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Emerging Economies

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Nicola Phillips

Working Paper No.14

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## John English

EXECUTIVE DIRECTOR, CIGI

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## Author Biography

Nicola Phillips is Professor of Political Economy and Director of the Centre for the Study of Political Economy at the University of Manchester, United Kingdom. She holds a Ph.D. in International Relations from the London School of Economics and Political Science, and has has published several works in the fields of International Political Economy and Development, with a particular emphasis on the Americas. Among other positions, Dr Phillips is Managing Editor of *New Political Economy*, co-Editor of the *International Political Economy Yearbook* series, and Associate Fellow of Chatham House. Her most recent books are *The Southern Cone Model: The Political Economy of Regional Capitalist Development in Latin America* (Routledge, 2004) and *Globalizing International Political Economy* (ed., Palgrave, 2005).

## Abstract

The economic rise of China has caused a redrawing of global production and value chains, a restructuring of the global division of labour, and a restructuring of patterns of global demand and of the terms of trade. This paper examines the nature of the emerging economic relationship between Latin America and the Caribbean and China, and seeks to offer some reflections on the significance of this relationship for Latin American and Caribbean development. It begins with an overview of trade and investment relationships between Latin American countries and China, and examines the significance of the emergence of China for the region's development strategies and developmental prospects in greater detail. This paper reflects on the early impact of these emerging arrangements on the existing economic relationship between Latin America and the United States, and seeks in some ways to challenge understandings of this sort based on national economies and instead argues for a focus on global production and value chains, as well the new transnational division of labour.

## 1. Introduction

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

For Latin America and the Caribbean, these changes, together with a set of shifts in the multilateral and bilateral arrangements underpinning regional development strategies, have put in place a series of fundamental development dilemmas at a time when the region's development performance has been notably fragile.[1]

[1] See Nicola Phillips, "Latin America in the Global Political Economy," in Richard Stubbs and Geoffrey Underhill, eds, *Political Economy and the Changing Global Order*, 3rd ed. (Oxford, UK: Oxford University Press, 2005), 332-43.

In 2005-06, despite overall growth figures of around 5 per cent and terms of trade for commodities that were more favourable than they had been for some time, Latin America and the Caribbean lagged appreciably behind emerging economies in Africa, Asia and Eastern Europe. Except in certain pockets, particularly those fuelled by high oil prices and high demand for the region's commodity exports, other indicators of social and human development were uninspiring. At the same time, a range of development strategies have been rendered obsolete or profoundly threatened by a combination of shifts towards multilateral liberalisation, the bilateral elimination of margins of preference, the emergence of disabling competition from China and India in third markets and, with it, the sharpening of the already profound limits to the global competitiveness of Latin American and Caribbean economies. In short, we are seeing a contraction of existing and potential development spaces for the region of an order which prompts a set of serious questions about the basis on which Latin American and Caribbean economies can pursue any form of effective insertion into the global production and value chains and the transnational division of labour. Let us put it as follows: after bananas, after textiles, after the offshore development model, after low-cost manufacturing, whither Latin American and Caribbean development?

In this light, the aim of this paper is to examine the nature of the emerging economic relationship between Latin America and the Caribbean and China, and to offer some reflections on the significance of this relationship for Latin American and Caribbean development. The first section offers an overview of trade and investment relationships between Latin American countries and China. The second examines the significance of the emergence of China for the region's development strategies and developmental prospects. The third section reflects on the early impact of these emerging arrangements on the existing economic relationship between Latin America and the United States; the fourth seeks in some ways to challenge understandings of this sort based on national economies and instead argues for a focus on global production and value chains, as well the new transnational division of labour. The conclusion pulls together arguments about the panorama for Latin American and Caribbean development in this light and some preliminary arguments concerning the future of economic reform agendas in the region.

## 2. Emerging Sino-Latin American Patterns of Trade and Investment

The implications of China's economic expansion for the global economy relate in many ways to the sheer size of the Chinese economy. Using purchasing power parity (PPP) calculations, China now has the second largest economy in the world. With a population of 1.3 billion people, the potential Chinese consumer market is the largest in the world. Gross domestic product (GDP) growth has averaged around 9 per cent over the last 20 years or so. There is every expectation that, if this trajectory is maintained, China (defined to include Hong Kong) will overtake the United States as the world's largest economy, the only question being when in the next 50 years or so this may happen. It is currently the fourth largest trading nation in the world, with its share of world trade standing at around 6 per cent. Around 40 per cent of gross national product (GNP) now rests on exports, the bulk of the export sector being sustained by foreign investment of various forms. China's economic rise has generated a new panorama for global commodity markets, given the vast expansion in Chinese demand for energy (including oil), minerals and agricultural products. At the same time, trade in manufactured goods has already been transformed by expanding Chinese production based on very low labour costs - by some estimates, around 3 per cent of equivalent costs in the United States - and the increasing volume of Chinese trade in those products. In sectoral terms, the penetration of China in global textiles and apparel markets, in particular, is seen to carry fundamental implications especially for other developing countries, and rapidly expanding Chinese production in areas such as steel and automobiles - two of the archetypal 'strategic' sectors - has generated considerable attention from putative competitors. Chinese overseas investment has also expanded, particularly in connection with the securing of supplies of commodities and energy. Of equal global significance is the manner in which United States debt is financed largely by China's purchase of US Treasury bills, which acts simultaneously to constrain interest rates in the United States and to facilitate the Chinese strategy of keeping its currency low - a process seen increasingly in the United States and elsewhere as one of unabashed currency manipulation.

Quite apart from these indicators of size, weight and emerging role in the global economy, the expansion of China is of significance for the potential consequences of its contradictions and effects. The most often noted of these is the pronounced environmental deterioration occasioned by the rapid processes of industrialisation and urbanisation, and the ostensible disregard of - even hostility to - any incorporation of environmental considerations in development processes. Despite double-digit growth, per capita income in China has not improved and is still only around half of Russia's, and unemployment has increased.[2] The 'underbelly' of Chinese growth is seen also in the social and political dislocations caused by mass migration from the countryside to explosively expanding urban areas, placing what many see as unsustainable pressure on services, infrastructure, employment and the environment. The social consequences of the most rapid

[2] Shaun Breslin, "Power and Production: Rethinking China's Global Economic Role," *Review of International Studies*, vol. 31, no. 4 (October 2005): 736.

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

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

Within the region as a whole, China has run a significant deficit since 2002. Between 1999 and 2004, exports to Latin America increased just over three-fold and imports from Latin America just over seven-fold.[3] Mexico is the most significant destination for Chinese exports, absorbing around 24 per cent of the total to the region, followed by Brazil at around 20 per cent, and again the annual average growth rates of exports to these countries in the 2000-2005 period are arresting - respectively, 35.5 and 31.6 per cent.[4] Conversely, the pattern of imports from Latin America is dominated by Brazil, Chile and Argentina, the former accounting for around 37.4 per cent in 2005. Mexico accounted for only 8.3 per cent of the total from the region. At the end of 2005, China had become the second largest export market (behind the United States) for Chile, Peru and Cuba, and the third largest (behind the European Union) for Brazil.

In terms of profile, around 75 per cent of Latin American exports to China are raw materials, foodstuffs and natural resource-based manufactured goods, concentrated particularly in copper, iron ore, nickel, soy, pulp, fishmeal and sugar. Copper represents around 44 per cent of Chilean exports to China; around 57 per cent of Argentina's exports are oilseeds; Brazilian exports are dominated by oilseeds and mineral ores, as well as timber and

[3] Kerry Dumbaugh and Mark P. Sullivan, "China's Growing Interest in Latin America," *CRS Report for Congress* (Washington, DC: Congressional Research Service, 20 April 2005), 2.
[4] Enrique Dussel Peters, "What Does China's Integration to the World Market Mean for Latin America? The Mexican Experience," Paper presented at the conference, *Responding to Globalization in the Americas: The Political Economy of Hemispheric Integration*, London School of Economics, London, 1-2 June 2006, 12.

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

| | Imports from China as share of total imports (%) | | Exports to China as share of total exports (%) | |
|---|---|---|---|---|
| **Country** | 1995 | 2004 | 1995 | 2004 |
| Argentina | 3.0 | 4.3 | 1.4 | 8.7 |
| Brazil | 1.9 | 5.4 | 2.6 | 5.6 |
| Chile | 2.5 | 7.5 | 1.7 | 9.9 |
| Colombia | 0.3 | 6.4 | 0.3 | 0.8 |
| Mexico | 0.7 | 6.5 | 0.0 | 0.5 |
| Peru | 2.0 | 3.0 | 6.4 | 9.9 |
| Venezuela | 2.0 | 3.0 | 6.4 | 9.9 |

Source: International Monetary Fund, Direction of Trade Statistics.

soybeans.[5] In terms of imports from China, an overwhelming proportion - around 90 per cent - consists of manufactured products, the bulk of which are labour intensive, low technology and low value-added.[6] Key products here are textiles and apparel, footwear, machinery and plastics. However, the technology component of Chinese exports is rapidly increasing, and such sectors as automobiles, autoparts, steel, telecommunications and electronics are becoming steadily more significant in the overall export profile of the Chinese economy, as well as in the profile of exports to Latin America.

Sino-Latin American foreign direct investment (FDI) starts from a similarly low base but has shown a striking increase, if

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[5] Ibid., 15.

[6] For greater detail, see Sanjaya Lall and John Weiss, "China's Competitive Threat to Latin America: An Analysis for 1990-2002," *Oxford Development Studies*, vol. 33, no. 2 (June 2005): 163-94; also, Rhys Jenkins, Enrique Dussel Peters, and Mauricio Mesquita Moreira, "The Economic Impact of China on Latin America - An Agenda for Research," Paper presented at the 7th Annual Global Development Conference, pre-conference workshop on Asian and Other Drivers of Global Change, St Petersburg, Russia, 18-19 January 2006.

not as dramatic as in the area of trade. According to the statistics, Latin American FDI in China has increased to an arresting degree, reaching around 13 per cent of total FDI flowing into China in 2003. However, the vast bulk of this investment comes from the tax havens of the Cayman Islands and British Virgin Islands, the latter now representing the second most significant source of investment in China. As such, this is not investment by firms and actors from Latin America itself - indeed, it is likely that Hong Kong and Taiwanese investment, channelled through these tax havens, account for the bulk of these flows.[7] Latin American investment in China is, in reality, minimal, as is Chinese investment in Latin America as a share of its overall FDI. Chinese investment in Africa has been greater, along with Asia and North America. It should also be noted that China itself accounts for a tiny proportion of total global FDI flows. Nevertheless, there has been a spate of loudly trumpeted Chinese investments in Latin America. During his visit to Argentina, Brazil, Chile and Cuba in November 2004, Chinese President Hu Jintao announced around $30 billion in new investments in the region, in such areas as railways, oil and gas exploration, communications satellites and construction, around two-thirds of which were in Argentina.

However, this aggregate regional sketch tells us rather little about the real significance of China's economic presence in Latin America. The implications vary considerably across the region. With broad brush strokes, the region can be divided into two - Mexico and Central America on the one hand, and most of South America on the other. This is unsurprising given the nature of production structures and economic profiles across the region. The Mexican and Central American model rests on their integration into vertical flows of trade in manufactured goods associated with export assembly (*maquiladora*) industries and

[7] Breslin, "Power and Production," 744.

export processing, especially in sectors such as textiles and apparel. Like China, Mexico has also come to specialise in temporary imports for processing and re-export. Mexico and much of Central America and the Caribbean thus have export and production profiles which bring these countries into considerably greater competition with China in third markets, to the extent that the dominant perception of Chinese economic expansion is one of profound threat. Indeed, the Mexican deficit with China stood at some $2.8 billion in 2004, while the region as a whole (and South America uniformly) runs a pronounced surplus. Furthermore, and a point to which we will return, the pronounced dependence of these countries on the United States means that the increasing dominance of the US market by Chinese products, especially in textiles and garments, carries profound consequences for the development model currently prevailing in Mexico and Central America.

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

Brazil is an exception given the importance of manufacturing in its production and export profile, and the scale of competition with China is correspondingly much greater. Moreover, factor endowments are crucial, above all the vast supply of cheap labour in China which translates into average wages roughly three times lower than in Brazil. The much higher levels of government intervention in the Chinese economy yield easy access to credit from state banks, in stark contrast to the Brazilian model; despite developmentalist streaks in Brazilian strategies that differentiate it from the majority of other Latin American countries, the extent of Chinese state support for industrialisation outstrips any similar promotion measures in a broadly neo-liberal region.[8]

## 3. The Developmental Implications of Sino-Latin American Trade and Investment

If these trajectories are continued, the implications for Latin American development are potentially profound. For most South American countries, the economic relationship revolves around Chinese demand for raw materials, energy and resource-based products. Exports to China have expanded vigorously, and this has been welcomed by South American exporters and governments; moreover, Chinese demand has pushed up world prices for primary products following decades of decline in prices, with important positive implications for the terms on which the major resource-based economies in South America are participating in world trade. At the same time, other Asian governments appear to be following the Chinese lead in securing supplies of raw materials from Latin America: Park Yong Soo, president of the state-run Korea Resources Corporation, is reported to have stated that "within a few years there is likely to be a 'war' to develop

[8] Jenkins et al., "The Economic Impact," 15.

raw materials … [and] China is challenging aggressively".[9] The results of this explosion in demand are already evident - Latin America and the Caribbean as a region achieved the second-largest increase in exports in 2005, after China, explained by the South American economies specialisation in commodity exports and flows of trade in oil and oil-related products.[10]

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

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[9] Cited in Larry Rohter, "China Widens Economic Role in Latin America," *New York Times*, 20 November 2004.

[10] ECLAC, *Latin America and the Caribbean in the World Economy*, 2005-2006 (United Nations: Economic Commission for Latin American and the Caribbean, October 2006), 31.

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

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

LAIA: Latin American Integration Association
ASEAN: Association of South-east Asian Nations

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

On the other hand, the competition from China in industry and manufacturing thus means that any incipient space for an upgrading of South American countries' industrial competitiveness is further squeezed, to the extent that existing structures of dependence on natural resources and raw materials is likely only to be reinforced as a result of China's economic expansion. The extent to which this reinforcement constitutes a serious problem for the region remains to be seen, but it is nevertheless worth noting that debates about development in Latin America have, for around half a century, revolved around precisely the perceived imperative of breaking the region's dependence on raw materials for export, especially given the dislocating effects of Dutch Disease. The celebration of the export opportunities provided by the emergence of China consequently has something of a strange ring to it, inasmuch as most of the anxiety about this form of dependence on raw materials, which has underpinned all post-war debates about development strategy, appears somewhat curiously to have disappeared from contemporary discourse.

For the northern part of the region, the competition from China takes a different form, inasmuch as the potential is for the disruption of existing development models based on low value-added, low cost manufacturing with preferential access and a competitive niche in the US market. For Central America and the Caribbean (and in part for Mexico), the main competition from China is felt in the textiles and apparel sectors. China is now the largest exporter of apparel outside the Organisation for Economic Co-operation and Development (OECD), accounting with India for the bulk of apparel exports from non-OECD to OECD countries. Through the 1980s and the 1990s, the Central American and Caribbean textiles and apparel sectors had benefited from the combination of the provisions of the Multi-Fibre Arrangement (MFA) and the strong inclination in the United States towards outsourcing functions at the lower value-added ends of the production chain. The former, paradoxically, related to the manner in which restrictions under the MFA on the more competitive textiles and apparel exporters allowed a number of smaller developing economies a range of 'niche' opportunities and shielded them for this time from competition from the larger producers.[11] For this reason, its ending and the gradual lifting of restrictions under the terms of the Agreement on Textiles and Clothing (ATC), together with the multilateral lifting of import restrictions on Chinese apparel exports under the terms of China's accession to the World Trade Organization (WTO) in 2001, have positioned exporters in the Caribbean Basin (including Mexico) among the most visible losers in the global textiles and apparel

[11] Tony Heron, "The Ending of the Multifibre Arrangement: A Development Boon for the South," *European Journal of Development Research*, vol. 18, no. 1 (March 2006): 1-21.

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

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

Note: Amounts shown assume that it takes 20 minutes to cut, sew and finish a dress shirt for the US market.

Source: Robert Devlin *et al.*, *The Emergence of China: Opportunities and Challenges for Latin America and the Caribbean*, Inter-American Development Bank, 2006, on basis of data from INT/ITD.

industries. They are now exposed increasingly to the full force of competition from textiles 'giants' of China, India, Bangladesh, Pakistan and so on - a competition which is waged primarily on the terrain of labour costs, as Table 3 shows. It should of course be noted that these forms of competitiveness in China and elsewhere are at least in part associated with the strong connections of the textiles and apparel industries with 'unfree' labour and illegal labour practices, including child labour, alongside the more general sources of competitiveness associated with of the sheer abundance of low-cost labour, relatively high-skilled workforces in countries like China and South Korea, strong production capacity in the manufacturing of both cotton and man-made fibres, and close trade and investment links between China and South Korea, Taiwan and Japan.[12]

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[12] Nathan Associates, *Changes in the Global Trade Rules for Textiles and Apparel: Implications for Developing Countries* (Arlington, VA: Nathan Associates Inc, 2002).

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

At the same time, the production-sharing arrangements that stemmed from the promotion of outsourcing, such as the Caribbean Basin Initiative or the provisions of the Central American Free Trade Area (CAFTA) agreement, are both coming to an end in any case, or else fundamentally challenged by the lifting of the MFA, as a result of which US and other retailers have access to direct imports from the big Asian suppliers. For Caribbean Basin producers, this represents the severe squeezing of the niche formerly occupied in supply chains and in the US market. Furthermore, and in any case, given the provisions of production-sharing arrangements that make duty-free exports contingent on the use of fabrics and yarns manufactured in the US, the textiles and apparel industries in the Caribbean Basin had always been located at the low value-added ends of the supply chain and constrained to import raw materials at much higher prices from the US, even where they were available from Asian economies at much more competitive costs. The CAFTA agreement goes some way to protecting the position of Central American countries in the US market, but even so, taken together, the multilateral elimination of quotas and the terms of the CAFTA agreement have been calculated to signify a potential 50 per cent cut in the expansion of Central American textiles and clothing exports to the US.[13] The North American Free Trade Agreement (NAFTA) obviously performs the same function for Mexico.

China and India together thus represent an ominous threat to any competitive market niche in textiles that these smaller exporting countries have thus far occupied, but this threat is sharpened by the manner on which textiles and apparel exports to the US have been regulated under production sharing agreements. By extension, inasmuch as assembly and export of textiles and apparel have for some time constituted the mainstay and focus of many countries' development strategies, the threat is felt also in the severe contraction of available development options.

More generally, the impact of competition from China on Mexico has been felt in the decline of the manufacturing sector in terms of its share in overall GDP and employment. Estimates are currently emerging that in Mexico 300,000 assembly plant jobs were lost in 2002-03.[14] Mexico, and indeed Central America, continues to export more intermediate- and high-technology-intensive manufactured goods, and as such the competition between China and Mexico in third markets has thus far been concentrated in low-technology products.

However, as noted earlier, the technology component of Chinese exports is rapidly increasing. Across the region, steel and automobiles are the sectors in which Chinese competition is likely to emerge forcefully, as well as electronics. By the end of 2006 it is predicted that China will have become a net exporter of steel, with potential for extremely rapid growth over the coming years. This has already been identified by the three NAFTA

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[13] Alvin Hilaire and Yongzheng Yang, "The United States and the New Regionalism/Bilateralism," *IMF Working Paper*, no. WP/03/206 (October 2003) (Washington, DC: International Monetary Fund): 15-6.
[14] Jenkins et al., "The Economic Impact," 26.

partners as one which requires joint and concerted action, and a trilateral working group has been set up under the auspices of the North American Security and Prosperity Partnership.[15] In the area of automobiles, much of the development strategy in places such as Guangdong province, in the Pearl River Delta, hinges on propelling China (and Guangdong province) to global prominence as a major car and autoparts manufacturer in the short term. Companies like Honda already have joint ventures in China aimed at feeding the explosive boom in car ownership in China, and Honda has announced a new autoparts factory; similarly, Chinese manufacturers have expressed intentions to purchase the technology of major companies such as DaimlerChrysler BMW,[16] and thus develop China's ability to compete on the front line of global car production. Again, given the prominence of this sector in countries such as Mexico and Brazil, leaving to one side the United States itself and other major global producers in the EU and Japan, China's rise in this area portends a significant reordering of the regional automobile industry. Apart from a sharpening of the existing competition with Mexico, the current deficit that China runs with most of Latin America could also be seen as precarious in this light.

The final point to make concerns the diversion of investment from Latin America and the Caribbean that has already become evident. Flows of FDI to the region grew more slowly in 2004 and 2005 than flows to China, Asia and even Africa,[17] and the movement of China into sectors previously attractive to FDI in many Latin American economies is ominous for the region's position on the global investment map.

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15 Florencia Jubany and Daniel Poon, "Recent Chinese Engagement in Latin America and the Caribbean: A Canadian Perspective," Research Report (Ottawa: Canadian Foundation for the Americas [FOCAL], March 2006), 9.
16 Jubany and Poon, "Recent Chinese Engagement," 9.
17 ECLAC, *Latin America and the Caribbean*, 32.

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

## 4. Latin America and the United States

What does all this mean for the economic relationship between the US and Latin America? One of the arguments that is often advanced in this respect relates to the way in which the impact on Latin America and the Caribbean of the slowdown in the US economy and the weakening of US demand is compensated by the expansion of demand in China and its impact on commodity prices.[18] Other arguments see the surge in Latin American economic

[18] Ibid., 27-8.

interest in China - particularly in South America -as a reflection of the current, rather languid, state of relations between the US and Latin America. Quite apart from the commercial opportunities arising from the opening up of a market of this size and the particular pattern of demand which attends the Chinese model of industrialisation, China is often presented as filling a developmental gap left by the United States.[19] US investment in Latin America has been steadily declining as US corporations have focused their strategies predominantly on the emerging markets of Asia (including China), and the burgeoning US deficit situation precludes any serious rectification of the neglect that many perceive as having characterised US engagement with the region over recent years. In this context, the potential of Chinese investment in infrastructure, in particular, has often been noted as valuable for many Latin American economies. Venezuela and other energy producing countries have been a particular focus in this regard, with significant Chinese investment in exploration, refining capacity and transportation infrastructure.

Such interpretations of China's importance for Latin America clearly have something to offer, but cannot be pushed too far. The simplest reason, as noted, is that the economic relationship with the United States remains by far the most important for the region. Table 4 indicates levels of trade reliance on the United States in 2005, and also the disparities in this respect between, for example, some of the large Southern Cone economies and some of the smaller economies in the Caribbean Basin - especially, it should be noted, those economies dominated by the 'offshore' development model of export assembly, most evident in the textiles and apparel sector. While aggregate figures for the region as a whole do indeed indicate the offsetting by China of the

[19] See Riordan Roett, "Relations between China and Latin America/the Western Hemisphere," Statement before the Subcommittee on the Western Hemisphere, House International Relations Committee, United States Congress, 6 April 2005.

effects of slowdown in the US, this mechanism does not work for the majority of the most dependent economies in the north of the region. At the same time, Chinese investment in Latin America is still profoundly limited; trade is far more important, and indeed the developmental implications of China's rise reside predominantly in this arena of trade rather than investment. As noted earlier, even then China accounts for only 4 per cent of total Latin American trade. Moreover, the notion that China either fills the gaps in US investment in the region or the limitations

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

| | Exports to the United States (millions of $) | Exports to the United States as proportion of total exports (%) | Trade Balance with the United States (millions of $) | Trade Balance with the world (millions of $) |
|---|---|---|---|---|
| Mexico | 183,351 | 85.8 | 65,089 | -7,559 |
| Honduras | 3,309 | 75.6 | 154 | -106 |
| Nicaragua | 991 | 63.0 | 401 | -619 |
| El Salvador | 2,051 | 60.6 | 272 | -3,332 |
| Guatemala | 2,694 | 50.1 | 29 | -3.431 |
| Ecuador | 4,950 | 46.5 | 4,107 | 420 |
| Costa Rica | 3,177 | 44.8 | -119 | -2,717 |
| Panama | 973 | 14.8 | -1,009 | -2,000 |
| Dominican Republic | 4,325 | 77.9 | -26 | -1,544 |
| CARICOM | 9,167 | 52.2 | 2,330 | 1,052 |
| Cuba | 0 | 0.0 | -361 | -2,970 |
| Venezuela | 32,587 | 58.8 | 25,987 | 29,674 |
| Colombia | 8,849 | 41.8 | 2,843 | 1,988 |
| Peru | 5,173 | 30.4 | 3,052 | 4,917 |
| Uruguay | 761 | 22.4 | 489 | -474 |
| Brazil | 22,472 | 19.0 | 8,918 | 44,758 |
| Chile | 6,248 | 15.8 | 1,821 | 9,142 |
| Bolivia | 383 | 14.0 | 59 | 1,007 |
| Argentina | 4,321 | 10.8 | 1,357 | 11,320 |
| Paraguay | 54 | 3.2 | -774 | -1,564 |

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

of access to the US market finds little justification, inasmuch as overwhelmingly the main economic relationship for Latin America and the Caribbean remains that with the United States, with the exception of Brazil and Chile.

The most pressing concern, in this light, relates to the potential displacement of Latin American competitiveness in the US market. While the possibilities for export diversification have been celebrated, for widely disparate reasons, in various countries of South America that operate with *relatively* less pronounced structures of dependence on the US market (Argentina, Brazil, Chile, Venezuela), the 'threat' arising from China in the US market has been felt keenly in many North American economies. Table 5 gives an indication of this displacement by comparing the US import-value market share for China and the major Latin American economies in various key sectors. There has occurred already a massive displacement of Mexican exports in the US market - particularly garments and textiles, toys, furniture and electronic value-chain products.[20] We have also noted similar patterns for Central America and the Caribbean, along with the important emergence of China in other sectors which carry implications for Latin American exports to the US and US overseas investment, such as automobiles, steel, electronics, telecommunications and so on. The potential (further) diversion of investment away from the Americas to Asia is seen as a considerable challenge to Latin American development prospects and strategies, alongside displacement in US markets, and there is certainly enough evidence to suggest that these perceptions are not ill-founded.

It is in part for this reason that many countries across the region have been eager to enter into bilateral trade negotiations

[20] Dussel Peters, "What Does China's Integration," 19.

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

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

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

with the United States, particularly in Central America but also in the Andean region, in which levels of dependence on the US are also relatively more pronounced. However, the further impact of the emergence of China may well be a contraction of the possibilities for the successful negotiation of bilateral or regional free trade arrangements, inasmuch as one of the visible trends in the United States itself has been a growing decline in public and political support for trade since the start of the decade. The primary reasons for this decline are uniformly cited as the emerging 'threat' from the Chinese economy, together with the experience of the NAFTA. Undoubtedly the announcement in early 2006 that the US trade deficit had reached a record level in 2005, having increased by 18 per cent in that year and being fuelled by rising Chinese imports, sharpened still further the political sensitivity of the trade agenda. Much (but not all) of this sensitivity is related to the pronounced concern about the impact of trade on the US labour market, and the Americas is particularly vulnerable in this respect given the parallel salience of the immigration issue in US politics.[21]

In this sense, an important implication of the emergence of China for Latin America may materialise through the mechanisms of domestic politics and *domestic* reactions to China in the United States, with the effect that possibilities for safeguarding the region's most important economic relationship, particularly under the additional pressures of multilateral liberalisation commitments, may well be progressively compromised.

There is, however, a final dimension of this discussion of the relationship between the United States and Latin America and the Caribbean, and indeed about development strategies which

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[21] Nicola Phillips, "The Limits of 'Securitization': Power, Politics and Process in US Foreign Economic Policy," *Government and Opposition*, vol. 42, no. 2 (March 2007): 181-212.

is fundamental but often overlooked. It relates to the profound pressures for migration that emerge at the intersections of the combination of longer-standing processes of deindustrialisation and de-ruralisation, the increasing constraints on agriculture as a result of both competition and the particular terms of multilateral provisions on agricultural trade, the impacts on particular sectors and industries of the newer competition from China, and the continuing failures of the development orthodoxy to produce growth and development. The short-term implications of trade liberalisation and labour flexibilisation, as well as purposive strategies and externalities that generate a greater or lesser decimation of rural economies, are felt particularly in areas of significant unemployment and underemployment, causing downward pressure on wages, the consequent reinforcement of wage differentials with the major receiving countries, and widespread patterns of internal migration. In many cases this is associated with the development of manufacturing activity and the concentration of FDI in the major urban centres or, in some cases such as Mexico and other Central American and Caribbean economies, into border regions in which export-processing zones were absorbing migrants from displaced rural communities. Research has demonstrated convincingly that both cities and border regions frequently represent platforms for onward international migration, even though this research is largely preliminary, hampered by the prevalence of illegality in many cases, and still lacking in comparative substance.

In many countries of the Caribbean for instance, the continuing difficulty of formulating effective development strategies "after bananas"[22] has been pivotal in sharpening already extensive incentives to emigrate for many people, and the signs are clear that

[22] Anthony Payne, "After Bananas: The IMF and the Politics of Stabilisation and Diversification in Dominica," mimeo, November 2006.

similar pressures are emerging, and will emerge more forcefully, in countries most affected by the shifts noted above in sectors like textiles and apparel, manufacturing, and so on. At the same time, the overall panorama of development failures and continued divergence in wage levels continues to define what traditionally we would have called the 'push factors' associated with migration to the United States. The fact remains that migration from Mexico and other key sending countries is motivated overwhelmingly by wage differentials, not by unemployment.[23] Moreover, the restructuring of the US economy as a result of secular shifts in the transnational division of labour, has generated a situation of increased dependence for the maintenance of competitiveness on the massive import of labour, the bulk of which is low-skilled and with strong correlations with illegality, in both services sectors (associated with the structural shift of manufacturing capacity to Asia and the concomitant growth of service sectors in the old metropolitan countries) and agriculture. Moreover, the addiction to cheap labour in the United States, among employers and consumers, has augured the extension of this reliance on migrant labour as a significant mechanism of disciplining the workforce: migrant labour is positioned in the labour force on the basis of a denial of social and legal rights, and often basic workers' rights when they are illegally resident in the country, and the existing workforce is disciplined by the twin threats of the outsourcing of jobs overseas or the 'onshore' outsourcing of jobs to migrant workers.

As a result, as closely bound up with the restructuring of global and regional economies that has been increasingly conditioned by the emergence of China, traditional forms of dependence on the US economy have been given a new twist. As a result of both

[23] Robert A. Pastor, *Toward a North American Community: Lessons from the Old World for the New* (Washington DC: Institute for International Economics 2001), 126.

migration *per se* and the particular management of immigration policy in the US, dependence on the US has come to centre not only on the US market as a destination for Latin American and Caribbean exports and as a source of investment, but also increasingly as a source of employment. Many see this dependence as relatively unproblematic, inasmuch as labour market projections for the period between 2002 and 2012, for example, envisage 56.3 million job openings - 35 million of which arise from net replacement needs and 21.3 million from net employment growth - representing an increase of 15 per cent in the total jobs available in the US economy.[24] Yet the employment situation, and consequently the implications of this dependence, are shaped fundamentally by the conjunctural conditions of the US economy, in terms of trends in both employment and wage levels. Perhaps even more crucially, Latin American and Caribbean development is thus tied much more closely to prevailing trends in US domestic politics, and developmental performance becomes much more contingent upon official policy, congressional politics and public opinion.[25] The remittances issue adds a further dimension to this new situation of dependence, the scale of which is indicated in Tables 6 and 7.

What we are seeing, in short, is the substitution of the offshore development model across the Caribbean Basin with one based on the 'onshore' provision of labour in the US economy, and the concrete, purposeful elaboration of development strategies based around the concept of 'remittance economies'. The most obvious national case of a remittance economy is Haiti, the data in Table 7

[24] Jim Edgar, Doris Meissner and Alejandro Silva, *Keeping the Promise: Immigration Proposals from the Heartland*, Report of an Independent Task Force sponsored by the Chicago Council on Foreign Relations (Chicago, IL: Chicago Council on Foreign Relations, 2004), 14.
[25] Nicola Phillips, "Migration and the New Political Economy of Inequality in the Americas," *Pensamiento Propio*, no. 24 (December 2006).

Table 6. Remittances to Latin America and the Caribbean, 2001-05 (US$ million), selected countries (countries presented in descending order based on 2005 figures)

| | 2001 | 2002 | 2003 | 2004 | 2005 | % growth, 2001-05 |
|---|---|---|---|---|---|---|
| Mexico | 8,895 | 10,502 | 13,226 | 16,613 | 20,034 | 125.2 |
| Brazil | 2,600 | 4,600 | 5,200 | 5,624 | 6,411 | 146.6 |
| Colombia | 1,756 | 2,431 | 3,067 | 3,857 | 4,126 | 135.0 |
| Guatemala | 584 | 1,690 | 2,106 | 2,681 | 2,993 | 412.5 |
| El Salvador | 1,911 | 2,206 | 2,316 | 2,548 | 2,830 | 48.1 |
| Dominican Republic | 1,807 | 2,112 | 2,217 | 2,438 | 2,682 | 48.4 |
| Peru | 930 | 1,265 | 1,295 | 1,360 | 2,495 | 168.3 |
| Ecuador | 1,430 | 1,575 | 1,657 | 1,740 | 2,005 | 40.2 |
| Honduras | 460 | 770 | 862 | 1,134 | 1,763 | 283.3 |
| Jamaica | 968 | 1,229 | 1,426 | 1,497 | 1,651 | 70.5 |
| Haiti | 810 | 932 | 978 | 1,026 | 1,077 | 33.0 |
| Bolivia | 103 | 104 | 340 | 422 | 860 | 734.9 |
| Nicaragua | 660 | 759 | 788 | 810 | 850 | 28.8 |
| Argentina | 100 | 184 | 225 | 270 | 780 | 680.0 |
| Costa Rica | 80 | 135 | 306 | 320 | 362 | 352.5 |
| Venezuela | 136 | 225 | 247 | 259 | 272 | 100.0 |
| Uruguay | - | - | 42 | 105 | 110 | **161.9 |
| Trinidad & Tobago | 41 | 59 | 88 | 93 | 97 | 136.6 |

Source: data from Inter-American Development Ban (http://www.iadb.org/mif/remittances/). ** % growth 2003-5.

demonstrating clearly the reliance on remittances in a country starved of investment and aid. However, reservations about the developmental potential of remittances are prompted by the manner in which these flows have thus far remained confined to private consumption, generally of products with high import content (including food). Emerging patterns in the use of remittance flows thus do not include any notable degree of investment in productive projects or community-based development such as infrastructural works. (It has been shown, ironically, that money from remittances is used to finance emigration by family members

Table 7. Relevance of Remittances 2004

| | Volumes of remittances, US$ millions | As % of product (GDP) | As % of exports (goods and services) | As % of total foreign direct (FDI) | As % of aid (net official development assistance or official aid) |
|---|---|---|---|---|---|
| Argentina | 270 | 0.2 | 0.7 | 6.6 | 296.7 |
| Bolivia | 422 | 4.8 | 16.6 | 363.8 | 55.0 |
| Brazil | 5,624 | 0.9 | 5.2 | 40.0 | 1973.0 |
| Colombia | 3,857 | 3.9 | 19.8 | 126.4 | 757.8 |
| Costa Rica | 320 | 1.7 | 3.7 | 51.6 | 2461.5 |
| Dominican Republic | 2,438 | 13.2 | 26.3 | 378.0 | 2802.3 |
| Ecuador | 1,740 | 5.7 | 19.9 | 150.0 | 1087.5 |
| El Salvador | 2,548 | 16.1 | 59.2 | 546.8 | 1207.6 |
| Guatemala | 2,681 | 9.8 | 58.2 | 1729.7 | 1229.8 |
| Haiti | 1,026 | 29.1 | 218.8 | 14657.1 | 422.2 |
| Honduras | 1,134 | 15.4 | 37.0 | 387.0 | 176.6 |
| Jamaica | 1,497 | 16.9 | 38.4 | 248.7 | 1996.0 |
| Mexico | 16,613 | 2.5 | 8.2 | 95.6 | 13729.7 |
| Nicaragua | 810 | 17.9 | 49.0 | 324.0 | 65.7 |
| Peru | 1,360 | 2.0 | 9.4 | 74.9 | 279.3 |
| Trinidad & Tobago | 93 | 0.7 | 1.6 | 9.3 | ** - 9300.0 |
| Uruguay | 105 | 0.8 | 2.6 | 33.8 | 477.3 |
| Venezuela | 259 | 0.2 | 0.6 | 17.1 | 528.6 |

Source: Author's calculations. Primary data on remittances from Inter-American Development Bank (http://www.iadb.org/mif/remittances/); primary data on GDP, exports, FDI and aid from World Bank (*World Development Indicators 2006*).
** This minus percentage arises as the figure for aid to Trinidad and Tobago in 2004 was - 1 (US$ millions).

of the person already resident in the United States.) Remittances may also be said to represent the potential for sharpening foreign exchange difficulties in the modes of consumption they finance, even while they ease some of the pressures associated with capital constraints in developing countries. At the same time, research on the Dominican Republic, but of broader relevance, has shown that there is as yet no discernible link between remittances and business ownership or levels of entrepreneurship, even while remittances are attracted by the presence of investment opportunities "back home".[26] The debate is nevertheless considerable and there is little space here to assess it fully. The point to bring out is simply that the elaboration of development strategies concretely around remittances is a clear emerging result of the severe squeezing of competitiveness and development options in the region, and an indication of a new transnational political economy of dependence on the United States.

## 5. Global Production and Value Chains and the New Transnational Division of Labour

However, this picture becomes more complex when we think beyond stylised depictions of China's economic rise, which miss a crucial point: that this is a pattern of growth fuelled primarily by the production and investment strategies of companies in the developed world, which in turn are premised largely on demand in markets in the developed world.[27] On the one hand, it is clear that Chinese industrialisation has been driven largely by investment from Asia, and particularly from 'Chinese Asia'. As noted earlier, some of this investment is also channelled through tax havens in the Caribbean Basin which give an appearance of important 'Latin American' investment in China. On the other hand however, global production structures are much more complex than this picture would suggest. For example, around 75 per cent of China's computer-related products are produced by Taiwanese companies, and around 70 per cent of Taiwanese computer-related products are based on Original Equipment Manufacturing (OEM) contracts with foreign firms, overwhelmingly from the United States and Japan. As such, we need to understand China's computer industry

[26] Catalina Amuedo-Dorantes and Susan Pozo, "Remittance Receipt and Business Ownership in the Dominican Republic," *The World Economy*, vol. 29, no. 7 (July 2006): 939-56.
[27] Breslin, "Power and Production," 745.

and other sectors as representing only the final stage in a global production process which is not adequately represented by the bilateral investment figures which show Taiwan as the source of investment in China, or then the bilateral trade figures which show China as the exporter to the rest of the world.[28]

For our present purposes, by focussing on the role of US firms in the production processes which fuel Chinese growth and, consequently, exports 'from' China, we can draw a more complex but vastly more revealing picture of the implications of China's rise for Latin America. First, the competition and the associated development dilemmas arise not so much from China itself as from Latin America's particular form of insertion into *global* production structures, and therefore concentrating on 'China' misses a key point about the demands of competitiveness and the particular place of Latin American and Caribbean economies in the global economy. Second, competition from China is fuelled, in a variety of sectors, by investment from the 'developed' world, including the United States. This suggests both that inferences of China's filling of developmental gaps left by the US are simplistic and misplaced, and that US production and investment strategies are pivotal to the development predicament in which many Latin American and Caribbean countries find themselves. Third, assertions that a focus on China represents an alternative to traditional forms of economic dependence on the US, such as those made frequently by President Hugo Chávez of Venezuela and others, are clearly underestimating the role and stake of US interests in Chinese industrialisation, whether directly or via more circuitous routes such as OEM investment in the Taiwanese computer industry. Notions of 'China', 'the United States', 'Taiwan' and so on in trade and investment statistics, in this sense, reveal

[28] Ibid., 744-8.

little about the importance of global production networks and the location of Chinese industrialisation within these global processes.

## 6. Conclusion

What emerges most forcefully from this discussion is that the emergence of China does not cause but rather throws into relief the huge development problems of the Latin American region, especially the long-term and insidious process of de-industrialisation in which the region continues to be mired, the profound problems of regional and global competitiveness of the majority of export sectors and products, the continued lack of higher value-added production capabilities, and the pronounced dependence on the US market at a time when preferential arrangements are being systematically dismantled under WTO auspices. It also raises a set of key questions about the future trajectory of Latin American and Caribbean development and the directions that development strategies can (or indeed should) take. There is a compelling argument to make that most established forms of development strategy have, to a greater or lesser extent, been challenged in quite fundamental ways by the emergence of China, as indeed have many of the foundations on which they have traditionally rested. Perhaps the most salient of these foundations is the notion of geographical advantage, which, particularly in the northern part of the region, has long shaped a set of development strategies based integrally on proximity to the United States and its markets.[29] While the notion of geographical proximity clearly continues to define the 'new' forms of development strategy that we have identified here - migration and the emergence

[29] For an interesting discussion of this issue of geographical advantage in the context of NAFTA and Mexican development, see Carol Wise, "Great Expectations: Mexico's Short-lived Convergence under NAFTA", CIGI Working Paper, no.15 (January 2007).

of remittance economies, for example, but also illicit and illegal activity (notably the drugs trade) and tourism-based strategies - the emergence of China has clearly weakened, if not completely dismantled, it in matters of trade and investment.

If these arguments are correct, Latin American and Caribbean development strategies (notwithstanding the couple of exceptional countries already noted) require a much fuller reorientation than has hitherto occurred towards a prioritisation of debates and strategies focusing on insertion into global (rather than regional) production and value chains, as well as the transnational division of labour. The question is then how to do this in the wider context of the squeezing of the global development space available to the Latin American and Caribbean region that we have identified and elaborated in this paper. Perhaps the more pressing question still is how the region can aspire to address the profound social problems that continue to characterise the region in a global context in which, not least as a result of the nature of Chinese development, competitiveness is apparently cast more and more as a social 'race to the bottom'.

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