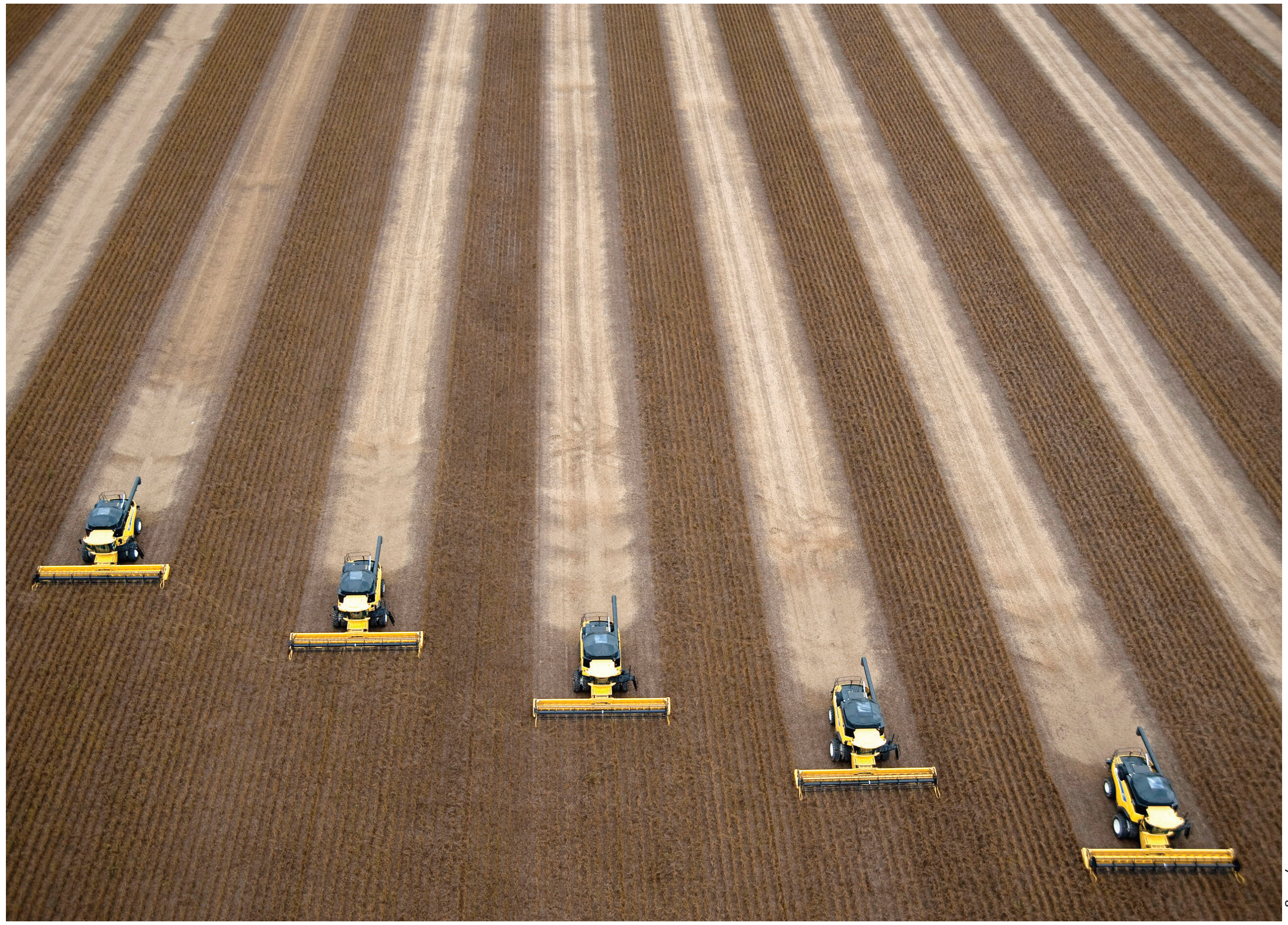

Photo from Getty Images.

The soy harvest in Correntina, Brazil.

CHINA AND LATIN AMERICA

Problems or Possibilities?

by Julie Klinger

When it comes to the evolving relationship between China and Latin America, speculation abounds. China is perceived as an alternative to U.S. hegemony in the region, a fierce economic competitor displacing Latin American industries, and a neo-imperial power whose industries are gobbling up Latin American commodities with little regard for environmental and labor protections. In fact, none of these statements are necessarily true. Contrary to the conventional wisdom, the data tell a different story.

The importance of having good data was a common theme at the special panel discussion "China and Latin America: Perceptions, Problems, and Opportunities," co-sponsored by the Center for Latin American Studies and the Institute of East Asian Studies at the University of California, Berkeley. While the panelists affirmed that China's trade and investment in the region is driven by the Asian giant's hunger for primary commodities to fuel its booming economy, each offered a careful analysis of the common tropes surrounding China as the next global superpower.

Much has been made of the global shift in power precipitated by China's rise. Theories of an emergent multipolar world order, demonstrated by China's bilateral trade agreements with countries of the global south, have proliferated in recent years. But Carol Wise, an associate professor of International Relations at the University of Southern California, has a different view. Based on her analysis of the Free Trade Agreements (FTAs) that China signed with Chile and Peru, respectively, Wise notes that much more was expected than was delivered. The FTAs between China and Latin American countries *do* represent a shift in the general dynamics of global trade agreements since the 1990s, when most tended to be agreements between the global north and global south. In contrast, China's FTAs with Latin American countries are classified by the WTO as South–South agreements. Diplomatic discourses from both China and Latin America have emphasized this character of their cooperation.

But there's a twist. Although these FTAs are technically classified as South–South agreements, they follow the trade patterns of North–South agreements, with Latin America exporting primary commodities to China, and China exporting industrial goods to Latin America. This dynamic is not at all what Latin American countries were expecting when they entered into these agreements. Both Chile and Peru were hoping to diversify their exports and attract investment in non-mining sectors. According to Wise, even top Latin American negotiators were convinced that deepening trade relations with China would provide their countries with the opportunity to break free from the traditional comparative advantage relationships that have characterized their exports to North America and Europe. So, although the FTAs are only in their first decade, disappointment runs deep.

Wise suggested that China's incentive for entering into FTAs with Peru and Chile had very little to do with gaining access to those countries' markets — they are negligible, she said, relative to China's other export markets. Rather, China entered into these agreements for political and strategic reasons. Indeed, China accepted more than 150 export restrictions on certain products that are "sensitive" in the Chilean market, such as shoes, appliances, and agricultural commodities. Why China would agree to so many restrictions on a putative Free Trade Agreement can perhaps be explained by diplomatic strategy. China is looking to mitigate trade conflicts and offset anti-dumping complaints that have arisen in recent years with its Latin American counterparts and, of course, to cultivate a friendly environment for ongoing investment in the sizable mining sectors of Chile and Peru.

The FTAs also touch on another hot topic in China–Latin America relations: the question of trade. Barry Eichengreen, a professor of Economics and Political Science at UC Berkeley, presented findings on trade, foreign direct investment, and export competition between the two regions. While the popular discourse tends to sound the alarm over fierce competition from China, Eichengreen and colleagues found that the picture is much more nuanced: "Whether China's emergence is good or bad news for you depends on who you are and what you export." Unfortunately for Latin American industries, China's growing consumer population seems more interested in European cars and luxury brands than in Latin American goods.

While China's economic rise has had a negative impact on Latin American exports of consumer goods to other countries, it has had a positive impact on exports of capital goods, commodities, and energy. As far as economists are concerned, that is good news because it demonstrates a continued rise in China's outward investment, which means new opportunities, jobs, and economic growth for recipient countries. The caveats lie in how effectively Chinese firms adhere to local labor and environmental protection regulations.

Indeed, Chinese firms have come under fire for labor exploitation and environmental degradation in their overseas operations. Encouraging China to adopt international environmental and social safety standards has been a *cause celebre* for Western development organizations for nearly a decade. The concern — and the conventional wisdom — has been that, given China's dismal domestic environmental and labor safety record, Chinese firms could hardly be expected to employ better practices abroad. But according to Margaret Myer, director of the China and Latin America Program at The Inter-American Dialogue, even the most despised Chinese firms in Latin America abide by local labor and environmental regulations at least as often as their U.S. and Canadian counterparts.

For Myer, this demonstrates the growing professionalization of China's overseas firms. In contrast to previous years, they are investing significant sums in legal, public relations, and advertising firms to advise them on local markets and social conditions. This approach demonstrates a significant shift from the early days of China's "Going Out" strategy and, perhaps more importantly, challenges Western development organizations to rethink their priorities when it comes to mitigating the social and environmental costs of multinational extractive industries. Chinese firms can no longer be scapegoated, at least not in contexts where multiple international firms are engaged in mining activities, as in Peru.

Although the panelists focused on different aspects of China–Latin America relations, each uncovered problems with the conventional wisdom. Myer noted that Chinese firms are themselves advocating for greater transparency in their overseas dealings, suggesting that progress in this arena could potentially outpace Beijing's efforts at home. The relationship between China's domestic and

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international policies is both complex and consequential for Latin American countries. With China's growing domestic consumption, everyone wants a piece of the Chinese market. Wise advised prudence, predicting that China's growing domestic demand will not be for Peruvian or Chilean manufactured goods. In fact, while the FTAs have brought disappointing results for the Latin American side, trade has increased significantly between Peru and Chile over the same period, leading Wise to propose that the two countries worry less about trade with China and focus on their own bilateral relationship. Eichengreen concluded with a sobering reminder that China's economy will not grow at its recent pace forever, noting that "all fast-growing economies slow down eventually."

The greatest obstacle to smooth relations between China and Latin America lie in persistent mutual misunderstandings. Although university students on both sides of the Pacific are studying each other's languages, cultures, and economies, a generational lag in expertise continues to complicate political and economic relations. The costs, in the meantime, may include excessive risk-taking, missed opportunities, and oversimplification. In the face of improving research and growing empirical evidence, relying on the conventional wisdom is increasingly untenable. Indeed, this is true not just for China–Latin America relations, but also for the U.S. and Europe as they grapple with the 21st-century world order.

The panel "China and Latin America: Perceptions, Problems, and Opportunities" was held on February 12, 2013. Panelists included Carol Wise, associate professor of International Relations, University of Southern California; Barry Eichengreen, professor of Economics and Political Science at UC Berkeley; and Margaret Myers, director of the China and Latin America Program at The Inter-American Dialogue. The panel was moderated by Harley Shaiken, professor of Geography and Education and director of the Center for Latin American Studies at UC Berkeley.

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VIDEO AVAILABLE AT CLAS.BERKELEY.EDU

The port of Santos, Brazil.

Photo courtesy of the Program for Accelerated Growth PAC.

Photo by Otávio Nogueira.

People like this elderly couple are the beneficiaries of some of Brazil's social programs.

SOCIAL POLICY

Weaving a Stronger Safety Net

by Wendy Hunter

Following the structural adjustment that Latin American economies underwent in the 1980s and 90s, social policies aimed at reducing poverty and enhancing equity assumed heightened importance. Economic recovery, technocratic initiatives, and the competitive dynamic of democracy itself led administrations from across the political spectrum to address longstanding social deficits. The policies adopted differ significantly from those of preceding periods. Conditional cash transfers (CCTs) and non-contributory pension programs are prominent among the social policy innovations that have helped to decrease poverty and increase equity in the past decade.

Motivated by the twin goals of poverty alleviation and human capital development, CCTs involve the direct transfer of money from the state to families (generally to mothers) conditional upon their children attending school regularly and receiving basic preventative health care. Often such programs also require that expectant mothers receive prenatal care and have trained attendants present at birth. Noncontributory pensions, on the other hand, are crucial for keeping people from falling into indigence in old age. Given the sizable number of Latin Americans who labor their entire lives in the informal sector, have not paid into a pension system, and cannot even prove the number of years they have worked, noncontributory pensions are an important new type of social protection. In many countries, they represent an especially important safety net for women, who often spend their working lives toiling as domestic servants, small-holding agriculturalists, or in other jobs located outside the formal economy.

Conditional cash transfers and noncontributory pensions differ in key ways from the standard policies of Latin American welfare states during the

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