
China–Latin America Relations: Long-term Boon or Short-term Boom?*

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Introduction

‘The mixture of illusions, plans, hopes, and fears that arise out of [the China–Latin America] relationship are as powerful in their impact on [Latin America] as are the deals and events themselves...the greatest impact of China will come from what it leads the region to dream, and what Latin America finds when it awakens.’¹ This statement, part of a recent but growing wave of academic, media, government, and business interest in China’s burgeoning economic and political relations with regions of the developing world from Latin America to Africa to Southeast Asia, captures an important but often underappreciated idea.² Specifically, the perceptions and expectations of government and business leaders as well as everyday citizens of countries in Latin America will play a crucial role in determining the development of economic and political relations between their countries and China. For its part, China has consistently and positively

* This article was originally presented at the Association for Asian Studies Annual Conference in Philadelphia, PA, on March 24, 2010 and then again at the first annual Sino–Brazilian Seminar in Porto Alegre, Brazil, on April 12, 2010. The author would like to thank participants from those two conferences, in particular Victor Shih and Scott Kennedy, as well as Josh Gordon, Mike Glosny, Jean-Marc Blanchard, and Alicia Garcia-Herrero for their thoughtful feedback.

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¹ Evan R. Ellis, *China in Latin America: The Whats and Wherefores* (Boulder: Lynne Rienner Publishers, 2008), p. 288.

² The primary focus of this article is on the political and economic impact of China’s trade relations with Latin America. However, many aspects of China’s commodities’-based trade and investment ties with developing countries in Africa as well as with developed economies, like Australia’s, share important similarities to China’s ties with Latin America.

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characterized its expanding trade and investment relations with regions of the developing world, in particular with Latin America, Africa, and Southeast Asia, as ‘win–win.’³ Through official diplomacy and media outlets, China has emphasized that mutually beneficial ties with these regions are a logical outcome of relations with China, itself a developing nation. Such a win–win scenario, China contends, should thus be lauded as a natural outgrowth of ‘South–South’ interaction.⁴

However, within Latin America and Africa, as well as for other interested observers from around the world, perceptions of developing country relations with China span a wide range. At one end of the spectrum is optimism that China constitutes a new and alternative driver of trade and investment for developing countries. Such optimism is sometimes linked to the notion that China also serves an alternative model of economic development and international diplomacy.⁵ At the other end of the spectrum is skepticism and fear about China’s rising economic and political intentions and influence.⁶ Much of this contentious debate is reflected in the rapid increase in academic and media discussion of the twin ideas of a ‘Beijing Consensus’ or ‘China Model’ of development.⁷ One of the key issues at stake in these debates is whether or not China’s rapidly expanding trade and investment relations with the developing world are of a more equal and sustainable nature than historical relations between developed and developing countries.

In order to evaluate these competing optimistic versus pessimistic perceptions, this article focuses on the last decade of China–Latin America trade and investment relations. With specific respect to China–Latin America ties, these perceptions have crystallized into two sets of competing, but related, interpretations of a generally agreed upon set of facts: Latin America, a

³ For more on China’s ‘win–win’ diplomacy with reference to Southeast Asia, see Michael A. Glosny, ‘Heading Toward a Win-Win Future? Recent Developments in China’s Policy Toward Southeast Asia’, *Asian Security*, Vol. 2, No. 1 (2006), pp. 24–57.

⁴ For more on China–Latin America relations as ‘South–South’, see Monica Hirst, ‘A South-South Perspective,’ in Riordan Roett and Guadalupe Paz, eds., *China’s Expansion into the Western Hemisphere: Implications for Latin America and the United States* (Washington, D.C.: Brookings Institution Press, 2008) and Jiang Shixue, ‘South-South Cooperation in the Age of Globalization: Sino-Latin American Relations,’ Chinese Academy of Social Sciences, 2005.

⁵ Joshua Cooper Ramo, *The Beijing Consensus* (London: The Foreign Policy Centre, 2004) and Joshua Kurlantzick, *Charm Offensive: How China’s Soft Power is Transforming the World* (New Haven: Yale University Press, 2007).

⁶ Stefan Halper, *The Beijing Consensus: How China’s Authoritarian Model Will Dominate the Twenty-First Century* (New York: Basic Books, 2010).

⁷ For recent scholarship on the meaning and merits of these concepts, see Scott Kennedy, ‘The Myth of the Beijing Consensus’, *Journal of Contemporary China*, Vol. 19, No. 65 (2010), pp. 461–477; Barry Naughton, ‘China’s Distinctive System: Can it be a Model for Others?’, *Journal of Contemporary China*, Vol. 19, No. 65 (2010), pp. 437–60; Suisheng Zhao, ‘The China Model: Can it replace the Western Model of Modernization?’, *Journal of Contemporary China*, Vol. 19, No. 65 (2010), pp. 419–36; and Matt Ferchen, ‘China, the Idea of Neoliberalism and Illusions of Consensus’, paper presented at ‘Dreaming with the BRICs: Neoliberal Ideas and Policy Change Outside the Core’, Brown University, September 24, 2010.

region with abundant natural resources, exports raw materials to a resource-scarce but rapidly developing China. On the one side of the emerging debate are those, including most prominently the Chinese government itself, who claim that the China–Latin America economic relationship reflects fundamental *complementarities* and therefore has a positive effect for both sides. In contrast, other observers have emphasized that what boosters see as complementarity is really just a renewed form of Latin American *dependency*. They argue that while rapidly expanding trade and investment ties may have short-term benefits for both sides, the commodity-based nature of the relationship ultimately reinforces dysfunctional patterns of Latin American development that many countries in the region long ago renounced and have been attempting to move away from for well over half a century.

Each strand of these competing narratives can account for important, if sometimes contradictory, elements of the China–Latin America trade and investment relationship. However, missing from both the ‘complementarity’ and ‘dependency’ perspectives is a focus on the specific driving forces behind China’s expanding trade and investment relations with Latin America (not to mention Africa and Australia, for example). In particular, observers of the expanding China–Latin America economic relationship too often overlook the economic and government policy forces within China that have driven Chinese demand for specific commodities like iron ore, copper, or soy. As a result, competing complementarity/dependency narratives also fall short in providing a more complete understanding of the related economic and political consequences of China’s expanding economic relationship with Latin America. This article therefore will demonstrate how the seemingly common-sense story line that Latin America simply has the natural resources that China’s rapidly developing economy ‘needs’ obscures important details about the timing and reasons for the rapid take-off in commodity exports from resource-rich Latin American countries to China beginning in the early 2000s.

Assumptions that China’s demand for raw materials from Latin America and elsewhere is simply a natural function of China’s consistently rapid development of the last 30 plus years are incomplete at best and misleading at worst. Such an understanding fails to account for important changes in China’s domestic political economy in the early 2000s that corresponded with the country’s rapid take-off in trade and investment ties with the developing world and other commodity-rich countries like Australia. Specifically, beginning around 2002 and 2003, and reversing trends that had been in place since the outset of reforms in the late 1970s, the Chinese economy entered a period of energy and capital-intensive heavy industrial growth. This, in turn, intensified demand for raw materials, including a range of minerals, metals, and energy sources, to feed heavy

industry. In order to satisfy this demand for heavy industrial production, China has increasingly turned to commodity-rich countries in Latin America, Africa, and elsewhere. Thus Chinese demand for raw materials, demand itself tied in key ways to the country's particular heavy industrial development trajectory of the last decade, serves as the economic foundation of its ties to many of its most important Latin American and other commodity-rich trade partners. China's rapidly increasing imports of raw materials from Latin America, Africa, and elsewhere is a key indicator of a commodity boom that has seen the volume and price of certain mineral, energy, and agricultural commodities skyrocket. This boom has provided the economic, and also political, foundation underlying China's renewed ties to many resource-rich developing nations in Latin America and elsewhere.

This trend of heightened Chinese commodity demand, much of which has gone to fuel the country's capital-intensive, heavy industrial growth and development, has only been exacerbated by China's response to the global financial crisis. In particular, China's stimulus package and accompanying relaxed credit policies have spurred even greater investment in infrastructure, property development, and heavy industry. Even before the financial crisis, there were concerns within and outside of China that China's move away from a light toward a heavy industrial development path was creating potentially destabilizing results, specifically in the area of energy security. These warnings have only intensified in light of China's response to the financial crisis.

However, this change in China's domestic pattern of growth and its key role in driving a global commodity boom has been conspicuously absent in much academic, media, and government analysis of China's expanding relations with resource-rich regions of the world. The failure to pinpoint this source of China's expanding demand for natural resources from Latin America and elsewhere has also precluded a more accurate understanding of the potential consequences for the longer term health and stability of China's trade and investment, not to mention political, ties with its resource-rich trading partners. This, in turn, has facilitated a mismatch between high and rising expectations about the role China will play in continuing to drive Latin American growth and the many challenges China faces in maintaining its torrid pace of development. The result is an underestimation of how the recent boom in China–Latin America relations is based on both a narrower and more fragile economic foundation than is commonly understood.

The structure of this article is as follows. First, I present a general overview of trade and investment relations between China and Latin America, highlighting the important role of China's demand for Latin American commodities. Next, I describe and evaluate the different interpretations of both what drives these trade and investment relationships and what the

consequences for the relationships are. I then present my alternative argument for how we should understand both what has been driving the China–Latin America economic relationship and what is at stake in this alternative understanding. I conclude by exploring the implications of my findings for the idea that China offers some unique model of both domestic and international political economy.

China–Latin America Trade and Investment: The Stylized Facts

Before exploring the most common explanations for China's expanding economic ties to Latin America and the competing interpretations of the consequences of those ties, I first provide a basic picture of China–Latin America trade and investment relations. The driving force behind booming China–Latin America economic ties is China's demand for Latin American mineral, energy, and agricultural commodities. In return for their raw material exports, Latin America imports a range of Chinese manufactured goods (see Figure 1). Moreover, the rapid increase in scale and speed of trade (and to a lesser extent, investment) ties between Latin America and China is of relatively recent origin, taking off only in the early years of the 2000s (See Figure 2). Understanding the commodity-based nature of the economic relationship, and the timing of the take-off, are both crucial to any overall assessment of the longer-term direction and health of China–Latin America economic and political ties.

Despite the increasing scholarly attention paid to China's outbound foreign direct investment (OFDI) in Latin America and elsewhere,⁸ expanded trade flows between China and Latin America have been of much greater magnitude and importance than China's OFDI in the region.⁹ Certainly, as

⁸ For a comprehensive overview of the scholarly literature on China's recent OFDI and multinational behavior, see Jean-Marc F. Blanchard, 'Chinese MNCs as China's New Long March: A Review and Critique of the Western Literature', *Journal of Chinese Political Science*, Vol. 16, No. 2 (2011), forthcoming.

⁹ In fact, despite China's rather sudden appearance as a player in global direct investment starting in the early 2000s, China's share in global FDI stocks is still relatively small (see Figure 3). Moreover, China's OFDI statistics related to the LAC region are especially confusing and can easily lead to an overestimation of China's investment in the region. Specifically, the inclusion of the Caribbean in China's overall OFDI statistics for the LAC region dramatically inflates China's OFDI presence in the region. This is because the Caribbean tax havens (e.g. the Cayman Islands and British Virgin Islands) dominate Chinese investment flows to the region. So even though by some estimates 'Latin America' as a region witnessed an 80% in Chinese investment between 2003 and 2007 and the region has in some years accounted for over 25% of China's overall OFDI flows (for instance, in 2006), up to 90% of that amount has gone to the Caribbean tax havens. See Jean-Marc F. Blanchard, 'Chinese MNCs as China's New Long March', forthcoming; Alicia García-Herrero and K. C. Fung, 'China/HK and Latin America: Opportunities and Challenges', BBVA Beijing Conference, December 3, 2008, PowerPoint Presentation; OECD, *Investment Policy Reviews: China: Encouraging Responsible Business Conduct* (Paris: OECD Publishing, 2008), p. 28; and Daniel H. Rosen and Thilo Hanemann,

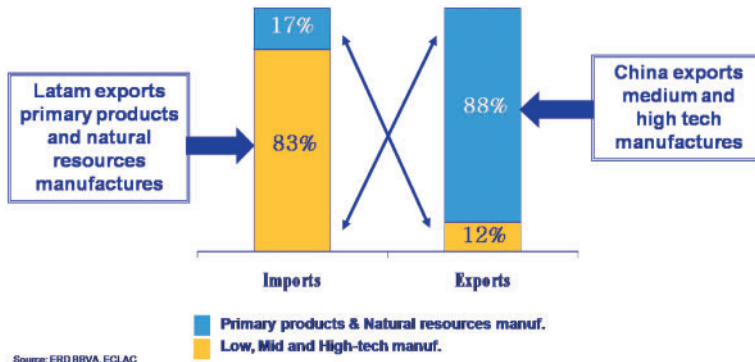


Fig. 1 China–Latin America Raw Materials for Manufactures Trade (as of 2006). Source: Alicia García-Herrero and K.C. Fung, ‘China/HK and Latin America: Opportunities and Challenges,’ BBVA Beijing Conference, December 3, 2008.

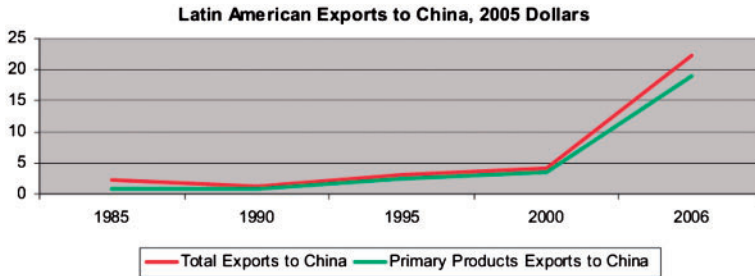


Fig. 2 Recent Take-Off in Latin American Exports to China. Source: Rafael Valdez Mingramm; Ke-Li Wang; Antonio Jiménez and Jesús J. Reyes, ‘China – Latin America Commodity Trade and Investment: Enduring Trends Towards 2027...’ SinoLatin Capital, November, 2009.

China has rapidly recovered from the financial crisis, it has also stepped up direct, non-portfolio investment in Latin America, especially in Brazil.¹⁰ However, even this increased investment has primarily been in raw materials such as energy and minerals. Thus, while government and business leaders in

¹⁰ ‘China’s Changing Outbound Foreign Direct Investment Profile: Drivers and Policy Implications’, Peterson Institute for International Economics, June 2009, p. 4. To put into perspective the rapid pace of change, in 2009, despite becoming Brazil’s number one export destination and overall trade partner, China still only ranked as Brazil’s 29th largest source of direct investment. However, on the back of a wave of new investments, China was in position to become Brazil’s number one foreign direct investor in 2010. John Pomfret, ‘China Invests Heavily in Brazil, Elsewhere in Pursuit of Political Heft’, *The Washington Post*, July 26, 2010, <http://www.washingtonpost.com/wp-dyn/content/article/2010/07/25/AR2010072502979.html?nav=emailpage>; and Melissa Graham, ‘China’s Growing Investments in Latin America: Will China Replace the U.S. Dominance South of the Border?’ *Spero News*, November 9, 2010, <http://www.speroforum.com/a/42959/Chinas-growing-investments-in-Latin-America>.

Latin America hope to see trade and investment with China expand beyond the latter's interest in raw materials, commodities continue to provide the foundation of the relationship.

Before exploring the specifics of China's increased demand for Latin American commodities, it is important to note the rising importance of China as a destination for Latin American exports since the early 2000s. For example, in 2008, total Latin America exports to China came to around US\$47 billion, up from \$14.7 billion in just 2004.¹¹ Overall, Latin American exports to China increased by over 163% between 2000 and 2008, with most of that growth coming after 2002 (see Figure 2).¹² While the impact of the financial crisis temporarily took some of the wind out of the sales of the quickly expanding trade relationship, China's demand for Latin American exports remained strong relative to US and European demand and trade quickly recovered to pre-crisis growth rates in 2010. For example, despite a 2.2% decrease during the first quarter of 2009, Latin American exports to China registered a 44.8% increase during the same quarter in 2010.¹³

However, the benefits of Latin America's expanding economic ties to China have been highly concentrated in terms of geography and economic sector. While the volume of Latin American 2008 exports to China accounted for only 5.6% of the region's overall exports (compared to 42.1% to the United States), for a number of South American countries China has become their top export destination.¹⁴ For instance, China has become the number one market for Chilean and Brazilian exports and the number two destination for exports from Argentina, Peru, Costa Rica, and Cuba. Even though it is common practice to refer to the entire Latin American region (often including the Caribbean–LAC) and its relations with China, 'Latin American' exports to China are actually dominated by a small number of the region's countries in a limited range of commodities. For example, as of 2008, 10 commodities in only 6 Latin American countries accounted for 74% of the region's exports to China and 91% of the region's overall commodity exports to China.¹⁵

Trade between China and Latin America is therefore largely characterized by the export of natural resources, especially metals, minerals, and

¹¹ Media Eghbal, 'Regional Focus: China Strengthens Links with Latin America', *Euromonitor International*, May 5, 2009, http://www.euromonitor.com/Regional_Focus_China_strengthens_links_with_Latin_America.

¹² Alicia García-Herrero and K. C. Fung, 'China/HK and Latin America'.

¹³ Alicia Bárcena et al., *Latin America and the Caribbean in the World Economy 2009–2010: A Crisis Generated in the Centre and a Recovery Driven by the Emerging Economies*, ECLAC Briefing Paper, 2010, p. 16.

¹⁴ Again noting the post-crisis recovery, some estimate that China could receive over 19% of Latin America's overall exports in 2010. See William Dey-Chao, 'Regional Focus: China–Latin America', *The China Analyst*, May 2010, p. 48.

¹⁵ Kevin P. Gallagher and Roberto Porzecanski, 'China and the Latin America Commodities Boom: A Critical Assessment', Political Economy Research Institute, University of Massachusetts Amherst, Working Paper Series, No. 192, 2009, p. 5.

agricultural products, from Latin America to China. In return, China largely exports medium and high-tech manufactured goods to Latin America (see Figure 1).¹⁶ As a region, Latin America has witnessed a steady increase in primary product exports as a share of its total global exports, moving from 26.7% in 1999 to 38.8% by 2009.¹⁷ For a number of individual Latin American countries, the concentration of specific natural resource exports in general and to China in particular is quite pronounced. For instance, in Chile, commodity exports make up nearly 60% of the country's total exports.¹⁸ In turn, Chile's exports to China are dominated in specific by copper, which constitutes 76% of its overall exports to China.¹⁹ Brazil, Venezuela, Colombia, and Peru also have high concentrations of commodity exports, notably iron ore and oil, as a percentage of their overall exports to China.²⁰ Demand from China, especially for minerals and energy resources, has been by far the largest driver of overall global demand growth. For example, between 2000 and 2008, China was responsible for two-thirds of total global growth in demand for steel and aluminum and for an even higher percentage in global demand for copper.²¹

Thus, the picture that emerges of China's trade relationship with Latin America can be captured by three main points. First, China–Latin America trade and investment ties have grown rapidly since just after the turn of the millennium. Second, the expansion of economic ties between China and Latin America has vaulted China into an increasingly prominent role as a source of demand for Latin American exports. Finally, China–Latin American trade and investment ties are based on Chinese demand for a relatively limited set of natural resources from a relatively small number of mostly South American countries. This basic picture of the nature and direction of China–Latin American trade and investment relations is

¹⁶ Mexico is the most notable exception to this pattern as the structure of its manufacturing export economy tends to place the country into competition with China's exports to the North American market. Moreover, and unlike many Latin American economies, Mexico runs a significant trade deficit with China. In 2008, China accounted for 7.7 percent of Mexico's imports but only 1 percent of exports, leaving an overall trade deficit exceeding US\$24 billion. See Matt Ferchen and Alicia García-Herrero, 'Two Sides of a Coin', *China Reform Magazine*, Issue 316, January 15, 2010, pp. 142–43. As a region, Latin America in 2008 ran a 2.4% trade deficit with China. See Media Eghbal, 'Regional Focus'.

¹⁷ Alicia Bárcena et al., *Latin America and the Caribbean in the World Economy 2009–2010*, p. 13.

¹⁸ Alicia García-Herrero and K. C. Fung, 'China/HK and Latin America'.

¹⁹ Tony Volpon, 'Asia and Latin America: Ready for the Next Step?' *The Ascent of Asia*, February 2010, p. 79. Moreover, the contribution of Chilean copper exports to its overall economy has risen from 5.6% of GNP in 1996 to 16.3% in 2010. See Steve Anderson, 'Chile's Copper Dependency Has Taken a Turn for the Worse: 55% of All Exports', *Mercopress*, November 16, 2010, <http://en.mercopress.com/2010/11/16/chile-s-copper-dependency-has-taken-a-turn-for-the-worse-55-of-all-exports>.

²⁰ Tony Volpon, 'Asia and Latin America', pp. 79–80 and Alicia García-Herrero and K. C. Fung, 'China/HK and Latin America'.

²¹ Barry van Wyk, 'The China Factor: Supplying China's Phenomenal Demand for Natural Resources', *The China Analyst*, August 2010, p. 6.

generally agreed upon by observers inside and outside of China and Latin America. However, different evaluations of what is driving this relationship and what the implications for both sides might be are both more open to interpretation and dispute.

What Drives China's Rising Trade and Investment Relationship with Latin America?

Explanations for the commodity-based nature of the China–Latin American economic relationship converge on a similar, but problematic, finding. Namely, the majority of scholarly, media, and business analysis of China–Latin America economic ties note a simple correlation between a rapidly growing, resource-scarce China on the one side and a resource-rich Latin America on the other. Details of what is specifically driving Chinese demand for Latin American commodities are often limited and/or simplistic. Instead, the common sense idea that Latin America simply has what China ‘needs’ often substitutes for more careful analysis. When there is a more detailed analysis of the specific sources of Chinese demand, the arguments for what is driving demand and underpinning its stability are too frequently underdeveloped or spurious. It is most certainly true in the most general sense that China's economic development is driving the country's demand for a range of natural resources from Latin America and elsewhere. However, it is imperative to understand the specific forces propelling Chinese demand if we are to better grasp the timing and stability of China's economic relations with Latin America. Here I detail the most common types of explanations for Latin American commodity exports to China from the most common-sense ‘basic market forces’ claims to the more sophisticated ‘business cycle’ analysis.

Many explanations for high levels of trade and investment ties between China and Latin America emphasize the role of basic market forces. One common version of this argument, describing rising overall economic ties between China and Latin America, simply claims in broad strokes that China's growth has fueled demand for exports from Latin America. For example, as one summary of a group of studies on China's expanding relationship with Latin America claimed: ‘In general, PRC investment and commercial activities in Latin America have been oriented toward securing access to products that China has needed for its economic growth.’²² Others simply link China's ‘explosive economic growth’ to demand for Latin American commodities.²³ In this view, expanding China–Latin

²² Center for Hemispheric Policy, ‘China Undermines U.S. in Latin America’, *Latin Business Chronicle*, June 4, 2007, <http://www.latinbusinesschronicle.com/app/article.aspx?id=1297>.

²³ William Ratliff, ‘In Search of a Balanced Relationship: China, Latin America, and the United States’, *Asian Politics and Policy*, Vol. 1, No. 1 (2009), pp. 1–30.

America economic ties are simply a common sense function of China's rapidly growing economic 'need' for raw materials from Latin America.

A slightly more detailed but nonetheless incomplete version of this 'basic market forces' explanation for expanding China–Latin America ties goes one step beyond basic demand/need arguments to specify the importance of different comparative advantages. Here, analysts emphasize the role of China's appetite for raw materials to feed and sustain the country's rapid economic growth. Specifically, these arguments focus on China's commodity scarcity (often in per capita rather than absolute terms) versus their relative abundance in Latin America. As one market analyst argued: 'China is tapped out of most major commodities including iron ore, copper, oil and timber. The country simply cannot continue to grow at 9% per year . . . without securing a stable supply of commodities.'²⁴ Another report uses a similar logic to explain China's interest in Latin America commodities:

China's thirty years of uninterrupted economic development have increased the country's needs of raw materials to satisfy the demand of thousands of State-Owned Enterprises (SOEs), private corporations and millions of increasingly-sophisticated consumers. This is a result of China's scarcity of domestic resources, coupled with its inability to exploit them and its desire to preserve them for future use.²⁵

Thus another seemingly common sense explanation for China's demand for raw materials from resource-rich developing countries in Latin America (as well as Africa and elsewhere) is that China's economy relies on these commodity inputs to maintain a long-entrenched pattern of rapid growth.²⁶

Such arguments connecting Chinese growth to its 'demand' or 'requirements' for natural resources either implicitly or explicitly accept this demand as 'natural.' Analysts who emphasize China's growing need for natural resources often point to three specific drivers within the Chinese economy: (i) population growth; (ii) urbanization, which in turn is often linked to property and infrastructure development; and (iii) China's rising,

²⁴ Erik Bethel, 'Why Is China Investing Overseas?' Seeking Alpha blog, August 26, 2009, <http://seekingalpha.com/article/158363-why-is-china-investing-overseas>.

²⁵ Rafael Valdez Mingramm et al., 'China–Latin America Commodity Trade and Investment: Enduring Trends towards 2027...' SinoLatin Capital, November, 2009, p. 5. The OECD has applied much the same logic to its explanation of China's growing appetite for African commodities: 'The expanding demand for energy and other natural resources *essential* to sustain China's economic growth and the abundance of these resources in Africa have *naturally determined* the recent evolution of China's economic relationship with Africa'. OECD, *OECD Investment Policy Reviews: China: Encouraging Responsible Business Conduct* (Paris: OECD Publishing, 2008), p. 110. (emphasis added)

²⁶ Similar logic has been invoked in expert Congressional testimony: 'China's global search for the commodities necessary to sustain its rapid economic expansion forms the bedrock of its relationship with Latin America'. Daniel P. Erikson, 'The New Challenge: China and the Western Hemisphere', Testimony before the House Committee on Foreign Affairs, Subcommittee on the Western Hemisphere, June 11, 2008.

consumerist middle class.²⁷ For example, one study points to China's 'escalating need for raw materials, markets, and food to sustain...growth and satisfy rising consumer demands.'²⁸ However, Chinese demand for many raw materials during the period of rising trade and investment relations with Latin America has been anything but natural. Therefore, analysis and projections based on flawed assumptions and inadequately detailed understanding of the specific drivers of Chinese demand can easily lead to confusion and disappointed expectations on the part of all parties involved.

However, while still missing some important details, one last strain of explanations for China's expanding economic relations with Latin America does get much closer to a more nuanced understanding. This view recognizes the pro-cyclical nature of China–Latin American trade ties. For example, some analysts have noted that Chinese business cycles, and subsequently demand for raw materials, may be 'synchronized' with Latin American exports of those raw materials. In particular, some have demonstrated the detailed connections between specific commodity flows from Latin America to China. This research, not surprisingly, has shown a positive correlation between increasing Latin American commodity export specialization and exports to China.²⁹ Some economists and commodity consultants have been even more explicit in noting that the particular Chinese 'business cycle' that may be at play here has led to a 'commodity boom.'³⁰

However, the emphasis on a Chinese, demand-led boom or upswing in the business cycle is frequently connected to an optimistic assessment of the near to medium-term continuation of strong and steady Chinese demand for Latin American (and other resource-rich countries' or regions') commodities. One line of reasoning draws a comparative connection to growth and resource-demand experiences of other rapid East Asian developers like Japan and Korea. Drawing on explicit historical comparisons of consumer

²⁷ Rafael Valdez Mingramm et al., 'China-Latin America Commodity Trade and Investment', p. 1; David Zweig, 'The Rise of a New "Trading Nation"', in Lowell Dittmer and George T. Yu, eds, *China, the Developing World, and the New Global Dynamic* (Boulder: Lynne Rienner Publishers, 2010), p. 40.

²⁸ William Ratliff, 'In Search of a Balanced Relationship', p. 1. Ratliff, in explaining China's 'pragmatic' interests in expanded commodity trade with Latin America, emphasizes that its number one objective is 'buying commodities ranging from oil and iron to copper and soybeans that are needed for China's development and to satisfy increasing popular demands for a better life', p. 7. As I argue below, China's demand for increasing mineral and energy resources is precisely *not* aimed at satisfying popular consumer demands but instead at feeding heavy industrial (over)development.

²⁹ César Calderón, 'Trade, Specialization and Cycle Synchronization: Explaining Output Comovement Between Latin America, China, and India', in Daniel Lederman et al., eds., *China's and India's Challenge to Latin America: Opportunity or Threat?* (Washington, DC: The World Bank, 2009).

³⁰ Tony Volpon, 'Asia and Latin America: Ready for the Next Step?' *Nomura Global Economics, The Ascent of Asia*, 2010; and Rolando Avendaño and Javier Santiso, 'Asian Opportunities and Diversification Strategies: An Outlook for Latin American Trade', in K. C. Fung et al., eds, *China and Latin America: Growing Economic Relations and Commonalities in Policies Issues*, Unpublished manuscript.

and industrial growth in these resource-poor, 'developmental states', some argue that the Chinese-led commodity boom (at least for certain products like iron ore and copper) can be maintained for at least another two decades.³¹ Such comparisons tend to ignore the specific political and economic factors driving China's own developmental trajectory, focusing instead only on the upside of the development and resource–demand cycle in these other East Asian countries. If an upswing in Chinese demand is driving growth in commodity exports from Latin America, then it is only logical that any downswing or instability in that demand will have a negative effect on export volume and/or prices.

Ultimately, at the heart of the vast majority of explanations for expanding Latin America–China trade is a seemingly common sense agreement that China's upward trajectory implies ever-increasing, and for the most part increasingly valuable, Latin America commodity exports to fuel that rise. Specifically, this common sense notion is based on the following train of reasoning: China's economy is growing quickly, and because China is relatively scarce in certain natural resources, it as a matter of course has sought out sources of those commodities in resource-rich places like Latin America. The result has been China's growing commodities-based trade and investment relationship with Latin America. The question of why, if China has been growing at an average of over 9% since the late 1970s, it only began to demand Latin America commodities in increasingly large amounts beginning in the early 2000s is almost never asked. Moreover, even most of those who recognize the 'cyclical' nature of the relationship do not explore the specific political and economic factors driving the boom in Chinese demand. This is a crucial oversight because unless we better understand the nature and timing of the China-driven commodity boom we cannot effectively evaluate the range of effects that might follow if and when the boom ends.

Evaluating the Consequences: Complementarity versus Dependency

While there is a range of explanations for China's rapidly expanding commodities-based trade and investment relations with Latin America, all revolving around the idea that China's growth is pulling Latin America along with it, there is controversy about the implications of this burgeoning relationship. In particular, there are two contrasting views about China's growing economic ties to Latin America: the first stresses *complementarity* and mutual benefit and the other demonstrates concern about a repeat

³¹ Rafael Valdez Mingramm et al., 'China–Latin America Commodity Trade and Investment', pp. 11–2; James T. Areddy, 'Rio Tinto Asks How Much Metal China Can Consume', *The Wall Street Journal*, August 19, 2010, <http://blogs.wsj.com/chinarealtime/2010/08/19/rio-tinto-asks-how-much-metal-china-can-consume/>.

of dysfunctional historical patterns of *dependency*. The same trade and investment data are thus interpreted in diametrically opposing ways. However, neither the optimistic ‘complementarity’ perspective on China–Latin America economic relations nor the pessimistic ‘dependency’ view captures the specific and most relevant dynamics driving the China-based commodity boom. Evaluating these competing perspectives requires a more detailed and nuanced understanding of some of the key drivers of Chinese demand for a number of Latin American commodities, especially minerals.

Complementarity

As detailed above, most explanations for China’s rising trade and investment ties to Latin America link China’s demand for natural resources with Latin America’s supply of these resources. Latin America’s resource abundance is thus seen to complement China’s resource scarcity. Such focus on a natural complementarity is also the basis for the most optimistic judgments about the nature and future development of economic and political ties between China and Latin America. Moreover, such complementarity-based views serve as the foundation for a preponderance of high, and still-rising, expectations about the future development of trade and investment ties between China and Latin America. Official Chinese government policy, backed up by key Chinese think tanks that specialize in Latin American ties, are the most obvious proponents of the idea of complementarity as the proper frame for understanding China–Latin America ties. At the same time, many business leaders and government officials, especially in commodity-rich Latin America countries, are also quick to emphasize the fundamental complementarities of Chinese demand and Latin American supply.

In its public diplomacy, China uses the language of ‘win–win’ and ‘mutual benefit’ to underscore the positive benefits to China and Latin America for their emerging economic ties. Another key part of this framing of economic relations as fundamentally complementary is based on the logic that China’s relations with Latin America are ‘South–South.’³² Each of these concepts is enshrined in China’s 2008 ‘Policy Paper on Latin America and the Caribbean,’ which was meant to clarify China’s principles and goals for its relations with Latin America. Leading Chinese scholars on Latin America from the Chinese Academy of Social Sciences (CASS) and other think tanks also consistently portray the China–Latin America relationship in these same mutually beneficial terms. For example, the former deputy

³² It should come as no surprise that the Chinese government uses this language in its public diplomacy as it has a longstanding investment in the idea of ‘South–South’ ties (although not necessarily with special emphasis on Latin America) dating back to the Maoist era. For more on the background of China’s ‘South–South’ public diplomacy, see Monica Hirst, ‘A South–South Perspective’.

director of the CASS Institute of Latin American Studies argued that ‘both China and Latin America belong to the Third World and cooperation between the two sides will benefit world peace and development.’³³ Thus the Chinese government and some of its leading academic analysts of relations with Latin America use the language of complementarity to emphasize a fundamental stability and equality borne of similar developmental backgrounds and goals.

The language of complementarity and mutual benefit is reciprocated by some, although clearly not all, Latin American leaders as well as some key Latin American research institutes.³⁴ In particular the Brazilian government, under the leadership of President Luiz Inácio Lula da Silva, embraced the language of ‘South–South’ ties to describe rapidly growing Brazilian–Chinese relations. In addition to common membership in the G20, not to mention the more exclusive BRICs, Brazil has promoted its relationship with China as mutually beneficial and as a medium for promoting alternative (non-US) forms of international leadership.³⁵ In turn, one of China’s leading economic think tanks, the Economic Commission for Latin America and the Caribbean (ECLAC), has praised the positive role of China–Latin American trade ties in light of the financial crisis. ECLAC reports of 2009 and 2010, both widely quoted in the Chinese press, have argued that China’s strong demand for Latin American commodities played a key role in minimizing the negative effects of the global financial crisis and providing a strong engine driving a rapid regional recovery.³⁶ As the 2009 ECLAC report asserted, ‘In a sense, China’s internal market has rescued the Latin

³³ Jiang Shixue, *South–South Cooperation in the Age of Globalization: Sino–Latin American Relations* (Beijing: Chinese Academy of Social Sciences, 2005), p. 13. Jiang’s assessment of what has driven China’s economic ties to Latin America fits this positive, complementary perspective. He says, ‘China also faces a shortage of natural resources, due in large part to its enormous population and rapid economic growth’; Jiang Shixue, ‘The Chinese Foreign Policy Perspective’, in Riordan Roett and Guadalupe Paz, eds, *China’s Expansion into the Western Hemisphere: Implications for Latin America and the United States* (Washington, DC: Brookings Institution Press, 2008), p. 34.

³⁴ Of all the large Latin American countries, Mexico is the least likely to see the relationship in these terms. Two of the main reasons are because Mexico has a large trade deficit with China and because it competes with China as a manufacturing base for exports to the North American market.

³⁵ For a comprehensive overview of Chinese–Brazilian trade, investment, and diplomatic relations from the Brazilian perspective, see William Dey-Chao and Barry van Wyk, ‘Tatiana Rosito on the State of the China–Brazil Economic Relationship’, *The China Analyst*, May 2010, pp. 50–1. For more on the details and challenges of Chinese–Brazilian cooperation as part of the BRICs, see Michael Glosny, ‘China and the BRICs: A Real (but Limited) Partnership in a Unipolar World’, *Polity*, Vol. 42, No. 1 (2010), pp. 100–29.

³⁶ ‘Latin America Must Take Advantage of Trade with China: ECLAC’, *China Daily*, August 28, 2009, http://www.chinadaily.com.cn/bizchina/2009-08/28/content_8629813.htm; and Alicia Bárcena et al., *Latin America and the Caribbean in the World Economy 2009–2010*.

American exports.³⁷ Thus the view of a complementary and therefore mutually beneficial China–Latin America relationship is a central theme not just in Chinese public diplomacy but also among key Latin American leaders and research centers.

The language of ‘South–South’ ties, promoted by the Chinese government and think tanks and often reciprocated by their Latin American counterparts, plays a central role in establishing expectations about the nature and future development of China–Latin American economic and political relations. Some of these expectations are explicit and others more implicit. By definition, if China’s interaction with Latin America is ‘South–South’, and therefore between China as a developing country and Latin America as a region of developing countries, it should be qualitatively different from ‘North–South’ relations. North–South relations are thus the implied (and only sometimes more explicit) foil. Whether the reference is US–Latin American relations or European–Latin American relations, North–South relations stand in historical comparison as exploitative and unequal. Therefore, if China–Latin America economic and political ties are South–South, the argument that they are therefore inherently also ‘win–win’ must be due to their more equal, non-exploitative and ultimately *stable* nature. Some critics of this perspective highlight concerns about the actual equality of the relationship. In contrast, this article highlights the risks of overestimating the likelihood of a never-ending Chinese commodity boom.

Dependency

It is ironic that ECLAC, once the institutional home of one of the key strands of ‘dependency’ theory in Latin America, would carry such a positive message about the complementarity of China–Latin America commodity-for-manufactures trade. During the height of Latin America’s 1950s–1970s import substitution industrialization (ISI) phase, ECLAC was synonymous with the thinking of Argentine economist Raúl Prebisch, whose research served as the basis for many ISI policies inside Latin America and beyond.³⁸ Moreover, along with other influential Latin American scholars like Andre Gunder Frank (‘development of underdevelopment’) and Fernando Henrique Cardoso and Enzo Faletto (‘dependent development’), Prebisch and ECLAC played an instrumental role in critiquing Latin America’s late 19th and early 20th century insertion into the global economy

³⁷ ‘Latin America Must Take Advantage of Trade with China: ECLAC’, *China Daily*, August 28, 2009, http://www.chinadaily.com.cn/bizchina/2009-08/28/content_8629813.htm.

³⁸ For more on Prebisch’s influence on the theoretical and policy connections between ‘dependency’ and ISI as well the broader appeal of both to many developing countries in the post-WWII era, see Jeffrey R. Frieden, *Global Capitalism: Its Fall and Rise in the Twentieth Century*, (New York: W. W. Norton and Company, 2006), pp. 301–20.

as primarily a provider of natural resource commodities to rapidly industrializing countries in North America and Europe.³⁹ One of Prebisch's most famous, but also controversial, claims was that the Latin America's historical reliance on commodity exports in exchange for manufactured imports from the developed world implied a structural imbalance in the 'terms of trade' (ToT), whereby commodity exports' value was prone to deteriorate relative to manufactured imports.⁴⁰

Based on the idea that the region needed to reject liberal, static comparative advantage models of development that held sway through much of the late 19th and early 20th centuries, the upshot of much dependency thinking was how Latin American governments could promote development and industrialization through more direct state involvement in the economy. It is important to keep in mind that the immediate background to this entire theoretical and policy tradition was the almost complete collapse of the region's commodity export development model in the wake of World War I, the Great Depression, and World War II. Thus, in the post-World War II era up through the 1970s, much of development thinking in the Latin American region was dominated by how to move away from an over-reliance on natural resource commodity exports into a more stable and therefore sustainable model of industrial development. Dependency theory, as the quintessential Latin American 'critical tradition', may have since largely been cast aside by many as an historical artifact, but not so very long ago it had great traction in both academic and policy circles.⁴¹

Today, whether or not explicitly highlighting the Latin American dependency tradition, many who worry about Latin America's pattern of economic relations with China reference elements of the original dependency critique. Most common among dependency-type critiques are those that reject the positive images of complementarity and instead express concern about the commodity export-manufactures import nature of contemporary Latin America–China trade. Others go even further to argue that China, through direct investments in infrastructure to facilitate transportation of natural resource exports from Latin America, has stepped into a role once filled by the likes of Great Britain in the 19th century. For example, some critics

³⁹ For a classic overview of the various permutations of 'dependency' as a theoretical concept and policy idea, see José Gabriel Palma, 'Dependency: A Formal Theory of Underdevelopment or a Methodology for the Study of Concrete Situations of Underdevelopment?' *World Development*, Vol. 6, No. 7–8 (1978), pp. 881–924.

⁴⁰ *Ibid.*

⁴¹ For a recent treatment of the demise of dependency theory and of the Latin American 'critical tradition' more generally, see José Gabriel Palma, 'Why Did the Latin American Critical Tradition in the Social Sciences Become Practically Extinct?', in Mark Blyth, ed., *Routledge Handbook of International Political Economy (IPE): IPE as a Global Conversation* (London: Routledge, 2010), pp. 243–65.

like the Brazilian economist Antônio Delfim Netto, have referred to the China–Latin America relationship as a form of Chinese imperialism or colonialism.⁴² More frequently, however, dependency-type arguments are often leveled at what is argued to be the asymmetrical or unbalanced nature of trade and investment ties between China and Latin America.

Some recent examples demonstrate how dependency themes are used to describe Latin America's economic relationship with China. For example, one report argues that:

The existing pattern of trade [between China and Latin America] reveals increasing asymmetries that are deepening Latin America's historical reliance on the export of low-value-added commodities" and therefore that the "relationship has taken on a 'North-South' tone."⁴³

Others, echoing concerns of the original *dependistas*, stress the domestic and international distortions that are the result of the commodity-manufactures nature of the China–Latin America commercial relationship. Evan Ellis, the author of a 2008 book on China–Latin America relations, worries that within Latin American countries the current proceeds from commodity exports are mainly captured by economic or political elites. At the same time, Ellis is concerned that at a comparative international level, China's manufacturing-based exports are a more stable driver of China's own growth than commodity exports are for Latin America.⁴⁴ Thus, what some characterize as a mutually beneficial, complementary relationship is for others instead both 'asymmetrical' and far too close to historically traumatic patterns of development that many in the region worked so hard for so long to overcome.

However, as important as some of these dependency related arguments are for understanding how the China–Latin America relationship is evaluated,

⁴² See Tom Phillips, 'Brazil's Huge New Ports Highlights China's Drive into South America', *The Guardian*, September 15, 2010, <http://www.guardian.co.uk/world/2010/sep/15/brazil-port-china-drive>. Charges that China's trade and investment behavior are colonial or 'neocolonial' in nature are more often heard in relation to Africa. For an argument of how concepts like 'neo-dependency' or 'postcolonial interdependency' might shed light on China's relationship with Africa, see Stephanie Rupp, 'Africa and China: Engaging Postcolonial Dependencies', in Robert I. Rotberg, ed., *China into Africa: Trade, Aid, and Influence* (Washington, DC: Brookings Institution Press, 2008), pp. 65–86. Despite these criticisms, certain Latin American government and business leaders welcome potential increased Chinese investment in Latin American railroad, highway, bridge, and port infrastructure. For more on Brazil's positive view of potential future Chinese infrastructure investment in the country, see 'The Beijing Axis', May 2010, p. 51. Increased Chinese infrastructure development in the region also has the potential to produce a kind of 'lock-in' effect whereby Chinese-funded and built infrastructure creates linkages with Latin America that could withstand short-term bumps in supply or demand (I thank Jean-Marc Blanchard for this insight).

⁴³ Tony Volpon, 'Asia and Latin America', pp. 79–80.

⁴⁴ R. Evan Ellis, *China in Latin America: The Whats and Wherefores* (Boulder: Lynne Rienner Publishers, 2008), pp. 286–8.

just as crucial are related arguments about how Latin America might be able to more effectively harness the benefits of its current commodity-based export relationship with China. The ECLAC reports mentioned above that highlight how China's demand for Latin American exports played a crucial role in helping Latin America weather the financial crisis are indicative of how even potential Latin American skeptics might see an upside to what have long been seen as historically dysfunctional patterns of development.

Another important study in this regard, but one that more directly engages dependency critiques, is a World Bank report on Latin American commodity boom and bust cycles.⁴⁵ The report largely moves beyond the dependency critiques described above by arguing that the business and government earnings from natural resource-based commodity export booms, if harnessed and used effectively, can underpin sustainable, longer-term development in the region. Addressing previous dependency and commodity-boom critiques, the report notes that the Prebisch terms-of-trade argument can be offset by proper exchange rate policies and export diversification.⁴⁶ Moreover, the ToT have largely been tilted in favor of the commodity exporters as commodity prices have (mostly) remained high. At the same time, the report argues that if income from the commodity boom is wisely spent on human capital, infrastructure, and economic innovation, not to mention squirreling some proceeds away in rainy day funds as Chile has done, then growth for commodity exporters is more likely to be sustainable.⁴⁷

Nevertheless, in publicizing the report, one of its authors and the World Bank's chief economist, Augusto de la Torre, noted a key assumption upon which these other more optimistic findings were based: 'Assuming that Asian demand for soy exports from Argentina, iron ore from Brazil, copper from Chile, fish and minerals from Peru and other Latin American commodities keeps up, the region is in a strong position to profit from its natural resources.'⁴⁸ However, assumptions of such sustained, high Chinese demand, which equate to a faith in the continuation of the Chinese-driven commodity boom, have the very real potential of leading to disappointed expectations.

⁴⁵ See Emily Sinnott et al., 'Natural Resources in Latin America and the Caribbean: Beyond Booms and Busts', The World Bank, 2010.

⁴⁶ *Ibid.*, pp. 48–50, 65.

⁴⁷ *Ibid.*, p. x.

⁴⁸ Gabriela Aguilar, "'Commodity dependence' Can Lead to Sustained Growth, World Bank Report Argues', The World Bank, Press Release No. 2011/083/LAC, September 13, 2010, <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22700343~pagePK:64257043~piPK:437376~theSitePK:4607,00.html>.

China and the Commodity Boom: Internal Sources and External Consequences

The discussion above highlights the broad, seemingly commonsense agreement that Latin America's robust trade relationship with China is a simple function of China's rapid development and its need for natural resources to fuel that development. The only real controversy that seems to revolve around the long-term consequences for Latin American development: are China–Latin America economic ties 'complementarity' and therefore a reliable source of Latin American growth or are they 'dependent' and therefore somehow unequal or unstable? On the whole, the optimistic view of China–Latin America relations as complementary appears to be ascendant, with critical voices heard mostly from countries that have not benefitted from expanded commodity exports to China or from those who cling to what may seem to be outdated theories of dependency. Where questions do arise about the relative benefits of the relationship, they are often centered on whether the gains from commodity-based trade are shared equally between China and Latin America as well as within given Latin American countries.

However, we cannot truly begin to evaluate the complementarity-dependency debate without a more accurate understanding of the precise drivers of Chinese demand and how those drivers have been connected to broader changes in China's development trajectory in recent years. We must ask: why it is that China came to, and has continued, to 'need' certain Latin American resources in greater and greater amounts after taking off at a specific point in time less than a decade ago? In order to do this, we must look at certain trends in Chinese domestic political economy, in specific, trends in the country's development trajectory that have coincided with China's expanding commodity imports from Latin American and other regions. In other words, we must open up the black box of China's demand for natural resources. By doing so, we are confronted with a much more complex picture than a simple and seemingly unstoppable upward trajectory based on healthy and booming Chinese demand.

In particular, any evaluation of the longer-term prospects of China–Latin America economic relations must be rooted in a clear understanding of how a take off in domestic Chinese heavy industrial production played a key role in triggering a global commodity boom for mineral and energy resources to feed that production. Thus, China's development trajectory underwent significant changes at just the time that trade with Latin America took off. However, such changes were largely unanticipated and unintended. While China's economic growth has continued along at very high rates, even through the global financial crisis, a range of 'imbalances' have only continued to grow and may eventually play a role in ending the commodity boom. If the global commodity boom had its roots in transformations

within China itself, then the end of the boom will likely also be rooted in domestic Chinese economic and political forces. Whether the result of market corrections, government policy, or a combination of the two, a number of changes are already underway that may fundamentally alter China's demand for a range of global commodities. Even if the China-driven commodity boom does not go completely bust, the possibility that Chinese demand can and will experience high volatility in response to a combination of market forces and government policies is ever present.

China's Changed Development Path: The Implications of Domestic and International Booms

Since the early part of the 2000s, China's economy has undergone a profound set of changes. These changes have affected not just China's domestic development pattern but have also significantly affected China's economic and political relationship with the global community. Many economists point out that since the early years of the 21st century, China's domestic economy and its relationship to the global economy have become increasingly 'imbalanced'.⁴⁹ While overall economic growth has continued apace at a nearly 10% average, other components of China's development pattern have changed dramatically. Outside of China, among the most commonly discussed of these changes is the surge in China's trade surplus and, along with it, the country's holdings of foreign reserves.⁵⁰ However, within China, it is the increase in heavy industrial development, much of which has gone into feeding rapid state-led urbanization and infrastructure development, that has impacted the volume and price of key imported Latin American commodity (especially mineral and energy) inputs. Simply put, Latin America has become tied into a Chinese-led commodity boom, which in

⁴⁹ Assessing these imbalances has become a point of contention within and outside of China. For examples of related research, see Yu Yongding, 'Global Imbalances: China's Perspective', Peterson Institute for International Economics, 2007; Ronald McKinnon and Gunther Schnabl, 'China's Financial Conundrum and Global Imbalances', Bank for International Settlements, Working Paper 277, 2009; and Michael Pettis, 'How will China Rebalance?', Blog entry, September 29, 2010, <http://seekingalpha.com/article/227660-how-will-china-rebalance>.

⁵⁰ While China consistently ran trade surpluses from between 1% to 1.5% of GDP from 1982 to 2002, surpluses have skyrocketed over the last decade. Beginning around 2003, surpluses started to edge up and by 2007 reached 11% of GDP. See Jonathan Anderson, 'The Myth of Chinese Savings', *Far Eastern Economic Review*, Vol. 172, No. 9, 2009, p. 25. With China's closed capital account and controlled exchange rate, these surpluses translated into rapidly increasing foreign exchange reserves of nearly \$2.5 trillion by 2009. This figure represents around 50% of China's GDP and around 5–6% of global GDP, which in historical terms has only been matched by the US in the 1920s and Japan in the late 1980s. Michael Pettis, 'Never Short a Country with \$2 Trillion in Reserves. Really?', February 2, 2010, <http://mpettis.com/2010/02/never-short-a-country-with-2-trillion-in-reserves/>.

turn has been fueled in key part by a take-off in Chinese heavy industrial production.

Since the beginning of its ‘reform and opening’ policies at the end of the 1970s, China had moved away from the Mao era ‘Big Push’ model of capital-intensive, heavy industrial development towards a reliance on labor-intensive, light manufacturing.⁵¹ However, just after the turn of the millennium, China began a dramatic, unexpected, and unplanned reversion toward heavy industrial production. Between 1985 and 2002, Chinese industrial growth was steady, but

After 2002, China’s heavy industrial economy experienced an extraordinary boom. The overall ratio of gross domestic industrial output was responsible for virtually all of this increase. Within the space of five years, the relative size of heavy industrial production (steel, metals and chemicals, wind energy, paper production, all electricity-intensive sectors) in the economy nearly tripled. This was unprecedented in China’s economic history.⁵²

Evidence of this transformation began to appear around 2001 when China witnessed an unexpected spike in energy intensity and overall energy demand growth.⁵³ Over the entire period of reform, from the late 1970s to 2001, China’s energy intensity had been decreasing as the country transitioned from heavy industry to light manufacturing.⁵⁴ While the country grew at an average rate of over 9% during that period, energy growth averaged only 4%. Around 2001, this picture began to change as energy intensity began to pick up and energy demand growth spiked to 13% a year, thus outpacing overall GDP growth.⁵⁵ The key factor driving increased energy intensity and demand was the increase in heavy industrial

⁵¹ See Barry Naughton, *The Chinese Economy: Transitions and Growth* (Cambridge: The MIT Press, 2008) for an explanation of the ‘big push’ model of industrial development under Mao.

⁵² European Chamber of Commerce, *Overcapacity in China: Causes, Impacts and Recommendations*, 2009.

⁵³ China’s 2001 accession to the World Trade Organization (WTO) was, of course, part of a larger strategic effort to more firmly embed China into the global economy. Along with China’s post-East Asian financial crisis efforts to maintain currency reserves sufficient to allow an independent policy response to potential currency shocks, China’s entrance into the WTO is notable as part of a concerted political effort to continue reform of China’s economy. More research needs to be conducted on the connection between the political and economic factors behind the dramatic changes in China’s development trajectory in the early 2000s.

⁵⁴ For a clear overview of China’s reversion to an energy-intensive, heavy industry pattern of growth, see Daniel H. Rosen and Trevor Houser, ‘China Energy: A Guide for the Perplexed’, Center for Strategic and International Studies and the Peterson Institute for International Economics, 2007. For more on China’s energy intensity, see Philip Andrews-Speed, ‘China’s Ongoing Energy Efficiency Drive: Origins, Progress and Prospects’, *Energy Policy*, No. 37, 2009, pp. 1331–44.

⁵⁵ Daniel H. Rosen and Trevor Houser, ‘China Energy’, pp. 6–7. Within China, some scholars and officials have expressed alarm at how the rapid increase in demand for energy resources has exacerbated energy security concerns. For example, see Zha Daojiang, ‘China’s Energy Security: Domestic and International Issues’, *Survival*, Vol. 48, No. 1 (2006), pp. 179–90.

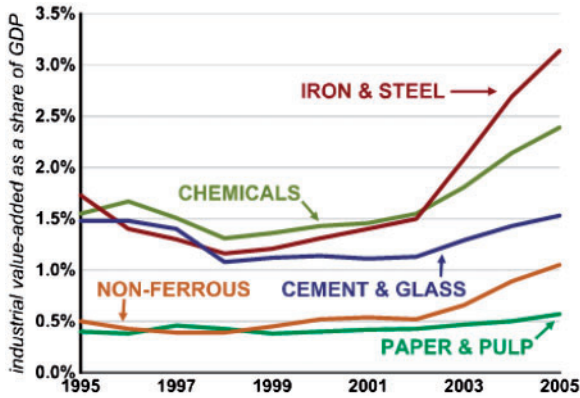


Fig. 3 China's Heavy Industry Boom.

Source: Daniel H. Rosen and Trevor Houser, 'China Energy: A Guide for the Perplexed,' Center for Strategic and International Studies and the Peterson Institute for International Economics, 2007.

manufacturing of products like steel, cement, and chemicals (see Figure 3). As heavy industrial production within China shot up, so did the demand for a range of imported commodity inputs to feed that burgeoning demand.

The case of steel and iron ore provides a clear example of how China's rapid increase in domestic heavy industrial production led to a global boom in specific mineral commodities.⁵⁶ From 2002–2005 alone, Chinese iron and steel production, as a percentage of GDP, increased from around 1.5% to over 3%.⁵⁷ Beginning from the early part of this decade, Chinese crude steel output increased annually at a rate of 18.3% (compared to 4.3% in the rest of the world).⁵⁸ A net importer of steel in 2002, China had become the world's largest steel producer by 2007, accounting for 37% of global crude steel production that year.⁵⁹ And by 2010, China was responsible for the production of almost half the world's steel.⁶⁰ To put the speed of this transition into perspective, in 2002 China's steel imports outpaced its exports by 450%, but by 2006, exports exceeded imports by 230% as China moved to become the world's largest producer and exporter of steel.⁶¹ While the majority of this rapidly expanding production has fed rising domestic

⁵⁶ Besides iron ore, by 2008, China had also become the number one consumer of copper, aluminum, nickel, zinc, and tin and the number two consumer of oil. Because of the financial crisis, China's demand for commodities slackened in early 2009 but rapidly recovered thereafter. See Barry van Wyk, 'The China Factor', p. 6.

⁵⁷ Daniel H. Rosen and Trevor Houser, 'China Energy', p. 8.

⁵⁸ Barry van Wyk, 'The China Factor', p. 7.

⁵⁹ Yu Yongding, 'China's Policy Responses to the Global Financial Crisis', Research Center for International Finance, Working Paper No. 0917, December 15, 2009, p. 8.

⁶⁰ Barry van Wyk, 'The China Factor,' p. 7.

⁶¹ Daniel H. Rosen and Trevor Houser, 'China Energy', p. 13. As UBS economist Jonathan Anderson points out, China's transition to a net exporting position in steel entailed first taking over foreign market share within China and then expanding to foreign export

demand, China's steel sector has become increasingly export-oriented, with around 11.5% of production going to exports in 2008.⁶²

This boom in Chinese steel production, in turn, triggered a rise in demand for iron ore, with China now consuming fully 70% of the world's iron ore exports.⁶³ This increase in demand for iron ore has directly impacted the fortunes of firms and government coffers in key Latin American exporters like Brazil and Peru.⁶⁴ China is by far the largest importer of Brazilian iron ore, and Vale, the world's largest iron ore producer, has ridden the tide of rising Chinese demand to become increasingly profitable.⁶⁵ In part, this is because the increase in demand for inputs to fuel China's rapid increase in heavy industrial production entailed a corresponding rise in the price of those inputs. For instance, despite a brief downturn in response to decreased demand during the height of the global financial crisis, the price of iron ore rapidly rebounded on the back of rapidly recovered Chinese demand.⁶⁶ Thus China's boom in heavy industrial production has played a key role in rapidly expanding exports of a range of Latin American commodities.

While the dynamics between increased Chinese steel production and the import of iron ore is a key example of the chain reaction set in motion by China's rapid increase in heavy industrial production, other Latin American mineral commodities were also pulled into China's changed development pattern.⁶⁷ For example, much of the heavy industrial production in China

markets. This played a key role in China's increasing trade surpluses with countries like the US. See Jonathan Anderson, 'The Myth of Chinese Savings', p. 28.

⁶² 'China's Iron and Steel Industry amid the Financial Crisis', KPMG, 2009, p. 7.

⁶³ John Garnaut, 'Hard Choices as China's Boom Fades', *The Sydney Morning Herald*, July 13, 2010, <http://www.smh.com.au/business/hard-choices-as-chinas-boom-fades-20100712-107yp.html>.

⁶⁴ In 2008, Brazil provided 22.7% of China's iron ore imports, see Rafael Valdez Mingramm et al., 'China–Latin America Commodity Trade and Investment', p. 12. The same dynamic was at work for the world's largest iron ore exporter: Australia. In 2008, Australia provided 41.4% of China's iron ore imports and over the last decade China has become Australia's largest export market, with iron ore and coal accounting for one-third of overall export revenue. See Michael Stutchbury, 'Exploiting the China Boom Demands a Big Australia', *The Australian*, August 5, 2010, <http://www.theaustralian.com.au/business/exploiting-the-china-boom-demands-a-big-australia/story-e6frg8zx-1225901340111>.

⁶⁵ Despite changes in the structure of iron ore price negotiations, Vale expected revenues from sales of iron ore to China to double from 2009 to 2010. See 'World's Largest Iron Ore Producer Cuts Prices by 10%', August 27, 2010, http://www.industryweek.com/articles/worlds_largest_iron_ore_producer_cuts_prices_by_10_22642.aspx. For a detailed analysis of the overall Brazil–China trade structure, see Enestor Dos Santos and Soledad Zignago, 'The Impact of the Emergence of China on Brazil International Trade', BBVA Working Paper Number 10/22, September 1, 2010.

⁶⁶ For an overview of rising iron ore contract and 'spot' prices, see <http://blog.chinatells.com/2009/12/3723> and <http://agmetalmminer.com/2010/09/07/bullish-comments-on-iron-ore-contrary-to-recent-trends/comment-page-1/>.

⁶⁷ The connection between iron ore and steel provides the clearest illustration of how Chinese demand has driven exports of one key commodity. The argument presented here fits best for increased Chinese production of a range of heavy industrial outputs that require mineral and energy inputs. However, in addition to these 'hard commodities', China has also experienced a spike in demand for agricultural or 'soft commodities', with the prime example being soy beans and soy byproducts like oil and meal (See Figure 2). China's

has gone to fuel rapid property and infrastructure development. This, in turn, has driven increasing imports of other Latin American mineral commodities like Chilean copper. As mentioned above, copper is Chile's main export and China has rapidly risen to become the main consumer of Chilean copper. Thus the rise in demand for a number of mineral resources abundant in Latin America, a take-off that began in the early years of the 21st century, has been driven by important changes in China's heavy industry-intensive pattern of domestic development.⁶⁸

Why Did China Move Toward Heavy Industrial Production?

If changes in China's domestic development trajectory fueled the take-off in imports of Latin American mineral commodities at the heart of the boom in China–Latin America trade relations, then assessing the overall stability of this burgeoning trade relationship depends on a deeper understanding of what led to China's changed pattern of growth in the first place. To restate an observation made above: From the perspective of many officials and researchers inside and outside of China, the country's reversion toward heavy industrial production in the early 2000s was unplanned, unexpected, and has produced a range of undesired affects. This has important implications for the future development of commodity exports to China from Latin America and elsewhere. Indeed, many of the very forces that came together to lead to China's reversion to a capital and energy-intensive, heavy industry pattern of development were only exacerbated by China's response to the global financial crisis. As Chinese officials move beyond what they claimed were emergency measures to protect the Chinese economy from the crisis,

demand for certain Latin American agricultural inputs, in particular soy beans and soy oil, has also been tied to changes in China's domestic market structure. The logic driving increased demand for certain agricultural commodities like soy from Argentina and Brazil is different than for minerals, but is arguably also the result of specific changes in China's domestic political economy. In particular, there has been a concerted effort by the Chinese government to move from family-sized to larger commercial pig farming that has driven the increased demand for soy imports. Moreover, increased industrial production has increasingly translated into less farmland for agricultural production. I thank Mindi Schneider and Emelie Paine for their helpful insights into the Brazil–China soy connection.

⁶⁸ So far absent from this discussion has been China's increased trade and investment in Latin American energy resources, particularly oil. In addition to minerals, China's main investment activities in Latin America have been tied to oil resources, including the over US\$7 billion purchase of Spain's Repsol Brazil operations in 2010. See Melissa Graham, 'China's Growing Investments in Latin America'. As this article makes clear, Chinese demand for various heavy industrial products like steel show marked potential for market- and/or policy-related volatility. Booming Chinese demand for energy resources, such as oil or coking coal for steel production, also feeds into environmental and other 'energy security' concerns. See Zha Daojiong, 'China's Energy Security', pp. 179–90. Chinese central government efforts in moving toward less reliance on fossil fuel intensive energy use will thus clearly impact China's energy demand footprint on its main oil exporting trade partners.

attention inside and outside of China has increasingly focused on how global imbalances and domestic asset and capacity bubbles can be addressed. Because Latin American and other global commodity exporters have become so deeply tied into the Chinese-led commodity boom, any changes in China's domestic market and policy structure will inevitably affect those exporters as well.

Why in the early years of the 21st century did China move away from a development pattern based on labor-intensive, light manufacturing toward one based on capital-intensive heavy industry? Any answer to this question must begin with the recognition that the transition to heavy industrial development was not part of a plan or coordinated policy on the part of the Chinese central government. As economic analyses of China's unexpected increase in energy use that accompanied the move to heavy industrial development have made clear, China's changing industrial output structure was not 'the result of concerted national aspirations (as it was under Mao Zedong).'⁶⁹ Instead, a perfect storm of market and government policy factors led to a dramatic increase in domestic heavy industrial production. What started out as a series of discrete policies and market signals led to a 'gold rush' or a 'boom' mentality.⁷⁰ Explaining how China 'struck steel' in a similar way to other countries striking oil, one economist has highlighted a clear element of 'irrational exuberance' as what 'started with a response to market fundamentals...then radically overshot.'⁷¹ What then, were some of these market fundamentals?

A combination of macro- and micro-economic conditions and policies facilitated the boom in heavy industrial production in the early 2000s. At the macro level, increasingly high savings rates, which exploded after 2003 to reach almost 52% of GDP by 2009,⁷² combined with low interest rates to create cheap and abundant capital that fueled the boom in heavy industrial production. Moreover, this explosion in savings has not been driven by the household sector, but instead from increases in corporate savings, which went up from about 15% of GDP to 26% between 2000 and 2007.⁷³ This has meant that increased corporate savings, much of it

⁶⁹ Daniel H. Rosen and Trevor Houser, 'China Energy', p. 8.

⁷⁰ See Daniel H. Rosen and Trevor Houser, 'China Energy', and European Chamber of Commerce, *Overcapacity in China*, respectively.

⁷¹ Jonathan Anderson, 'The Myth of Chinese Savings', p. 28.

⁷² *Ibid.*, p. 25.

⁷³ *Ibid.*, p. 27. Much of this increase in profitability has accrued to SOEs, which in principal are under the direct supervision of the state. In 2005, China created the State-owned Assets Supervision and Administration Commission (SASAC) and gave it the power to retain a certain percentage of SOE profits. In principal, this should have provided the state with a policy lever for controlling the cycle of SOE overinvestment in heavy industry. Ironically, however, because of the intervening financial crisis, SASAC actually poured some of those retained profits back into SOEs, further providing cheap credit and fueling more heavy industrial production. See Barry Naughton, 'Loans, Firms, and Steel: Is the State Advancing at the Expense of the Private Sector', *China Leadership Monitor*, No. 30 (2009).

by state-owned enterprises, have been channeled back into even more investment. At the micro-level, increased heavy industry profit-making possibilities were enhanced by local government policies designed to boost local growth rates and attract investment. For example, as part of the competition to promote growth, local governments have often provided subsidized inputs, including land, water, and electricity for industrial use.⁷⁴ To illustrate the impact of these policies on heavy industry profit margins, in the late 1990s heavy industrial profits hovered near zero, but by 2007 had risen to between 4% and -7% in heavy industries like steel, glass, and cement, outpacing many of their light manufacturing counterparts.⁷⁵

In heavy industries such as steel, Chinese central government officials have long been concerned about overinvestment as well as a lack of industry concentration,⁷⁶ but such domestic overcapacity has been both stimulated and absorbed by opportunities for export. In addition to export subsidies for certain heavy industrial products, exports of excess heavy industrial capacity have been further aided by the central government's exchange rate policies. By holding down the value of the renminbi, China has effectively allowed its producers to increasingly capture global market share in certain economic sectors.⁷⁷ However, if excess heavy industrial exports caused little friction with trading partners before the financial crisis they have clearly become of greater concern in its wake. In many ways then China's state-led investment, whether through direct or indirect channels, has translated into increased heavy industrial production with the ultimate outcome being a 'gold rush into heavy industry'.⁷⁸

Effects of China's Response to the Financial Crisis: Overcapacity and Increased Instability

If the conditions for this gold rush into heavy industrial production, and for the needed raw material inputs, were in place well before the global financial crisis, they have only been exacerbated by China's response to the crisis. In particular, credit became even cheaper and more plentiful as a result of China's 4 trillion renminbi stimulus package and the accompanying expansionary credit policies promoted by central and local authorities in the wake

⁷⁴ 'Overcapacity in China', p. 14.

⁷⁵ Daniel H. Rosen and Trevor Houser, 'China Energy', pp. 10, 12.

⁷⁶ Chuin-Wei Yap, 'Steel Mills to Government: "In a Minute"', *The Wall Street Journal*, December 9, 2009, <http://blogs.wsj.com/chinarealtime/2009/12/09/steel-mills-to-government-%E2%80%98in-a-minute%E2%80%99/>.

⁷⁷ Jonathan Anderson, 'The Myth of Chinese Savings'. Here there is a legitimate question about whether such a result might indeed be the product of a concerted policy to capture such market share. However, given the many concerns about overcapacity and the increasing trade frictions they have generated, it still makes sense to see what Anderson calls China's 'market share grab' as the outcome of an unintended boom in heavy industrial production.

⁷⁸ Daniel H. Rosen and Trevor Houser, 'China Energy', p. 12.

of the financial crisis.⁷⁹ The result was a rapid recovery in China's economic growth rate, which inspired some to praise China's stimulus package as the global 'gold standard'. However, China's stimulus package and loose monetary policies have led to widespread concern about the build-up of capacity (in heavy industries like steel and cement) and asset (in the stock and property markets) bubbles.⁸⁰ Moreover, there is general consensus inside and outside of China that in order to help remedy domestic and global 'imbalances' China must shift away from its reliance on foreign demand and move toward a consumption-driven pattern of growth.⁸¹ In fact, however, China's response to the financial crisis has done little to address these imbalances and instead has further stimulated over-investment in heavy industrial and other production that relies on exports and therefore foreign demand.

Once again, the steel sector provides a perfect example of overcapacity concerns and also signs that the sector may already be undergoing a state-led realignment that is affecting demand for iron ore inputs. While in the rest of the world steel production decreased by around 21% in 2009, China's actually increased by 13.5%.⁸² Moreover, of the 700 million tons of steel produced in China in 2009, only 560 million tons were consumed domestically.⁸³ In the first part of 2010, with China's economy rapidly responding to the stimulus package and awash in cheap credit, steel production and exports continued to boom at rates of over 200% compared to the previous year.⁸⁴ With excess capacity reliant on dwindling foreign demand in the advanced industrialized countries of North America and Europe, trade tensions have been quick to follow. Indeed, 'Among the numerous made-in-China products impacted by international trade frictions, China's

⁷⁹ For a comprehensive overview of China's stimulus package and accompanying credit and investment policies, see Barry Naughton, 'Understanding the Chinese Stimulus Package', *China Leadership Monitor*, No. 28 (2009).

⁸⁰ For more details, see 'Overcapacity in China: Causes, Impacts and Recommendations', European Chamber of Commerce, 2009; and Michael Pettis, 'China September Data: Long-Term Overcapacity Problem is Intensifying', October 16, 2009, <http://seekingalpha.com/article/166966-china-september-data-long-term-overcapacity-problem-is-intensifying>.

⁸¹ Li Keqiang, the presumptive future Chinese prime minister, has reiterated the need for such a fundamental transformation of the country's development model. See Li Keqiang, 'Shenke lijie 'jianyi' zhuti zhuxian cujin jingji shehui quanmian xietiao kechixu fazhan', ('Deeply Understand the "Proposal" to Promote the Comprehensive Coordination of Sustainable Economic and Social Development'), *Zhonghua renmin gongheguo zhongyang renmin zhengfu* (The Central People's Government of the People's Republic of China), November 14, 2010, http://www.gov.cn/ldhd/2010-11/14/content_1745519.htm.

⁸² Stuart Burns, 'The Problem with China's Steel Industry...Part One', *Metal Miner*, February 4, 2010, <http://agmetalmminer.com/2010/02/04/the-problem-with-chinas-steel-industry/>.

⁸³ 'Problems of China's Steel Industry', China Mining Association, April, 13, 2010, <http://www.chinamining.org/News/2010-04-13/1271126416d35427.html>.

⁸⁴ Chiu-Wei Yap and Yajun Zhang, 'Government to Steel Mills: "Your Minute is Up"', *The Wall Street Journal*, June 25, 2010, <http://blogs.wsj.com/chinarealtime/2010/06/25/government-to-steel-mills-your-minute-is-up/>.

steel industry has been hit the hardest.⁸⁵ Excess capacity has not only been a source of trade concerns, but is also increasingly a worry for Chinese government planners wishing to reduce domestic overconsumption of energy sources that have accompanied increased heavy industrial output.⁸⁶

The result has been that in 2010 Chinese central government authorities began to enact measures to reduce domestic steel production and curtail incentives for exporting excess capacity. These measures began to take hold in mid-2010 as China rescinded a 9% value-added tax rebate for steel exports and subsequently sought to restrain credit growth as part of a larger effort to slow down the overheated property market that is a main source of demand for much of China's domestic steel consumption.⁸⁷ Going back to the 1990s and picking up in intensity over the last decade, central government authorities have been concerned about a lack of consolidation in China's steel industry and have declared their intentions to shut down excess capacity and concentrate production in a limited number of large, state-owned steel enterprises.⁸⁸ Despite deep-seated challenges in actually implementing this agenda, efforts begun in 2010 to rein in the steel sector are starting to have teeth in part because of heightened concerns about the effects of excess steel and other heavy industrial capacity on trade relations as well on China's domestic energy use, not to mention anxiety about the country's overheated property markets. China's efforts to rein in steel production and to cool off overheated property markets have already led to a 2010 roller coaster ride for imports, prices, and shipping of iron ore inputs from Brazil and other key suppliers in Latin America and elsewhere.⁸⁹

Conclusion

At the end of the day, are China–Latin America relations best understood as complementary or dependent? These perspectives clearly represent two sides of the same coin, capturing a basic tension between the optimism and the anxiety that the rapidly expanding economic relationship between China and Latin America has engendered. Embedded in these frameworks, however, are more complex assumptions about the relative benefits and the sustainability of recently blossomed China–Latin America trade and

⁸⁵ 'The Affect of Trade Sanctions on China's Steel Mills', *The China Sourcing Blog*, January 27, 2010, <http://www.chinasourcingblog.org/2010/01/the-effects-of-trade-sanctions.html>.

⁸⁶ 'Problems of China's Steel Industry'.

⁸⁷ See Chuin-Wei Yap and Yajun Zhang, 'Government to Steel Mills: "Your Minute is Up"'; and Chuin-Wei Yap and James Campbell, 'As Steel Mills Sneeze, Global Shippers Catch a Cold', *The Wall Street Journal*, June 30, 2010, <http://blogs.wsj.com/chinarealtime/2010/06/30/as-steel-mills-sneeze-global-shippers-catch-a-cold/>.

⁸⁸ Barry Naughton, 'Loans, Firms, and Steel,' pp. 3–4.

⁸⁹ Chuin-Wei Yap and Yajun Zhang, 'As Steel Mills Sneeze, Global Shippers Catch a Cold'.

investment relations. Complementarity implies equilibrium and stability: Latin America, with abundant natural resources, will continue to supply the raw materials necessary to fuel China's seemingly unstoppable upward development trajectory. Dependency implies a sense of inequality and a lack of sustainability: Latin America is falling back into old habits of over-reliance on primary product exports while China moves up the manufacturing and industrial development ladder. However, this article has demonstrated that questions about the health and sustainability of China–Latin America economic ties can only be answered by paying more careful attention to the specifics of the China-led commodity boom.

Assessing the health and sustainability of China–Latin America economic ties requires re-emphasizing some well-known facts as well as highlighting some less well-discussed but equally important phenomena. First, the take-off in China–Latin America economic ties has been driven by Chinese demand for Latin American commodities. Latin American exports to China, and increasingly Chinese investment in Latin America, have been dominated by Chinese demand for Latin American mineral, energy, and agricultural commodities. Second, the specific timing of the take-off in Chinese imports of, and investment in, Latin America's raw materials is of crucial importance. Latin America has not simply been drafting on the winds of the Chinese economic miracle of the last 30 plus years, but instead has caught a specific phase of China's development cycle that in key ways has been quite unlike what came before. China's increasing demand for Latin American and other commodity-rich countries' resources has corresponded with a change in China's domestic development trajectory away from labor-intensive light and medium manufacturing toward capital-intensive, heavy industrial (over)production.

With these two basic facts in mind, it is easier to shine a light on the elephant in the room: what happens if and when the China-driven commodity boom ends or becomes prone to increased volatility? Naturally, the complementarity perspective leads us away from even contemplating this question because it not only assumes the smooth continuation of China's rapid upward development but it also assumes the continuation of Latin America's role as a supplier of the raw materials necessary to fuel that development. And for those who recognize that Latin America might be linked into a specific phase of Chinese growth, the idea that the Chinese commodity boom is simply part of a virtuous, secular 'commodity super cycle' distracts from any concerns about how the boom might end.⁹⁰

⁹⁰ For more on secular commodity 'super cycles' and China, see Jim Rogers, *Hot Commodities: How Anyone Can Invest Profitably in the World's Best Market* (New York: Random House, 2007) and Jim Rogers, *A Bull in China: Investing Profitably in the World's Greatest Market* (New York: Random House, 2008).

More surprising, however, is how often even those who are sensitive to a more critical, dependency perspective are willing to assume away the possibility of the end of the commodity boom. As one recent study noted:

debates about development in South America have, for around half a century, revolved precisely around the imperative of breaking the region's dependence on raw materials for export, especially given the dislocating effects of Dutch disease and other structural problems associated with such a mode. The celebration of the export opportunities provided by the emergence of China consequently has something of a strange ring to it.⁹¹

The ECLAC and World Bank reports discussed above are perfect examples of how those who understand better than most these historical concerns are nonetheless willing to table the possibility that the Chinese demand for commodities might be prone to instability. To stress how Latin American commodity exporting countries and firms have an opportunity as well as obligation to manage the gains from the commodity boom in a responsible, fair, and sustainable way is perfectly reasonable. However, failing to better understand the roots of China's demand for specific commodities and the very serious challenges faced by China in regulating the markets responsible for such demand may very well serve as the basis for disappointed expectations about the stability of China as an engine of Latin American growth. If expectations among those who are benefitting the most from complementarity are disappointed, then there will also be high potential for deepening trade frictions with those in Latin America and the Caribbean who already find themselves increasingly competing with Chinese imports. Ultimately, whether partial to the complementarity or dependency perspective, many who are participating in or observing the continued boom in China–Latin America relations appear to themselves to be caught up in a cycle of rising expectations that is more reflective of a gold rush mentality than sober reflection.

Even if such rising expectations are in part driven by what Nobel economist Paul Krugman has called 'naïve extrapolation of past trends', this article has also made clear that a more careful focus on China's domestic political economy demonstrates the various challenges China faces in maintaining its torrid pace of growth.⁹² Concerns about domestic and international economic imbalances, asset and capacity bubbles, and inflation are but some of the many issues at the center of Chinese and international discussions and debates about the health and future of the Chinese economy. These larger economic challenges are very much tied to Chinese demand for Latin American and other region's commodities. This argument

⁹¹ Nicola Phillips, 'China and Latin America: Development Challenges and Geopolitical Dilemmas', in Lowell Dittmer and George T. Yu, eds, *China, the Developing World, and the New Global Dynamic*, pp. 188–9.

⁹² Paul Krugman, 'The Myth of Asia's Miracle', *Foreign Affairs*, Vol. 73, No. 6 (1994).

has also appeared in a small but rising number of international investor analyses of the Chinese economy. For example, in late 2009 and early 2010 hedge fund investor James Chanos made headlines with his remark that China's inflated real estate sector looked like 'Dubai times 1,000 – or worse.'⁹³ Chanos, when later pressed to comment on how a bursting of China's property bubble might impact the global economy said that those most exposed would be commodity exporters, especially in areas like iron ore.⁹⁴ While comments by international hedge fund directors might be dismissed as speculative, predictions of a short to medium-term slowdown have increasingly been voiced by prominent Chinese government and business officials as well.⁹⁵

What remains, then, is a potentially volatile mismatch between high and rising expectations of an ongoing commodity boom on the one hand and the very real possibility that specific sectors of the Chinese economy (e.g. the steel industry and/or the property market) face either government or market-induced corrections that will impact demand for commodity imports. The argument presented here is not that the Chinese economy faces impending crisis, simply that certain sectors of the economy at the center of Chinese demand for various Latin American commodities face serious challenges and are acknowledged by Chinese central government officials and other analysts inside and outside of China to be in need of reform and regulation. However, especially in light of the praise China has received for managing its response to the financial crisis by maintaining high domestic growth rates and thereby sustaining demand for imports from Latin America, the perception that China will continue to fuel Latin American export growth remains high. After all, if the idea of a Beijing Consensus or

⁹³ David Barboza, 'Contrarian Investor Sees Economic Crash in China', *The New York Times*, January 7, 2010, <http://www.nytimes.com/2010/01/08/business/global/08chanos.html>. Chanos was very clear that he did not predict a crash of the Chinese economy, but instead that he was convinced that the Chinese property market bubble would face a severe correction.

⁹⁴ See Chanos' January 28, 2010 Oxford lecture 'The China Syndrome: Warning Signs Ahead for the Global Economy', http://www.chinacentre.ox.ac.uk/events/lectures/events/the_china_syndrome_warning_signs_ahead_for_the_global_economy, and his April 12, 2010 Charlie Rose interview, <http://www.charlierose.com/view/interview/10960>. In a more recent example, Fitch Ratings ran a simulation of the potential impact of a simulated slowdown in Chinese economic growth to under 5% in 2011 that highlights the large negative impact on Latin American 'commodity and energy sectors.' Fitch Ratings, *The Impact of a China Slowdown on Global Credit Quality*, November 30, 2010, p. 8.

⁹⁵ An example of such projected decreases in GDP growth rates includes Lou Jiwei, the head of China's sovereign wealth fund, remarking that within the next three to four years China's growth will decrease beneath the previous 30-year trend and over the next 20 years will likely average to around 6%. See Henry Sanderson, 'China's Economic Growth May Face "Big Drop" as Population Ages, CIC Says', Bloomberg, November 1, 2010, <http://www.bloomberg.com/news/2010-11-01/china-may-face-big-drop-in-growth-within-four-years-cic-s-lou-jiwei-says.html>. For more on increasingly pessimistic predictions about slowing Chinese economic growth in the near to medium term, see Michael Pettis, 'QE2 and the Titanic', November 10, 2010, <http://seekingalpha.com/article/235993-qe2-and-the-titanic>.

China Model has gained traction, it is in no small part because some see in China an alternative model and source of development.

However, this article has refuted the seemingly common sense notion that China's demand for Latin American commodities is simply a function of China's long-term rapid growth. Latin America is not somehow organically tied into an indestructible Chinese development juggernaut, but is instead linked into a specific phase of China's development that has increasingly displayed a range of imbalances that have elicited wide ranging concern and calls for reform. Those most acutely aware of these challenges are Chinese officials and scholars who are themselves actively working on better understanding and resolving these imbalances. Managing the mismatch between inflated expectations and the very serious challenges involved in sustaining stable Chinese economic growth is the responsibility of those on both the Chinese and Latin American sides as well as other interested observers. Chinese leaders must continue to try to bring stability to problematic domestic markets for Latin American commodity imports. On the Latin American side, especially for those commodity-exporting countries that have seen China rapidly become a top export destination, it is imperative to develop a more nuanced understanding of the specific political economy of Chinese commodity demand. Both sides must also be aware of how the language of South-South, win-win relations feeds into potentially overly optimistic expectations of sustainable, long-run commodity demand. Managing the current mismatch between high expectations and more challenging realities will not be easy, but it will most certainly be easier than trying to manage the fallout from allowing the expectational bubble to burst.