbanisation, and the consequences for rural populations. One of the concerns that is voiced particularly frequently concerns the potential impact of a Chinese financial collapse on emerging markets, as well as for the US and wider global economies as a result of potentially severe alterations in the US debt and interest rate situation. In this sense, the emergence of China is significant not only for its intervention in global markets and, potentially, its ideological appeal across the developing world, but also for the potential regional and global consequences of the often massive economic, social and environmental dislocations implicated in the model of growth and expansion.

It is in this context that we need to locate a discussion of the emerging relationship between China and Latin America. At face value, the growth in Chinese trade with Latin America can be said to have boomed over the last five years. Total trade increased from around \$200 million in 1975 to \$12.6 billion in 2000, \$26.8 billion in 2003 and \$50.5 billion in 2005. The annual average growth of Sino-Latin American trade also leapt between 2000 and 2005 to around 27%. It must be noted, of course, that when a boom starts from a very low base, arresting levels of expansion do not necessarily mean significant levels of overall trade – Sino-Latin American trade reaches a level equivalent to only 10% of US-Latin American trade, and China accounts for only 4% of total Latin American trade, as against the US and Canada which together account for 50% for the whole region (but considerably more for particular countries within it). So one must not get carried away with the scale of commercial interactions between China and Latin America, even while the increase and dynamism of bilateral trade are very striking.

Between 1999 and 2004, exports to Latin America increased just over three-fold and imports from Latin America just over seven-fold (Dumbaugh and Sullivan, 2005: 2), and a Chinese trade deficit with Latin America has prevailed consistently. Mexico is the most significant destination for Chinese exports, absorbing around 24% of the total to the region, followed by Brazil at around 20%. Again, the annual average growth rates of exports to these countries in the 2000-2005 period are arresting – respectively, 35.5% and 31.6% (Dussel Peters, 2006: 12). Conversely, the pattern of imports from Latin America is dominated by Brazil, Chile and Argentina, the former accounting for around 37.4% in 2005. Mexico accounted for only 8.3% of the total from the region. At the end of 2005, China had become the second largest export market (behind the United States) for Chile, Peru and Cuba, and the third largest (behind the European Union) for Brazil.

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In terms of profile, around 75% of Latin American exports to China are raw materials, foodstuffs and natural resource-based manufactured goods, concentrated particularly in copper, iron ore, nickel, soy, pulp, fishmeal and sugar. Copper represents around 44% of Chilean exports to China. Around 57% of Argentina's exports are oilseeds, and Brazilian exports are dominated by oilseeds and mineral ores, as well as timber and soybeans (Dussel Peters, 2006: 15). In terms of imports from China, an overwhelming proportion – around 90% – consists of manufactured products, the bulk of which are labour-intensive, low-technology and low-value-added (see Lall and Weiss, 2005; Jenkins *et al.*, 2006). Key products here are textiles and apparel, footwear, machinery and plastics. However, the technology component of Chinese exports is rapidly increasing, and such sectors as automobiles, autoparts, steel, telecommunications and electronics are becoming steadily more significant in the overall export profile of the Chinese economy, as well as in the profile of exports to Latin America.

Sino-Latin American foreign direct investment (FDI) starts from a similarly low base but has shown a striking increase, if not one as dramatic as in the area of trade. Latin American FDI in China appears to have increased to an arresting degree, reaching around 13% of total FDI flowing into China in 2003. However, the vast bulk of this investment comes from the tax havens of the Cayman Islands and British Virgin Islands, the latter now representing the second most significant source of investment in China. As such, this is not investment by firms and actors from Latin America itself – indeed, it is likely that Hong Kong and Taiwanese investment, channelled through these tax havens, account for the bulk of these flows (Breslin, 2005: 744). Latin American investment in China is, in reality, minimal, as is Chinese investment in Latin America as a share of overall FDI to the region. Chinese investments in Latin America have been increasing visibly since the start of the 2000s, particularly in such areas as railways, oil and gas exploration, communications satellites and construction. But Chinese investment in Africa, Asia and North America has been greater than in Latin America, and it should also be noted that China itself accounts for a tiny proportion of total global FDI flows.

However, this aggregate regional sketch tells us rather little about the real significance of China's economic presence in Latin America. The implications vary considerably across the region. With broad brush strokes, the region can be divided into two – Mexico and Central America on the one hand, and most of South America on the other. This is unsurprising given the nature of production structures and economic profiles across the region. The Mexican and Central American model rests on their integration into vertical flows of trade in manufactured goods associated with assembly and export processing activities, especially in sectors such as textiles and apparel. Like China, Mexico has also come to specialise in temporary imports for processing and re-export. Mexico and much of Central America and the Caribbean thus have export and production profiles which bring these countries into considerably greater competition with China in third markets, to the extent that the dominant perception of Chinese economic expansion is one of profound threat. Indeed, the Mexican deficit with China stood at some \$4.5 billion in 2005 – by far the highest in the region. Moreover, in July 2005 China displaced Mexico as the second largest trading partner of the United States (after Canada), a displacement which has been particularly visible in the textiles and apparel sectors. The pronounced dependence of these countries on the US market means that this displacement carries

profound consequences for the development model currently prevailing in Mexico and Central America.

Conversely, the overall South American profile is one of capital-intensive industry associated with the processing of natural resources, these activities being characterised by low levels of domestic value-added (Phillips, 2004). Within this model, countries such as Argentina and Paraguay remain largely dependent on agriculture; Chile and most of the Andean countries remain dependent on natural resources and higher value-added natural resource-based products in sectors such as copper, minerals and fishing. In the case of Venezuela, the key is oil and oil-related products, and Chinese involvement with Venezuela has revolved largely around its potential as a supplier of energy resources. Thus, South American exports are seen, in the most general terms, to be complementary to Chinese production structures and an extension of trade and investment relations is often touted, again in the very broadest of terms, as a positive development for this part of the region.

Brazil is something an exception given the importance of manufacturing in its production and export profile, and the scale of competition with China is correspondingly perceived to be much greater. It is significant that 60% of Brazilian exports to China are primary products, while these exports represent only 31% of its exports to the rest of the world (Jenkins *et al.*, 2006: 12), indicating a lack of competitiveness and lack of market access for Brazilian manufactured exports in China. Factor endowments are crucial in this scenario, above all the vast supply of cheap labour in China which translates into average wages around three times lower than in Brazil. The much higher levels of government intervention in the Chinese economy yield easy access to credit from state banks, in stark contrast to the Brazilian model. Despite developmentalist streaks in Brazilian strategies that differentiate it from the majority of other Latin American countries, the extent of Chinese state support for industrialisation outstrips any similar promotion measures in a broadly neoliberal region (Jenkins *et al.*, 2006: 15).

The Developmental Implications of Sino-Latin American Trade and Investment

If these trajectories are continued, the implications for Latin American development are potentially profound. For South America, the economic relationship revolves around Chinese demand for raw materials, energy and resource-based products. Exports to China have expanded vigorously, and this has been welcomed by South American exporters and governments; moreover, Chinese demand has pushed up world prices for primary products following decades of decline in prices, with important positive implications for the terms on which the major resource-based economies in South America are participating in world trade. At the same time, other Asian governments appear to be following the Chinese lead in clamouring to secure supplies of raw materials from Latin America and Africa, in particular.¹ The results of this explosion in demand are already evident: Latin America and the Caribbean as a region achieved the second largest increase in exports in 2005, after China, explained

¹ Park Yong Soo, president of the state-run Korea Resources Corporation, is reported to have stated that 'within a few years there is likely to be a "war" to develop raw materials ... [and] China is challenging aggressively' (*New York Times*, 20 November 2004).

by the South American economies specialisation in commodity exports and flows of trade in oil and oil-related products (ECLAC, 2006: 31).

Nevertheless, it is the concentration of these exports in traditional resource-based sectors that represents the more troubling panorama for Latin American development, especially when put in the context of the longstanding inability of the majority of South American countries to compete in global markets for manufactured, high-technology products, as well as the increasing dominance of China in the US and other markets. In terms of its global trade profile, as noted, Brazil is a rather different case, but here again debate has centred around the recognition that Chinese interest in the Brazilian economy is essentially about raw materials. The pertinent issues here are two-fold. First, as shown in Table 2, patterns of Chinese demand for raw materials from Latin America are based almost entirely on primary products, the demand for processed products and resource-based manufactures being focused significantly more on economies of the Association of South-east Asian Nations (ASEAN). In this sense, South American economies are subject to sharp competition from Asian economies more generally, and are locked into the lower value-added ends of commodity and production chains. The higher one goes in the hierarchy of technological content for raw materials-based products, as Table 2 shows, the greater the gap becomes between the representation of ASEAN and Latin American economies in supplying Chinese demand.

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Second, the competition from China in industry and manufacturing thus means that any incipient space for an upgrading of South American economies' industrial competitiveness is further squeezed, to the extent that existing structures of dependence on natural resources and raw materials is likely only to be reinforced as a result of China's economic expansion. The extent to which this reinforcement will constitute a serious long-term development problem for the region remains a matter of some speculation, but it is nevertheless worth noting that debates about development in Latin America have, for around half a century, revolved precisely around the imperative of breaking the region's dependence on raw materials for export, especially given the dislocating effects of Dutch Disease and other structural problems associated with such a model.² The celebration of the export opportunities provided by the emergence of China consequently has something of a strange ring to it, inasmuch as most of the long-established anxiety about this form of dependence on raw materials appears curiously to have disappeared from contemporary discourse. Yet, given what we know from both theory and past experience, the new strategy that is crystallising around Chinese demand for raw materials is without question inauspicious for the region's economies.

For the northern part of the region, the competition from China takes a different form, inasmuch as the potential is for the disruption of existing development models based on low value-added, low cost manufacturing with preferential access and a

² Dutch disease refers to the process of currency appreciation that is frequently associated with large inflows of revenues from natural resources, leading to declines in the competitiveness of manufacturing sectors, export growth and overall economic performance. While most commonly used in discussions of natural resources-based economies, the term is used to refer more generally to the implications of significant inflows of foreign currency of whatever provenance.

competitive niche in the US market. For Central America and the Caribbean (and in part for Mexico), the main competition from China is felt in the textiles and apparel sectors. China is now the largest exporter of apparel outside the Organisation for Economic Cooperation and Development (OECD), accounting with India for the bulk of apparel exports from non-OECD to OECD countries. Through the 1980s and the 1990s, the Central American and Caribbean textiles and apparel sectors had benefited from the combination of the provisions of the Multi-Fibre Arrangement (MFA) and the strong inclination in the United States towards outsourcing functions at the lower value-added ends of the production chain. The ending of the MFA and the gradual lifting of restrictions under the terms of the Agreement on Textiles and Clothing (ATC), together with the multilateral lifting of import restrictions on Chinese apparel exports under the terms of China's accession in 2001 to the World Trade Organization (WTO), have positioned exporters in the Caribbean Basin (including Mexico) among the most visible losers in the global textiles and apparel industries (Heron, 2006). They are now exposed increasingly to the full force of competition from textiles 'giants' of China, India, Bangladesh, Pakistan and so on – a competition which is waged primarily on the terrain of labour costs, as Table 3 shows.³

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In late 2005, some of the force of this competition was diverted as the United States and European Union (EU) negotiated with China sets of quota restrictions on imports of Chinese apparel. The side-effect of this protection of domestic markets in the US and EU is a certain temporary sheltering of the smaller textiles and apparel exporters in Mexico, Central America and the Caribbean from the potentially devastating effects of a free trade regime in these sectors. However, the issue remains to be resolved; the quota arrangement with the US comes to an end in 2008, and it remains clear that China's position in the WTO points in the direction of the eventual achievement of unfettered market access for apparel exports.

At the same time, the production-sharing arrangements that stemmed from the promotion of outsourcing by the United States (as in the case of the Caribbean Basin Initiative, for example) are coming to an end in any case but are also challenged by the lifting of the MFA, as a result of which US and other retailers have access to direct imports from the big Asian suppliers. For Caribbean Basin producers, this represents the severe squeezing of the niche formerly occupied in supply chains and in the US market. Furthermore, and in any case, given the provisions of production-sharing arrangements that make duty-free exports contingent on the use of fabrics and yarns manufactured in the US, the textiles and apparel industries in the Caribbean Basin had always been located at the low-value-added ends of the supply chain and constrained to import raw materials at much higher prices from the US, even where they were available from Asian economies at much more competitive costs. The Central American Free Trade Area (CAFTA) agreement goes some way to protecting the position of Central American countries in the US market, but, taken together with

³ It should be noted that the competitiveness of the Asian producers is also associated with the frequent use of 'unfree' labour, including child labour, alongside the more general sources of competitiveness associated with of the sheer abundance of low-cost labour, relatively high-skilled workforces in countries like China and South Korea, strong production capacity in the manufacturing of both cotton and man-made fibres, and close trade and investment links between China and South Korea, Taiwan and Japan (Nathan Associates, 2002, cited in Heron, 2006: 7).

the multilateral elimination of quotas, the terms of the agreement have been calculated to signify a potential 50% cut in the expansion of Central American textiles and clothing exports to the US (Hilaire and Yang, 2003: 15-6).

More generally, the impact of competition from China on Mexico has been felt in the decline of the manufacturing sector in terms of its share in overall GDP and employment. Mexico continues to export more intermediate and high-technology-intensive manufactured goods (Jenkins *et al.*, 2006: 23), and as such the competition between China and Mexico in third markets has thus far been concentrated in low-technology products. However, as noted earlier, the technology component of Chinese exports is rapidly increasing. Across the region, steel and automobiles are the sectors in which Chinese competition is likely to emerge forcefully, as well as electronics. China became a net exporter of steel in 2005, with potential for extremely rapid growth over the coming years.⁴ In the area of automobiles, much of the development strategy in areas such as Guangdong province, in the Pearl River Delta, hinges on the achievement of global prominence as a major car and autoparts manufacturer. Companies like Honda already have joint ventures in China aimed at feeding the explosive boom in car ownership in China; similarly, Chinese manufacturers have expressed intentions to purchase the technology of major companies such as DaimlerChrysler BMW (Jubany and Poon, 2006: 9), and thus develop China's ability to compete on the front-line of global car production. Again, given the prominence of this sector in countries such as Mexico and Brazil, not to mention the United States itself, China's rise in this area portends a significant reordering of the regional automobile industry.

The final point to make concerns the diversion of investment from Latin America and the Caribbean that has already become evident. Total flows of FDI to the region grew more slowly in 2004 and 2005 than flows to China, Asia and even Africa (ECLAC, 2006: 32), and the movement of China into sectors previously attractive to FDI in many Latin American economies is ominous for the region's position on the global investment map.

What we are seeing, then, is a squeezing of development space for Latin America and the Caribbean which, in its various forms, is uniformly inauspicious. The location of the region in global production and supply chains is increasingly, and at the present time apparently ineluctably, premised on the supply of primary products with few prospects for competing with ASEAN countries in the supply of resource-based manufactures. Oil from countries like Venezuela also fits into this picture. Brazil is perhaps different in this respect, but still its capacity to achieve greater representation in global manufacturing chains and the export of processed products to China remains limited by all the aforementioned constraints on competitiveness *vis-à-vis* the Chinese economy and the competing Asian suppliers. Chile is, as usual, something of an outlier given the extent of its competitiveness in resource-based manufactures and the considerably greater degree of diversification achieved over the last 30 years or so. In the Caribbean Basin, including Mexico, the picture is dominated by profound competition in third markets, especially in manufacturing and sectors like textiles and

⁴ This has been identified by the three NAFTA partners as one which requires joint action, and a trilateral working group has been set up under the auspices of the North American Security and Prosperity Partnership (Jubany and Poon, 2006: 9).

apparel, but also by the absence of options for inserting economies into alternative supply and production chains in the manner of the South American economies.

Latin America and the United States

What does all this mean for the economic relationship between the US and Latin America? One of the arguments that is often advanced in this respect relates to the way in which the impact on Latin America and the Caribbean of the slowdown in the US economy and the weakening of US demand is compensated by the expansion of demand in China and its impact on commodity prices (ECLAC, 2006: 27-8). Other arguments see the surge in Latin American economic interest in China – particularly in South America – as a reflection of the languid state of contemporary relations between the US and Latin America. Quite apart from the commercial opportunities arising from the opening up of a market of this size and the particular pattern of demand which attends the Chinese model of industrialisation, China is often presented as filling a developmental gap left by the United States (Roett, 2005). US investment in Latin America has been steadily declining as US corporations have focused their strategies predominantly on the emerging markets of Asia (including China), and the burgeoning US deficit situation precludes any serious rectification in the short term of the neglect that many perceive as having characterised US engagement with the region over recent years. In this context, the potential of Chinese investment in infrastructure, in particular, has often been noted as valuable for many Latin American economies. Venezuela and other energy-producing countries have been a particular focus in this regard, with significant Chinese investment in exploration, refining capacity and transportation infrastructure.

Such interpretations of China's importance for Latin America clearly have something to offer, but cannot be pushed too far. The most simple reason, as noted, is that the economic relationship with the United States remains by far the most important for the region. Table 4 indicates levels of trade reliance on the United States in 2005, and also the disparities in this respect between, for example, some of the large Southern Cone economies and some of the smaller economies in the Caribbean Basin – especially, it should be noted, those economies dominated by the 'offshore' development model of export assembly, particularly in the textiles and apparel sector. While aggregate figures for the region as a whole do indeed indicate the offsetting by China of the effects of slowdown in the US, this mechanism does not work for the majority of the most dependent economies in the north of the region. At the same time, Chinese investment in Latin America is still profoundly limited; trade is far more important, and indeed the developmental implications of China's rise reside predominantly in this arena of trade rather than investment. As noted earlier, even then China accounts for only 4% of total Latin American trade. In short, the notion that China either fills the gaps in US investment in the region or the limitations of access to the US market finds little justification, inasmuch as overwhelmingly the main economic relationship for Latin America and the Caribbean remains that with the United States, with but a handful of exceptions in the Southern Cone.

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The most pressing concern, in this light, relates to the potential displacement of Latin American competitiveness in the US market. While the possibilities for export diversification have been celebrated, for widely disparate reasons, in various countries of South America that operate with *relatively* less pronounced structures of dependence on the US market (Argentina, Brazil, Chile), the ‘threat’ arising from China in the US market has been felt keenly in many North American economies. Table 5 gives an indication of this displacement by comparing the US import-value market share for China and the major Latin American economies in various key sectors between 1981 and 2001. As noted, here has occurred already a massive displacement of Mexican exports in the US market – particularly garments and textiles, toys, furniture and electronic value-chain products (Dussel Peters, 2006: 19). Similar patterns obtain for Central America and the Caribbean, along with the important emergence of China in other sectors which carry implications for Latin American exports to the US and US overseas investment, such as automobiles, steel, electronics, telecommunications and so on. The potential (further) diversion of investment away from the Americas to Asia is seen as a considerable challenge to Latin American development prospects and strategies, alongside displacement in US markets, and there is certainly enough evidence to suggest that these perceptions are not ill-founded.

It is in part for this reason that many countries across the region have been eager to enter into bilateral trade negotiations with the United States, particularly in Central America but also in the Andean region, in which levels of dependence on the US are also relatively more pronounced. However, the further impact of the emergence of China may well be a contraction of the possibilities for the successful negotiation of bilateral or regional free trade arrangements, inasmuch as one of the visible trends in the United States itself has been a growing decline in public and political support for trade since the start of the decade. The primary reasons for this decline are uniformly cited as the emerging ‘threat’ from the Chinese economy, together with the experience of the North American Free Trade Agreement (NAFTA). Undoubtedly, the steady growth in the US trade deficit, which reached record highs in 2005 and 2006 (\$765,267 million in the latter) and is fuelled primarily by rising Chinese imports, has sharpened still further the political sensitivity of the trade agenda. Much (but not all) of this sensitivity is related to the pronounced concern about the impact of trade on the US labour market, and the Americas is particularly vulnerable in this respect given the parallel salience of the immigration issue in US politics (Phillips 2007a). It is in this sense that an important implication of the emergence of China for Latin America may materialise through the mechanisms of *domestic* politics and domestic reactions to China in the United States, with the effect that possibilities for safeguarding the region’s most important economic relationship, particularly under the additional pressures of multilateral liberalisation commitments, may well be progressively compromised.

There is, however, a final dimension of this discussion of the relationship between the United States and Latin America and the Caribbean, and indeed about development strategies which is fundamental but often overlooked. It relates to the profound pressures for migration that emerge at the intersections of long-standing processes of deindustrialisation and urbanisation, the constraints on agricultural trade, the impacts on particular sectors of competition from China, and the continuing failures of the development orthodoxy to produce growth and development. The short-term

implications of trade liberalisation and labour flexibilisation, as well as the widespread decimation of rural economies, are felt particularly in levels of unemployment and underemployment, downward pressures on wages, the consequent reinforcement of wage differentials with the major receiving countries, and widespread patterns of internal migration. In many cases the latter is associated with the development of manufacturing activity and the concentration of FDI in the major urban centres or, in some cases such as Mexico and other Central American and Caribbean economies, into border regions in which export-processing zones were absorbing migrants from displaced rural communities. Research has demonstrated a strong correlation between internal migration and subsequent international movements.

Not ignoring the extensive social networks that are well understood to be central to individuals' decisions to migrate, the overall panorama of development failures and continued divergence in wage levels continue to define what traditionally we would have called the 'push factors' associated with migration to the United States. The signs are clearly that such pressures are sharpened in countries most affected by the shifts noted above in sectors like textiles and apparel, manufacturing and so on. Moreover, the restructuring of the US economy as a result of secular shifts in the transnational division of labour, and the competition waged from China and Asia on labour costs, has generated a situation in which the maintenance of competitiveness has come to depend on the massive import of labour in both service sectors and agriculture, particularly of the low-skilled and illegal varieties (Phillips 2007b).

The restructuring of global and regional economies that has been increasingly conditioned by the emergence of China has thus meant that traditional forms of dependence on the US economy have been given a new twist. Dependence on the US has come to centre not only on the US market as a destination for Latin American and Caribbean exports and as a source of investment, but also increasingly as a source of employment. The issue of remittances adds a further dimension to this new dependence. What we are seeing, in a nutshell, is the substitution of the 'offshore' development model across the Caribbean Basin with one based on the 'onshore' provision of labour in the US economy, and the concrete, purposeful elaboration of development strategies based around the concept of 'remittance economies'. The debate surrounding migration and remittances is considerable and there is no space here to assess it fully. The point to bring out is simply that the elaboration of development strategies concretely around remittances is a clear emerging result of the severe squeezing of competitiveness and development options in the region, and an indication of the consolidation of a new transnational political economy of dependence on the United States.

In all of the above ways, far from filling gaps left by US policy or investment patterns, and far from offsetting dependence on the United States economy, the emergence of China has thus acted to reinforce and deepen the centrality of the relationship with the US to the development prospects of the region's economies and societies.

Global Production and Value Chains and the New Transnational Division of Labour

Thus far, the picture we have sketched of the emerging relationship between Latin America and China, its implications for development and its consequences for relationship between Latin America and the US has relied upon stylised depictions of national economies interacting with one another, and a similarly stylised treatment of the rise of 'China'. This line of analysis – which is entirely dominant in the academic and policy literature – is useful but misses a crucial point: that the story of the emergence of 'China' is not one of a single national economy, but rather one of a particular phase in global capital accumulation driven by mobile transnational capital. Transnational capital has 'landed' in China as a result of the particular set of factor endowments that we have already mentioned, facilitated by the internal economic reforms undertaken by the Chinese government from the late 1970s onwards. As such, it is misleading to talk about the emergence of 'China' – rather, we are seeing the consolidation of a particular phase in the evolution of global production and value chains, driven by the strategies of transnational capital, within the territorial boundaries of the Chinese economy. William I. Robinson has captured this well in his reference to China as not just the 'industrial workhouse of the world' but, moreover, the 'workhouse of transnational capital' (Robinson, 2006).

Let us illustrate this argument very briefly with the example of the Chinese computer industry. Around 75% of China's computer-related products are produced by Taiwanese companies, and around 70% of Taiwanese computer-related products are based on Original Equipment Manufacturing (OEM) contracts with foreign firms, overwhelmingly from the United States and Japan. As such, we need to understand China's computer industry, and indeed other sectors, as representing only the final stage in a global production process which is not adequately represented by the bilateral investment figures which show Taiwan as the source of investment in China, or then the bilateral trade figures which show China as the exporter to the rest of the world (Breslin, 2005: 744-8). It is this problematic to talk about the emergence of China and its implications for other economies in the world – rather, like these 'other' economies, the growth of the territorially defined 'Chinese economy' is associated with the strategies and structures of transnational capital, and what happens within the territorial borders of the Chinese economy represents an integral dimension of evolving global production and value chains. Inasmuch as it is, by extension, a pattern of growth fuelled primarily by the production and investment strategies of companies in the developed world, which in turn are premised largely on demand in markets in the developed world (Breslin 2005: 745), the dominant parameters of the debate – about China as a threat to the United States, for instance – are misplaced. The focus rests uniformly on the extent of Chinese exports to the US and the United States' trade deficit with China, without due recognition of the profile of investment in the underlying production processes, in which the US capital is fully imbricated.

The ramifications of this argument are extensive, but we will focus here on those that are relevant to our present purposes. By focusing on the role of US firms in the production processes which fuel Chinese growth and, consequently, exports 'from' China, we can draw a more complex but vastly more revealing picture of the implications of China's rise for Latin America. First, the development dilemmas experienced by the region in this context arise not so much from China itself as from

Latin America's particular mode of insertion into *global* production structures. Therefore, concentrating on 'China' misses a key point about the demands of competitiveness and the particular place of Latin American and Caribbean economies in the global economy as a whole. Second, 'competition' from China is fuelled, in a variety of sectors, by investment from the developed world, including the United States. This adds further support to the earlier contention that inferences of China's filling of developmental gaps left by the US are simplistic and misplaced, and suggests forcefully that US production and investment strategies are pivotal to the development predicament in which many Latin American and Caribbean countries find themselves. Third, assertions that a focus on China represents an alternative to traditional forms of *economic* dependence on the US, such as those made frequently by President Hugo Chávez of Venezuela and others, are clearly underestimating the role and stake of US interests in Chinese industrialisation, whether directly or via more circuitous routes such as OEM investment in the Taiwanese computer industry. Notions of 'China', 'the United States', 'Taiwan' and so on in trade and investment statistics, in this sense, reveal little about the importance of global production networks and the location of Chinese industrialisation – and indeed Latin American economies – within these global processes.

Conclusion

What emerges most forcefully from this discussion is that the emergence of China does not cause but rather throws into relief the huge development problems of the Latin American region, especially the long-term and insidious process of de-industrialisation in which the region continues to be mired, the profound problems of regional and global competitiveness of the majority of export sectors and products, the continued lack of higher value-added production capabilities, and the pronounced dependence on the US market at a time when preferential arrangements are being systematically dismantled under WTO auspices. It also raises a set of key questions about the future trajectory of Latin American and Caribbean development and the directions that development strategies can – or indeed should – take. There is a compelling argument to make that the foundations of the many of the most established development strategies have, to a greater or lesser extent, been challenged in quite fundamental ways by the latest phase of global capitalist restructuring, which is manifested most clearly in the emergence of China. Perhaps the most salient of these foundations is the notion of geographical advantage, which, particularly in the northern part of the region, has long shaped a set of development strategies based integrally on proximity to the United States and its markets (see also Wise 2007). While the notion of geographical proximity clearly continues to define many of the 'newer' development strategies – migration and the emergence of remittance economies, illicit and illegal activity (notably the drugs trade), tourism-based strategies – the emergence of China has clearly weakened, if not completely dismantled, it in matters of trade and investment.

If these arguments are correct, Latin American and Caribbean development strategies (notwithstanding the couple of exceptional countries already noted) require a much fuller reorientation than has hitherto occurred towards a prioritisation of debates and strategies focusing on insertion into global (rather than regional) production and value chains, as well as the transnational division of labour. The question is then how to do

this in the wider context of the squeezing of the global development space available to the Latin American and Caribbean region that we have identified and elaborated in this chapter. Perhaps the more pressing question still is how the governments and societies of the region can aspire to address its continuing and profound social problems in a global context in which, not least as a result of the nature of Chinese development, competitiveness is apparently cast more and more as a social ‘race to the bottom’.

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Table 1
Sino-Latin American Trade: Exports to China and Imports from China as percentage of total, selected countries

Country	Imports from China as share of total imports (%)		Exports to China as share of total exports (%)	
	1995	2005	1995	2005
Argentina	3.5	6.5	2.8	8.8
Brazil	2.7	6.8	3.5	8.3
Chile	3.2	8.1	2.3	11.3
Colombia	0.7	5.6	1.3	0.9
Mexico	0.9	3.1	0.7	1.1
Peru	2.8	8.6	7.3	11.1
Venezuela	0.5	3.8	0.0	1.7

Source: International Monetary Fund, *Direction of Trade Statistics*, presented in Jenkins *et al.* (2007).

Table 2
Composition of Chinese Trade with ASEAN and LAIA Countries, 2004, percentage shares of trade flows of each group of products

Category	Group	Imports	Exports
Primary	ASEAN	9.0	9.0
	LAIA	13.3	0.9
Resource-based manufactures	ASEAN	15.6	11.1
	LAIA	7.8	3.4
Low-technology manufactures	ASEAN	5.0	4.1
	LAIA	2.4	2.2
Intermediate-technology manufactures	ASEAN	6.2	8.4
	LAIA	1.2	3.1
High-technology manufactures	ASEAN	19.5	8.3
	LAIA	0.6	1.7
Other	ASEAN	4.7	3.2
	LAIA	0.6	0.5

Source: adapted from ECLAC, *Latin America and the Caribbean in the World Economy, 2005-2006*, on basis of data from UN Commodity Trade Statistics Database.

LAIA: Latin American Integration Association

ASEAN: Association of South-east Asian Nations

Table 3
Apparel Manufacturing Cost by Country (US\$)

Country of Origin	Total Manufacturing Cost
China	1.12
Nicaragua	1.50
Dominican Republic	1.70
Honduras	1.70
Guatemala	1.80
El Salvador	1.85
Costa Rica	2.00
Mexico	2.20
United States	5.00

Source: Robert Devlin *et al.*, *The Emergence of China: Opportunities and Challenges for Latin America and the Caribbean*, Inter-American Development Bank, 2006, on basis of data from INT/ITD
 Note: Amounts shown assume that it takes 20 minutes to cut, sew and finish a dress shirt for the US market.

Table 4
Trade Dependence on the United States, 2005, selected countries

	Exports to the United States (millions of \$)	Exports to the United States as proportion of total exports (%)	Trade Balance with the United States (millions of \$)	Trade Balance with the world (millions of \$)
Mexico	183,351	85.8	65,089	-7,559
Honduras	3,309	75.6	154	-106
Nicaragua	991	63.0	401	-619
El Salvador	2,051	60.6	272	-3,332
Guatemala	2,694	50.1	29	-3,431
Ecuador	4,950	46.5	4,107	420
Costa Rica	3,177	44.8	-119	-2,717
Panama	973	14.8	-1,009	-2,000
Dominican Republic	4,325	77.9	-26	-1,544
CARICOM	9,167	52.2	2,330	1,052
Cuba	0	0.0	-361	-2,970
Venezuela	32,587	58.8	25,987	29,674
Colombia	8,849	41.8	2,843	1,988
Peru	5,173	30.4	3,052	4,917
Uruguay	761	22.4	489	-474
Brazil	22,472	19.0	8,918	44,758
Chile	6,248	15.8	1,821	9,142
Bolivia	383	14.0	59	1,007
Argentina	4,321	10.8	1,357	11,320
Paraguay	54	3.2	-774	-1,564

Source: ECLAC, *Latin America and the Caribbean in the World Economy 2005-6*.

Table 5
US Import-Value Market Share, 1981-2001, percent

SITC1 industry	China			Argentina			Brazil			Chile			Mexico		
	1981	1991	2001	1981	1991	2001	1981	1991	2001	1981	1991	2001	1981	1991	2001
0 Food	1	2	3	3	2	1	13	5	2	1	2	4	9	11	12
1 Beverage/tobacco	0	0	0	0	1	1	2	4	2	0	1	1	4	5	14
2 Crude materials	3	2	3	1	0	0	2	3	5	1	1	2	3	5	4
3 Mineral fuels	0	1	0	0	0	1	0	0	1	0	0	0	8	9	8
4 Animal/vegetable oils	0	0	0	1	5	1	9	3	1	0	0	0	0	4	2
5 Chemicals	1	2	3	1	0	0	2	1	1	0	0	0	3	3	2
6 Manufactured materials	1	3	9	1	0	0	2	2	2	1	1	1	2	4	7
7 Machinery	0	2	7	0	0	0	1	1	1	0	0	0	4	7	16
8 Misc. manufacturing	2	15	26	0	0	0	2	2	1	0	0	0	4	4	10
All	1	4	9	0	0	0	2	1	1	0	0	0	5	6	12

Source: Robert Devlin et al., *The Emergence of China : Opportunities and Challenges for Latin America and the Caribbean*, Inter-American Development Bank, 2006, p. 112.

