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China and Latin America: A Match Made in Trade Heaven or Dependency Reloaded?

Meghan Skira
University of Rhode Island, SkiDawg514@aol.com

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PART ONE: INTRODUCTION

China's economy is expanding rapidly, and the emerging powerhouse is searching for energy resources, raw materials, and markets to maintain its economic growth. China has shown an insatiable appetite for Latin America's natural resources, commodities, and agricultural products, from oil to lumber to copper to soybeans. Trade values between the two regions increased greatly from $1.3 billion in 1980 to $12 billion in 2000 to about $50 billion in 2005. Latin America has the raw materials that China needs to fuel its economic expansion and offers a large market for cheap Chinese manufactured goods.

Many analysts claim that Sino-Latin American trade is a "match made in trade heaven," contending that China's demand for raw materials is primarily a positive demand shock. China's demand for resources and raw materials has pushed up prices in the world market, benefiting the Latin American countries exporting these goods. Chile, Venezuela, and Peru registered record trade surpluses in 2004 and 2005 due to the surge in exports to China. Others have noted that with a population of 1.3 billion, China offers a huge market for Latin American exports.

On the other hand, many of the issues addressed by the Latin American dependency theorists of the 1960's and 1970's are relevant to current Sino-Latin American trade patterns. Dependency theory is best understood as a framework that seeks to explain underdevelopment in Latin America in terms of external causes. According to dependency theorists, the world is divided into "core" and "periphery." The core is composed of the advanced countries, and the periphery is made up of the underdeveloped poor countries. The periphery is confined to exporting primary products and natural resources to the core, while the core exports manufactured goods to the periphery. Dependency theorists argued that this reliance on primary product exports is not conducive to economic growth since the periphery will suffer from deteriorating terms of trade. In other words, the poorer countries would be able to import less and less for a given level of exports.

In this paper, I first discuss the ideas of the prominent dependency theorists of the 1960's and 1970's, the main propositions and criticisms of dependency theory, and the currency of dependency theory. Next, I outline the history of Sino-Latin American trade relations and describe current Sino-Latin American trade patterns. In the case study section, I focus specifically on the very different trade relations China has with Brazil and Mexico. Then, I provide data regarding Sino-Latin American trade. Lastly, I evaluate the extent to which Sino-

Latin American trade relations resemble a dependent relationship. Results suggest that several Latin American countries are being pushed into a "raw materials corner," and that many of the trade-related aspects of dependency theory are relevant to current Sino-Latin American trade relations.

PART TWO: DEPENDENCY THEORY

I. Introduction

Dependency theory emerged in Latin America in the late 1950's in response to concerns raised by the United Nations Economic Commission for Latin America (ECLA). The group found that economic growth in the advanced industrialized nations did not necessarily lead to growth in the poorer nations. As a result of these studies, dependency theory developed and rose to prominence in the 1960's and 1970's.

There is no unified dependency theory, and there are still points of disagreement among dependency theorists. Ronaldo Munck said, "It [dependency] can mean quite different things to different people in different contexts" (59). Dependency theory is best understood as a family of approaches or a framework that seeks to explain underdevelopment in Latin America and other developing nations in terms of external causes. Theotonio Dos Santos, a Brazilian dependency theorist, defined dependency as:

> An historical condition which shapes a certain structure of the world economy such that it favors some countries to the detriment of others, and limits the development possibilities of the subordinate economies…a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation of inter-dependence between two or more economies, and between these and world trade, assumes the form of dependence when some countries (the dominant ones) can expand and can be self-sustaining, while other countries (the dependent ones) can do this only as a reflection of that expansion, which can have either a positive or a negative effect on their immediate development. ("Structure" 231)

Dependency ideas were pervasive in Latin American centers of academia, but also gained adherents in Europe and the United States. Dependency theory was held to be a distinctively Latin American analysis of Latin American development (Sánchez 1). The dependency writers were primarily Latin American and they focused chiefly on Latin American countries. Dos Santos said that the development of dependency theory "gave rise to a privileged moment in the

history of social ideas in Latin America" ("Theoretical Foundations" 54). Munck called the Latin American dependency approach "probably one of the most significant interventions of a Third World discourse in a Western paradigm in the whole post-colonial era" (56).

In this section, I review the main ideas of some of the prominent dependency theorists of the 1960's and 1970's including Raúl Prebisch, André Gunder Frank, Immanuel Wallerstein, Theotonio Dos Santos, and Fernando Henrique Cardoso. Next, I discuss the basic theoretical propositions that are shared by most dependency theorists, and I then highlight some of the criticisms of dependency theory. Lastly, I summarize "The Colonial Origins of Comparative Development: An Empirical Investigation," a recent article by Daron Acemoglu, Simon Johnson, and James A. Robinson that discusses aspects of dependency theory that are still relevant today. This section provides the foundation needed to later evaluate the extent to which Sino-Latin American trade relations resemble a dependent relationship. In this evaluation, I adopt the more trade-related aspects of dependency theory, especially those postulated by Raúl Prebisch, and focus less on the social and political aspects.

II. The Dependency Theorists

Raúl Prebisch

Argentine economist Raúl Prebisch headed the ECLA from 1948 until 1962. In the late 1950's, the commission was troubled when it learned that economic growth in the developed industrialized countries did not necessarily lead to growth in Latin America and the developing countries. The ECLA studies suggested that economic activity in the advanced countries often led to economic problems in the poorer nations. This was inconsistent with neoclassical economic theory, which claimed that economic growth was beneficial to all (Pareto superior) even if the benefits were not always shared equally (Ferraro 1).

Prebisch developed an explanation: poor countries, like those in Latin America, exported mostly commodities and raw materials to the advanced countries. The more advanced countries then manufactured products from those commodities and raw materials and sold them back to the poorer nations. Using United Nations data, Prebisch showed that the exchange between primary products and manufactures led to a deterioration in Latin America's terms of trade: prices of agricultural products and raw materials tended to fall while prices of manufactured products tended to remain constant or rise ("Theoretical Foundations" 54). Hans Singer, a German

economist, also recognized Latin America's excessive reliance on exports of primary products and raw materials. Both economists are co-credited for formulating the Prebisch-Singer hypothesis which postulates that the terms of trade for commodity exporters tend to deteriorate over time (Sánchez 4). Therefore, the poorer countries would be able to import less and less for a given level of exports. The Prebisch-Singer hypothesis suggests that reliance on primary product exports is not conducive to economic growth.

The ECLA and Prebisch also argued that the world economy was divided into the industrial "center" (the United States and Europe) and the commodity-producing "periphery." The countries that exported primary products would experience deteriorating terms of trade, and the center would consistently exploit the periphery; the rich would get richer, and the poor would get poorer. Participation in world trade was therefore a losing proposition for Latin America and developing countries. International trade was not a way to improve standards of living, but rather a form of exploitation committed by the industrial center (Yergin and Stanislaw 233). Thus, Prebisch and the ECLA linked Latin American underdevelopment to the international economic system, and this concept is one of the key tenets of dependency theory.

As a result of Prebisch's findings, the ECLA began to emphasize Latin America's need for autonomous, self-sustaining development. Rather than exporting commodities and importing finished goods, Latin America and the countries of the periphery moved towards import substitution industrialization (ISI). High tariff walls were erected to reduce the region's dependence on foreign manufactures, industrialization was accelerated, and many industries were nationalized (Yergin and Stanislaw 235). In an interview for the PBS series *Commanding Heights*, Moises Naim, editor-in-chief of *Foreign Policy* magazine, explained how import substitution came about:

> Latin American exports were essentially raw materials and minerals. In exchange for that they imported tractors and cars and television sets and refrigerators. They saw the prices of the things that they were importing were increasing each year much more than the prices of the raw materials they exported, and they said, 'Unless we start developing our own industries, we will always be condemned to exporting goods very cheap on process, without a lot of value-added in exchange for the sophisticated manufactured goods. So we need to move to an economy that instead of being based on agriculture and minerals is based on industry. The only way for us to compete with those imports is by limiting the

> imports and therefore forcing our consumers to buy manufactured goods made in this country.' ("Up for Debate" 4)

This new model of development soon ran into harsh criticism which will be discussed later.

André Gunder Frank

Prebisch analyzed Latin American dependency from a structuralist and policy-oriented perspective. Economist André Gunder Frank, on the other hand, adopted some Marxian ideas in his approach to dependency theory. Frank affirmed that it is capitalism, both world and national, which produced underdevelopment in the past and which generates underdevelopment in the present. He vehemently rejected the dualist model that many other economists and theorists applied to Latin America. Dualism asserts that the economy of an underdeveloped country is divided into two essentially independent sectors. One sector has been affected by economic relations with the outside capitalist world, and as a result is modern, developed, progressive, and capitalist. The other "backward" or "traditional" sector is regarded as isolated, subsistence-based, archaic, feudal, underdeveloped, and essentially uninfluenced by capitalism. Development then requires a transfer of resources from the feudal sector to the capitalist sector and a modernization of the "backward" sector (Brewer 161). Frank rejected the dualist model in "The Development of Underdevelopment" when he said:

> I believe on the contrary that the entire 'dual society' thesis is false…The expansion of the capitalist system over the past centuries effectively and entirely penetrated even the apparently most isolated sectors of the underdeveloped world…The contemporary underdeveloped institutions of the so-called backward or feudal domestic areas of an underdeveloped country are no less the product of the single historical process of capitalist development than are the so-called capitalist institutions of the supposedly more progressive areas. (19)

Frank demonstrated with factual and historical information that no part of Latin America has been uninfluenced by capitalism.

Frank also made a distinction between underdevelopment and undevelopment. The latter refers to the state of affairs before capitalist penetration. He states that "the now developed countries were never underdeveloped, though they may have been undeveloped" (18). This distinction is important because it means that underdevelopment is not some original or traditional stage of history. Frank rejected the notion that economic development occurs in a succession of capitalist stages and that today's underdeveloped nations are still in a stage through

which the now developed countries passed long ago (18). The underdeveloped countries cannot simply follow a process of development similar to that followed by the now developed countries because the present-day underdeveloped countries have always been dominated by and dependent upon the major capitalist powers (Ray 5). Development does not occur in a succession of stages through which an underdeveloped society transitions to a modern developed society. This critique is one of the most important features of dependency theory (Angotti 126).

Frank centered his analysis on the metropolis-satellite structure of the capitalist system. He explained that "contemporary underdevelopment is in large part the historical product of past and continuing economic and other relations between the satellite underdeveloped and the now developed metropolitan countries" (18). The metropoles exploit the satellites so that surplus is concentrated in the metropoles. On a world scale, capitalism produces a developing metropolis and an underdeveloped periphery. This same process occurs within nations between a domestic metropolis (for example, a capital city) and the surrounding satellite regions. In other words, metropolis-satellite relations are found within countries and in the world system (Chilcote 13). Thus, "a whole chain of constellations of metropoles and satellites relates all parts of the whole system from its metropolitan center in Europe or the United States to the farthest outpost in the Latin American countryside" (Frank 20). This idea of a chain of metropolis-satellite relations is perhaps one of Frank's most distinctive contributions to dependency theory.

Most important, the satellite finds itself in a state of dependency. Politically, the ruling class in a dependent country is enmeshed in a chain of exchange relations, and its position depends on maintaining that chain; therefore, the local ruling class wishes to perpetuate underdevelopment. The satellite is also dependent because even a "nationalist" government cannot successfully promote development due to the constraints that are imposed by the metropoles (Brewer 177). The development of the satellites is limited by their dependent status. Frank stated, "The satellites experience their greatest economic development and especially their most classically capitalist industrial development if and when their ties to their metropolis are weakest" (25). He explained that Latin America experienced its greatest growth during the Great Depression and the World Wars when its ties with Europe and the United States weakened. Frank asserted that the most underdeveloped regions are those which were most closely linked to the metropolis (Chilcote 13).

André Gunder Frank made several important contributions to dependency theory. Almost all dependency theorists acknowledge that dependency involves metropolis-satellite relations, though some may label the relationship differently (for example, core-periphery or dominant-dependent). Most dependency theorists also reject the dualist model and recognize that underdeveloped countries cannot simply follow the same path of development as the now developed countries. Lastly, several dependency theorists agree with Frank that the ruling classes in the dependent states maintain a dependent relationship because their own interests coincide with the interests of the dominant state.

Immanuel Wallerstein

Immanuel Wallerstein, an American sociologist and historical social scientist, developed the world system theory in his three-volume work *The Modern World System.* He insisted that any social system must be seen as a totality. He wrote:

> We take the defining characteristic of a social system to be the existence within it of a division of labour, such that the various sectors or areas within are dependent upon economic exchange with others for the smooth and continuous provisioning of the needs of the area. (Brewer 165)

According to Wallerstein, a world system does not necessarily have to cover the globe; it is defined as "a unit with a single division of labour and multiple cultural systems" (Brewer 165). The modern world system is capitalist, so the primary unit of analysis is the capitalist world economy. All phenomena should be explained in terms of their consequences for both the whole of the system and its parts (Petras 148).

The world system theory attempts to explain why there are different stages of national development within what seems to be a unified global economy. Wallerstein said that the key to explaining this phenomenon is to specify the different political and economic roles which a country plays within the overall system. In other words, the world as a whole must be considered in order to understand development within its parts. This gives rise to the basic categories of analysis of the capitalist world system: core, semi-periphery and periphery. The main difference between these categories is the strength of the state in different areas. These differences in strength lead to transfers of surplus from the periphery to the core, which further strengthen the core countries (Brewer 165). The central theme of the world system theory is the

idea that the core regions exploit the peripheral areas through several mechanisms of unequal exchange.

Wallerstein explained that the world economy developed a core with flourishing manufacturing, technologically progressive agriculture, high investment, and skilled and well-paid labor. The core, however, needed the periphery from which it extracted the surplus that fueled expansion. The peripheral countries produced important primary goods while technology stagnated, labor remain unskilled or became less skilled, and capital was withdrawn toward the core. Initially, the differences between the core and the periphery were small, but the core expanded the gap by buying cheap primary products in exchange for manufactured goods (Chirot and Hall 85). In addition to the core and periphery, a semi-periphery exists. The semi-peripheries are good places for investment and they deflect the anger and revolutionary activities of the periphery. Wallerstein said that the semi-periphery is necessary for the capitalist world system to function. Without the semi-periphery, a world system becomes polarized and is liable to revolt; the semi-periphery can diffuse antagonisms. The semi-periphery also constitutes a site for change. New core nations may rise from the semi-periphery, and some semi-peripheral countries may fall into the periphery (Brewer 166).

Wallerstein contributed greatly to dependency theory by analyzing underdevelopment in terms of the development of a world system. As a result, dependency theorists recognize the necessity of thinking about the global context even if they are studying a very local phenomenon. Wallerstein also placed more emphasis than Frank on the role of the state, and he introduced the concept of semi-periphery.

Theotonio Dos Santos

Brazilian sociologists Theotonio Dos Santos and Fernando Henrique Cardoso made their distinct contributions to dependency theory by presenting a typology of underdevelopment. According to Dos Santos:

> The relations of dependence to which these [Latin American] countries are subjected conform to a type of international and internal structure which leads them to underdevelopment or more precisely to a dependent structure that deepens and aggravates the fundamental problems of their peoples. ("Structure" 231)

Dos Santos viewed the internal situation of Latin American countries as part of the world economy. Similar to Frank, Dos Santos rejected the traditional theory of development which

attempts to explain underdevelopment in Latin America as a product of the region's failure or slowness to adopt the patterns and policies of the developed countries. Instead, dependency theory perceives underdevelopment as a result of and part of the process of the world expansion of capitalism (Dos Santos, "Structure" 231).

Dos Santos claimed that types of dependency are identifiable through periods of history. Colonial dependency explains the relations between Europeans and the colonies whereby "a monopoly of trade complemented a monopoly of land, mines and manpower in the colonized countries" (Chilcote 15). Financial-industrial dependency occurred at the end of the 19th century. This type of dependency was characterized by the domination of capital in the hegemonic centers and investment in the peripheral colonies in the production of raw materials and agricultural products for consumption by the center. As a result, a rigid specialized productive structure emerged in the dependent countries devoted to the export of primary products. A "new dependency" based on investment by multinational corporations emerged after World War II. Multinational corporations began investing in industries geared to the internal markets of the underdeveloped countries, and Dos Santos labeled this technological-industrial dependency ("Structure" 232). Dos Santos said that these forms of dependency affected not only international relations, but also the internal structures of these countries.

According to Dos Santos, the new or technological-industrial dependency limits the economic development of Latin America. Industrial development in Latin America is dependent on exports which generate the foreign currency that is necessary to buy imported capital goods. Exports are usually tied to traditional sectors of the economy, which are typically controlled by oligarchies. Often, these oligarchies are tied to foreign capital and remit their high profits abroad. Industrial development, therefore, is conditioned by fluctuations in the balance of payments, "which in dependent countries often leads to deficits caused by trade relations in a highly monopolized international market, the repatriation of foreign profits, and the need to rely on foreign capital and aid" (Chilcote 16).

Unlike Prebisch, who was a strong proponent of import substitution industrialization, Dos Santos did not believe import substitution had the desired consequences for spurring development. It did not bring autonomy of decision making, because industrialization was determined mainly by foreign investment based on multinational corporations whose power was located in the centers of the world economy. Import substitution did not bring improved income

distribution, because "oligopolistic capitalism" tended to concentrate power and wealth in groups of businesses with related interests. Also, improved technology raised the incomes of skilled workers, laborers, and managers, but not those of the unskilled, producing greater differentiation of income among workers (Dos Santos, "Theoretical Foundations" 55). In other words, as Latin America followed its policy of import substitution industrialization, the region became even more dependent on the industrialized center.

Lastly, Dos Santos recognized the political implications of Latin American dependency. Underdeveloped countries face a choice between "dependent capitalism" or "popular revolutionary governments which open the way to socialism." He stated that "intermediate solutions have proved to be, in such a contradictory reality, empty and utopian" ("Structure" 236). In other words, a break from international capitalism was seen as the prerequisite for development in Latin America. This idea was adopted by many radical dependency theorists in the 1960's and 1970's.

Fernando Henrique Cardoso

Sociologist Fernando Henrique Cardoso rejected both the formalism of the empirical measurers of dependency and those who tried to construct an overarching theory of dependency applicable to all situations. Instead, he sought to develop a methodology to understand the various situations of dependency in Latin America. For Cardoso, the dependency approach was a critical historical-structural focus on capital expansion and class conflicts as a socio-political process (Munck 59). He wrote:

> So, the analysis of structural dependency aims to explain the interrelationships of classes and nation-states at the level of the international scene as well as at the level internal to each country. Dialectical analysis of that complex process includes formulation of concepts linked to the effort to explain how internal and external processes of political domination relate one to the other. It cannot be conceived as if considerations of external factors or foreign domination were enough to explain the dynamic of societies. The real question lies in the interrelationships at both levels. (Cardoso and Faletto xviii)

Internal structure is important in Cardoso's dependency approach. He stressed that dependency is perpetuated by the various ties among groups and classes both between and within nations. Dependency, therefore, is not concerned only with the external, but also with politics and internal forces.

Cardoso firmly believed that dependency relations could well lead to development or "dependent development." He explained that even when peripheral economies are no longer restricted to the production of raw materials, they remain dependent in a specific way. Their capital-goods production sectors are not financially or technologically strong enough to ensure continuous advance of the system. In order to continue with economic expansion, a dependent country must play "the interdependency game, but in a position similar to the client who approaches a banker" (Cardoso and Faletto xxii). The peripheral countries then expand and industrialize, but become financially dependent on the center. This notion of dependent development is similar to Dos Santos's concept of "new dependency" or "technological-industrial dependency."

By pointing to the existence of a process of dependent development, Cardoso made a double criticism. First, he criticized those who expect permanent stagnation in underdeveloped countries because of their dependent status. Second, he criticized those who expect capitalistic development in peripheral countries to solve problems like distribution of property, full employment, improved income distribution, and better living conditions. Cardoso was quick to note that dependent development does not mean the achievement of a more egalitarian or more just society. Dependent development in Latin America creates wealth and poverty, accumulation and shortage of capital, employment for some and unemployment for others. These considerations stress that dependent capitalistic economies are not identical to the central developed capitalistic economies (Cardoso and Faletto xxiii).

Cardoso made several contributions to dependency theory or what he preferred to call "dependency studies." His historical-structural approach has been adopted by several dependency theorists, and his emphasis on the importance of internal structure is now one of the basic tenets of dependency theory. Though the idea of dependent development is still debated, Cardoso was the first to suggest that underdevelopment was a not a permanent state for dependent countries, and that there was considerable room for political and social action in the peripheral economies.

III. The Main Concepts of Dependency Theory

Ronald H. Chilcote observed that "there are as many conceptions of dependency as there are authors" (9). Many dependency theorists are reluctant to be associated with one another or

with a certain school of dependency, but they all agree that underdevelopment has causes external to the underdeveloped nations. In addition, there are some basic theoretical propositions that are shared to some extent by most dependency theorists.

The dependency approach firmly rejects the dualist model and refutes the idea that the main obstacle to development is found in the traditional, backward sectors of the underdeveloped countries, which supposedly lack the characteristics of the modern developed capitalist economies (Angotti 126). As a result, dependency theory opposes a universal theory of stages of growth. Not all countries will go through the same stages. Underdeveloped countries cannot simply follow a model of development similar to that followed by the now developed countries. Dependency theory rejects the notion that Latin America is undeveloped, waiting for capitalist development to modernize the region, in favor of a conception that underdevelopment is actively caused by the process of development in the advanced economies. Latin American underdevelopment is not a backward condition which precedes capitalism, but a consequence of world capitalist expansion (Ray 5).

Another major construct of dependency theory is the notion that the world is divided into "core" and "periphery" or "metropole" and "satellite." While the terminology may not be shared by all, the basic idea is the same: the core is composed of the affluent advanced countries and the periphery is made up of the underdeveloped poor countries (Angotti 126). Capitalism promotes development in the core, but underdevelopment in the periphery. The periphery is dependent upon the center, and the center expropriates surplus from the periphery. Within each country metropolis-satellite relations are replicated as the economic surplus of the countryside drains into the urban areas.

Most dependency theorists regard the ruling classes in the periphery as dependent on external forces. Elites in the satellite economies maintain dependency because their own private interests coincide with the interests of the dominant states. In other words, external relationships of the underdeveloped countries have had a profound impact on their internal structures. In general, dependency implies a widening of the gap between the rich and the poor in the underdeveloped countries (Tyler and Wogart 38).

IV. Critiques of Dependency Theory

"The litany of dependency's sins is a long one," said Munck (60). Criticisms of dependency theory have emerged from a variety of ideological positions. Dependency theory has a multitude of approaches and interpretations, and has been heavily criticized for its lack of a unified theory. Omar Sánchez said, "In a literature so fraught with ambiguity, inconsistency and vagueness, it is difficult to say with assurance precisely what is meant by 'dependency'" (4).

The most obvious weakness of dependency is its lack of empirical grounding. Some social scientists have attempted to empirically verify the assumptions of dependency, but leading dependency figures, especially Cardoso, strongly opposed this trend, contending that dependency propositions could not be subjected to simple empirical evaluation. William Tyler and J. Peter Wogart undertook a modest test of dependency along lines of an international comparison. They simply concluded that "there is not sufficient evidence to reject the dependency hypothesis" (42).

David Ray said that one of dependency theory's greatest weaknesses is the assertion that dependency is caused by the world expansion of capitalism. By making such a claim, the dependency theorists have ignored another plausible and more comprehensive explanation. Large and powerful nations have always imposed economic dependence on smaller, weaker neighbors, but Ray noted that this has been true of both capitalist and non-capitalist nations throughout history. Ray wrote, "Indeed, there is a striking similarity between the economic dependence which was imposed upon Latin America by the United States and the economic dependence which was imposed upon Eastern Europe by the Soviet Union [from the late 1940's to the late 1980's]" (8). The dependency theorists have concluded that powerful capitalist countries impose dependence on weaker countries, but Ray pointed out that powerful non-capitalist countries do the same. He concluded, therefore, that the common denominator is not capitalism, but a disparity of power (9).

Several critics, including Ray, argue that dependency theorists treat dependency as a dichotomous variable instead of a continuous one. Dos Santos implied that dependent countries face a choice between dependent capitalism or socialism, and there are no "intermediate solutions" ("Structure" 236). Many dependency theorists have intimated that an underdeveloped country faces two choices: it is either dependent or it is not; it is either exploited or it is not. Ray said, "Dependency/non-dependency is a continuous variable. There are degrees of dependence, and there are significant differences among those degrees" (14).

Many dependency theorists imply that non-dependence is achievable, but they avoid any definition of non-dependence and they do not provide a description of what a non-dependent economy would look like. The theorists say almost nothing about a non-dependent alternative and they rarely describe autonomous development. Dependency theory's inability to present a viable development alternative is one of its most glaring weaknesses.

In their explanation of dependency, André Gunder Frank and Immanuel Wallerstein defined capitalism as a system of exchange relations, characterized by monopoly and by exploitation. They have been criticized because they failed to distinguish between modes of production and economic systems. Their emphasis on metropolis-satellite relations leads to an overly abstract set of assertions: the core exploits the periphery and appropriates surplus (Petras 150). Brewer claims that Frank and Wallerstein failed to provide a real theory, and he suggests that the Marxist analysis of relations of production could fill in some of the gaps in their logic (Brewer 181).

Raúl Prebisch's findings and the resulting body of dependency literature led many Latin American countries to adopt a policy of import substitution industrialization. The leaders of Latin American countries realized that their economies could not improve if they continued to export only primary products and import manufactured goods. The basic strategy for industrialization was to develop industries oriented toward the domestic market by limiting imports through tariffs and quotas to encourage the replacement of imported manufactures with domestic products.

Import substitution industrialization policies did lead to economic growth in most Latin American countries from the 1950's to the 1970's, but industrialization did not have the consequences that policy makers hoped for. Balance of payments difficulties worsened, real wages did not rise fast enough to increase aggregate demand, and unemployment problems remained. This model was also highly reliant on foreign flows of capital that Latin American countries used to start their import substitution industries. This policy came under attack when it became clear that the expectations that Latin American policy makers had for import substitution did not ensue.

There are several reasons why import substitution industrialization did not work out the way it was supposed to. A period of protection does not necessarily create a competitive manufacturing sector if there are basic reasons why a country lacks a comparative advantage in

manufacturing (Krugman and Obstfeld 249). Poor countries often lack skilled labor, entrepreneurs, and managerial competence, and may also experience problems of social organization. While an import quota or tariff can allow an inefficient manufacturing sector to survive, it cannot directly make that sector more efficient. Latin American countries hoped that by giving industries the shelter of tariffs and quotas, the manufacturing sector would learn to be efficient. Moises Naim said that instead, import substitution industrialization "created an industrial base in Latin America that unfortunately was not very efficient, not very competitive, and was very dependent on foreign capital either borrowing or investing" ("Up for Debate" 4).

Evidence shows that protectionist policies associated with Latin American import substitution badly distorted incentives. Many countries employed very complex methods to promote their industries by using overlapping import quotas, exchange controls, and domestic content rules. Such high rates of protection allowed industries to survive even when their costs of production were three or four times more than the price of the imports they replaced. The import restrictions also tended to promote production at an inefficiently small scale (Krugman and Obstfeld 249). Often, the domestic markets of Latin American countries were not large enough to allow efficient-scale production. Those who criticize Latin American import substitution also argue that it aggravated other problems like income inequality and unemployment (Krugman and Obstfeld 250). Naim acknowledged these problems:

> Well, the reality is that very often it generates goods that are more expensive and probably of a lower quality and ends up impoverishing a lot of your neighbors, families and friends. It may create jobs here and there, but in the long term it may create even more poverty… [Import substitution] sounds like a good idea, except that when you do it behind high barriers that inhibit the efficiencies of the companies because they are not threatened by competition, you create very lazy, noncompetitive companies that produce not very good goods at higher prices. ("Up for Debate" 5)

Radical dependency theory has been criticized for its lack of empirical grounding, its emphasis on the world expansion of capitalism as the cause of underdevelopment, its inability to suggest a practical development alternative, and its treatment of dependency as a dichotomous variable. Import substitution industrialization, which came about in Latin America as a result of the growing body of policy-oriented dependency literature, has also been highly criticized because it did not solve the problems of Latin American underdevelopment. By the mid-1980's, dependency theory had reached an impasse.

V. The Currency of Dependency Theory

Dependency theory is the product of a particular period in Latin America's history and economic development. Yet many of the pressing issues addressed by dependency theory still exist today. Daron Acemoglu, Simon Johnson, and James A. Robinson discuss some aspects of dependency theory that are still relevant in their article "The Colonial Origins of Comparative Development: An Empirical Investigation." They hypothesize that settler mortality affected settlements; settlements affected early institutions; early institutions persisted and formed the basis of current institutions; and, current institutions affect income and economic growth (1373).

Acemoglu et al. explain that different types of colonization policies created different types of institutions. At one extreme, European powers established "extractive states" such as the Belgian Congo, the Gold Coast, and the Latin American colonies. The main purpose of these extractive states was to transfer as much of the resources of the colony to the colonizer or metropole. Within the extractive states there was a lack of protection for private property and there were no checks and balances against government expropriation. These institutions were detrimental to investment and economic progress. At the other extreme, European powers created "Neo-Europes" or "settler colonies" such as the United States, Australia, and New Zealand. The settlers replicated European institutions and there was an emphasis on private property and checks against government power. These institutions encouraged investment and economic growth (Acemoglu, Johnson, and Robinson 1370).

The colonization strategy of the European powers was influenced by the feasibility of settlements. In an unfavorable disease environment, the formation of extractive states was more likely. In more favorable environments, the colonizers tended to establish "settler colonies." Acemoglu et al. postulate that the colonial state and institutions persisted even after independence, suggesting that there is a strong correlation between early institutions and institutions today. In other words, in places where Europeans faced high mortality rates, they could not settle and were more likely to set up extractive institutions. These institutions persisted to the present (Acemoglu, Johnson, and Robinson 1370).

Acemoglu et al. describe the colonial experience in Latin America during the 17th and 18th centuries to strengthen his hypothesis. They state, "The main objective of the Spanish and the Portuguese colonization was to obtain gold and other valuables from America" (1375). The Spanish granted rights to land and labor and set up a complex mercantilist system full of

monopolies and regulations to extract resources from the colonies. There is historical evidence which suggests that the control structures and extractive institutions established in the extractive colonies persisted after the colonial regime ended. Acemoglu et al. explain that when the local elites inherited the extractive institutions, they may have not wanted to incur the costs of introducing better institutions so they exploited the existing extractive institutions for their own benefit. As a result, in Latin America, the monopolies and regulations established by Spain remained intact even after independence (Acemoglu, Johnson, and Robinson 1376).

In the first of issue of *Latin American Perspectives* Frank said, "Dependency is dead, long live dependency" (Topik 96). Although dependency is no longer a popular outlook on underdevelopment, some of the central concepts of dependency are still relevant today. Acemoglu, Johnson, and Robinson's article discusses many of these issues. They claim that Latin America was colonized as an "extractive colony" and has remained an extractive economy for the most part. The persistence of extractive institutions explains the trade patterns that Latin America has experienced with developed countries and may also explain why Latin America has not caught up to some of the advanced nations. Munck said, "We could, indeed, make the case that dependency is alive and well in Latin America today" (66). Munck highlighted the growing income disparity within Latin America, the polarization between high and low-income groups of countries, and the declining terms of trade experienced by developing countries. In 1998, Dos Santos said that the main reason dependency is not dead "is the persistence of a world economic system characterized by the difference between central or dominant nations and peripheral or dependent ones" ("Theoretical Foundations" 61).

While dependency is considered a dead horse by some, many issues and questions addressed by dependency theory still exist. Some of these issues are now arising in regard to Sino-Latin American trade relations. Trade between the two regions has increased dramatically in the last 20 years as a result of China's rapid economic growth. Latin America exports mainly raw materials and primary products to China, while China exports manufactured goods to Latin America. Many of the issues addressed by the dependency theorists are relevant to these trade patterns, and later in the paper I evaluate the extent to which Sino-Latin American trade resembles a dependent relationship. In the next section, I review the history of Sino-Latin American trade relations, and then discuss current Sino-Latin American trade patterns.

PART THREE: SINO-LATIN AMERICAN TRADE RELATIONS

I. History of Sino-Latin American Trade Relations

Trade relations between China and Latin America date back to the 1560's when a marine silk road was built between China's coastal region and Mexico's Acapulco via Manila. The Chinese exported silk, porcelain, cotton cloth, arts and crafts, jewelry, gun powder, and animals to Latin America, and imported shoes, hats, wine, olive oil, soap, tobacco, and food from the region. By the early 19th century, Spain began importing silk and other goods directly from China via new maritime routes. At the same time, Great Britain was exporting more and more to Latin America, reducing the Latin American demand for Chinese goods. As a result, in 1815, the last ship sailed from Acapulco to Manila via the silk road on the sea (Shixue 1).

In 1949, when the "new China" was founded, Chinese leaders hoped to develop economic relations with Latin America. Bilateral trade between the two regions, however, remained limited in scale and scope from the 1950's to the 1970's. In fact, it was not until 1978 when China carried out some reform policies that economic relations between the two regions developed more rapidly (Shixue 2). Jorge I. Domínguez, the director of the Weatherhead Center for International Affairs at Harvard University, explains that China kept and developed diplomatic and economic relations with South American military regimes, especially Argentina, Brazil, and Chile, in the 1970's. As a result, Latin American military and right-wing political and social forces were not and are still not fearful of China. Throughout the 1970's, China also developed its relations with civilian governments in Mexico and Venezuela. Domínguez concludes that "Latin America had long been ready for a boom in it relations with China, but only in the current decade did China achieve the capacity to capitalize on such opportunities" (3).

In April 2001, former Chinese President Jiang Zemin took a 13-day tour to Chile, Argentina, Brazil, Venezuela, Uruguay, and Cuba to increase economic and trade ties. This visit generated a wave of visits by senior officials and business leaders between China and Latin America to discuss political, economic, and military concerns (Domínguez 2). In November 2004, current Chinese President Hu Jintao visited Latin America in conjunction with an Asia-Pacific Economic Cooperation (APEC) summit in Santiago, Chile. Before the summit meeting, Hu visited Argentina, Brazil, Chile, and Cuba, and signed 39 bilateral agreements concerning energy cooperation, infrastructure financing, commodity purchasing contracts, and deals in telecommunications, education, and tourism (Jubany and Poon 3). During this trip, Hu also

announced China's promise of providing $100 billion in investments in Latin America over the next 10 years (Orozco 2).

In January and February 2005, Chinese Vice President Zeng Qinghong visited Mexico, Venezuela, Peru, Trinidad and Tobago, and Jamaica with a group of Chinese officials and top business executives. In Jamaica, he attended the first ministerial meeting of the China-Caribbean Economic and Trade Cooperation Forum. During this trip he signed 38 agreements in energy, economic cooperation, transport, telecommunications, and other fields. Key Latin American leaders have also led some high-level trade and investment delegations to China, including Bolivian President Morales in January 2006, Brazilian President da Silva in May 2004, Argentine President Kirchner in November 2004, and Venezuelan President Chavez in December 2004 (Jubany and Poon 3). These visits show that China and Latin America have clearly attached greater importance to their bilateral economic relations.

II. Current Sino-Latin American Trade Relations

In 2005, China became the fourth largest economy in the world, overtaking the United Kingdom. China's economy has been growing at nearly ten percent a year for the past quarter century, and its share of world trade has jumped from a meager 1 percent to 6 percent. As China's worldwide trade increased, its trade with Latin America did too. Trade values between the two regions increased greatly from $1.3 billion in 1980 to $12 billion in 2000 to about $50 billion in 2005. From 1993 to 2003 trade expanded by 600 percent and doubled from 2000 to 2003 when total trade reached $26.8 billion (Ho 2). China became Latin America's third largest trading partner in 2005, and Chinese imports from Latin America have grown by 60 percent on average per year since 1999 (Mitchell and Bajpaee 1). In 2004 and 2005, China's imports from Latin America came predominantly from Brazil, Chile, Argentina, Mexico, and Peru. In those same years, China's top export destinations in Latin America were Mexico, Brazil, Panama, Chile, and Argentina (Dumbaugh and Sullivan 2).

Almost all Latin American countries have experienced an increase in their exports to China. These exports are mostly raw materials and natural resources. In fact, about 75 percent of Latin America's exports to China are made up of primary products (Jenkins, Peters, and Moreira 3). The reason for this pattern is simple: China is searching for energy resources, raw materials, and commodities to maintain its economic growth. China needs oil, coal, iron ore, and

copper for its factories; soybeans and poultry to feed its 1.3 billion people; lumber for housing; and, feeding stuffs for its livestock. Total Chinese commodity imports have increased by a factor of 20 over the last two decades to nearly $20 billion in 2004, and commodities now make up about a third of China's total imports (Trinh, Voss, and Dyck 2). In 2003, Chinese imports of nickel doubled, its copper imports increased by 15 percent, oil by 30 percent, and soybeans by 70 percent. China is the world's leading importer of copper, metal ores, textile fibers, and pulp and paper (Santiso 2).

Latin America has a strong commodity endowment: 47 percent of world exports of soybeans and 40 percent of world exports of copper are concentrated in the region, among other important primary products (Santiso 2). The region has the commodities and raw materials that China needs to maintain its economic growth. Deutsche Bank Research says although Chinese commodity import demand growth rates have peaked or will peak soon, they will remain in lower double-digit territory for the next ten years. These growth rates signify staggering increases in import demand quantities for these commodities (Trinh, Voss, and Dyck 3). According to this finding, China will continue to show a voracious appetite for Latin American raw materials, energy resources, and agricultural products, from oil to lumber to copper to soybeans.

In regards to the different metal ores, China is the number one importer of iron ore, manganese, lead, and chromium with shares of world imports ranging from 32 percent to 54 percent (Trinh, Voss, and Dyck 4). Most of these metals are used in China's fast growing steel industry. Brazil is the largest exporter of iron worldwide and the third largest supplier of the metal for China. In 2004, Brazil supplied about 22 percent of China's total imports of iron ore. China is the world's second largest importer of copper, which is used mainly in electrical products, metal products, and almost any Chinese industry from IT hardware to automobile assembly. Chilean copper makes up about one-fifth of China's total copper imports while China accounts for about one-sixth of Chile's copper exports (Domínguez 18). Chile and Peru are the world's leading copper producers, and together they account for more than half of China's imports of the metal (Trinh, Voss, and Dyck 7).

Increased consumption of soybean oil and soybean meal has driven the growth in Chinese soybean demand. China accounts for about 40 percent of world soybean imports, worth about $7 billion in 2004. Brazil and Argentina are the world's second and third largest producers

of soybeans, respectively. Together the two countries account for more than 50 percent of China's total soybean imports. Between 1999 and 2004, China's imports of soybeans from Argentina and Brazil experienced a ten-fold increase from $360 million to $3.6 billion (Trinh, Voss, and Dyck 9). In addition, Brazil and Argentina supply almost 20 percent of China's meat imports.

China's dominant import commodity is crude oil, and the emerging powerhouse is now the world's second largest consumer of oil after the United States. China's largest energy trading partner in Latin America is Venezuela, but Venezuelan petroleum sales to China represented only 2.3 percent of China's total oil imports in 2005. Most Venezuelan oil is low-grade and sulfur-rich, and most Chinese refineries cannot generate gasoline and heating oil from such petroleum, which is why China imports so little of it. Recent forecasts, however, have predicted that by 2012, Venezuelan oil will account for 15 to 20 percent of China's oil import needs (Jubany and Poon 4). The two countries have agreed on a strategic energy plan that extends until 2011 and commits Venezuela to increase oil exports to China (Jubany and Poon 2). China is also exploring energy deals in Brazil, Argentina, Ecuador, Bolivia, Peru, and Colombia.

While many Latin American countries have a comparative advantage in natural resource-based goods and commodities, China enjoys a comparative advantage in labor-intensive goods like electronics, apparel, toys, and footwear because of the country's vast labor abundance. A labor force of 640 million translates into wages that are well below the prevailing rates. In fact, wages are four times lower in China than in Latin America on average (Blázquez-Lidoy, Rodríguez, and Santiso 14). Latin America provides a large market for these relatively cheap Chinese manufactured products. For the region as a whole, China's share of total imports increased from 1.9 percent in 1999 to 5.1 percent in 2003. About 90 percent of those imports were manufactured goods, and over 85 percent were non-resource-based manufactures (Jenkins, Peters, and Moreira 4).

III. The Analysts' Evaluation of Sino-Latin American Trade Relations

The growth in Sino-Latin American trade has led many analysts to evaluate whether China is a threat or an opportunity for Latin America. In these evaluations, many analysts have focused on trade competition. In "Angel or Devil? China's Trade Impact on Latin American Emerging Markets," Jorge Blázquez-Lidoy, Javier Rodríguez, and Javier Santiso suggest that

there is generally very little direct trade competition between China and Latin America in the US market. Using a database of 620 different goods, they compare Chinese trade competition from 1998 to 2004. They break down the results by country and find that Paraguay, Venezuela, Bolivia, and Panama suffer least from Chinese trade competition. Brazil, Colombia, and Peru are in an intermediate position, and Mexico and Central American countries face the most Chinese competition (19). Based on China's strong demand for raw materials and the subsequent increase in commodity prices, the authors conclude that "Latin America is a clear trade winner from China's global integration" (7).

Most analysts agree that overall, China and Latin America have complementary rather than competing economies. China needs raw materials and commodities, and Latin America supplies them. Countries with a strong comparative advantage in natural resource-based sectors, such as Argentina, Brazil, Peru, and Chile, are benefiting greatly from China's increased demand for primary products. In addition to providing commodities and raw materials, Latin America also offers a large market for China's cheap manufactured goods. As a result of this complementarity, some analysts have labeled Sino-Latin American trade "a match made in trade heaven" (Orozco 1).

While most analysts claim that China provides a "helping hand" for Latin America, others have acknowledged that China's low labor costs pose a threat to some countries. Soon after China entered the World Trade Organization in 2001, it flooded the region with cheap manufactured products, threatening local Latin American industries (Orozco 1). China poses the greatest threat to countries that rely heavily on labor-intensive manufacturing as their export advantage, particularly Mexico and the Central American countries. These countries are facing shrinking participation rates in the export market, especially in the US. Domínguez says that China has become a strong competitor in manufactured goods, "making deep inroads into markets in Mexico and Central America and, more recently, in Brazil and Argentina" (2). In addition, Mexico and Central American countries are experiencing growing trade deficits with China, while most Latin American countries are experiencing trade surpluses.

Andres Oppenheimer, Latin American editor and foreign affairs columnist with *The Miami Herald*, warns that China will soon switch from exporting apparel, footwear, and toys to exporting more sophisticated products, like cars and trucks. Manuel Rocha, a former US ambassador to Bolivia who now heads a consulting firm selling Chinese buses in Latin America,

says, “There will be massive sales of more sophisticated Chinese products in Latin America. Their quality is decent, and they sell way below market prices” (Oppenheimer 1). This could have a negative impact on the region, leading to large trade deficits with China. Thus far, China has been a godsend to countries like Argentina, Brazil, Chile, and Peru by importing massive amounts of soybeans, copper, nickel, and other primary products. Oppenheimer warns that if China begins selling high value-added goods to the region, Sino-Latin American trade may no longer be as beneficial to Latin America as in the past.

For some Latin American countries, China’s growth provides a trade opportunity, but for others, China poses a competitive threat. Next, I will focus in detail on two Latin American countries, Brazil and Mexico, and their starkly different trade relations with China.

PART FOUR: CASE STUDIES

I. Sino-Brazilian Trade Relations

Analysts agree that China’s most important relationship in Latin America is with Brazil. The two established commercial relations before the 1949 communist victory in China, and diplomatic relations in 1974 when Brazil was under an anti-communist military dictatorship. Once diplomatic relations were solidified, Sino-Brazilian trade developed rapidly, and since the 1990’s bilateral trade has exploded (Domínguez 27).

In 1994, Brazil became the first Latin American country that China labeled a “strategic partner.” Both Brazil and China seek a stronger and more influential place in international affairs, and they welcome a more constrained role for the United States (Domínguez 28). Brazil wants China to be a “soft balance” to US power in Latin America by providing new political and economic options. Brazil supported China’s membership into the World Trade Organization and recognized China as a “market economy” during Jintao’s 2004 visit. In addition, Brazil backs China’s bid for membership in the Inter-American Development Bank. The two joined together as leaders of the Group of 20 within the Doha Round of negotiations to demand agricultural safeguards for less developed countries. China and Brazil have also cooperated in satellite technology, energy and infrastructure development, and aircraft manufacturing (Mitchell and Bajpaee 2).

Sino-Brazilian trade has experienced a tremendous boom since the 1990’s. In fact, China is Brazil’s fastest-growing export market. In 2003, Brazil accounted for 42 percent of Latin

American exports to China (Buck 18). China purchased 80 percent more from Brazil in 2003 than in 2002. Bilateral trade quintupled from 2000 to 2004, totaling over $12 billion in 2004. In the first three months of 2007, bilateral trade totaled $4.348 billion ("Chinese exports" 1). China bought 5.7 percent of Brazil's exports in 2005, up from 1.4 percent in 1999. In 2004, China became Brazil's fourth most important trade partner, and since mid-2005, China is among Brazil's three largest trading partners (Domínguez 27).

China seeks economic security, especially in food and natural resources. Brazil's ample reserves of iron ore, soybeans, wood, and arable land seem to be a perfect match for China's growing scarcity and demand for these resources. As a result, Brazil's top four exports to China are all raw materials and foodstuffs. In 2005, 75 percent of exports from Brazil to China were focused on just five commodities: soy, iron ore, steel, soy oil, and wood ("Brazil exports" 1). Soybean trade in particular has exploded between the two regions. China began looking overseas for soybean supplies in the mid-1990's when the scope of its land and water problems became evident. In 2004, soybeans made up about 30 percent and soybean products another 9 percent of Brazil's exports to China. These soybean exports represented only 2.2 percent of Brazil's total worldwide exports, but 30 percent of China's total soybean imports (Domínguez 19). In 2006, Brazil sent about 11 million tons of soybeans to China, a 50 percent increase from the previous year, and about double the amount shipped in 2004 (Barrionuevo 4).

Many analysts argue that the current Sino-Brazilian trade patterns are beneficial to Brazil. China's strong demand for commodities has pushed up the prices of copper, iron ore, soybeans, and other primary products. Brazil now enjoys larger volumes of exports and higher world prices for its commodities (Jenkins, Peters, and Moreira 10). Others, however, have expressed concern regarding Sino-Brazilian trade patterns. Alexei Barrionuevo says, "For all the gains here, though, the surge in exports to China has a created a sense of unease among many in Brazilian agriculture, who worry the tightening relationship will accelerate a development model in which Brazil is too reliant on sales of raw natural resources rather than higher-value products" (3). This issue will be discussed in detail later in the paper.

While Brazilian commodity suppliers have benefited from China's strong demand for natural resources and raw materials, Brazilian manufacturers in footwear, toys, textiles, and electronics are beginning to suffer from Chinese competition. In 2004, 80 percent of Brazil's imports from China were manufactured goods (Jenkins, Peters, and Moreira 14). One out of four

Brazilian businesses now competes with imported Chinese merchandise. In 2005, Brazilian shoemakers sold 23 million fewer pairs than the previous year and cut 15,000 jobs. Analysts warn that within the next five years, China's automobile industry will become the new looming threat for Brazil, the world's number nine car manufacturing country ("Trade Deficit" 10).

Since late 2003 Brazil has enjoyed a trade surplus with China, but in the first quarter of 2007, Brazil's trade with China slipped into a deficit. This change is attributed to China's increased shipments of manufactured goods to Brazil. In March 2007, Chinese exports to Brazil reached $942 million, the highest figure ever reached in a single month of trade between the two countries. Since 2007, China has overtaken Argentina as the second largest supplier of imported goods to Brazil, behind the US. Foreign Trade Studies Center economist Fernando Ribeiro says, "This year we [Brazil] are going to mark a trade deficit with China…It is just a taste of what we have ahead of us" ("Trade Deficit" 11).

Domínguez says, "These concerns do not override, however, the overwhelmingly positive sense of success, dynamism, and a bright future in Sino-Brazilian relations" (30). While some analysts like Domínguez emphasize the boom in commodity trade enjoyed by Brazilian primary product producers, others have spotted a clear worrying trend. Brazilian manufacturers are experiencing increased competition from China, and Brazil now faces trade deficits as China exports more and more manufactured goods to the region. The next few years will test whether China and Brazil can live up to the expression—a strategic partnership.

II. Sino-Mexican Trade Relations

Like Brazil, Mexico is one of China's "strategic partners" in Latin America. In 1971, Mexican President Luis Echeverría established diplomatic relations with China. In 1973, Echeverría became the first Latin American president to visit Beijing. Throughout Echeverría's presidency from 1970 to 1976, China and Mexico cooperated many times in multilateral organizations, and trade disputes were minor (Domínguez 38). There remains a good political understanding between the two countries. China and Mexico share similar views of international affairs, have made similar stances in multilateral bodies, and several Chinese leaders studied at the Colegio de Mexico and speak Spanish fluently (Jubany and Poon 1). In addition, Mexico supports China's bid to join the Inter-American Development Bank.

The Sino-Mexican relationship is marked by cooperative political dialogue on the one hand, and tense economic relations on the other. The first "dark cloud" appeared in 1993 when President Carlos Salinas's administration imposed anti-dumping duties of 1,100 percent on shoe, toy, and textile imports from China (Shixue 3). These duties, which were equal to a total ban, were levied in response to Mexico's fear of Chinese competition. In June 2001, Mexican President Vincente Fox visited Beijing to discuss China's accession to the World Trade Organization and to promote Mexican exports. China's membership in the WTO meant Mexico would have to remove the anti-dumping duties. Mexico also feared that China within the WTO would compete strongly with Mexican exports in the US market. As a result, Mexico was the last of the 141 members of the WTO to sign a bilateral agreement with China to clear its admission to the organization (Domínguez 38).

Mexico's overall trade importance for China is second only to Brazil's in the region. Mexico is China's principal export market in Latin America, and since 2003, China has become Mexico's second largest trading partner only after the US (Jenkins, Peters, and Moreira 21). China tends to buy natural resources and primary products from the majority of Latin American countries, but Sino-Mexican trade most resembles trade between industrial nations. China exports electromechanical equipment, household appliances, textiles, and chemical products to Mexico, while Mexico exports synthetic fibers, steel products, plastics, and beer to China (Domínguez 39). Sino-Mexican trade is growing rapidly, but asymmetrically. China imports less than 1 percent of Mexico's total exports, but is the second largest supplier for Mexico's imports. In 2004, Mexican exports to China were $1.9 billion, while Chinese exports to Mexico reached $9.1 billion (Orozco 3). Mexico has a growing trade deficit with China which reached $14 billion in 2006. For every dollar that Mexico makes from its exports to China, China makes $31 from its exports to Mexico (Johnson 5). No other Latin American country has such large deficits with China.

In addition to concerns about the asymmetrical nature of Sino-Mexican trade, Chinese competition continues to threaten Mexican manufacturers. The two countries are direct competitors, particularly in the production of labor-intensive goods. China and Mexico specialize in similar sectors: IT and consumer electronics, electronic components, automobile parts, clothing, textiles, footwear, basic manufactures, and leather products. China can produce these labor-intensive goods at a much lower cost. On average in 2002, the Chinese monthly

salary in the manufacturing sector was $112, while it was around $440 in Mexico (Blázquez-Lidoy, Rodríguez, and Santiso 14). Carlos Rovelo, an international business professor at Eastfield College in Dallas says, "Mexico can't compete with Chinese government subsidies and cheap labor" (Orozco 3).

In 2003, Mexico was overtaken by China as the US's second largest supplier. Also in that year, Mexico lost market share in the US import market for the first time since the 1994 North American Free Trade Agreement. Domínguez says that 12 of Mexico's twenty most important economic sectors that export to the US face some or substantial competition from China (39). In sectors like automobile parts, television receivers, video monitors, electric motors, and generators, Mexico continues to hold strong market share despite modest Chinese inroads. In lower technology goods, however, China has a much stronger and often dominating share in the US market. Empirical studies show that in sectors like electronics, textiles, footwear, and clothing, China has directly displaced Mexico's production in both the domestic market and the US market (Jenkins, Peters, and Moreira 24). In addition to losing US market share, Mexico has lost an estimated 400,000 jobs to China since 2003. Sony, NEC, VTech, and Kodak have closed their Mexican operations and moved to China. By 2003, 85 percent of shoe manufacturers in Mexico had shifted operations to China. In 2006 alone, more than 300 companies moved production from Mexico to China (Buck 9).

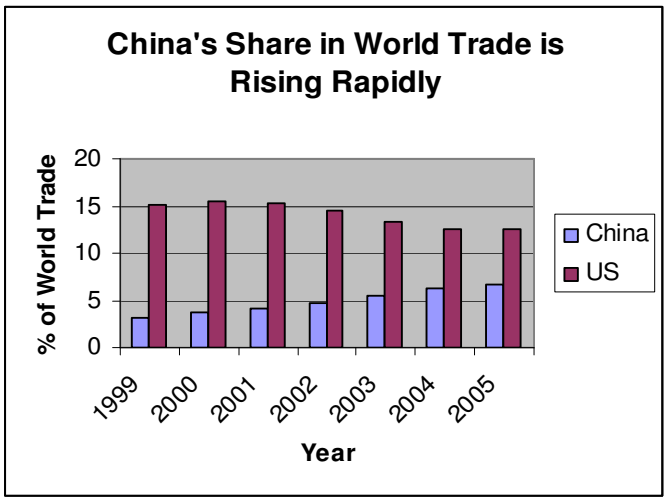
Some analysts believe that the "China threat" is a good wake-up call for Mexico and may lead to reforms that allow Mexico to remain in the competitiveness race. Chinese competition may stimulate Mexico to upgrade its manufacturing industry and enhance human skills. Mexico has already begun to engage in activities that require more skilled labor such as aeronautics, software, and pharmaceuticals. Several analysts emphasize that Mexico's proximity to the US gives it a competitive advantage over China. Goods shipped across the Rio Grande reach their destinations more quickly than the three weeks needed for Chinese shipments to reach California. Roger Tissot, director for Latin America at PFC Energy says, "Mexico should reorganize its export strategy by focusing on manufacturing hard-to-ship goods like cars and appliances" (Orozco 4). Mexico may want to identify sectors and products where the issues of distance and time are key comparative and competitive assets.

Mexico realizes that China's threat is very real. Mexico had sought to capitalize on its comparative advantage in producing labor-intensive, low value-added goods, but this "put it on a

collision route with China" (Buck 22). Unlike many Latin American countries, Mexico does not want China to provide a soft or hard balance to US influence. Instead, President Fox's policy is to contain competition from Chinese firms against Mexican producers in NAFTA markets. In 2005, Fox publicly referred to China as Mexico's competitor, not its partner (Domínguez 39). Mexico and China have strategic value for each other, but clearly they are not yet partners.

PART FIVE: SINO-LATIN AMERICAN TRADE DATA

China's Share in World Trade



Source: IMF Direction of Trade Statistics

China's economic boom is a major global change, and some analysts have called China's emergence "the issue of the decade" (Blázquz-Lidoy, Rodríguez, and Santiso 9). In 2005, China became the fourth largest economy in the world, overtaking the United Kingdom. Over the last 20 years, China has emerged as a major player in world trade. China's share in world trade jumped from a meager 3.1 percent in 1999 to almost 7 percent in 2005. If China's growth in trade holds, the powerhouse will emerge as the third largest trading economy in the world, overcoming for the first time Japan and ranking behind the United States and Germany.

China's Trade with Main World Regions

Year	US & Canada	Europe	Asia	Middle East	Latin America
1999	18.372	2.969	34.616	2.485	2.205
2000	17.169	3.330	34.906	3.610	2.537
2001	17.245	3.652	34.076	3.397	2.842
2002	16.943	3.756	35.862	3.229	2.784
2003	16.046	4.029	35.436	3.410	3.047
2004	16.059	3.908	35.465	3.536	3.383
2005	16.275	4.284	35.185	3.992	3.420

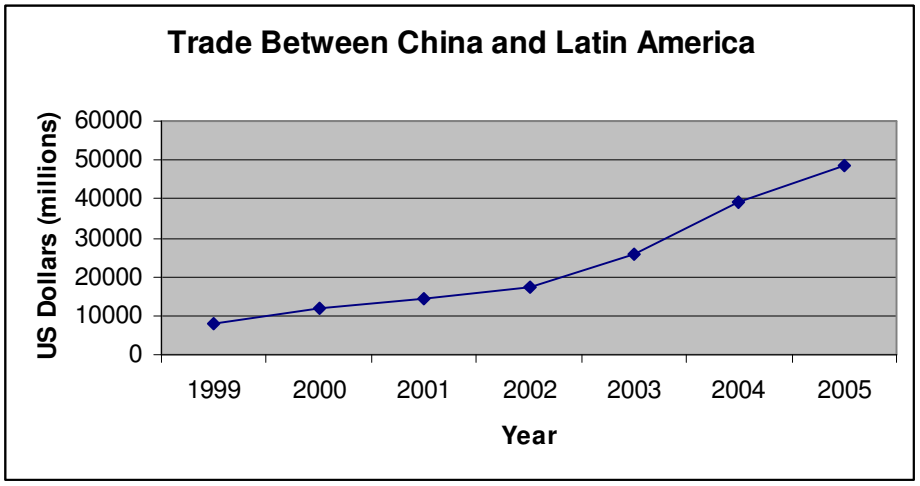
Note: The table shows China's trade with the main world regions as a percentage of China's total trade.
Source: IMF Direction of Trade Statistics

China's economic growth explains its boom in trade with various areas of the world. China trades predominantly with other Asian countries. In fact, Sino-Asian trade accounts for more than a third of China's total trade. After Asia, China trades the most with the United States and Canada, but their share in China's total trade has decreased slightly since 1999. Latin America's share in overall Chinese trade is still small, but has increased steadily over the last 20 years, and markedly since 1999.

Trade Between China and Latin America

Year	Total Trade
1999	7,951
2000	12,034
2001	14,503
2002	17,291
2003	25,939
2004	39,070
2005	48,653

Note: Trade values are in US dollars (millions).
Source: IMF Direction of Trade Statistics



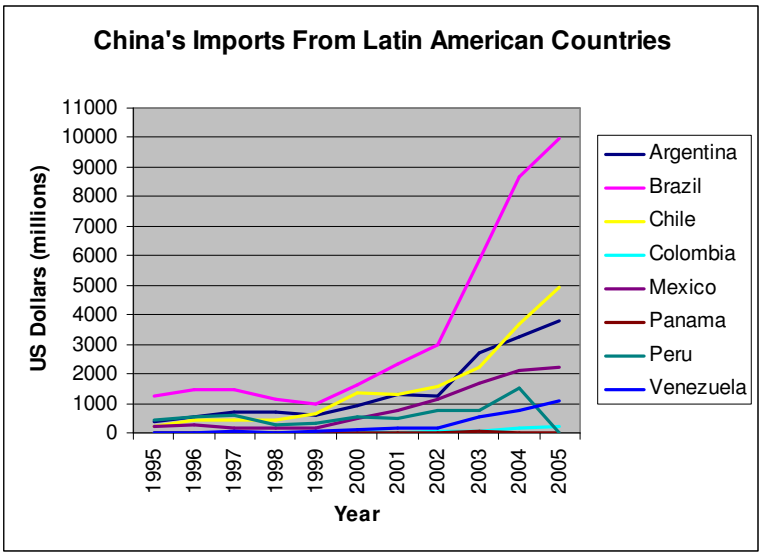
Source: IMF Direction of Trade Statistics

Bilateral trade between China and Latin America was limited in scale and scope until the 1970's. It was not until 1978 when China carried out some reform policies that economic relations between the two regions developed more rapidly. Sino-Latin American trade values increased remarkably from $1.3 billion in 1980 to $12 billion in 2000 to about $50 billion in 2005. From 2000 to 2005, bilateral trade quadrupled, and in 2005, China became Latin America's third largest trading partner. Analysts predict that by 2010, Sino-Latin American trade values will reach $100 billion.

China's Imports from Latin American Countries

Year	Arg	Bra	Chi	Col	Mex	Pan	Per	Ven	Total LA	Total World
1995	370	1,228	231	14	195	8.4	460	15.8	2,522	132,163
1996	518	1,484	455	0.9	297	1.7	523	25	3,305	138,949
1997	721	1,486	415	3.4	184	1.6	617	32	3,460	142,163
1998	723	1,133	422	8.2	152	1.2	288	13	2,740	140,385
1999	590	969	664	21	159	1.1	310	28	2,742	165,718
2000	930	1,621	1,339	32	488	1	560	95	5,066	225,175
2001	1,281	2,347	1,303	26	763	2	498	146	6,366	243,567
2002	1,240	3,003	1,565	29	1,115	4	732	145	7,833	295,440
2003	2,729	5,844	2,245	60	1,677	29	760	542	13,886	412,836
2004	3,255	8,684	3,676	176	2,140	15	1,524	738	20,208	561,442
2005	3,800	9,982	4,943	205	2,227	22	2,265	1,106	24,550	660,218

Note: The figures represent the raw value of China's imports in US dollars (millions) from each country. The "Total LA" column refers to the total value of imports contributed by these countries. The "Total World" column refers to the total value of all of China's imports per year. The countries are (in order shown): Argentina, Brazil, Chile, Colombia, Mexico, Panama, Peru, and Venezuela.
Source: IMF Direction of Trade Statistics



Source: IMF Direction of Trade Statistics

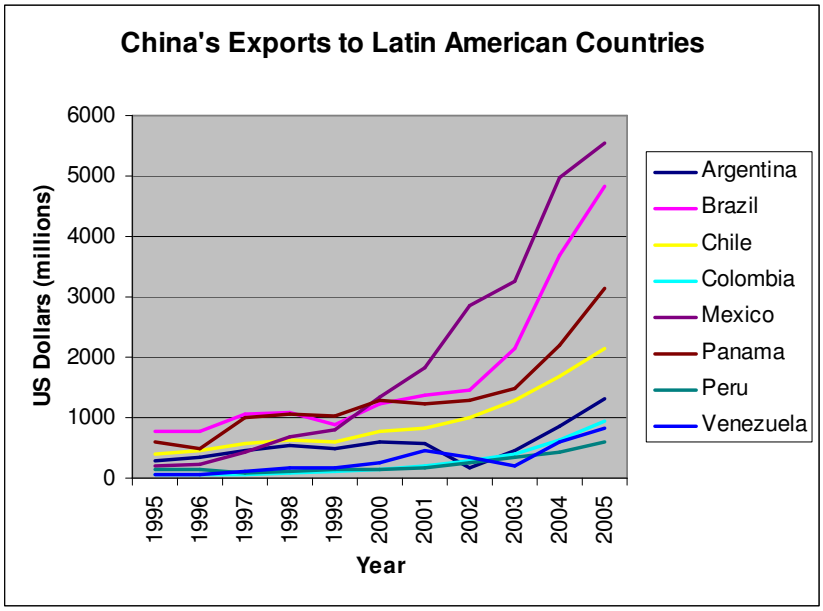
China's imports from Latin America have grown 60 percent on average each year since 1999. In 2004, Latin America accounted for 4 percent of China's total imports. China has turned to Latin America, especially Brazil, Argentina, and Chile, to satisfy its growing demand for raw materials and natural resources. As a result, most Latin American countries are witnessing a tremendous increase in their exports to China. In 2004, exports to China represented 6 to 10 percent of the exports of Argentina, Brazil, Chile, and Peru.

China's imports from Brazil in particular have experienced a tremendous boom since the 1990's. China purchased almost 50 percent more from Brazil in 2004 than in 2003. Since 2001, Brazil has accounted for at least 35 percent of China's imports from Latin America. Most analysts agree that Brazil's vast reserves of iron ore, wood, and arable land are a good match to China's growing scarcity of these resources. In 2005, soybeans, iron ore, steel, soy oil, and wood made up 75 percent of China's imports from Brazil.

China's Exports to Latin American Countries

Year	Arg	Bra	Chi	Col	Mex	Pan	Per	Ven	Total LA	Total World
1995	274	759	411	52	195	594	146	69	2,500	148,955
1996	337	768	464	47	221	486	139	52	2,514	151,165
1997	465	1,057	563	70	415	1,010	98	119	3,797	182,917
1998	550	1,086	619	93	689	1,053	107	170	4,367	183,744
1999	496	876	605	104	792	1,037	131	161	4,202	194,936
2000	610	1,224	784	156	1,335	1,290	144	256	5,799	249,208
2001	574	1,363	816	205	1,819	1,240	177	444	6,638	266,709
2002	185	1,466	998	287	2,864	1,274	247	333	7,654	325,744
2003	447	2,145	1,283	398	3,267	1,480	354	199	9,573	438,364
2004	852	3,675	1,689	630	4,973	2,187	418	596	15,020	593,358
2005	1,325	4,829	2,151	930	5,537	3,151	609	837	19,369	762,337

Note: The figures represent the raw value of China's exports to each country in US dollars (millions). The "Total LA" column refers to the total value exported to these countries per year. The "Total World" column refers to the total value of all of China's exports per year. The countries are (in order shown): Argentina, Brazil, Chile, Colombia, Mexico, Panama, Peru, and Venezuela.
Source: IMF Direction of Trade Statistics



Source: IMF Direction of Trade Statistics

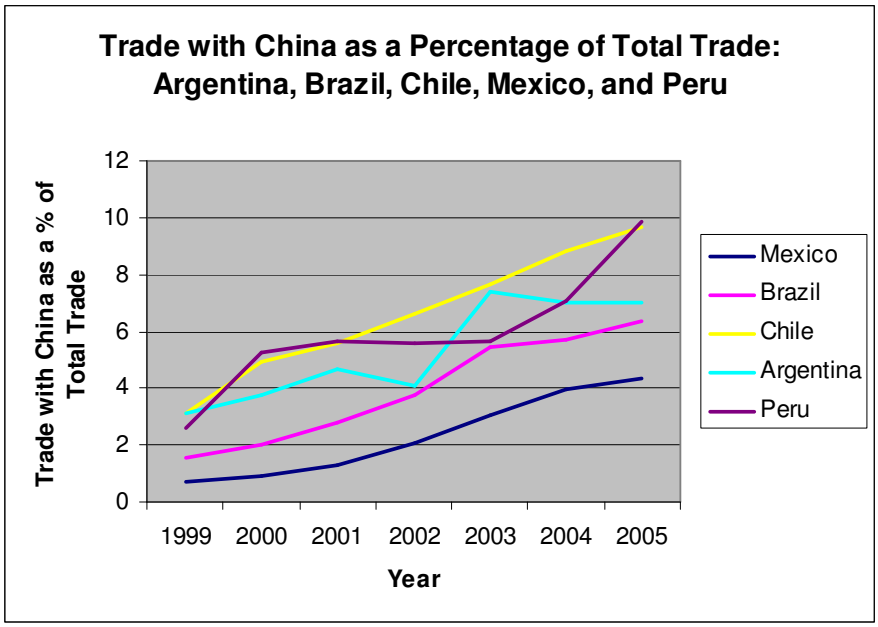
China entered the World Trade Organization in 2001, and since then it has increased its exports of cheap manufactured goods to Latin America. Latin America's share of Chinese exports rose from 1 percent in 1990 to 3 percent in 2004. In 2005, China's top Latin American export destinations were Mexico, Brazil, Panama, Chile, and Argentina. China's exports to Latin

America typically consist of labor-intensive goods, including electronics, footwear, clothing, textiles, and appliances. Analysts predict that China will soon begin to sell more sophisticated products to the region, such as cars and trucks.

Percentage of Total Trade with China

Year	Argentina	Brazil	Chile	Mexico	Peru
1999	3.10	1.57	3.08	0.73	2.61
2000	3.79	1.99	4.91	0.90	5.26
2001	4.67	2.82	5.58	1.30	5.64
2002	4.10	3.79	6.61	2.07	5.55
2003	7.37	5.47	7.67	3.06	5.66
2004	7.03	5.70	8.82	3.95	7.04
2005	7.03	6.35	9.64	4.32	9.86

Note: The table shows each country's trade with China as a percentage of its total trade.
Source: IMF Direction of Trade Statistics



Source: IMF Direction of Trade Statistics

In the last five years, Argentina, Brazil, Chile, Mexico, and Peru have experienced increases in their trade with China as a percentage of their total trade. This trend indicates that China has come to matter significantly for Latin American countries. Brazil in particular has attached greater importance to its trade relations with China. Sino-Brazilian trade has more than quadrupled in just four years. In 2004, China became Brazil's fourth most important trade partner, and since mid-2005, China is among Brazil's three largest trading partners.

Chile's Copper Exports to China

Year	Chile's Copper Exports to China	Chile's Total Exports to China	Copper Exports as a % of Total Exports to China
1999	111,680,136	357,304,416	31.256
2000	382,453,728	901,769,408	42.411
2001	333,726,016	1,065,034,432	31.335
2002	568,263,360	1,224,824,064	46.396
2003	897,224,640	1,817,061,632	49.378
2004	1,706,711,122	3,211,996,580	53.136
2005	1,889,851,691	4,389,876,909	43.050

Note: The table shows Chile's total copper exports to China, Chile's total exports to China, and Chile's copper exports to China as a percentage of its total exports to China. Export values are in US dollars and are based on the SITC Rev. 1 classification.
Source: UN Comtrade (Commodity Trade Database)

China is the world's largest importer of copper, which it uses in electrical products, metal products, IT hardware, and automobile parts. In 2005, China's share of world copper imports rose to 22 percent. Chile is the world's largest copper producer, and it supplies about 20 percent of China's copper imports. Chile's main export products to China are copper, paper, and fish flour, but copper is clearly the most important export product. Since 1999, copper has made up 42 percent of Chile's exports to China on average. Analysts predict that China's demand for this metal is unlikely to subside any time soon, which means that Chile's exports to China may become even more concentrated in copper.

Brazil's Iron Ore Exports to China

Year	Brazil's Total Iron Ore Exports to China	Brazil's Total Exports to China	Iron Ore Exports as a % of Total Exports to China
1999	241,177,382	676,129,026	35.670
2000	271,191,744	1,085,208,064	24.990
2001	482,633,248	1,902,078,208	25.374
2002	597,225,472	2,520,439,040	23.695
2003	764,857,259	4,531,677,822	16.878
2004	1,114,955,800	5,437,825,968	20.504
2005	1,784,631,125	6,830,977,328	26.126

Note: The table shows Brazil's total iron ore exports to China, Brazil's total exports to China, and Brazil's iron ore exports to China as a percentage of its total exports to China. Export values are in US dollars and are based on the SITC Rev. 1 classification.
Source: UN Comtrade (Commodity Trade Database)

China is also the world's largest importer of iron ore. In 2004, China's share of world iron ore imports rose to 40 percent. Iron ore is used in China's fast-growing steel industry, and analysts forecast that China's demand for the metal will continue to rise. Brazil is the largest exporter of iron ore worldwide and the third largest supplier of the metal for China. Brazil supplies about a quarter of China's iron ore imports. Since 1999, iron ore has made up about 25 percent of Brazil's exports to China on average.

Brazil's Soybean Exports to China

Year	Brazil's Soybean Exports to China	Brazil's Total Exports to China	Brazil's Soybean Exports as a % of Total Exports to China
1999	111,289,569	676,129,026	16.460
2000	337,350,336	1,085,208,064	31.086
2001	537,663,744	1,902,078,208	28.267
2002	825,474,496	2,520,439,040	32.751
2003	1,313,073,236	4,531,677,822	28.975
2004	1,621,735,722	5,437,825,968	29.823
2005	1,716,921,127	6,830,977,328	25.134

Note: The table shows Brazil's soybean exports to China, Brazil's total exports to China, and Brazil's soybean exports to China as a percentage of its total exports to China. Export values are in US dollars and are based on the SITC Rev. 1 classification.
Source: UN Comtrade (Commodity Trade Database)

In 1996, China became a net importer of soybeans, and the country now accounts for about 40 percent of world soybean imports. China's soybean imports have risen steadily because domestic production has been unable to fulfill rising demand. Brazil is the world's second largest producer of soybeans, accounting for 40 percent of world soybean exports. As a result of China's increased demand, Brazil's soybean production has showed strong growth. Brazil supplies 30 percent of China's total soybean imports, and since 1999, soybeans have made up 27 percent of Brazil's exports to China on average.

Argentina's Soybean Exports to China

Year	Arg's Soybean Exports to China	Arg's Total Exports to China	Arg's Soybean Exports as a % of Total Exports to China
1999	162,129,793	507,888,347	31.922
2000	531,219,224	796,927,268	66.658
2001	827,964,636	1,122,612,132	73.753
2002	505,193,370	1,092,354,111	46.248
2003	1,226,877,530	2,478,422,770	49.502
2004	1,153,431,840	2,630,446,718	43.849
2005	1,727,087,815	3,154,288,661	54.754

Note: The table shows Argentina's soybean exports to China, Argentina's total exports to China, and Argentina's soybean exports to China as a percentage of its total exports to China. Export values are in US dollars and are based on the SITC Rev. 1 classification.
Source: UN Comtrade (Commodity Trade Database)

Argentina is the world's third largest producer of soybeans after the United States and Brazil. Argentina accounts for about 15 percent of world soybean exports. Since 1999, soybeans have accounted for about half of Argentina's total exports to China on average, with other agricultural and livestock products accounting for nearly all of the remainder. Together Argentina and Brazil account for more than half of China's total soybean imports.

Competition Between China and Mexico

	China 2002	China 2004	Mexico 2002	Mexico 2004
Wood Products	0.45	0.43	0.26	0.26
Leather Products	3.7	3.34	0.34	-
Chemicals	0.46	0.42	0.35	0.34
Processed Food	0.57	0.47	0.57	0.56
Textiles	2.43	2.39	0.53	0.49
Minerals	0.29	0.28	0.83	1.06
Basic Manufactures	1.01	0.96	0.76	0.69
Non-Electronic Machinery	0.52	0.52	0.82	0.84
Fresh Food	0.77	0.68	0.69	0.80
Miscellaneous Manufacturing	1.59	1.48	1.08	1.07
Transport Equipment	0.25	0.27	1.43	1.34
Clothing	3.65	3.46	1.39	1.29
Electronic Components	1.04	1.04	1.49	1.53
IT & Consumer Electronics	2	2.43	1.81	1.75

Note: The index measures China and Mexico's revealed comparative advantage in exports according to the Balassa formula. The index compares the share of a given sector in national exports with the share of this sector in world exports. Values above 1 indicate that the country specializes in the sector under review. The terms in bold are the sectors in which China and Mexico compete most directly.
Source: Intracen

Mexico faces fierce competition from China, especially in the production of labor-intensive manufactured goods. According to the Balassa Index, China and Mexico both specialize in IT and consumer electronics, electronic components, clothing, and miscellaneous manufacturing. Twelve of Mexico's twenty most important economic sectors that export to the US face some competition or substantial competition from Chinese exporters. These figures suggest that China could jeopardize Mexican exports in foreign markets.

China can produce labor-intensive goods at a lower cost than Mexico can. China has a more abundant labor force than Latin America; therefore, wages are four times lower in China than in Latin America. Mexico cannot compete with China's low labor costs. As a result, Mexico is facing shrinking participation rates in export markets, especially to the US. In fact, in 2003, China replaced Mexico as the US's second largest trading partner.

Specialization in Latin America

	Arg	**Bra**	**Chi**	**Col**	**Mex**	**Per**	**Ven**
Wood Products	0.60	**2.26**	**4.10**	0.78	0.26	0.58	-
Leather Products	1.98	2.88	-	0.93	-	-	-
Chemicals	0.68	0.62	0.62	0.86	0.34	0.35	0.29
Processed Food	**6.6**	**2.93**	**2.53**	**1.49**	0.56	**4.13**	0.16
Textiles	0.20	0.60	0.17	0.71	0.49	0.68	-
Minerals	**1.75**	**1.05**	**1.67**	**3.63**	**1.06**	**2.56**	**7.54**
Basic Manufactures	0.75	1.60	3.66	1.04	0.69	2.86	1.09
Non-Electronic Machinery	0.22	0.82	0.07	0 09	0.84	0.06	0.05
Fresh Food	**5.5**	**4.13**	**4.54**	**4.14**	0.80	**2.52**	0.11
Miscellaneous Manufacturing	0.20	0.27	0.11	0.44	1.07	0.35	0.05
Transport Equipment	0.45	0.88	0.08	0.10	1.34	-	0.15
Clothing	-	0 .12	-	1.48	1.29	2.81	-
Electronic Components	0.05	0.20	-	0.12	1.53	-	-
IT & Consumer Electronics	-	0.26	-	-	1.75	-	-

Note: The index measures Latin American countries' revealed comparative advantage in exports according to the Balassa formula. The index compares the share of a given sector in national exports with the share of this sector in world exports. Values above 1 indicate that the country specializes in the sector under review. The figures in bold represent those sectors in which Latin America is specialized and China is not. The countries are (in order shown): Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela.
Source: Intracen

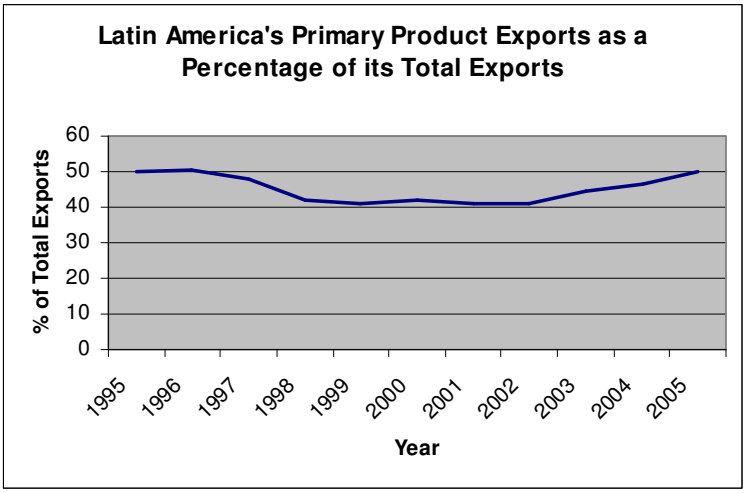
In the above table, the figures in bold represent the sectors in which Latin America is specialized and China is not: wood products, processed food, minerals, and perishable goods. These goods are clearly raw materials. Latin America has a very strong commodity endowment;

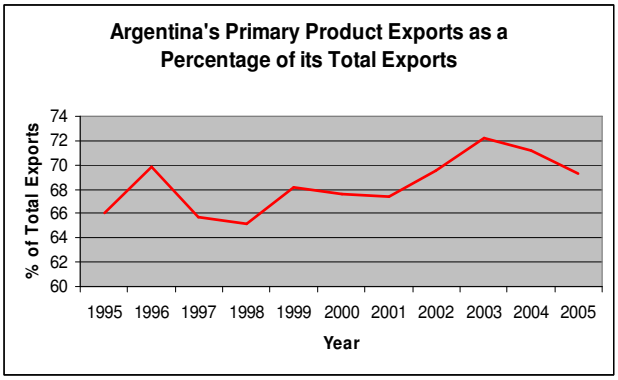
it has the raw materials and natural resources that China needs to maintain its economic growth. As a result, Latin America exports predominantly primary products to China. Many analysts have suggested that the complementarity between the Chinese and Latin American economies makes them "a match made in trade heaven" (Orozco 1). Jiang Shixue of the *Latin Business Chronicle* said, "As China's economy is growing so rapidly, it needs more inputs of resources and raw materials. Latin America is the right partner China can rely on" (2).

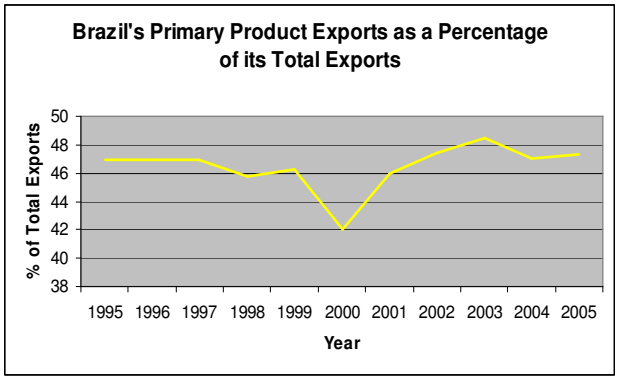
Latin America's Primary Product Exports as a Percentage of Total Exports

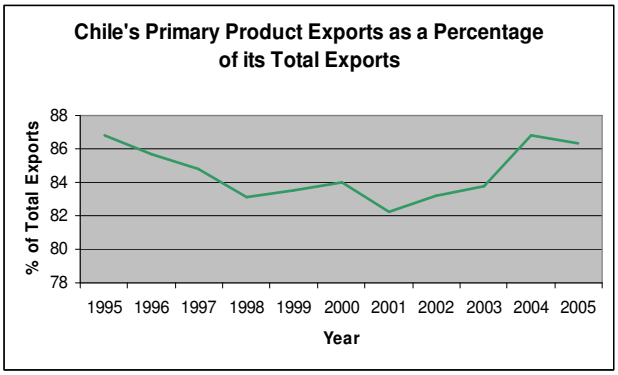
Year	Arg	Bra	Chi	Col	Ecu	Mex	Pan	Per	Ven	Total LA
1970	86.1	86.6	95.2	91	98.2	66.7	96.4	98.2	99	89.1
1975	75.6	74.5	87.5	79.2	97.8	67.5	95.3	97.1	99	83.7
1980	76.9	62.9	88.7	80.3	97	87.9	91.1	83.1	98.5	82.2
1985	79.2	56.3	93.3	83.1	99.2	79.4	87.2	88.2	90	76.4
1990	70.9	48.1	89.1	74.9	97.7	56.7	83	81.6	89.1	66.8
1995	66.1	46.9	86.8	65.8	92.4	22.5	79.7	86.5	85.8	50.1
1996	69.9	46.9	85.7	70.2	91.4	22.3	79.7	85.7	88	50.6
1997	65.7	46.9	84.8	69.3	91.3	19.3	82.6	85.1	86.3	47.9
1998	65.1	45.8	83.1	67.9	89.6	14.8	82.7	80	81.5	42
1999	68.2	46.3	83.5	69.6	91.1	14.9	83.5	83	88.3	41.1
2000	67.6	42	84	65.9	89.9	16.5	84.1	83.1	90.9	41.8
2001	67.4	46	82.2	60.6	88.1	14.9	86.9	81.4	88.8	40.9
2002	69.5	47.4	83.2	62.2	89.7	15.7	88	83	86.2	41.2
2003	72.2	48.5	83.8	65.7	88	18.6	88.9	83	87.3	44.3
2004	71.2	47	86.8	63	90.7	20.2	90	83.1	86.9	46.4
2005	69.3	47.3	86.3	65.3	91	23	90.9	85.3	90.6	50

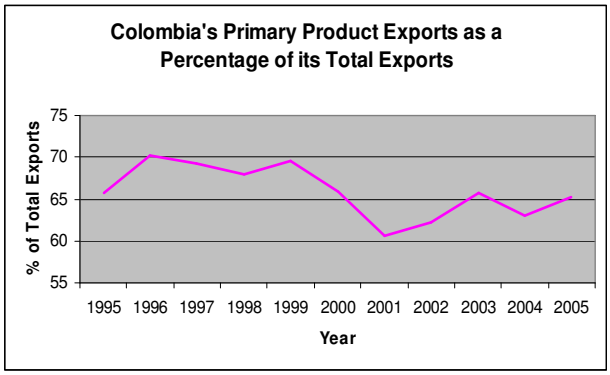
Note: The figures represent each Latin American country's exports of primary products to the world as a percentage of the country's total exports to the world. The "Total LA" column refers to total Latin American primary product exports to the world as a percentage of total Latin American exports to the world. The countries are (in order shown): Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Panama, Peru, and Venezuela.
Source: ECLAC's 2006 Statistical Yearbook for Latin America and the Caribbean

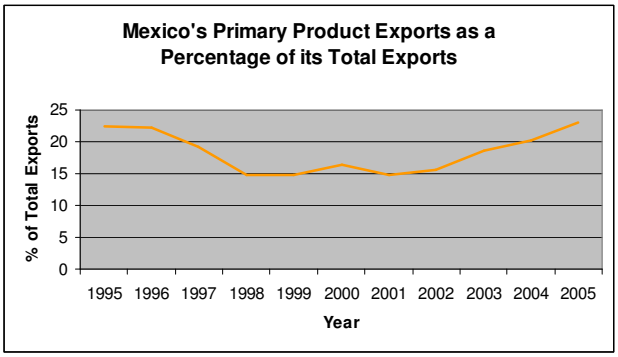

Latin America's Primary Product Exports as a Percentage of its Total Exports
% of Total Exports
60
50
40
30
20
10
0
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005
Year

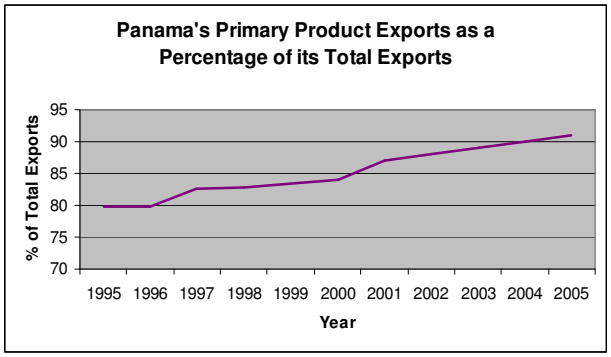

Argentina's Primary Product Exports as a Percentage of its Total Exports
% of Total Exports
74
72
70
68
66
64
62
60
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005
Year

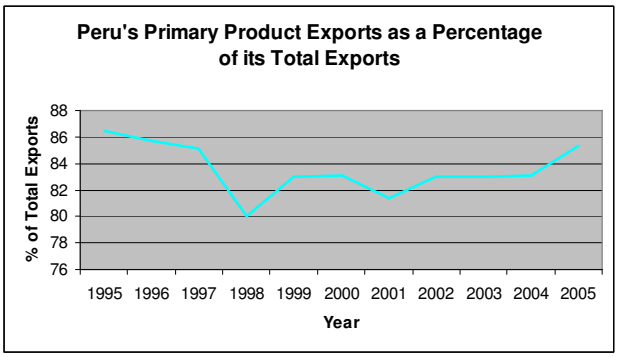

Brazil's Primary Product Exports as a Percentage of its Total Exports
% of Total Exports
50
48
46
44
42
40
38
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005
Year

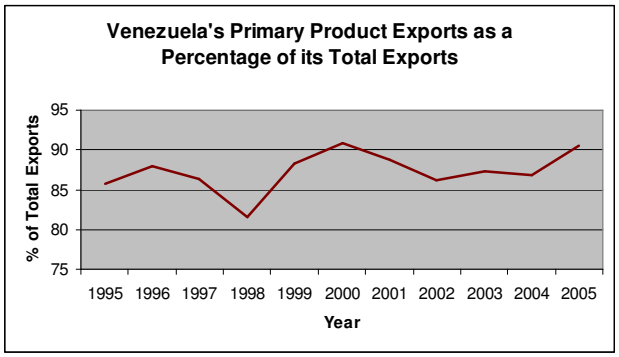

Chile's Primary Product Exports as a Percentage of its Total Exports
% of Total Exports
88
86
84
82
80
78
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005
Year


Colombia's Primary Product Exports as a Percentage of its Total Exports
% of Total Exports
75
70
65
60
55
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005
Year









Source: ECLAC's 2006 Statistical Yearbook for Latin America and the Caribbean

The above table and graphs show various Latin American countries' exports of primary products to the world as a percentage of their total exports to the world. From 1970 until the 1990's, most Latin American countries decreased their reliance on primary product exports. For Latin America as a whole, primary product exports as a percentage of total exports decreased from 89.1 percent in 1970 to 40.9 percent in 2001. Since 2000, however, primary products have made up a larger share of most Latin American countries' total exports. Most analysts agree that China's large demand for raw materials and natural resources has led to a huge surge in Latin America's exports of primary products, which has increased many countries' primary product exports as a percentage of their total exports.

Latin American Countries' Top 5 Export Sectors to China

Argentina's Top 5 Export Sectors to China:
1. Agriculture and hunting
2. Food, beverages, and tobacco
3. Textiles, clothing, and leather
4. Metal and metal products
5. Chemicals and chemical products

Brazil's Top 5 Export Sectors to China:
1. Agriculture and hunting
2. Mining and quarrying
3. Metal and metal products
4. Wood and wood products
5. Food, beverages, and tobacco

Chile's Top 5 Export Sectors to China:
1. Metal and metal products
2. Mining and quarrying
3. Wood and wood products
4. Food, beverages, and tobacco
5. Chemicals and chemical products

Colombia's Top 5 Export Sectors to China:
1. Metal and metal products
2. Recycling
3. Chemicals and chemical products
4. Textiles, clothing, and leather
5. Agriculture and hunting

Ecuador's Top 5 Export Sectors to China:
1. Agriculture and hunting
2. Petroleum
3. Food, beverages, and tobacco
4. Recycling
5. Other manufacturing

Mexico's Top 5 Export Sectors to China:
1. Electrical and electronic equipment
2. Chemicals and chemical equipment
3. Metal and metal products
4. Motor vehicles, transport equipment
5. Machinery and equipment

Panama's Top 5 Export Sectors to China:
1. Petroleum
2. Food, beverages, and tobacco
3. Recycling
4. Motor vehicles, transport equipment
5. Electrical and electronic equipment

Peru's Top 5 Export Sectors to China:
1. Food, beverages, and tobacco
2. Mining and quarrying
3. Metal and metal products
4. Textiles, clothing, and leather
5. Chemicals and chemical products

Source: Intracen

Latin America's Primary Product Exports to China

Year	Arg	Bra	Chi	Col	Ecu	Mex	Pan	Per	Ven	Total LA
1995	67	76.9	97.8	92.5	99.8	13.1	-	98.1	-	78.3
1996	84.9	78.4	98.7	50.7	100	22.4	100	99.4	-	79.4
1997	81.9	83.4	98.9	73.2	100	12.4	91.3	98.1	-	82.7
1998	77.2	86.7	98.7	79.5	99.9	7.7	99.7	96.4	-	79.9
1999	73.5	83.9	98.2	70	98.4	5.4	96.4	99.6	64.3	80.1
2000	81	81.3	98.8	70	98.9	6.6	100	99.6	77	82.7
2001	80.7	74.2	98.6	66.9	94.8	7.6	99.6	99.4	80.8	78.7
2002	74.5	77.1	98.8	51	89.1	6.2	98.7	99.3	45	76.1
2003	88.1	67.9	97.8	39.7	94.5	8	99.4	99.2	49.3	76
2004	90.3	79.6	99.7	32	97.5	22.6	97.8	99.4	45.1	83.9
2005	92.2	80.4	-	-	-	40	-	-	-	-

Note: The figures represent each Latin American country's exports of primary products to China as a percentage of the country's total exports to China. The "Total LA" column refers to total Latin American primary product exports to China as a percentage of total Latin American exports to China. The countries are (in order shown): Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Panama, Peru, and Venezuela.
Source: ECLAC's Division of International Trade and Integration

With the exception of Mexico and Central America, Latin America exports predominantly primary products to China. On average, Argentina, Brazil, Chile, Ecuador, Panama, and Peru rely on primary products for over 75 percent of their exports to China. Within this group of countries, the figures are even more remarkable; for Chile, Panama, and Peru, primary products account for almost 100 percent of their exports to China. Many analysts have said that China's strong demand for raw materials and natural resources is beneficial for Latin America since it has led to a huge surge in the region's exports and has pushed up commodity prices in the world market. Other analysts, however, are concerned that China is pushing Latin America into a "raw materials corner." The above figures seem to support this claim. The risks associated with the "raw materials corner" are highlighted in the next section.

Latin America's Manufactures Imports from China

Year	Arg	Bra	Chi	Col	Ecu	Mex	Pan	Per	Ven	Total LA
1995	91.7	63.7	95.8	68.1	79.8	68.6	88	94.4	91.7	83.2
1996	88.6	81.4	96.2	67.9	81.3	60.2	83	95.9	88.6	84.5
1997	89.9	79.7	96.2	69.5	82.1	74.3	85.7	79.6	89.9	84.9
1998	89.3	76	96.4	72.6	82.6	75.6	84	81.8	89.3	84.4
1999	90.4	76.5	95.7	75.1	84.8	70.6	75.9	82.8	90.4	83.7
2000	89.7	76.1	95.6	79.3	84.8	64.1	82.6	83.9	89.7	84.4
2001	88	74.1	94.8	84.3	89.4	69.6	86.5	87.5	88	86.2
2002	64.2	70.5	94.7	85.8	90.4	76.6	87.2	85.4	64.2	86.4
2003	76.7	71.2	93.7	85.8	92.8	72.6	89.2	75	76.7	88
2004	79.5	78.1	93.7	87.5	91.6	-	90.4	84.5	79.5	88.5
2005	81	84.4	-	-	91.8	-	-	-	81	-

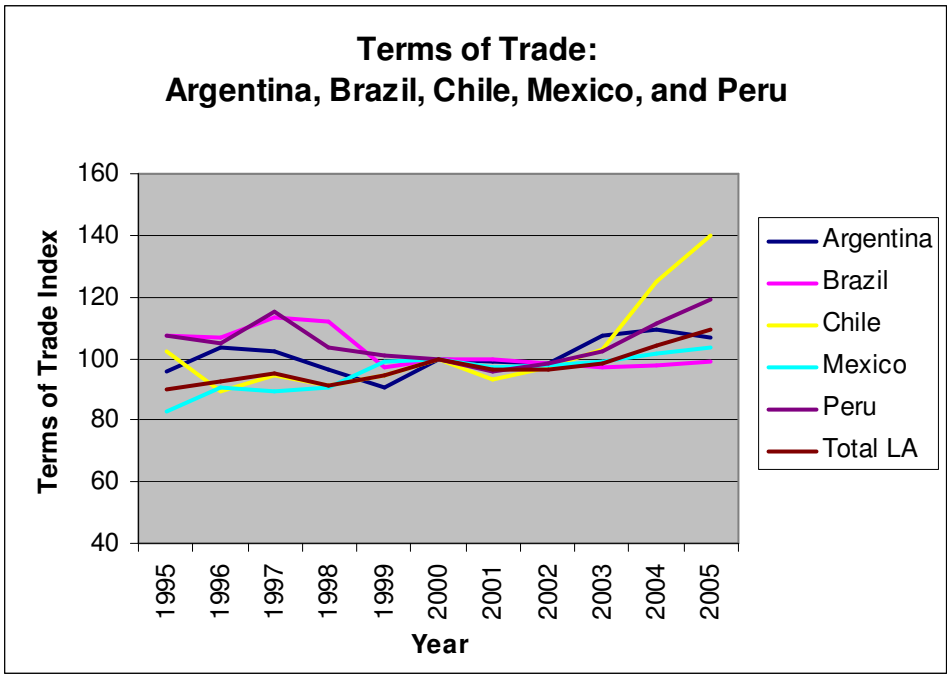
Note: The figures represent each Latin American country's manufactures imports from China as a percentage of the country's total imports from China. The "Total LA" column refers to total Latin American manufactures imports from China as a percentage of total Latin American imports from China. The countries are (in order shown): Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Panama, Peru, and Venezuela.
Source: ECLAC's Division of International Trade and Integration

China has a comparative advantage in labor-intensive manufactured goods because of its low labor costs. Latin America is importing more and more of these cheap manufactured goods, including electronics, textiles, clothing, footwear, and toys. Since 1995, manufactured goods have made up 85 percent of Latin America's imports from China on average. Several analysts have said that the import of Chinese manufactured products competes with and undercuts local Latin American industries. China has already made deep inroads into markets in Mexico and Central America, and more recently, in Brazil and Argentina. The implications of these trade patterns are discussed in the next section.

Latin America's Terms of Trade Indices for Goods

Year	Arg	Bra	Chi	Col	Ecu	Mex	Pan	Per	Ven	Total LA
1980	99.1	85.5	78.8	114.7	79.0	98.8	101.0	123.3	107.9	99.0
1985	86.7	73.6	57.5	108.9	76.9	89.5	100.8	130.7	105.1	88.9
1990	84.7	77.7	95.8	77.8	76.7	83.0	105.3	102.0	72.6	84.9
1995	96.0	107.6	102.1	84.2	72.7	83.1	102.6	107.2	56.6	89.8
1996	103.5	107.1	89.4	84.3	80.5	90.8	105.5	104.9	67.1	92.8
1997	102.2	113.6	94.5	93.3	89.1	89.5	103.9	115.5	70.1	95.0
1998	96.6	111.9	91.0	81.2	75.8	90.6	104.7	103.4	51.2	91.3
1999	90.9	97.0	94.2	87.2	89.1	99.3	104.6	100.8	66.1	94.4
2000	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2001	99.3	99.6	93.3	94.2	84.6	97.4	102.7	95.6	82.2	96.3
2002	98.7	98.4	97.2	92.5	86.8	97.9	101.6	98.4	87.6	96.6
2003	107.2	97.0	102.8	95.2	89.8	98.8	97.2	102.2	98.7	98.6
2004	109.2	97.9	124.9	108.5	91.5	101.6	95.3	111.3	118.1	103.9
2005	106.9	99.2	139.8	117.7	102.4	103.6	93.5	119.4	154.4	109.1

Note: Base year 2000
Source: ECLAC's 2006 Statistical Yearbook for Latin America and the Caribbean



Source: ECLAC's 2006 Statistical Yearbook for Latin America and the Caribbean

Latin America's terms of trade are measured by taking the ratio of the price index of its exports to the price index of its imports. Generally, since 2001, Latin America has experienced improving terms of trade. In particular, Chile's terms of trade improved tremendously from 93.3

in 2001 to 139.8 in 2005. Analysts attribute the improvement in terms of trade largely to China's strong demand for primary products, which has increased commodity prices in the world market. As a result, the prices of Latin America's commodity exports have risen. In addition, Latin America's imports of manufactured goods from China are relatively cheap. This combination of higher export prices and lower import prices is largely responsible for the terms of trade improvement that Latin America has experienced in the last six years.

PART SIX: CHINA AND LATIN AMERICA: DEPENDENCY RELOADED?

Many of the issues and questions addressed by the Latin American dependency theorists of the 1960's and 1970's are relevant to current Sino-Latin American trade relations. In this section, I focus mainly on the trade-related aspects of dependency developed by Raúl Prebisch, and less on the political and social aspects. In the 1960's, Prebisch and the ECLA argued that the world economy was divided into the industrial "center" and the commodity-producing "periphery." The poor Latin American countries of the periphery exported mostly commodities and raw materials to the advanced countries. The center then manufactured products from those commodities and raw materials and sold them back to the poorer nations. With Hans Singer, Prebisch claimed that the terms of trade for the commodity exporters tended to deteriorate over time. Prebisch, therefore, concluded that reliance on primary product exports is not conducive to economic growth.

Current Sino-Latin American trade relations resemble in some ways the center-periphery relationship outlined by Prebisch. Latin America, with the exception of Mexico and the Central American countries, exports commodities and raw materials to China, and imports cheap manufactured goods from China. In 2004, primary products made up 83.9 percent of Latin America's exports to China, and manufactured goods accounted for 88.5 percent of Latin America's imports from China. Primary products make up more than 75 percent of Argentina, Brazil, Chile, Ecuador, Panama, and Peru's exports to China. In fact, from 1995 to 2004, primary products accounted on average for more than 97 percent of Chile, Ecuador, Panama, and Peru's exports to China. As a result of China's increased demand for natural resources and raw materials, primary products are beginning to make up an increasingly larger share of Latin America's total exports.

According to Prebisch, countries that export mainly commodities should experience deteriorating terms of trade over time. Current data, however, suggests that Latin America is experiencing improving terms of trade. There are several factors that explain this phenomenon. China's large demand for resources and raw materials has pushed up commodity prices in the world market. In addition, Latin America imports relatively cheap manufactured goods from China. As a result, Latin America's commodity exporters are enjoying improving terms of trade (Shixue 2). The International Monetary Fund (IMF) recently said, however, that commodity prices are unusually high and forecasted that non-fuel commodity prices will decrease throughout 2007 (Oppenheimer, "Slowdown" 1). The Prebisch-Singer hypothesis has not yet materialized in Latin America, but if the IMF's predictions are correct and primary product prices fall, the region may witness deteriorating terms of trade.

There are other risks associated with Latin America's current trade relationship with China besides deteriorating terms of trade. Many analysts have warned that the current raw materials bonanza that is driving up the prices of Latin America's commodity exports makes the region vulnerable to "Dutch disease." This phenomenon occurs when a commodity boom leads to strengthened or sometimes overvalued currency that then causes the prices of manufactured goods to rise. The higher manufactures prices make it more difficult for the manufacturing sectors to compete in export markets (Trinh, Voss, and Dyck 12). "Dutch disease," therefore, threatens to complicate the development of Latin America's manufacturing sectors. If Latin America experiences "Dutch disease," the region's growth prospects could be highly damaged.

Other analysts are concerned that China's increased demand for raw materials has caused an excessive reallocation toward natural resource-based industries in Latin America, and has pushed the region into a "raw materials corner" (Blázquez-Lidoy, Rodríguez, and Santiso 26). Sino-Latin American trade data seems to confirm this claim. For example, in 2005, copper accounted for 43 percent of Chile's exports to China; iron ore and soybeans made up 26 percent and 25 percent of Brazil's exports to China respectively; and, soybeans made up almost 55 percent of Argentina's exports to China. Some analysts predict that Latin American countries will specialize even deeper, and dependence on a small range of commodities will increase (Jubany and Poon 4). Deep specialization in primary products makes Latin American countries more susceptible to negative price or weather-related shocks, and potential trade gains are limited to a few items. In addition, any slowdown in the Chinese economy could severely

impact Latin America by decreasing the volume of its exports and by causing a decrease in commodity prices (Buck 8).

International bodies are also worried that Latin America is becoming excessively reliant on primary product exports. During the 2006 Latin Economic Forum, an Argentine expert said that if Latin America's economic ties with China do not undergo a structural change, the region will be unable to meet the Millennium Development Goals. Graciela Chichilnisky, director of Columbia University's Center for Risk Management, admitted that China's emergence presents a historic opportunity for Latin America, but warned that Latin America should be worried. She said:

> On the other hand, the current historical circumstances make it necessary for these countries to stop specializing in exports of natural resources and to enter the knowledge economy…Exporting commodities is a bad foundation for development, and is an unsustainable policy. There are two regions of the world that have failed to grow since World War II: Africa and Latin America—the two that have specialized in commodities. That is not a coincidence. (Seligman 1)

Those at the April 2006 meeting agreed that opportunities for exporting raw materials are better than ever for Latin America, but the boom "is actually the worst thing that could happen" (Seligman 2) because it threatens Latin America's long-term economic growth.

In 2005, the United Nations reported that Latin America's natural abundance of natural resources has not been a blessing, but an obstacle to the region's economic development. The 2005 U.N. Human Development Report called it "the resource curse" (Oppenheimer, "Curse" 1). According to the report, Latin America is lagging behind because it depends heavily on primary product exports, rather than developing more sophisticated export industries that are more profitable in today's knowledge-based economy. The report said that those countries that depend heavily on exports of natural resources and raw materials "are on the downward escalator" (Oppenheimer, "Curse" 1). In the report's conclusion, the U.N. predicted that unless Latin American countries change their current status as exporters of raw materials, they will not reach the current development levels of high-income countries until the year 2177 (Oppenheimer, "Curse" 2).

While few analysts have used the term "dependency," many have implied that China is pushing Latin America into the peripheral commodity-producing role. Andres Oppenheimer admits that China's emergence as a massive buyer of Latin America's raw materials is a major

reason for the region's best three-year growth period in recent history, but he does not believe that current Sino-Latin American trade patterns are beneficial for Latin America in the long-run. He doubts China will buy more sophisticated goods from Latin America to help the region develop its manufacturing industries. He says, "China's interest in the region is mainly as a supplier of raw materials, which threatens to condemn many Latin American countries to remain extraction economies, much like what they were 200 years ago" ("Coming headache" 1). Daron Acemoglu et al. made a similar point in "The Colonial Origins of Comparative Development: An Empirical Investigation," when they said that Latin America was colonized as an extractive colony and has remained an extractive economy even today.

In Oppenheimer's article "India will be big player in Latin America," he compares India and China's increased trade with Latin America. In the article, Abdul Nafei, head of the Latin American studies program at Jawhardal Nehru University, says, "While China reminds me of 16th century Spain, which was only interested in extracting Latin America's natural resources, India is never going to be an imperial country" (Oppenheimer, "India" 2). Again, this is very similar to Acemoglu et al.'s point that Spain colonized Latin America for extractive purposes, and the region remains an extractive economy today. Mohan Malik, professor at the Asia-Pacific Center for Security Studies, warns that Sino-Latin American trade relations are beginning to resemble a dependent relationship. He says:

> In a classic re-run of the trade relations established by European colonial powers, Latin Americans (and Africans) export raw materials to China while importing cheap Chinese products which compete with, and undercut, local industries. Many Latin American economists and analysts warn against falling into the trap of being a supplier of commodities for China's value-added manufacturing enterprises, and thus assume the posture of a Chinese colony or economic dependency. (4)

While few analysts or writers have even mentioned dependency in their discussion of Sino-Latin American trade, almost all have suggested ways in which Latin America can avoid the "raw materials corner." Trinh, Voss, and Dyck say that the goal of Latin American commodity exporters should be to use the commodity windfall to develop sectors that involve a higher degree of value addition. If such structural changes are not made, increased trade with China will only provide short-term gains. Long-term gains from increased Sino-Latin American trade will depend on the ability of Latin American countries to translate the commodity windfall

into sustainable development, more jobs, and declining poverty. This could be achieved through investment in education, infrastructure, and poverty alleviation (Trinh Voss, and Dyck 9).

Several analysts have suggested that Latin America needs to capitalize on the commodity windfall in a more active way by moving towards value-added industries. By producing value-added goods from its raw materials, Latin America can reduce its exposure to terms of trade shocks (Buck 9). China's success should stimulate Latin America toward active strategies that provide incentives to diversify and increase the technological sophistication of its domestic production (Devlin, Estevadeordal, and Rodríguez 214). IMF director Rodrigo de Rato says, "Latin America still depends a lot on raw materials for economic growth. It requires greater integration of manufacturing and industry and there is a need for greater foreign investments" (Oppenheimer, "Slowdown" 1). Oppenheimer welcomes a fall in commodity prices, even if it causes an economic slowdown in Latin America. He says, "If economic deceleration turns into a wake-up call for the region to reduce its addiction to raw materials and helps its leaders realize that long-term growth comes from attracting investments and producing more sophisticated goods, long live the coming slowdown! It may help bring some Latin American countries back to the real world" ("Slowdown" 2).

Some economists and analysts claim that dependency is dead, but many of the trade-related aspects of dependency are relevant to Latin America's current relationship with China. Latin America has assumed the role of the periphery, exporting natural resources and raw materials to China, while China has assumed the core or center position, exporting manufactured goods to the region. Several Latin American countries such as Argentina, Brazil, Chile, Ecuador, Panama, and Peru are being pushed into a "raw materials corner;" they rely on primary products for at least 75 percent of their total exports to China. In the 1960's, Prebisch and the ECLA were concerned that Latin America's reliance on primary product exports threatened the region's economic development and manufacturing sectors, and those worries still exist today.

Recalling Dos Santos's definition of dependency, he said, "[Dependence] can have either a positive or a negative effect on [Latin America's] immediate development." So far, China's economic growth has created mostly positive effects for Latin America. Most Latin American countries have witnessed a tremendous increase in their exports to China, and several countries have recently registered record trade surpluses due to this surge in exports. China's increased demand for raw materials and natural resources has pushed up commodity prices in the world

market. As a result, the prices of Latin America's commodity exports have risen. In addition, Latin America imports cheap manufactured goods from China. This combination of higher commodity prices and lower manufactures prices is largely responsible for Latin America's improving terms of trade.

Increased Sino-Latin American trade has generated mostly positive effects for Latin America, but experts at the 2007 World Economic Forum said that the "trade honeymoon" between the two regions cannot last forever. If China's economy slows down or if China's demand for primary products falls and causes a subsequent drop in primary product prices, trade with China may no longer be as beneficial for Latin America as it has been. Based on Dos Santos's definition, Latin America's development, whether positive or negative, has become somewhat dependent on China's growth and development.

In this paper, I focused mostly on the trade-related aspects of dependency. In future research, I hope to explore the other aspects of dependency theory that are relevant to Latin America's current relationship with China. For example, China has been investing heavily in Latin American infrastructure and logistics, and I hope to research the significance of this investment using a dependency framework. Some dependency theorists said that social inequality in the dependent nation tends to increase over time. I plan to investigate whether social inequality in Latin America is growing as a result of increased trade with China. Latin America's relationship with China has clearly sparked some of the same questions and issues addressed by the Latin American dependency theorists of the 1960's and 1970's, demonstrating that dependency can still be a useful framework for understanding Latin America's trade relations and economic development.

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