

International Master's Program in International Studies  
National Chengchi University

國立政治大學國際研究英語碩士學位學程

# The Economic Rise of China and Its Impact on Latin America

中國的經濟崛起及其對拉丁美洲之衝擊

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January 2021

## Abstract

According to the statistical data by ECLAC (United Nations Economic Commission for Latin America and the Caribbean), Latin America is the most unequal region in the world.<sup>1</sup> Inequality has not only damaged the economic potentials of the region but also an immoral problem. There have been many existing problems causing the inequality since the colonial era and the United States influence afterwards. Apart from the United States, the rising power- China now is another alternative of economic cooperation for the region. However, this paper is aiming at not only providing the statistical panorama of the China-boom and its correlation with inequality but also unveiling the qualitative difference of the newly-born prosper.

Key Words: China, Latin America, inequality, United States, hegemony, economic cooperation

根據聯合國拉丁美洲和加勒比海經濟委員會的統計資料，拉丁美洲為世界上不平等問題最嚴重的地區。不平等現象，不僅扼殺了此一地區的經濟潛力，在道德層面上也是一大問題。自殖民時代，及緊接而來的美國勢力之影響，形成了許多既有的問題，並深遠影響著拉丁美洲。如今，除了美國霸權以外，中國崛起也為此一地區提供了經濟合作的另一可能。此論文主旨在於，以數據分析及個案研究，解析中國熱潮及此一地區經濟不平等現象之關聯性。

關鍵字：中國、拉丁美洲、不平等、美國、霸權、經濟合作

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<sup>1</sup> United Nations Economic Commission for Latin America and the Caribbean (UNECLAC). 2011. "Protección social inclusiva en América Latina. Una mirada integral, un enfoque de derechos" (Inclusive social protection in Latin America. An integral look, a focus on rights). *Resumen*. ISBN 9789210545556.

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## Chapter 1. Introduction

Since the Chinese economic reform in 1978 led by the incumbent paramount leader Deng Xiaoping, China had risen very rapidly not only economically but also politically. Even though China has a huge population and not being democracy, it has been the world's second biggest economy in terms of GDP by 2014.<sup>2</sup> Therefore, many other developing countries and regions have regarded it as an alternative of the development model rather than the traditional Western type capitalist one which the U.S., Western Europe and Japan represent.<sup>3</sup> As one of these developing regions, Latin America have also built up a much stronger economic tie with the People's Republic of China, especially after China joined WTO in 2001. For example, China's import from Latin America had grown sevenfold during 1999 and 2005, while its export had tripled during the same time.<sup>4</sup> China had also invested in Latin America through many policy banks mainly for improving the infrastructure to get access to the material for the trade.<sup>5</sup> Politically, since the declaration of the Monroe Doctrine in 1823, Latin America and had been seen as the extension of the U.S. imperialism or more subtly nowadays, of the U.S. influence.<sup>6</sup> The fluctuation of the anti-Americanism has also been a crucial point of the politics in the region. Being the few remaining diplomatic allies with the de facto self-ruled Republic of China (Taiwan) which China claimed one of its inseparable provinces, the Central American countries are also in a pivotal area that

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<sup>2</sup> Liang, W. 2019. "Pulling the Region into its Orbit? China's Economic Statecraft in Latin America" *Journal of Chinese Political Science* 24: 433-449.

<sup>3</sup> Lin, Y. 2015. "Firm Heterogeneity and Location Choice of China Firms in Latin America and the Caribbean: Corporate Ownership, Strategic Motives and Host Country Institutions" *China Economic Review*. 34: 274-292.

<sup>4</sup> Jenkins, R., Peters, E. and Mauricio Mesquita Moreira. 2008. "The Impact of China on Latin America and the Caribbean" *World Development*. 36(2): 235-253.

<sup>5</sup> Bräutigam, D. 2009. *The Dragon's Gift: The Real Story of China in Africa*. Oxford University Press: Oxford. p.71.

<sup>6</sup> Kerry, J. 2013. "Remarks on U.S. Policy in the Western Hemisphere" U.S. Department of State. November 18. <http://www.state.gov/secretary/remarks/2013/11/217680.htm>.

U.S. usually uses to counterweigh its balance against China, its main competitor in the world forum now.<sup>7</sup> Economically, U.S. is still the biggest investor and trade partner with many countries in the region.<sup>8</sup> Thus, we could say that the power struggle between U.S. and China underlies the changing scenario in Latin America. This thesis is aiming at the analysis of what has been going on in the region.



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<sup>7</sup> Su, Zhenxing. 2009. "How to Face the Future of China-Latin America Relations" *Journal of Latin American Studies*. 2: 18.

<sup>8</sup> 2017. "Latin America & Caribbean Exports, Imports and Trade Balance by Country 2017" World Integrated Trade Solution.  
<https://wits.worldbank.org/CountryProfile/en/Country/LCN/Year/2017/TradeFlow/EXPIMP/Partner/by-country>.

## Chapter 2. Methodology and Research Question

In terms of the rising influence that China had on Latin America, even though the quantitative changes of the economies matter, the qualitative factors such as political cultures of each country and its effect on poverty and inequality are also unavoidable. As China had become superpower that had also expanded its influence globally, it had applied many different agents and institutions in various aspects. It would take piles of pages to even just touch the surface of the complicated phenomenon, thus this paper would mainly aim at its influence on the economic impacts that China had put on Latin America.

To sum up, as the narrative of the news article of China Daily (中國日報網)<sup>9</sup>, one of the media which subordinated the Chinese Communist Party, China is not only an important friend but also an economic development partner. Firstly, China's Belt and Road Initiative has intensified exchanges between China and Latin America and reduced the distribution costs of goods and services. Secondly, different from the Western institutions, Chinese investment is not associated with the interference in Latin American countries' internal, including political, affairs. As a result, Chinese funding can be really used to improve the livelihoods of people in Latin America. Thirdly, in addition to economic relations, Latin America and China have also been conducting various cultural interactions—about 4,000 professionals from Latin America visited China to receive further training in 2018 alone. This prospect of China's narrative sounds pretty promising. However, it also raised my research question: do economic activities with China really improve people's lives in Latin America?

In the first place of literature review, I would mention the direct influences and

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<sup>9</sup> *China Daily Global*. Jan. 11, 2021.

<http://epaper.chinadaily.com.cn/a/202101/11/WS5ffb7d83a31099a23435323b.html>



indirect influences of China on Latin America. Also, I would not only introduce the existing academic theory of resource curse about the region, but also have a look if it had fit the essence of the economic activities between China and the region, even the various interactions between China and the sub-regions (Mexico, Central America, and South America).

In addition, in the next paragraph, I would peek the interdependence theory and liberalism, the definition of industrialization and the deindustrialization as well as the changes of China's foreign policies for the theoretical basis for the whole thesis. For a further discussion about liberalism and making it clear about the essence of the rising power- China, I would start with a review of China's ancient Middle Kingdom mentality which is pretty unique from the conventionally theoretical basis of realism and liberalism in terms of international relations. In the field of international relations, sometimes ideology and balance of power (the terms of realism) matter more than the performance of the global and international economic institutions (the symbols of liberalism). For instance, what shaped the identity of the countries in Latin America and what they have struggled with the United States (the anti-Americanism) play a crucial role in the relatively new economic boom with the rising power- China. For other minds, owing to the end of the Cold War, the conflict of ideology had also ended up. Instead, the more general term- civilization had already replaced its previous dominant positions on international relations. Civilization is also more complex, even changeable and organic than ideology. Based on the famous thesis *Clash of Civilizations* by the renowned scholar, Samuel Huntington, in the post-Cold War era, civilization plays a vital role in strategic fields. It can also explain why the Chinese Communist regime is different from the Soviet Communist Party and the possibility to avoid the major war with the prospect of cooperation with the United States in pursuit of the well-being of the respective people under different

civilizations.

In my opinion, China's rising in Latin America could be seen as the reflection of the competition between the United States and China. Thus, I would also cite and summarize two articles to talk about the pros and cons of geopolitics, or on the other hands, the liberal capitalist democratic world order.

In the last part of the literature review, I would also summarize the statements and the data from the article written by the previous Singaporean ambassador in U.N.-

Kishore Mahbubani to look into one the dark sides of this liberal capitalist societies, and the leader of this kind of order- the United States would be used as the representative case study.

As I have mentioned in the paragraph of the introduction, to illustrate the scope and the limitation of this research, I would address and analyze some quantitative data such as the commonly-used Gini Coefficient during 2003 and 2013 (after the China-boom) as the dependent variable of the income inequality which is usually the cause of the wealth inequality. Furthermore, it may also be more conspicuous than the total population under extreme poverty since the GDP of some Latin American countries are pretty high. On the other hand, I would also make trade volume (imports and exports with China) and Outward FDI flows from China as independent variables. To see the correlation between the variables, I would run two scatter plots. Furthermore, I would also organize a table about the prices of the main exported primary goods from Latin America to see the changes along time and know more about the timing that China had more obviously extended its economic influences on Latin American countries. It would also be important to additionally prove that these products were the most important ones in the China-Latin American trades, thus I would also produce a table about the top five imported and exported products to Latin America. Nevertheless, these tables and figures might not be enough to unveil the interwoven

phenomenon, so I would also do some qualitative research through case study of Chinese model of economic development, China's trade with Brazil and Chile, the two biggest economic partners of China among Latin America for its abundance of the resources that China have craved at and their geographical location. These case studies would make the research more complete and with more details of the historical, political, even cultural issues. In conclusion, I would like to make both the quantitative data analysis and the qualitative case study complementary to one another.



### Chapter 3. Theoretical Basis

On the topic of China's economic activities on Latin America, there is abundance of literature. First of all, I have chosen *The Impact of China on Latin America and the Caribbean* published by the journal *World Development* of 2008 to have a comprehensive look. According to the article, there were two categories of the impacts defined by the degrees of their influences- the direct ones and the indirect ones. The direct impacts started from the contents of the products of imports and exports between the region and China. For example, most of the products exported from the region to China were primary goods such as iron ore, oil, and copper that China would need for boosting its rapid economic growth and domestic demands. On the other hand, although the amount of the imports was not as significant as the amount of the exports, most of the products imported from China to the region (85%) were non-resource based manufactures such as the manufacturing equipment. What's more, most of the FDI from China to Latin America, especially to the main economically cooperative countries with China (Brazil, Chile, Peru and Venezuela) was for the establishment of the infrastructure to the access of the aforementioned raw materials. Thus, as the approach of the old-fashioned resource curse or the latest theory of deindustrialization, it would raise us a question about one of the indirect impacts: due to the huge population bonus of China, the labors were really cheap, so it resulted in many relatively cheaper Chinese products, was this kind of cooperative pattern between China and the region complementary or competitive? The other impact was about the FDI flow from all over the world to China being much more than Latin America, which had been negative for the economic development of the region. The article also provided several interesting approaches for this phenomena- from the viewpoint of the producers, the consumers, and the governments. For the

producers, it might be the economic opportunity for the huge flow of investments and demands for the raw materials of China. For the consumers, it might reduce the cost of living for the cheap and competitive prices of imported Chinese products. For the governments, there would be more revenues from taxation of trades with China.

What's more, there was also regional disparity between Central America and South America for the political reasons (the proximity of the U.S. and the recognition of Taiwan) and the distribution of natural resources (most of the products China need are in South American countries).

Speaking of the different distribution of natural resources, to know its relevance to the decision of China's economic policy towards the region by the public sector and of the establishment of the private firms, I chose my second paper- *Firm Heterogeneity and Location Choice of China Firms in Latin America and the Caribbean: Corporate Ownership, Strategic Motives and Host Country Institutions* from the journal *China Economic Review* of 2015. The paper tried to explain the ODI (outward direct investment) from China was qualitatively different from the ODI from the developed countries. The author extracted the approved projects by the Chinese Ministry of Commerce from its online database between 2003-2012 for proving the hypothesis that the Chinese firms were more likely natural resource-seeking and market-seeking driven. In short, China's ODI was characterized by the decisive role played by the Chinese SOEs (state-owned enterprises) and strategic consideration related to their resource seeking activities which led them toward the countries with high political uncertainty and weak rule of law. Although there might be inherent theoretical limitations in the approaches used for this article as the author suggested to have a multi-level framework which included institution-based view, resource-based view, and industry-based view for better understanding of the complexity, the statistical results of this article still showed that the motivation of the Chinese SOEs in Latin

America was more resource-seeking, whereas the Chinese POEs (privately-owned enterprises) were more market-seeking. The results also proved the hypothesis that the Chinese SOEs were less risk averse and tended to be attracted to countries with weak institutions when those enterprises considered to invest in LAC countries. However, the institutional effects such as the rule of law had insignificant impacts on the Chinese POEs. To summarize, compared to the Western style of technical and cost proposal, the way the Chinese preferred to apply for competitive bidding was to establish high-level government-to-government relationships. These extractive industries and projects were often secured in a non-market way and agreed by the governments, especially when the host countries which received the Chinese investment had the government with larger capacity of economic intervention and less regulated by the rule of law.

When it comes to the heterogeneity of China's economic activities with the LAC countries, there has been disparity among the sub-regions: the sum and the degree of the South American countries are much more than those of the Central American countries, however, located at the North America and being the seventh technologically similar country to China, Mexico provided a very special case to study.<sup>10</sup> In the article *Trade as an Engine of Creative Destruction: Mexican Experience with Chinese Competition* from the *Journal of International Economics* of 2013, the authors looked at the total share of the imports first, for example, the share of the Chinese imports to Mexico had risen from 0.5% in 1994 to 8% in 2004 (nearly in a factor of 16!), while that of the Mexican imports to China had just risen moderately from 1.9% in 1994 to 2.8% in 2004. In other words, it had been a pretty

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<sup>10</sup> Ray, R. and Kevin Gallagher. 2015. "China-Latin America Economic Bulletin 2015 Edition" Working Group on Development and Environment in the Americas, Global Economic Governance Initiative, Discussion Paper 2015-9, Boston University. September:1.

asymmetric trade structure. In the third-market which was very crucial target market for both China and Mexico- the United States, the increase of the share of total Chinese imports (from 6.5% in 1996 to 13.4% in 2004, more than doubled) also overtook that of the Mexican counterpart (only in a factor of 1.15). It mattered from two approaches, first of all, we would think China crowded out the share in the U.S. of the developed countries, but it was rather a huge challenge for the share of other developing countries in the U.S. Secondly, we have to take the proximity of Mexico to the U.S. and its membership of NAFTA into consideration. Since Mexico possessed comparative advantage in the production of labor intensive industries within NAFTA (85% of Mexican exports goes to the U.S.), it shouldn't have been overtaken by China. This defeat revealed a grandeur challenge and competition for other LAC countries as well.

Afterwards, the authors had taken three different approaches to complement the competition and made a conclusion that the competition was highly asymmetric and a kind of creative destruction that would reinforce the asymmetry itself. The first approach was the size approach, and the second approach was the product and industry approach. To sum up, it was more difficult for smaller firms and marginal product producers to survive in LAC countries facing with the competition with China because larger plants and core products benefited disproportionately from such expanded access to imported Chinese intermediates.

### **Industrialization, Deindustrialization, and Interdependence**

What I meant about the growth in the title is about a more positive partnership for improving the long-existing problem in Latin America- the income inequality. Being historically colonized, China had claimed the similar experience of getting rid of the dim past and boosting its economic growth in a different path from the developed

countries when it comes to forming the foreign policies with Latin American countries. The aforementioned developed countries such as the U.S. and the U.K., they had gone through the process of industrialization earlier than China and Latin America. However, the structure of these economies now is facing a new phenomenon called deindustrialization. In other words, most part of their GDP consist of the service sector rather than manufacturing as it used to. This resulted in the interdependence with the new workshop of the world, China and the huge trade deficit in terms of imports and exports of goods. Different from manufacturing, post-war global trade liberalization has not progressed in services. Almost all of the global trade in goods is included by a wide-reaching multilateral agreement overseen by World Trade Organization (WTO). By contrast, services haven't been in the same extent speaking of the openness of markets.

This economic phenomenon somehow aroused the doubts of some Latin American countries that China was far from an economic partner who shared the dark past of imperialism, but another new possible colonizer who was merely eager to attain the abundant natural resources for its own rapid economic growth. For example, the government of Argentina had passed a bill to regulate the amounts that a certain foreign entity could hold.

About the theoretical basis in terms of international relations behind the emerging economic ties between China and Latin America, firstly, I would like to have a brief discussion about its relevance to the realism and liberalism, which have been the two biggest theories in the discipline.

As the former United States National Security Advisor, John Bolton addressed in his latest book about his experience dealing with the U.S. foreign policy under Trump administration, China sought politico-military benefits from its economic activity that free-market societies simply do not contemplate. Since the era of Monroe Doctrine,



Latin America had been regarded as the theater of the extension of U.S. influence. Furthermore, according to David Ricardo's theory, the less developed economies (in this case, Latin American countries in general compared to China) may struggle with negotiating the terms of trading with wealthier countries that provide them with aid mercantilism deployed to foster a trade surplus. Bolton's claim could be seen as a kind of realist response to the rising Chinese influence in Latin America. In other words, it could be seen as a threat and a cause of the possible conflict. But does the Chinese influence really go so far with such ambitious moves and even ready to push the trigger of conflict? Couldn't China be competitive but meantime cooperative? On the other hand, if we look at this emerging relation between China and Latin America through the lens of liberalism, we would find another path to the criticism towards China, one of the traits of liberalism is that within the international system, a certain actor (normally a state) should be a democracy which China is still politically far away from, thus, it is difficult to mainly address this thesis on basis of liberalism. However, now that China still had joined many democratic institutions and it is still inevitable to talk about the interdependence of China and other countries, including the Latin American ones, I would still use part of the theoretical basis of liberalism as complementary elements to analyze the phenomenon. Under the interdependence, citizens in each country may harbor illusions of independence, the fact is that their governments cannot conduct independent economic or foreign policies, and they are certainly incapable of initiating and conducting full-scale war on their own. Nevertheless, there have been some criticisms from both the developed and developing countries against China and its economic activities. Under the communist political system, China's state-owned enterprises (SOEs) are usually holding the advantages that the companies under democracies do not have, such as the massive subsidies by the government and their huge scales and prioritized rights to do the

business before other domestic competitors. They are always regarded as unfair competitors from the point of view of the equivalent in the developed countries. The close tie between the Chinese SOEs and Chinese government also caused the doubt of their partners about the transparency and independence of decision-making of these SOEs. The surveillance of the Chinese government is also another uncertainty once a research institution received the sponsor from the Chinese capitalists. According to the investigation by Curtis J. Milhaupt and Wentong Zheng from Paulson Institute, even among the hundred biggest privately-owned enterprises in China based on their revenue, ninety-five of them were very close to the communist authority. The communist government could also influence the operation of the private sector through stakeholding and even launch mergers forcefully. For the political benefits, Chinese companies had already acquired not only the most advanced technologies but also the crucial natural resources. In the developing countries such as Latin American ones, China has always been an especially important source of growth for the infrastructure and consuming resource industries. On the basis on the data of 2015, China had consumed 54% of the aluminum, 48% of the copper, 46% of the zinc, 28% of the soybean, 12% of crude oil of the world. In short, it has been a very important trade partner of these countries rich in the natural resources. Since “the go out strategy” (走出國門) articulated by the Chinese President Jiang Zemin and Premier Zhu Rongji in 1999, Chinese companies have been encouraged to find the resources which were necessary to fuel Chinese economic growth. Both SOEs and private companies became leading investors in infrastructure throughout resource-rich countries to help ensure access to the resources that the country needed for its own development, such as copper, iron ore, and bauxite. However, different from the other main investors, China had drawn particularly serious scrutiny in various countries when it comes to the support of “rogue states”, and its disregard of international labor

and environmental standards. The weak corporate social responsibility of the Chinese companies had been seen as a sabotage of liberalism and led to a backlash in in number of countries.

Whereas there were so many warnings of the nature of Chinese investment, it is also overestimated based on the statistics. For example, the Chinese investment in Latin America in 2016, it ranked fourth in Foreign Direct Investment (FDI) in monetary value, right after the Netherlands, the United States, and Spain.

### **Coexistence of China's Huge Transformation and Its Old Mentality**

Therefore, is it impossible to make China democratic to fit in the theoretical liberalist path in terms of international relation? The previous ambassador of Singapore to the United Nations- Kishore Mahbubani had provided some insights. Raised in an Indian family in a nation which consists of mostly ethnically Chinese people and was influenced by Western culture for centuries of British rule and huge American investment, his opinions and arguments could be regarded more moderate and aiming at peace making between the two super powers.

Mahbubani mentioned about the hubris that China experienced after the 2008-2009 global financial crisis, which aroused the doubts of the Westerners if China had become more expansionist since then. Based on the description in the book *The Party* by Richard McGregor, what happened at the 2009 Boao Forum, China's equivalent of the annual World Economic Davos Forum, really revealed the tone of Chinese officials to be more confident even more assertive.

Nevertheless, the history of China shows the key factor which led to the success of China is its economic engagement with the rest of the world. Since Deng Xiaoping's opening up decision, China's economy has taken off and soared. On the contrary, the mentality that China was a great self-sufficient Middle Kingdom that it did not need

to participate the world had made China fall so behind and brought about a century of chaos and humiliation.

Due to the past few decades of globalization, however, China has not only fueled its rapid economic growth (at an average annual rate of 10.29% between 2000 and 2009 according to the data of IMF) but also made over a hundred countries (most of them are developing countries) trade with China than with U.S., the biggest economy in the world and the championship of globalization. In other words, the world is more exposed to China and China is reinforcing its importance as a market, supplier, and provider of capital.

Back to the question: does the Westerner's skepticism towards China is increasing at the same time? There could be different answers under the diverse capitalist market economies. As the governor of Kentucky state, Matt Bevin said in May of 2017 in a distinct tone from that of Washington, DC: "There's a tremendous amount of capital in China that's looking for a place to be deployed, in a safe, reliable environment. The United States affords that opportunity. There is a tremendous infrastructure need in this country (China). The two largest economies in the world and the most powerful are that of the United States and China. The idea that we would not work together seems inconceivable." It reveals that China can grow its economy well on its own for the abundance capital and domestic need even without American investment in theory. The question is: would China go in this alienated direction in practice? In the case of China, it should attract American, and even Western investments out of strategic reason- to rationally create a stabilizer in China's relations with these investing countries.

So far, all the trade and investment that occurred in Latin America, China and the United States had all been complied through the prominent reserve currency- the U.S. dollar. The U.S. dollar is currently well-protected by a complex global financial

system. Most of the countries in the world do business with it for their trust on the U.S. being impartial arbiter in international issues. If China could step in, although the Chinese renminbi (RMB) is still far from replacing the U.S. dollar to be a dominant reserve currency due to the absence of an open capital account and convertibility of the currency, for example, the fact China had launched Belt and Road Initiative (BRI), as of April 2019, 125 countries had signed agreements with China on BRI. This provides a clear indication that most countries would also trust Chinese currency, no matter it is cash or cryptocurrency, that is ultimately backed by Chinese sooner or later. This also arouse a likely question: would the economic primacy of China in Latin America make the region decouple the U.S. dollar and even the U.S. firms? Are the transactions thorough RMB (the cash flow) reducing the income inequality of the region more than the U.S. dollar does?

The injection of millions of low-wage Chinese works into the global economic system also brought some influences to it. What's more, clearly, after encouraging the entry of China into the WTO in 2001, American leaders should have thoughtfully prepared for the structural impact of this event on the American economy and society. Sadly, no leader suggested this. American workers were left alone to cope with this structural shock, which may cause inequality too since the average income of the bottom 50 percent of the Americans has stagnated, while that of the top 1 percent has increased astronomically during these decades. On the other hand, many European countries spend 1 to 3 percent of their GDP to retrain their workers, whereas U.S. spend only 0.24 percent. Would Latin American countries follow the U.S. pattern more than the European pattern in terms of this?

In the deeply polarized political atmosphere of Washington, DC, these days, it is almost impossible to get a broad-based political consensus on any topic. However, even in this deeply polarized environment, a strong consensus developed among the

U.S. political, security, and intellectual establishments, including both Democrats and Republicans, that China had emerged as an aggressive and expansionist military competitor to the United States. For example, in September 2019, the Department of Defense reported the remarks of undersecretary of defense for policy John C. Rood as saying that “it is not an exaggeration to say China is the greatest long-term threat to the U.S. way of life, but China also poses the greatest challenge to the Defense Department.” Another more powerful figure, U.S. Vice President Mike Pence, made several remarkable allegations a month later that China’s military behavior has become “increasingly provocative” over the past year, arguing that China has “regularly menaced and strong-armed” its ASEAN neighbors in the South China Sea, while provoking Japan in the East China Sea and using the BRI to “establish footholds in ports around the world, ostensibly for commercial purposes, but those purposes could eventually become military.” Yet Mahbubani argued with the fact that China had not fought a major war in forty years and had not fired a bullet across its borders in thirty years. The lack of military action reflected both a powerful civilizational impulse and a deeply pragmatic view of power. Culturally, he not only cited the dialogues from the *Analects* by Confucius that Chinese culture has revered scholars more than soldiers compared to American culture, but he also quoted the explanation by the renowned veteran American diplomat Henry Kissinger accurately distilled from the advice given by China’s master strategist Sun Tzu:

[The] foundations [of China’s distinctive military theory] were laid during a period of upheaval, when ruthless struggles between rival kingdoms decimated China’s population. Reacting to this slaughter (and seeking to emerge victorious from it), Chinese thinkers developed strategic thought that placed a premium on victory through psychological advantage and preached the avoidance of direct conflict.

He further quoted Sun Tzu: “All warfare is based on deception... Pretend inferiority and encourage his arrogance... For to win one hundred victories is not the acme of skill. To subdue the enemy without fighting is the acme of skill.”

Historically, compared to the European powers, China was never inherently militaristic and expansionist. In the eighth century, at the peak of China’s territorial development during the Tang Dynasty, the Chinese had an army near the Fergana Valley in Central Asia. When the Abbasids moved eastwards, they clashed with the Chinese. In the historic battle of Talas, the Abbasids defeated the Chinese army, and the Chinese never crossed the Tianshan Mountains again in their history. The other historical fact was that even at the start of the fifteenth century which was nearly a hundred years prior to Christopher Columbus trying to find a route to the Spice Islands, China had sent out seven naval expeditions under the remarkable leadership of Admiral Zheng He. He traveled as far as Africa on ships that were much larger in size than the Portuguese and Spanish vessels. Although the Chinese navy under Zheng He did get into several military battles and overthrew several regimes in Ceylon and Sumatra for example, they had never occupied or conquered any overseas or distant territories. Another renowned scholar, Professor Wang Gungwu of National University of Singapore identified the majority of Chinese people, the Han Chinese as essentially agrarian. They only emphasized on finding good agricultural soil and turned back as long as they encountered the hostile steppes or the rugged mountain regions. They were also not very interested in going overseas. Most of Chinese territorial expansion, like Inner Mongolia or Xinjiang or the mountainous regions in the southwest took place when Chinese was ruled by “foreign” (non-Han-Chinese) dynasties such as the Yuan (1279-1368) by the Mongols and Qing (1644-1911) by the Manchus. Despite the many wars the Chinese had fought, most of them were within China instead of being outwards.



The United States believes that the Americans should stand for universal values and the world would be a better place if the rest of the world implemented American values. Former U.S. Secretary of State Hillary Clinton made a speech in 2016 which represented this kind of ideology:

When we say America is exceptional, it [...] means that we recognize America's unique and unparalleled ability to be a force for peace and progress, a champion for freedom and opportunity. Our power comes with a responsibility to lead, humbly, thoughtfully, and with a fierce commitment to our values. Because, when America fails to lead, we leave a vacuum that either causes chaos or other countries or networks rush in to fill the void.

Strategically, unlike the U.S., China had genuinely been perplexed that U.S. had allowed itself involved in the “unnecessary military conflicts” in the Middle East and didn't serve its own national interests, it would refrain from getting involved in unnecessary fights and wasting the resources. The Chinese are genuinely bewildered by the Americans portrait of China as an inherently aggressive, militaristic, and expansionist power.

According to the chapter *Is China Expansionist?* from the book *Has China Won?*, Mahbubani had concluded that after two thousand years of Chinese history, China has created a strategic culture that advises avoiding fighting unnecessary wars in distant places. The more likely portrait of the upcoming future of the world is that, while China's strategic weight and influence in the world will grow significantly, it will not behave as an aggressive and belligerent military power, but it will become more dominant and powerful in other nonmilitary sphere. Therefore, he predicted that the real competition between US and China would not take place in the military sphere. Moreover, he also made an ironic argument that, while US policy makers are often making an analogy between China and the politically similar Soviet Union, but in the



current geopolitical contest between US and China, US is behaving more like the Soviet Union, and China is behaving more like US back in the Cold War.

### **Clash of Civilizations or A Major Geopolitical Contest?**

As the renowned American political scientist Samuel Huntington argued in his article titled “The Clash of Civilizations” which was published in 1993, in the post-Cold War world, Huntington believe that the age of ideology had ended up. Instead, people’s cultural and religious identities would be the main source of conflict. What’s more, the non-Western countries and civilizations are not the exploited victims of Western countries and civilizations anymore.

When it comes to this argument and the questions extended from it that if there is another actor (state) would replace the hegemony of the United States after its victory of the Cold War. China which is the biggest rising power is indeed inevitable to be mentioned about.

Unlike the military and economic conflict, the conflict between civilizations is pretty hard to quantify and predict. Even emotions play an important part in international relations. To make it clearer, the fear of the Westerners towards China had been rooted deep in the unconscious of the Western minds deriving from the “yellow peril”.

One of the most famous sayings along history was the one by Napoleon Bonaparte: “Let China sleep; when she awakes she will shake the world.” Here lies a question behind: Why did Napoleon pointed China rather than India which was an equally large and populous civilization? The answer is that no empires or principalities of Indians had ever threatened or ravaged European capitals. By contrast, hordes of Mongols (once regarded as part of China), had appeared at Europe’s doorstep in the thirteenth century.

In any political, economic or social pursuits, the Western mentality could be very

different from the Chinese mentality. On one hand, the Western mind cultivated by the Western civilization is very used to black-or-white distinctions. In other words, one side is right, the other side is wrong. The Chinese mind cultivated by the Chinese civilization is very different. Both black and white can be right. This mind-set of dualism is best depicted by the concept of *yin and yang*.

According to Dr. Hong Hai of Nanyang Technological University in Singapore who has tried to explain this concept, he wrote:

The ideas of yin and yang reflects a dialectical logic that attempts to explain relationships and change. Stripped to its bare essentials, yin and yang are not much more than labels that capture the perception of duality in nature-light versus darkness, hardness versus softness, male versus female. Thus the yin-yang doctrine is a holistic view of the world that places all entities as parts of a cosmic whole. These entities cannot have existence independent of their relationship to other entities. Dualism implies that an attribute like brightness has meaning only relative to darkness, as does beauty relative to ugliness.<sup>11</sup>

In terms of the fundamental national interest of both societies of China and the United States is to improve the well-being of their people. In March 1809, Thomas Jefferson wrote, on his departure from US presidency: “the care of human life and happiness, and not their destruction, is the first and only legitimate object of good government.”<sup>12</sup> Noting this observation, the chief commentator of Financial Times, Martin Wolf further inspected: “How might one measure ‘happiness’? What promotes

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<sup>11</sup> Hong Hai, “Daoism and Management,” chap. 4 in *The Rule of Culture: Corporate and State Governance in China and East Asia* (London: Routledge, 2019).

<sup>12</sup> Thomas Jefferson, “To the Republicans of Washington County, Maryland,” March 31, 1809, <http://founders.archives.gov/documents/Jefferson/03-01-02-0088>, quoted in Martin Wolf, “The Case for Making Wellbeing the Goal of Public Policy,” *Financial Times* (London), May 30, 2019, <http://www.ft.com/content/d4bb3e42-823b-11e9-9935-ad75bb96c849>.

it?” As Wolf noted, these are very cliché questions. The Western utilitarian philosophers such as Jeremy Bentham, have long been posing them.

Fortunately, contemporary utilitarian philosophers have taken up the challenge of measuring happiness. For instance, Professor Richard Layard of the London School of Economics, in his coauthored book *The Origin of Happiness*, has said that self-reported “life satisfaction” can be a good proxy for measuring happiness. As a result, Layard argued that well-being will eventually become totally accepted as the standard way to evaluate social policies.

Quantitatively, the United States is a much wealthier country than China. Its nominal per capita income of US\$62,641 is at least six times larger than that of China at US\$9,771.<sup>13</sup> However, even though U.S. is wealthier, the well-being of its people, especially the bottom 50 percent of the population, has deteriorated in recent decades. One fact cannot be denied: U.S. wasted nearly \$5 trillion on wars in the Middle East since 9/11. Brown University’s Watson Institute reported:

Totaling these expenses and Congressional requests for FY2017, the U.S. federal government has spent and obligated approximately \$4.8 trillion on the post-9/11 wars. In addition, by 2053, interest costs will be at least \$7.9 trillion unless the U.S. changes the way it pays for the wars.<sup>14</sup>

Based on the calculation by Kishore Mahbubani, if these 4.8 trillion had been redistributed among the bottom 50 percent of the American population, each American citizen would have received about \$29,000. If this amount is laid alongside

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<sup>13</sup> World Bank, “GDP per Capita (current US\$),” The World Bank data, [https:// data.worldbank.org/ indicator/ NY.GDP.PCAP.CD](https://data.worldbank.org/indicator/NY.GDP.PCAP.CD).

<sup>14</sup> US Federal and States Budgets, “Costs of War, Watson Institute: International & Public Affairs, Brown University, [https:// Watson.brown.edu/costsofwar/costs/economic/budget](https://Watson.brown.edu/costsofwar/costs/economic/budget).

the statistic that two thirds of American households do not have access to emergency cash of \$500, it shows clearly why it is in America's national interest to put the well-being of its people first. Heidi Garrett-Peltier as well wrote in 2017 paper for Brown University's Watson Institute:

Because the federal has spent trillions of dollars on the wars in Iraq, Afghanistan, Syria, and Pakistan, we have lost opportunities to create millions of jobs in the domestic economy, and we have lost opportunities to improve educational, health, and environmental outcomes for the American public. [...] Education and healthcare create more than twice as many jobs as defense for the same level of spending, while clean energy and infrastructure create over 40 percent more jobs.<sup>15</sup>

Since China's per capita income is much lower than that of the United States, it is reasonable for China to prioritize improving the well-being of its people for its national interest. To sum up, both U.S. and China should make improving the well-being of their people is unquestionable. Yet, the fact that the strategic thinkers seem not able to see this fundamental point and demonstrate how distorted their perspectives had become. It is an appealing ideal that they can both focus on the well-being of their people and allow the Pacific Ocean to protect their respective homelands, both societies would be better off.

Many American strategic thinkers tend to make an analogy of China with the Soviet Union during the Cold War. Yet, the Chinese Party, although not democratic essentially, is far more capable and adaptable than the Soviet Communist Party.

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<sup>15</sup> Heidi-Garrete-Peltier, "Job Opportunity Cost of War," Costs of War, Watson Institute: International & Public Affairs, Brown University, <https://Watson.brown.edu/costsofwar/files/cow/imce/papers/2017/Job%20Opportunity%20Cost%20of%20War%20-%20HGP%20-%20FINAL.pdf>.

Different from the Soviet Communist Party, it is in no danger of disappearing anytime soon, because it is not taking advantage of ideology; instead, it is riding the wave of a resurgent civilization, and that civilization has proven itself to be one of the strongest and most resilient civilizations in history.

Kishore Mahbubani pointed out the mistake that American strategic minds had made when only focusing on Chinese Communist Party being a communist party. Chinese communism is not a threat to American democracy. Rather, the success and competitiveness of the Chinese economy and society should be the real challenge. To meet this challenge, American thinkers should concentrate on ensuring the success and competitiveness of the American economy and society. What is interesting is that George Kennan, the famous advocate of a policy of containment of Soviet expansion during the Cold War, also emphasized the importance of a strong domestic American society in his famous Mr. X essay. Instead of wasting precious resources on a nonexistent ideological threat from China, America should use the same resources to revitalize its own society to attract other countries learning from it as it once did. In an article entitled “The Fusion of Civilizations,” Lawrence Summers and Kishore Mahbubani pointed out the following:

The great world civilizations, which used to have detached and separate identities, now have increasingly overlapping areas of commonality. Most people around the world now have the same aspirations as the Western middle classes: they want their children to get good educations, land good jobs, and live happy, productive lives as members of stable, peaceful communities. Instead of feeling depressed, the West should be celebrating its phenomenal success at injecting the key elements of its worldview into other great civilizations.<sup>16</sup>

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<sup>16</sup> Kishore Mahbubani and Lawrence H. Summers, “The Fusion of Civilization: The Case for Global Optimism,” *Foreign Affairs*, May/June 2016, [https:// www.foreignaffairs.com/articles/2016-04-18/fusion-civilizations](https://www.foreignaffairs.com/articles/2016-04-18/fusion-civilizations).

Americans hold their sacred values, especially political values of freedom of speech, press, assembly, and religion and they also believe that every human being is entitled to the same fundamental human rights. The Chinese, on the other hand, believe that social needs and social harmony are more important than individual needs and rights and that the prevention of chaos and turbulence is the main goal of governance. Nevertheless, a fundamental contradiction would only take place in this area if China tries to export its values to the United States, who have become obsessed with the threat from China, have begun to suggest that China is trying to undermine the values of American society. This was an implication in the famous FBI director Christopher Wray, who said that there was now a “whole-of-society” threat from China. Sadly, the report put out by a group of American scholars entitled *Chinese Influence & American Interests* also said that China was trying to undermine American freedoms. There are some words about it: “Openness and freedom are fundamental elements of American society democracy and intrinsic strengths of the United States and its way of life. These values must be protected against corrosive actions by China and other countries.”

In conclusion, it is a contest between the two great powers for the different values of their respective civilizations. In my opinion, this is the core of the geopolitical competition and conflicts. I would address it with providing more details of both optimism and pessimism in the following paragraphs.

## Chapter 4. Winning of Liberal World?

When we are making the analogy of history, we have to be very careful, especially the ones that are related to the international relations, or say, the international security. I have also quoted a journal article from the renowned *Foreign Affairs* written by the American academic Walter Russell Mead. In his arguments, he believes in the revenge of the revisionist powers against the hegemonic United States and the return of geopolitics, but he doesn't agree with the influences that these revisionist powers have are as big as those of the Soviet Union.

His intention is to remind those who wholeheartedly and optimistically have faith in the ideological triumph of liberal capitalist democracy and the so-called global governance. They do deem that the collapse of Soviet Union has been to shift international relations away from zero-sum issues toward win-win ones. What's more, they consider that after the Cold War, the winning United States and EU would rather move past geopolitical questions of territory and military power and focus instead on ones of world order and global governance: trade liberalization, nuclear nonproliferation, human rights, the rule of law, climate changes, and so on. However, due to the latent power the revisionist powers have, the particular geopolitical foundations laid in the 1990s would not remain the same anymore. Mead listed the facts that in the year of 2014 Russian forces seized Crimea, China made aggressive claims in its coastal waters, Japan responded with an increasingly assertive strategy of its own, and Iran tried to use its alliances with Syria and Hezbollah to dominate the Middle East all shaken the balance of power and changed the dynamics of international politics. To sum up, the geopolitics is coming back.

The over-optimistic belief in this liberalist ideology of world order could be traced back to the famous philosopher in the nineteenth century—Georg Wilhelm Friedrich



Hegel, he expressed that the geopolitical consequences were the extension of ideological struggles. In his era, in order to fight against the West which was once the most dominant region successfully, a certain nation would have to become like the West. The more modern equivalence of Hegel was the American political scientist, Francis Fukuyama. His most well-known formulation is the end of the history and the last man in it. For many people, the end of the Cold War and the collapse of the Soviet Union didn't just mean that humanity's ideological struggle was over for good; they thought geopolitics itself had also come to a permanent end.

Furthermore, the conflation of the end of geopolitics and the end of history offered an especially enticing prospect to the United States: the idea that the country could start putting less into the international system and taking out more from the global economic system. To be more specific, the U.S. could shrink its defense spending, cut the State Department's appropriations, lower its profile in foreign hotspots. This vision was not only appealing to the liberals but also to the conservatives in the United States. Mead looked into the history of the recent decades of the United States as an example to prove his argument in his article:

The administration of U.S. President Bill Clinton began to take the aforementioned actions and assumed with his policymakers that the international system would become stronger and wider-reaching while continuing to be conducive to U.S. interests. For example, former Representative Ron Paul of Texas argued that the United States could dramatically cut both military spending and foreign aid while continuing to benefit from the global economic system. Afterwards, following 9/11, U.S. President George W. Bush made defeating the Middle Eastern terrorists as the first priority for his foreign policy. In some respects, it appeared that the world was back in the realm of history and geopolitics. Nevertheless, the Bush administration still believed with prospect that democracy could be implanted quickly in



the Arab Middle East. President Barack Obama convicted that the “war terror” was overblown and history was really over. He built his foreign policy through promoting the liberal world order rather than playing classical geopolitics. The administration’s ambitious agenda in support of that kind of order included: blocking Iran’s drive for nuclear weapons, solving the Israeli-Palestinian conflict, negotiating a global climate change treaty, striking Pacific and Atlantic trade deals, signing arms control treaties with Russia, repairing U.S. relations with the Muslim world, promoting gay rights, restoring trust with European allies, and ending the war in Afghanistan.<sup>17</sup>

Although there have been some challenges from the perspective of the United States by other super powers, both regional and global, Mead argued that “one should not speak of a strategic alliance among them, and over time, particularly if they succeed in undermining U.S. influence in Eurasia, the tensions among them are more likely to grow than shrink.” For example, he pointed out that “China has no intention of contenting itself with a secondary role in global affairs, nor will it accept the current degree of U.S. influence in Asia and the territorial status quo there.”

Leaders in all these challenging countries, such as China, Russia, and Iran also agree that U.S. power is the main obstacle to achieving their own revisionist goals. Not only do they hope that the decline of U.S. power will make it easier to reorder their regions, but they also worry that Washington might try to overthrow them. China, which has the greatest capabilities among them, has paradoxically been the most frustrated. Its efforts to assert itself in its region have only tightened the links between the United States and its Asian allies and intensified nationalism in Japan. As Beijing’s capabilities grow, so will its sense of frustration. China’s surge in power will

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<sup>17</sup> Mead, W. 2014. “The Return of Geopolitics: The Revenge of the Revisionist Powers” *Foreign Affairs*. 93 (3): 69-79.

be matched by a surge in Japan's resolve, and tensions in Asia will be more likely to spill over into global economic and politics.

The revisionist powers have a wide range of agendas and capabilities that none can provide the kind of systematic and global opposition that the Soviet Union did. As a result, Americans have been slow to realize that these states have undermined the Eurasian geopolitical order in ways that complicate U.S. efforts to construct a post-historical, win-win world. One can see the efforts of this revisionist activity in many places. The following paragraph from Mead's article addressed the efforts that China had made in recent years:

In East Asia, China's increasingly assertive stance has yet to yield much concrete geopolitical progress, but it has fundamentally altered the political dynamic in the region with the fastest-growing economics on earth. Asian politics today revolve around national rivalries, conflicting territorial claims, naval buildups, and similar historical issues. The nationalist revival in Japan, a direct response to China's agenda, has set up a process in which rising nationalism in one country feeds off the starting bilateral crises with greater frequently, and fixating more and more on zero-sum competition.<sup>18</sup>

On the other hand of the United States, there had been a developing unwillingness of holding the post-Cold War liberal world order due to the different public perception of the Americans developed from the different historical path:

The United States has not suffered anything like the economic pain much of Europe has gone through, but with the country facing the foreign policy hangover induced by the Bush-era

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<sup>18</sup> Mead, W. 2014. "The Return of Geopolitics: The Revenge of the Revisionist Powers" *Foreign Affairs*. 93 (3): 69-79.

wars, an increasingly intrusive surveillance state, a slow economic recovery, and an unpopular healthcare law, the public mood has soured. On both the left and the right, Americans are questioning the benefits of the current world order and the competence of its architects. Additionally, the public shares the elite consensus that in a post-Cold War world, the United States ought to be able to pay less into the system and get more out. When that doesn't happen, people blame their leaders and government. In any case, there is little public appetite for large new initiatives at home or abroad, and a cynical public is turning away from a polarized Washington with a mix of boredom and despise.<sup>19</sup>

Although Chinese, Iranian, and Russian revanchism haven't overturned the post-Cold War settlement in Eurasia yet, and may never do so, they have converted an uncontested status quo into a contested one. U.S. presidents no longer have a free hand as they seek to deepen the liberal system; they are increasingly concerned with shoring up its geopolitical foundations.

The end of history, as Fukuyama reminded readers, was Hegel's idea, and even though the revolutionary state (Napoleon France at that time) had triumphed over the old type of regimes for good, Hegel argued, competition and conflict would continue. It still seems so based on the fact that in order to increase its power, China will clearly have to go through a process of economic and political development that will require the country to master the problems that modern Western societies have confronted. The realities of personal and political life in post-historical societies, as Fukuyama investigated at the second part of his book, are very different from those in such countries as China, Iran, and Russia. The European bureaucrats and U.S. lobbyists resemble the nihilistic "last man" described by the philosopher Friedrich Nietzsche: a

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<sup>19</sup> Mead, W. 2014. "The Return of Geopolitics: The Revenge of the Revisionist Powers" *Foreign Affairs*. 93 (3): 69-79.

narcissistic consumer with no greater aspirations beyond the next trip to the mall. These people would be unwilling to make sacrifices and focus more on the short-term, easily distracted, and lacking in courage. It is not just that those different societies bring different personalities and values to the fore; it is also that their institutions work differently and their public are shaped by different ideas. Therefore, societies filled with Nietzsche's last men (and women) characteristically misunderstand and underestimate their supposedly primitive opponent in supposedly backward societies—a blind spot that could offset their countries' other advantages and even bring conflicts.



## Chapter 5. The Other Perspective of Geopolitics

Walter Russell Mead had illustrated how the geopolitics played an important role in current international relations after the world order led by the United States declined. On the contrary of his perspective, John Ikenberry, the international relations theorist and foreign policy maker of U.S., had blatantly argued that the geopolitics could be only an illusion and the liberal world order would be an absolute outcome. There are several reasons behind his theory. First of all, he supposed that Mead had overestimated the capability of the “axis of weevils” (led by China, Russia, Iran) to undermine the existing liberal order.

Secondly, they were seeking opportunities to resist the United States’ global leadership, especially when they confronted in their own neighborhood. However, these conflicts were fueled more by weakness- their leaders’ and regimes’ - than by strength. In other word, they have no appealing brand.

Thirdly, as Ikenberry said: “the construction of a U.S.-led global order indeed did not begin with the end of the Cold War, it just won the Cold war. In the nearly seven decades since World War II, Washington has undertaken sustained efforts to build a far-flung system of multilateral institutions, alliances, trade agreements, and political partnerships.”

Although the United States will really come down from the peak of hegemony that it occupied during the unipolar era, its power is still undoubted and unrivaled. Its wealth and technological advantages remain far out of the reach of China and Russia, not to mention those of Iran.

Strategically speaking, one of the requirements to be the hegemony is the amount of a state’s allies, Ikenberry wrote in his article:

According to a study led by the political scientist Brett Ashley Leeds, the United States boasts military partnerships with more than 60 countries, whereas Russia counts eight formal allies and China has just one (North Korea). As one British diplomat revealed to Ikenberry, “China doesn’t seem to do alliances.” But the United States does, and they pay a double dividend: not only do alliances provide a global platform for the projection of U.S. power, but they also distribute the burden of providing security.<sup>20</sup>

On the other hand, there is also the logic of mutual assured destruction behind the nuclear weapons, they do radically reduce the likelihood of great-power war. The atomic age has deprived China and Russia of this opportunity to expand their own international order. Nuclear weapons also make China and Russia more secure, giving them assurance that the United States will never intrude. It reduces the possibility that they will resort to desperate moves resulting from insecurity.

What’s more, the geographic conditions reinforce the United States other benefits. As the only great power not surrounded by other great powers, the country has appeared less threatening to other great powers and was able to rise dramatically over the course of the last century without causing a war. After the Cold War, when the U.S. was the world’s sole superpower, other global powers, oceans away, did not even attempt to balance against it. As a matter of fact, the United States’ geographic position has resulted in other countries to worry more about its abandonment than domination. Allies in Europe, Asia, and the Middle East have sought to draw the U.S. into playing a greater role in their regions. The outcome is what the historian Geir Lunderstad has called an “empire by invitation.”

The United States’ geographic advantage is on full display in Asia. Most countries in

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<sup>20</sup> Ikenberry J. 2014. “The Illusion of Geopolitics: The Enduring Power of the Liberal Order” *Foreign Affairs*. 93 (3): 80-90.

the region see China as a greater potential danger- due to its proximity. Except the U.S., every major power in the world lives in a crowded geopolitical neighborhood where shifts in power routinely provoke counterbalancing- including by one another. China is discovering this dynamic today as neighboring states react to its rise by modernizing their militaries and reinforcing their alliances.

It was during these post-war years that geopolitics and order building converged. A liberal international framework was the solution that statesmen such as Dean Acheson, George Kennan, and George Marshall offered to the challenge of Soviet expansionism. The system they built strengthened and enriched the U.S. and its allies, to the harm of its authoritarian opponents. It also stabilized the world economy and established mechanisms for handling global problems. The end of the Cold War has not changed the logic behind the huge project.

Fortunately, the liberal principles that Washington has pushed enjoy widely-accepted appeal, because they have tended to be a good fit with the modernizing forces of economic growth and social advancement. As the historian Charles Maier has argued, “the United States surfed the wave of twentieth-century modernization.” However, some have argued that this congruence between the American project and the forces of modernity has weakened in recent years. The 2008 financial crisis, the thinking goes, marked a world-historical turning point, at which U.S. lost its pioneer role in facilitating economic advancement.

No matter how seriously-challenged by the status-quo, the United States is yet very hard to be replaced by other super powers such as China and Russia. The global economy so far still regards U.S. as the standard-bearer. Even Mead did not argue that China, Russia, or Iran offers the world a new alternative model of modernity. If these illiberal powers really do threaten Washington and the rest of the liberal capitalist world, then they will need to find and ride the next wave of modernization. Yet, they

are unlikely to do that. As Mead concluded:

Mead's vision of a competition over Eurasia between the United State and China, Russia, and Iran misses the more profound power transition under way: the increasing excellence of liberal capitalist democracy. To make it sure, many liberal democracies are struggling at the moment with slow economic growth, social inequality, and political instability. But the spread of liberal democracy throughout the world, starting in the late 1970s and accelerating after the Cold War, has drastically strengthened U.S' position and tightened the geopolitical circle around China and Russia. [...] The wide-spreading of liberal democracy nowadays makes it hard to imagine how rare it was. Until the twentieth century, it was only restricted to the West and parts of Latin America. After World War II, however, it began to reach beyond those borders, as newly independent states established self-rule. During the 1950s, 1960s, and 1970s, military coups and dictatorship make pauses on democratic transitions. But in the late 1970s, what the political scientist Samuel Huntington termed "the third wave" of democratization washed over southern Europe, Latin America, and East Asia. Then the Cold War ended, and a cohort of former communist states in eastern Europe were brought into the democratic fold. By the 1990s, 60 percent of all countries in the world had become democracies.<sup>21</sup>

The emergent group of democratic middle powers, including Australia, Brazil, India, Indonesia, Mexico, South Korea, and Turkey, lends the liberal world order new geopolitical heft. As the political scientist Larry Diamond has mentioned, if Argentina, Brazil, India, Indonesia, South Africa, and Turkey regain their economic footing and strengthen their democratic rule, the G-20, which also includes U.S. and

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<sup>21</sup> Ikenberry J. 2014. "The Illusion of Geopolitics: The Enduring Power of the Liberal Order" *Foreign Affairs*. 93 (3): 80-90.



European countries. “will have become a strong ‘club of democracies,’ with only Russia, China, and Saudi Arabia excluded.” The rise of a global middle class of democratic states has turned China and Russia into outliers, as Mead fears, legitimate participants for global leadership. Mead also further emphasized the situation of China under the influences of democracy:

Democracy is encircling China, too. In the mid-1980s, India and Japan were the only Asian democracies, but from then on, Indonesia, Mongolia, the Philippines, South Korea, Taiwan, and Thailand have joined the same group. Myanmar has made cautious steps towards multiparty rule-steps that have come, as China has failed to pay attention, in conjunction with warming relations with the U.S. China now lives in a very democratic neighborhood.<sup>22</sup>

Furthermore, one of China’s democratic neighbors, Taiwan, could be a predicament. Although all the Chinese leaders faithfully believe that Taiwan is part of China, but not all the Taiwanese believe so. The current political system functioning in Taiwan also reaches the standard as democracy quite a lot. In addition, the democratic transition on the island has made its inhabitants’ claims to nationhood more deeply felt and legitimate. The 2011 Taiwan National Security Survey by the Election Study Center of National Chengchi University in Taiwan showed that if the Taiwanese could be assured that China would not attack Taiwan, a stunningly high 80 percent of them would support declaring independence. This is just an example of the fact that China desires geopolitical control over its neighborhood. However, the spread of democracy to all corners of Asia has made old-fashioned domination the only way to achieve that, and that option is costly and even self-destructing.

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<sup>22</sup> Ikenberry J. 2014. “The Illusion of Geopolitics: The Enduring Power of the Liberal Order” *Foreign Affairs*. 93 (3): 80-90.

According to Ikenberry's argument, while the rise of democratic states makes life more difficult for China and Russia, it makes the world safer for the United States. Those two powers may count as U.S. rivals, but the rivalry occurs on a very unequal playing field: the United States has the most friends, and the most capable ones, too. Washington and its allies occupy 75 percent of global military spending.

Democratization among the regions has locked China and Russia into a geopolitical box.

He also warned that Mead has not only underestimated the strength of the United States and the order it established, but he also overstated the extent to which China and Russia were seeking to resist both. Undoubtedly, China and Russia want greater regional influence. China has made aggressive claims over maritime rights and nearby contested islands, and it has embarked on arms buildup. Both great powers rage at U.S. leadership and resist it when they are able to.

Yet China and Russia are not true revisionists either. Former Israeli Foreign Minister Shlomo Ben-Ami has said, "China, of course, is an actual rising power, and this does invite dangerous competition with U.S. allies in Asia. But China is not currently trying to break those alliances or overthrow the wider system of regional security governance embodied in the Association of Southeast Asian Nations (ASEAN) and the East Asia Summit. And then if China harbors ambitions of eventually doing so, U.S. security partnerships in the region are, if anything, getting stronger, not weaker. At most, China and Russia are spoilers. They do not have the interests- not to mention the ideas, capabilities, or allies-to lead them to upend existing global rules and institutions.

In fact, even though they resent that the United States stands at the hegemonic top of the current geopolitical system, they still embrace the underlying logic of that framework. Openness provides access to trade, investment, and technology from other

countries. Rules give them tools to protect their sovereignty and interests. In other words, China and Russia have become deeply integrated into the existing international order. They are geopolitical insiders, sitting at all the high tables of global governance.

China, despite its rapid ascent, has no ambitious global agenda; it remains looking inward, on preserving party rule. Yan Xuetong and Zhu Chenghu, for example, are symbolic of the Chinese intellectuals and political figures who have a wish list of revisionist goals. They regard Western system as a threat and expecting the day when China can reshape the international order. In 2007, at Central Committee meeting of the Chinese Communist Party, they replaced previous proposals for a “new international order” with the appeal for more modest reforms centering on fairness and justice. About these action that the CCP had taken, the renowned Chinese scholar Wang Jisi has argued that it is “subtle but important,” shifting China’s orientation toward the role of a global reformer.

In the age of liberal order, revisionist struggles are not so wise according to Ikenberry. Indeed, Russia and China know this. They do not have grandeur visions of an alternative order. For them, international relations are mainly about the search for commerce and resources, the protection of their sovereignty, and where possible, regional domination. They have shown no interest in establishing their own versions of order or even taking full responsibility for the current one and have offered no alternative visions of global economic or political progress. That’s a critical drawback, since international orders rise and fall not simply with the power of the leading state; their success also hinges on whether they are seen as legitimate and whether their actual operation solves problems that both weak and powerful states are concerned with. In the struggle for world order, China and Russia (and perhaps Iran) are simply not that evil kind of participants.

## Chapter 6. A Devastating Problem in Liberal Democracy: Inequality

After the summary of the pros and cons of the geopolitics and liberal world order, it is also necessary to address one of the biggest problems behind the mentality under the liberal capitalist democratic system—the inequality. I would use the exceptionalism of the U.S. Americans as the extension.

In terms of international relations, apart from the Middle Kingdom mentality that China possesses, on the other hand, the United States also has a deeply-embedded mindset in their foreign policy making, behaviors, and the actions they take. In other words, the Americans assume themselves to be exceptional: the country is an “empire of liberty”, a “shining city on a hill”, the “last best hope on Earth”, “the leader of the free world”, and last but not least, the “indispensable nation”.

Harvard University’s professor of international relations Stephen Walt noted in his article *The Myth of American Exceptionalism* one claim that most Americans would reject: “The only thing wrong with this self-congratulatory portrait of America’s global role is that it is mostly a myth.”

The Americans believe that the quality of life that the United States provides its citizens is the best in the world. That is, America is the greatest society in the world in improving the lives of its citizens. There truly was a period, around the end of World War II to roughly about 1980, when the broad mass of the people in the U.S., including the bottom 50 percent, experienced a significant improvement in their standard of living. There was clearly a period when the whole world envied America’s record in social and economic development. However, according to some thoughtful scholars and observers around the world, for example, the professor Danny Quah of the National University of Singapore, the good time is over. Many of the key indicators has turned negative. Pretty shockingly, America is the only major developed society where the average income of the bottom 50 percent has stagnated

over three decades, 1980-2010.

**Chart 1. Average Income of an Individual in the Bottom 50 Percent of the Nation of Region**

<b>Income in thousand euros</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>	<b>2010</b>	<b>2015</b>
US	7.8	7.3	6.6	6.8	n/a
EU	8.3	8.2	8.1	9.9	10.3
China	0.8	1.2	1.3	2.6	3.9
Asia excluding Middle East	1.1	1.5	1.7	2.3	2.8
World	1.7	2.0	2.1	2.7	3.0

Source: Quah. “The U.S. Is, Indeed, the Exceptional Nation.”

Quah ironically revealed that U.S. is truly an “exceptional” nation among the major blocs or economies in the area of the decline in average income of its bottom 50 percent of population.

This stagnation of income has also led to a huge amount of human pain and suffering, as described by two Princeton University economists, Anne Case and Angus Deaton. The white working classes of the United States used to carry the American dream of getting a better life in their hearts and souls. Today, as Case argued, there is a “sea of despair” among them. She and Deaton made a conclusion: “Ultimately, we see our

story as about the collapse of the white, high-school-educated working class after its heyday in the early 1970s, and the pathologies that accompany that decline.” They also document with details how poor economic prospects “compounds over time through family dysfunction, social isolation, addiction, obesity and other pathologies.”

Based on one of America’s greatest moral and political philosophers of recent times, John Rawls, a test on how societies should measure their success in delivering social justice is that the higher expectations of those better situated are just *if and only if* they work as part of a scheme which improves the expectations of the least advantaged members of society. To sum up, if one wanted to judge if U.S. is the world’s greatest society on the theoretical basis of Rawls’s advice, he or she would look into the data to see how its “least advantaged members of society” are doing.

In Rawls’ book *Oligarchy*, there is a stunning illustration provided by the American political scientist Jefferey Winters. It is about how serious U.S. inequality has become: the average wealth of the richest one hundred American households relative to that of the bottom 90 percent is similar to the wealth disparity between a Roman senator and a slave at the height of the Roman Empire.

As I have cited before, Professor Danny Quah had not only compared the difference of the average income of the bottom 50 percent among the major economies, he also made a comparison about the skyrocketing inequality in U.S. with those of other major economies with valuable data, please see Chart 2 below in the front of the next page.

As Professor Danny Quah observed, “in the U.S. this ratio of rich individual to poor individual was 41 in 1980. Afterwards, it had increased more than triple, to 138, in the thirty years following. According to this chart, although inequality has increased everywhere in the world, as well as in China where it has quadrupled in the last 30

years, the degree of inequality of nowhere has risen to that of the U.S.

**Chart 2: The Ratio of Average Income in the Top1 to That in the Bottom 50 Percent**

<b>Ratio of Average Income in the Top 1% to Average Income in the Bottom 50%</b>	<b>1980</b>	<b>2015</b>
U.S.	41	138 (2010)
EU	24	32
China	12	47
Asia Excluding Middle East	38	66
World	100	108

Source: Quah. “The U.S. Is, Indeed, the Exceptional Nation.”

Why has U.S. performed so terribly in the aspect of inequality? John Rawls’ words could be a convincing explanation: “The liberties protected by the principle of participation lose much of their value whenever those who have greater private means are permitted to use their advantages to control course of public debate. Almost half a century ago, he even warned that American democracy would be subverted if those with “greater private means” are allowed to control the course of public debate.

Former diplomat of Singapore Kishore Mahbubani furthered the viewpoints of Rawls. He considered there are two ways to explain this deterioration of U.S. inequality. The first is that it is just a temporary situation just as the temporary socioeconomic aberration of the Great Depression of 1929 to 1939. U.S. quickly recovered from it to have several more decades of prosperity. The same could happen this time. America could be expected to recover fully, especially if one believes that its democratic political system is built to be self-correcting. American democracy should guarantee

that the interests of the majority of population are always protected.

The second explanation is that it demonstrates a fundamental change in America's political system without the Americans noticing it. Originally, every two to four years, the Americans go to vote for their congressmen, senators, governors, and state legislative representatives. And however, under the surface guise of a functioning democracy, U.S. has become a society run by a moneyed aristocracy that uses its money to make huge political and social decisions. As a result, this class has been capable of enacting the greatest transfer of wealth that has ever taken place in American history.

Which explanation is closer to the reality? According to the article written by two Princeton University professors, Martin Gilens and Benjamin Page about how ordinary American citizens have lost their political power and influence, the second explanation of Mahbubani should be more persuasive. They found that the economic elites and organized groups representing business interests back in the year of 1779 had quite substantial independent impacts on U.S. government policy, while average citizens and mass-based interest group had little even no independent influence. What's more, the preferences of economic elite (as measured by the two professors' proxy, the preferences of "affluent" citizens) had far more independent impact upon policy change than the preferences of average citizens did. In other words, their findings indicated that in the United States, it was not the majority who ruled—at least not in the casual sense of actually determining policy outcomes.

They reached the worrying and disturbing conclusion that the democratic society of the United States was seriously threatened if policy-making was dominated by powerful business organizations and a small number of wealthy Americans.

The other three scholars from the School of International and Public Affairs of Columbia University—Alexander Hertel-Fernandez, Theda Skocpol, and Jason Sclar



also argued that there is a stark inequality in government responsiveness. Based on their research, since the mid-2000s, newly founded conservative and progressive donor consortia—especially the Koch seminars (founded by brothers Charles and David Koch) and the DA (Democracy Alliance)—have magnified the impact of wealthy donors by raising and channeling ever more money not only into elections but also into *full arrays of cooperating political organizations*. For instance, the Koch seminars allowed donations to be channeled into building a virtual third political party organized around AFP (Americans for Prosperity), an overarching political network able not only to electorally support the Republican Party but also to push and pull its candidates and office holders in preferred ultra-free-market policy directions. When this sort of plutocratic collectives imposed new agendas on political organizations which seek to attract financial support, the funders would reshape routines, goals, and centers of power in U.S. politics well beyond the budgetary impact of particular grants. The authors had concluded: to understand how the wealthy are reshaping the U.S. politics, one should not only look at their election and lobbying expenditures but also at their concerted investments in many kinds of political organizations operating a wide range of fields and functions.

It is an irony that there are many American scholars and political scientists who are fond of quoting the British historian, Lord Acton's most famous words: "Power corrupts. Absolute power corrupts absolutely." If the Americans are relieved that they live under a democracy with separation of powers and this tragedy would never happen to them, they should try to consider the variation on the same quotes instead as Kishore Mahbubani had suggested: "Money corrupts. Absolute money corrupts absolutely."

Despite there is strong evidence that the myth of American dream—the United States is a society of equal opportunity has declined, American's belief in equal opportunity

remains very strong. This belief also explain why few Americans resent billionaires, such as Bill Gates, Jeff Bezos and Mark Zuckerberg. Successful celebrities seem to show that the doors are open for every American's advancement. America has effectively become a class-stratified society where the prospects of someone from the bottom 10 percent climbing up to the top 10 percent are extremely low, indeed lower than many other advanced societies in the world. Recent data of *The Economist* in 2018 revealed that "an American born to a household in the bottom 20% of earnings, for example, only has a 7.8% chance of reaching the top 20% when they grow up." Even when we asked any thoughtful and well-informed American which country, U.S. or China, provided a better opportunity for a child from the bottom 10 percent to reach the top 10 percent, the strong belief of American dream may just lead 99 percent of them to the option of their own country without any doubt. However, the data show that the social mobility in China is bigger than that in U.S. In November 2018, the *New York Times* reported:

Like the United States, China still has a yawning gap between rich and the poor—and the poorest Chinese are far poorer, with nearly 500 million people, or about 40 percent of the population, living on less than \$5.50 a day, according to the World Bank. But by some measures Chinese society has about the same level of inequality as the United States.

Below is a chart about the income growth and inequality in China and the United States during 1980-2015 from the data of World Inequality Database:

**Chart 3. Differential Levels of Social Mobility**

<b>Income Growth and Inequality in China and the United States, 1980-2015</b>				
	<b>China</b>		<b>U.S.</b>	
Income Group	Average Annual Growth Rate	Total Cumulated Growth	Average Annual Growth Rate	Total Cumulated Growth
Full Population	<b>6.4%</b>	776%	<b>1.4%</b>	63%
Bottom 50%	<b>4.6%</b>	386%	<b>0.1%</b>	3%
Middle 40%	<b>6.2%</b>	733%	<b>1.9%</b>	44%
Top 10%	<b>7.7%</b>	1232%	<b>2.3%</b>	124%
Top 1%	8.8%	1800%	3.3%	208%
Top 0.1%	9.5%	2271%	4.2%	325%
Top 0.01%	10.2%	2921%	5.0%	460%
Top 0.001%	10.8%	3524%	5.9%	646%

Source: Designed by Patti Issacs in Chapter 7 “*The Assumption of Virtue*” of the book *Has China Won?* by Kishore Mahbubani.

From what the chart reveals, China is doing better than U.S. in the aspect of social equity. Whereas the total accumulated income growth of the top 10 percent in China from 1980 to 2015 was 1232 percent, compared to 124 percent for U.S., the total growth of the top 10 percent in U.S. was 41 times larger than the bottom 50 percent. By contrast, the total growth in China was only 4 times larger.

The data contradicts the common myth of American dream in U.S. which is the core of American identity. The myth of equal opportunity is also tied to the myth that U.S. has been an exceptionally successful society because it imposes fewest restrictions on the freedom of the individual politically and economically. The majority of the

Americans believe they could achieve a comfortable middle-class standard of living without any legislation of income equality. They may take freedom in a distorted way. Despite that a vast majority of Americans are supportive of higher taxes for those with extremely high annual incomes. A survey completed by the famous American media CNBC revealed that fully 60% of millionaires supported (Senator Elizabeth) Warren's plan for taxing the wealth of those who have more than \$50 million in assets. There were polls showing that a majority of Americans also backed a wealth tax. However, the support from the millionaires, some of whom would presumably pay the tax, showed that some millionaires were willing to accept higher taxes in concern of inequality and increasing fortunes of the rich people. While 88% of Democrats supported the wealth tax, 62% of independent supported along with 36% of Republicans. Even the upper cohort of millionaires, those worth more than \$5 million, were in favor of a wealth tax, with two-thirds supportive. Nevertheless, as a matter of fact, it is almost impossible for members of U.S. Congress to vote for higher taxes as they would be targeted by special interest lobbies. Even more treacherously, most ordinary Americans are not aware of that they effectively pay higher taxes than their ultrawealthy counterpart because those from the top of the top are capable of hiring innocuous-sounding tax provisions that effectively lower their tax rate. About their tax treatment, there was a report by *New York Times* in 2017 as following:

For decades, the carried interest provision has enabled wealthy private equity managers, hedge fund managers and real estate investors to pay the lower capital gains rate (20 percent, not counting the Obama health care surcharge of 3.8 percent) on their income rather than the rate on ordinary income (a maximum of 39.6 percent)... the primary argument against the carried interest loophole... [is] that the “carry”—the percentage of an investment's gains that the manager takes as a

compensation—should be treated as a payment for services and taxed like regular income, and not be viewed as a return on invested capital, in which the manager has put assets at risk.

In conclusion, the interests of the new capitalist aristocracy outdo those of the majority of the population.

On the other hand, according to the argument of Robert Evan Ellis, the researcher in the field of the influence of China on Latin America: “in addition to ‘purely’ economic interests, Latin America is interested in China because of the possibility that the Asian giant will help the region to offset the traditional political, economic, and institutional dominance of the United States, giving it greater freedom of action to pursue a more autonomous course politically.”<sup>23</sup>

It is a source of huge inspiration for many Latin Americans that China had transformed itself from an impoverished country to a rising power that challenges the United States in the global economy only within the short time span of a generation. Unlike the neoliberal economic policies practiced in the United States and other liberal capitalist democracies, sustained growth of the PRC suggests an alternate development model in which progress and prosperity can be achieved through the use of mercantilist trade policies and without giving up state control of strategic sectors. Ellis further explained:

The term “Beijing consensus” referring to the example of China, is a derisory allusion to the “Washington consensus” and policies pursued during the 1990s that failed to address—and, in the eyes of some, may have deepened—Latin America’s deep-rooted problems of inequality, corruption, and stagnant growth. By contrast, the example of China is of great interest for

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<sup>23</sup> June Tüefel Dreyer (2006b: 96) notes, “The PRC could potentially provide a source of leverage against the U.S. for Latin America and Caribbean countries, but it has not yet done so.”

Latin America. [...] In other words, whatever the lessons of Chinese experience that can be applied realistically in Latin America, the “Chinese model” is a convenient rhetorical tool for regimes in search of development.<sup>24</sup>

What’s more, being a communist regime, China has important symbolic appeal to a group of Latin American leaders on the left side of the political spectrum, through what may be termed “nostalgic radicalism.” The new PRC is the only successor of the legacy of Mao Zedong’s China, which acted as a revisionist power on the world stage and as a source of inspiration for leaders such as Hugo Chávez of Venezuela and Evo Morales of Bolivia.



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<sup>24</sup> Ellis, R. 2009. Chap 3 “*Why Latin America Is Interested in China*” China in Latin America. Lynne Rienner Publishers, Inc.: Boulder, Colorado.

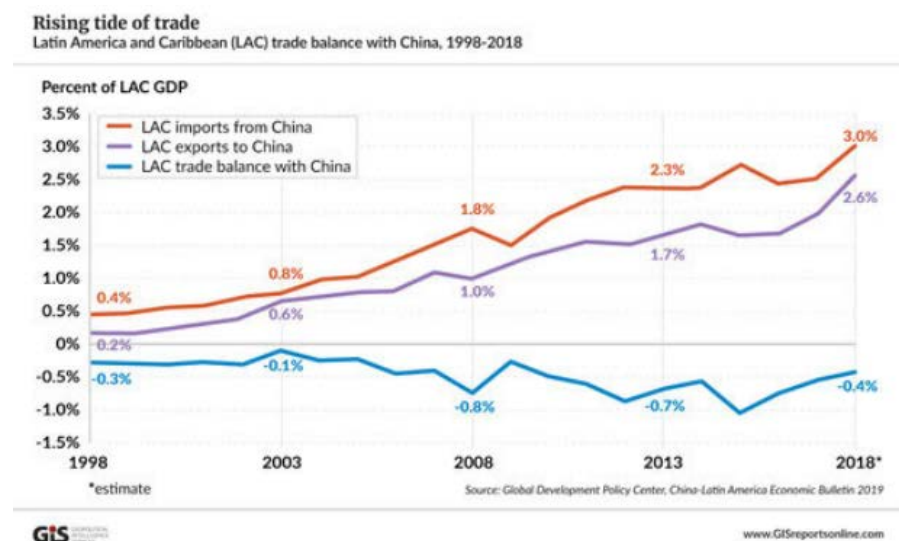
## **Chapter 7. Scope and Limit of Research with Data Analysis**

### **Summarizing Data of Latin America**

China's rapid economic growth and its millions of people being removed from poverty were quite impressive. It had surpassed Japan to become the world's second largest economy several years after it joined the World Trade Organization (WTO). In Latin America, China has also broken many records economically. For instance, China has surpassed the United States as a top destination for exports of South American countries (especially Argentina, Brazil, Chile, and Peru). [11] Furthermore, Chinese policy banks like China Eximbank and China Development Bank had become the largest public lenders to Latin American governments. China had as well launched bilateral free trade agreements (FTAs) with Chile (2006), Peru (2010), and Costa Rica (2011). [12] Being WTO-plus, these three countries defied that China's true intention was something against international norms.

The escalation of trade and investment between China and Latin America had generally started from 2002. (See Figure 1) On the other hand, the magnitude and nature of China's growing trade and investment ties differed considerably across countries and sub-regions within Latin America. Due to China's huge demand for copper, iron ore, oil, and soybeans, all of which were abundant to varying degrees in the South American countries, prices of these commodities reached historical highs after 2003. (see Table 1) As a result, all these countries had benefited from trade and solid growth for more than a decade and all have built up sizeable foreign exchange reserves.

**Figure 1. Latin American and Caribbean Trade with China, as a share of LAC GDP**



Source: China-Latin America Economic Bulletin 2019

**Chart 4. Commodity Price Data for Selected Products, 2000-2019**  
(annual prices in US\$)

Year	Crude oil,	Soybean			Iron ore,		Copper
	average	Fish meal	Soybeans	oil	Beef	cfr spot	
	(\$/bbl)	(\$/mt)	(\$/mt)	(\$/mt)	(\$/kg)	(\$/dmtu)	
2000	28.23	407.88	211.83	338.14	1.93	28.79	1813.47
2001	24.35	465.32	195.83	353.24	2.11	30.03	1578.29
2002	24.93	638.83	212.67	461.71	2.11	29.31	1559.48
2003	28.90	640.34	264.00	558.59	2.13	31.95	1779.14
2004	37.73	648.58	306.50	618.23	2.67	37.90	2865.88
2005	53.39	676.59	274.69	544.59	2.73	65.00	3678.88
2006	64.29	755.35	268.65	599.34	2.65	69.33	6722.13
2007	71.12	1166.49	383.10	886.06	2.70	122.99	7118.23



2008	96.99	1203.53	521.87	1260.81	3.24	155.99	6955.88
2009	61.76	1191.10	423.62	853.07	2.73	79.98	5149.74
2010	79.04	1138.96	447.10	1000.86	3.42	145.86	7534.78
2011	104.01	1442.06	537.52	1297.66	4.08	167.75	8828.19
2012	105.01	1527.77	595.51	1225.60	4.21	128.50	7962.35
2013	104.08	1750.82	551.39	1055.39	4.13	135.36	7332.10
2014	96.24	1680.65	484.86	905.97	5.05	96.95	6863.40
2015	50.75	1554.19	392.12	755.63	4.56	55.85	5510.46
2016	42.81	1490.64	405.45	814.99	4.06	58.42	4867.90
2017	52.81	1366.97	393.38	850.40	4.39	71.76	6169.94
2018	68.35	1525.17	394.30	788.32	4.20	69.75	6529.80
2019	61.41	1448.35	368.35	764.76	4.76	93.85	6010.15

Source: World Bank Commodity Market (Pink Sheet)

<http://www.worldbank.org/en/research/commodity-markets>

On the contrary, Mexico and Central America didn't benefit from the process so much. Lack of the commodities that China had voraciously bought up from the South American countries, they also had to defend themselves from the flood of Chinese manufactured imports with the exception of Costa Rica. It aroused the reactions and attitudes akin to those of the 1950s, when most of the region embraced protectionism. Why do we always argue about tariffs and protectionism? Just as Joseph Stiglitz stated in his work *People, Power, and Profits*, trade agreements do matter, but more for the pattern of trade than for the deficit of trade. [13] For example, if a country, say, Mexico imposed a 25 percent tariff on China, it would import less products from China and more from Vietnam. Since comparable Vietnamese products were more expensive than those made in China (if they were not, the Mexicans would already

have been importing products from Vietnam), the cost of products in Mexico would increase. The standard of living in Mexico would, in turn, decrease. In other words, the world had created efficient global supply chains, it was difficult and not economically smart to shift away from it. Being counteraction of globalization, deglobalization was to blame by some, but there were also others being pessimistic about globalization. Advocates of globalization emphasized how exports create jobs, but they failed to mention the number of jobs destroyed by imports. If trade was roughly balanced, and if imports were more labor-intensive, then overall, trade destroyed jobs, resulting in unemployment and inequality.

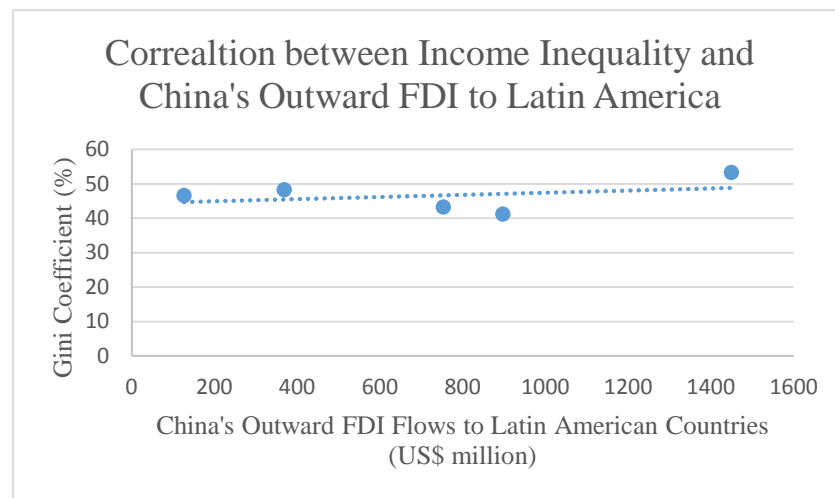
In the cases of China-Latin America trade, there were two biggest concerns: unequal exchange and “resource curse”. Firstly, the debates about unequal exchange focused on the chronic price swings and negative terms of trade for commodity exporters in Latin America during the early post-World War II period and became a pillar of the dependency school’s emphasis on the international system as the perpetuator of underdevelopment. The earlier experience with this pattern of trade inspired policies of the well-known import-substitution industrialization. However, the good news was that for all but Mexico the terms of trade during the China boom (2003-2013) were highly favorable. The downside of this story is that, although forward linkages in terms of manufactured exports had clearly improved in Latin America, backward linkages to the domestic market were still too weak. For the relatively less successful policies for promoting science, technological adaptation, advanced education, and research, there were also intermediate goods (e.g. cell phones) imported from China that Latin American producers were not competitive enough to produce on their own. That is to say, Latin American countries were perhaps more pressed than ever before to climb the value-added production ladder and to articulate a longer-term vision for a growth model based on efficiency.

In addition, the “resource curse”, or “Dutch disease” arguments were also in place. Compared to the U.S., the interest rates in Latin American countries have been much higher since 2000. It caused massive capital inflows to these countries combined with the commodity price boom, the accumulation of unprecedented levels of foreign exchange reserves. One consequence was the considerable overvaluation of the Latin American currencies (until the wave of depreciations triggered by the abrupt devaluation of the Chinese yuan in 2015). However, the Global Financial Crisis revealed the substantial macroeconomic, financial sector, and trade reforms had been undertaken by Latin American countries over the past two decades. The example of Brazil showed that, although Brazil is still a formidable industrial exporter, Brazilian manufacturing had taken an extra hit from the resource curse during the 2000s. The more powerful industrial groups in Sao Paulo have blamed this trend on Chinese manufactured exports to Brazil, and hence the Brazilian government’s move to apply protectionist measures against China.

To sum up the aforementioned assumptions and evidences, I visualized the selected data of Gini coefficient (2017, World Bank) for measuring income inequality and data of China’s outward FDI to Latin American countries (FDI stock, 2012, Yellow Book of Latin America and the Caribbean by Social Sciences Academic Press, China).

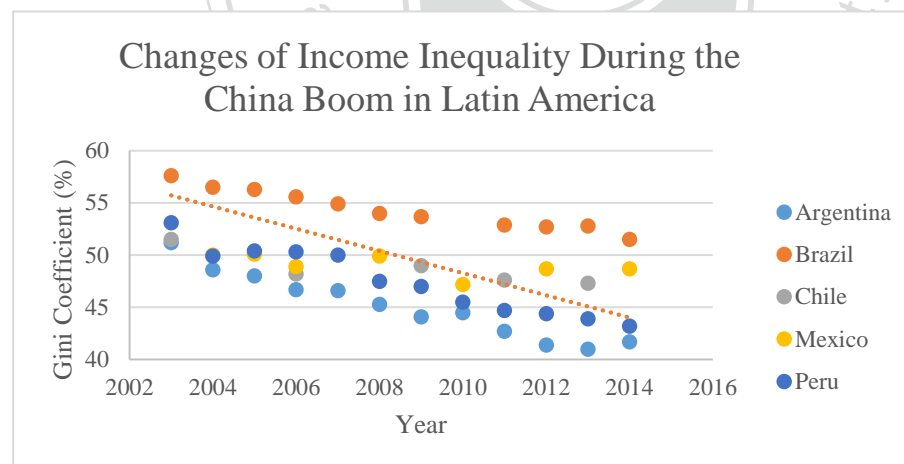
Because I assumed the capital flows were more important to make the income inequality changed than the goods of the trade. I got the scatter plot below:

**Figure 2. Correlation between Income Inequality and China's Outward FDI to Latin America**



I also used the data of the income inequality in several main trade partners with China in Latin America during the China Boom (2003-2013).

**Figure 3. Changes of Income Inequality During the China Boom in Latin America**



According to these scatter plots, there is an insignificant positive correlation between the income inequality and the Chinese FDI stock in these Latin American countries. On the other hand, the income inequality had decreased in a much larger degree. In other words, the trade between China and Latin American countries did help Latin American countries accumulate the capital, but the improved income inequality

seemed to have little to do with these economic ties.

Perhaps we have to look into the main types of products of the China-Latin America trade in 2015 as well:

**Chart 5. Main Products of China-Latin American Trade**

<b>LA Exports to China</b>	<b>LA Imports from China</b>
1. Soybeans and other oilseeds 19.2%	1. Telecommunications equipment 9.7%
2. Iron ore and concentrates 16.8%	2. Data processing machine 3.8%
3. Crude Petroleum 11.8%	3. Optical instruments, apparatus 3.3%
4. Copper 11.4%	4. Ships, boats, floating structures 3.3%
5. Copper ores, concentrates 10%	5. Other electrical equipment 2.3%

Source: UN Comtrade

According to the percentage data, so far there is still certain pattern in the China-Latin America trade because a large part of exports to China still depends on the raw material and major agricultural products which were controlled by the owners of the mining and the landlords in Latin America. The imported products are on the other hand the ones that the Latin American producers not competitive enough with Chinese counterparts. Those are the ones with higher-values. Thus, this kind of trade would not improve the development of industries and unequal distribution of wealth in the region.

## Chapter 8. Case Studies

### Chinese Model

In the book *The Third Revolution: Xi Jinping and the New Chinese State* by Elizabeth Economy, the senior fellow from Hoover Institution. She wrote that after decades of the rule under Mao Zedong, China had impoverished economically and suffered from political and social upheavals. The chaos ended up with a brief and bloodless power struggle by 1978 and turned out with the result that Deng Xiaoping and his supporters cemented the Four Modernizations as the motto of the country and they also initiated a wholesale reform of China's political and economic system. Since the 1950s which followed the establishment of the People's Republic of China, planning economics and state control had defined China's political and economic system. In other words, the whole economy of China had become more market-oriented. Deng removed the restriction from the central authority in Beijing on the local and provincial governments to boost the economic activities. It resulted in the full participation of the international community through investment and trade with China. By 1984, the government had set up fourteen port cities along China's long coast as special economic zones for attracting more foreign investment.

Afterwards, Economy also pointed out:

In the mid-to-late 1990s, the state began in earnest to dismantle many of the state-owned enterprises, which had been the foundation of the urban economy, to encourage the expansion of private and cooperative ventures, and to energize the rural economy through the development of smaller scale township and village enterprises. The result was dramatic: average growth rates that exceeded 8 percent annually for more than two decades—elevating

hundreds of millions of Chinese out of poverty, and earning China significant respect internationally.<sup>25</sup>

### **A Case Study: China-Brazil Economic Relations**

It was a milestone for both China and Latin American countries that China had got access to the World Trade Organization (WTO) in 2001. It represented a new period of China's economic activity such as trade and investment in the Western Hemisphere. China's interaction with the nations of the Southern Cone (Argentina, Brazil, Chile, Paraguay) has been dominated by economic considerations based on the argument of the research professor Robert Ellis from U.S. Army War College Strategic Studies Institute. The region is rapidly becoming the "breadbasket" of China, with Argentina and Brazil alone supplying 29 percent of all Chinese food imports (mainly soy products).

Brazil is particularly relevant case of this trend for the fact that it had recovered from the 2008-09 Global Financial Crisis for the huge demand of China on its abundant natural resources, which had boosted the aggregate welfare.

Speaking of the Western Hemisphere, since the era of Monroe Doctrine in nineteenth century, it has been dominated by the United States not only politically but also economically. However, just in 2009, China outtrode the United States to become Brazil's biggest trading partner. On the other hand, the investment has also been very magnificent. For example, China accounted for about US\$12.7 billion in direct investment in Brazil in 2010 alone. According to Dawn Powell, the emerging market private equity professional, in spite of that the slower growth had taken place since 2011, nearly 1 percent of the 2.7 percent of Brazil's GDP growth that year resulted

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<sup>25</sup> Economy, E. 2018. Chap 1 "*Xi's Inheritance*" The Third Revolution: Xi Jinping and the New Chinese State. Oxford University Press: New York.

from Chinese demand at that year.

Although the Sino-Brazilian trade and investment relationship has made more winners than the losers generally on Brazil's side, there have been domestic groups which are really exposed to the competition by Chinese products and thus are calling for a more protectionist economic policy stance. In other words, while trade and investment ties with China have brought about great opportunities for Brazil like other Southern Cone countries for the complementary factors of endowment with China, political discourse has also emphasized the negative aspects of its relationship with China, including the threat to local industries and increasing fears of dependency. As Powell (2017) mentioned: these concerns could lead to a sensible research question: how has the Brazilian political debate influenced the China-Brazil relationship and what are the prospects for further integration between the world's second and seventh largest economies?

To sum up the political reaction of Brazil towards the increased economic activities with China, there are two popular and parallel narratives: one is the neocolonialism and primarization debate, while the other is that over the deindustrialization of the Brazilian economy owing to intensified competition from China.

About the narrative of neocolonialism and primarization, one should begin with looking at the skyrocketing increase of the total trade volume (the sum of imports and exports) between China and Brazil. In 2001, the amount was just US\$3.2 billion. A decade later, in 2011, it reached US\$77 billion, an increase of over 2,000 percent. This magnitude of Brazil's increased trade with China caused fears of dependency in Brazil. Furthermore, the demand of China for commodities such as soybeans and iron ore led to the increasing price and Brazil's trade surplus and increased reserves which was the source of funding for the expansion of public investments and ten years of impressive growth. In 2010 after the global financial crisis, Brazil even registered a



record 7.5 percent growth rate.

There is a sort of criticism in Brazil about China's neocolonialism, or the "primarization" because 80 percent of Brazil's export basket to China consists of raw material, such as iron ore, soy, oil, and cellulose. There is also a common narrative underpinning public discourse of the urge to diversify Brazil's exports to China and to include more higher value-added goods. Yet, Brazil's institutional structure has been an obstacle to achieving this aspiration. The World Economic Forum had provided an evaluation in the 2014-2015 Global Competitiveness Index, China ranked 28<sup>th</sup> in it while Brazil ranked 57<sup>th</sup> out of 143 economies. Additionally, the World Bank's equivalent for ease of doing business ranking, Brazil ranked 116<sup>th</sup> in the evaluation. The main reasons behind the ill-performed outcome was due to a complex tax system, outdated labor laws, and daunting infrastructure bottlenecks.

The appreciation of the Brazil currency, the real, was one of the impacts which resulted from the increased China-Brazil trade. The peak of its appreciation was the point of R\$1.56 to the dollar in July 2011. The stronger currency aroused the concerns that Brazil might be infected with "Dutch Disease", an appreciating exchange rate signifying less competitive price for exports of manufactured based on the argument of Powell (2017). The strengthening of the real would lead to the exporters and manufacturers lobbying for policies to reverse the trend. For Brazil, it could be a potential threat that the exports of primary goods took place at the price of its national industry, which was intensified by the import of higher value-added goods from China. So far, however, concerns of an overvalued currency have become less relevant as the real has since depreciated significantly to a low of R\$4.17 in September 2015.

It is too early for one to conclude that a recession would occur because of the slowing of Chinese demand and Brazil's overdependence on China. Domestically-grown fiscal

mismanagement due to rampant overspending or outright corruption in public sector also played an important role in triggering Brazil's recent economic contractionary trend.

Through the other approach of the deindustrialization, the flooding Chinese products have been seen as a threat to the future of Brazil's national industry by many Brazilians. In fact, contrary to popular perception, consumer goods have never been the mainstay of Brazil's import basket from China. According to a survey in 2011, approximately half of Brazilian imports from China were either capital or intermediate goods.

Brazilian firms bought these inputs such as television parts, bicycle pedals, and polyester thread for the manufacture of textiles in order to lower the cost of production. Rather than being a competitive threat in the market for final consumer goods, the data suggested that imports from China might be a complementary source of increased profits for Brazilian manufacturers through providing access to cheaper equipment, intermediate inputs, and parts and components. The influx of cheap Chinese imports has also helped satisfy consumer demand and lay downward pressure on prices.

The other point of this sort of fearful narrative is about the transfer of manufacturing jobs from Brazil to China. However, the data by Instituto Brasileiro de Geografia e Estatística (Institution of Geography and Statistics of Brazil; IBGE) showed the decreasing rates of unemployment in Brazil, which hit a historic low of 4.7 percent in December 2011. The other two studies at the same year revealed that there was even a shortage of supply of qualified workers to fill the available job positions, which was far away from the indicated unemployment. Based on the study by Federation of Industries of Rio de Janeiro (FIRJAN), thousands of jobs in Brazil were unfilled owing to the lack of qualified candidates. Of the 600 factories interviewed for the

study, at the year of 2011, 60 percent were hiring, but of these over 53 percent had failed to find the right candidate for a given job after a six-month search. The other study by National Industries Confederation (CNI) revealed that the shortage of qualified workforce affected 69 percent of companies in the industrial sector. The aforementioned two studies emphasized that the lack of investment in quality education at all levels by the Brazilian government was the main cause of the phenomenon. According to CNI, the average Brazilian worker only have completed six years of formal schooling, this significantly restricted the country's growth.

According to the data by Conselho Empresarial Brasil-China (CEBC), from 1990 to 2009, the estimated amount of investment in Brazil from PRC had been US\$255 million only. Yet there was a surge in Chinese investment from the year of 2010, not only the amount of US\$12.7 was confirmed, but also the another announced US\$23 billion. These early investments were mostly aimed at Brazil's natural resource sectors. Therefore, it caused the fear of a neocolonial relationship between the two countries.

On the other hand, based on the Chinese-Brazil Business Council, the majority of Chinese investments announced during 2007 and 2012 were market-seeking.

Different from the aforementioned Chinese investments in Brazil in 2010 which were really more concentrated on natural resources, the second wave of investment which started in late 2010 and continued through 2012, was characterized by the efforts of Chinese companies to sell their products to a developing consumer market which has a lot of opportunities in Brazil, and to use Brazil as a base from which to export these products to the rest of Latin America.

In response of the Chinese investment and market-seeking, there have been the political debate of "the winners and losers in this game" and their respective domestic lobbying efforts. As the voices of the losers are louder, it has prompted the

policymakers to choose protectionist measures to compensate for the perceived unbalance of the economic relationship between China and Brazil. For example, Brazil's government not only adjusted its policy towards China to deal with the domestic distribution conflicts faced by these "true losers" (the import-competing sectors), but also provided subsidies and imposed import tariffs for the sectors which claimed they were under threat. These actions could also be seen as the inhibition of the pursuit of the structural reform agenda that Brazil needs if the country would like to increase its long-term competitiveness.

According to Powell (2017), the losers had a greater capacity to organize the lobbies because of their smaller size of the group, their clear homogeneous policy preferences, and the fact that they tended to be geographically concentrated. The sectors of the Brazilian economy that were subject to, or regarded themselves as under threat of Chinese competition were: toys, textiles, shoes, automobiles, machines, electronics, and miscellaneous manufacturing. These import-competing sectors had their respective representative industrial association which were in practice their special interest groups such as ABIT (textiles), ABRINQ (toys), and ABICALÇADOS (shoes), ABIMAQ (machines), and ABINEE (electronics). They have frequently voiced their concerns in the press, for instance, in 2012, ABINEE released a study to reveal the negative impacts of Chinese cell phones on domestic industry, and called for protectionist measures. However, it is a challenge for Brazil's protectionist stance under the increasingly globalized production processes nowadays.

On the contrary, the main winners in the economic activities between Brazil and China are the primary commodity exporters who received the huge amount of Chinese investment and successfully gained the access to the very potential Chinese market. For example, the sectors of mining, petroleum, agribusiness (mainly soy), logistics, and infrastructure are the clear winners.

In Brazil, there is a common perception that corruption is significantly related to the winners in the China-Brazil trade relationship. Better to say, with the country ranking 69 out of 175 countries on Transparency International's Corruption Perceptions Index, corruption is in fact widespread and embedded at all levels and areas of Brazilian society. It is just that during the boom years of doing business with China, Brazil not only lost the opportunity to invest in structural reforms, but also got its problems worse.

The other winners who are supportive of the closer China-Brazil ties are those who exported products to Chinese market. For example, Embraer, a leading manufacturer of aircrafts; WEG, the producer of electronic motors; Embraco, the refrigeration company. However, these winners just organized a loose pro-China lobby through the institutions such as China-Brazil Business Council.

Generally speaking, as Powell summarized: "trade with China puts downward pressure on consumer prices, and low-priced goods from China offer more Brazilians the opportunity to increase their standard of living."

If we look into the local level, we would also see many state governments were competing to attract Chinese investments in order to create more jobs and boost the local economies in the regions. Furthermore, another benefit is the increase of tax revenues these companies and firms bring. Last but not least, in terms of the production process, a large part of Chinese imports is intermediate goods which contributed to lower prices and thus strengthened the competitiveness of Brazilian consumer goods.

**Chart 6. A Brief Summary of Winners and Losers in the Political Debate on China-Brazil Economic Ties**

Winners		Losers	
Commodity Exporters to China	High-technology Exporters to China	Import-competing Sectors	Protection-seeking Sectors
Mining	Aeronautics	Toys	Machine
Agribusiness: soy and cellulose	Refrigeration	Shoes	Electronics
Oil	Motors	Textiles	São Paulo-based Industry

Source: Designed by Dawn Powell in Chapter 11 “*China-Brazil Economic Relations: Too Big to Fail?*” of the book *The Political Economy of China-Latin America Relations in the New Millennium*.

### **A Case Study: China-Chile Economic Relations**

There is another case I would like to address, that is Chile- a leader among nations of the region in establishing a commercial relationship with the PRC and an exemplar of the challenges that such a relationship can create. To sum up, it is like a miniature of the double-sided relationship between China and the region of Latin America.

As the research professor Robert Ellis said in his book *China in Latin America*:

Within the region, Chile has among the best commercial and bureaucratic infrastructure for doing business with Asia. Its geopolitical position along South America’s Pacific coastline makes its ports the logical points of entry for Chinese products bound for Argentina, Brazil,

Bolivia, Paraguay, and Uruguay, and logical routes of egress for South American products bound for Asia. Chile is one of only three nations in Latin America and was the first nation in both the region and the world to sign a free-trade accord (FTA) with the PRC with respect to goods. For Chile, this agreement accompanied numerous other such accords with the United States and nations of Latin America and Asia, leveraging Chile's other advantages to position itself as a commercial nexus between Asia, Latin America, and the United States.<sup>26</sup>

Generally speaking, Chile is one of the economies that benefited most from the expansion of China in the region. In 2006, the first year the FTA between China and Chile had become effective, Chilean exports to the PRC skyrocketed by 140 percent, making China Chile's biggest export customer. At the same time, however, a large portion of this trade is concentrated in copper and a bunch of other primary products. 98 percent of Chilean exports consist of nine primary-product sectors. Historically speaking, although Chile's first socialist president, Salvador Allende who had the socialist orientation played a key role in the association of the government with the PRC, China also chose to continue the association with the subsequent military dictatorship by General Augusto Pinochet who overthrew Allende in a military coup. The ability of the Chinese government to develop an effective relationship with both regimes is a proof of its pragmatism that the Chinese have historically used in their foreign policy with Latin America.

What's more, since the 1990s, Sino-Chilean economic relations have expanded rapidly, accelerating in recent years. Between 1997 and 2006, bilateral trade between China and Chile expanded by 641 percent. As of late 2008, China had become Chile's number one overall partner in bilateral trade and Chile was China's second-largest

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<sup>26</sup> Ellis, R. 2009. Chap 4 "*The Southern Cone: Soy, Oil, and Customers*" p.34. China in Latin America. Lynne Rienner Publishers, Inc.: Boulder, Colorado.



trading partner in Latin America, after Brazil.

According to the report of the Commercial Office of China in Beijing, Chilean exports of copper and other mining -sector products to the PRC have consistently been a key part of the commercial interaction between the two countries, although the volume of trade has expanded considerably in recent years. Indeed, copper accounted for over 83 percent of Chile's exports to China during the first half of 2007.<sup>27</sup>

Chilean copper exports to China are of great significance to both countries. Chile has an estimated 17 percent of the world's proven reserves of copper and is one of the world's largest exporters to the metal.<sup>28</sup> In 2005, some 30 to 35 percent of all Chilean copper exports went to the PRC.<sup>29</sup>

As Robert Evan Ellis summarized: "Chilean exports of copper to China illustrate not only China's interest in the primary-product sectors of Latin America, but also the manner in which Chinese investment in Latin America has been instrumentally focused on gaining or improving access to those products."<sup>30</sup>

However, in the process for the PRC to develop primary-product export relationship with Chile, it has come into conflict with Chile's internal political imperatives that have made the relationship more complicated. As the Chilean news agency *El Mercurio* reported: "One of the more controversial provisions of the accord between CODELCO (Chile National Copper Company) and China Minmetals, for example, was an option for China Minmetals to buy up to a 49 percent interest in new Chilean mine, Gabriela Mistral (Gaby)."<sup>31</sup>

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<sup>27</sup> "Primer semestre 2007 principales productos de Chile a China." *China Customs*. Commercial Office. Beijing, China. August 2007.

<sup>28</sup> "China Minmetals hará uso de su opción por mina Gaby." *Portal Minero*. <http://www.portalminero.com>. March 30 2007.

<sup>29</sup> Pérez-Cejuela P., "China busca conquistar el mercado latino." *Univision*. <http://www.univision.com>. April 10 2006.

<sup>30</sup> Ellis, R. 2009. Chap 4 "*The Southern Cone: Soy, Oil, and Customers*" p.34. China in Latin America. Lynne Rienner Publishers, Inc.: Boulder, Colorado.

<sup>31</sup> "Codelco cambia nombre a Gaby por Gabriela Mistral." (The name of the mine was changed in



Although the agreement did not guarantee China Minmetals the right to acquire Gaby over other bidders, Ellis supposed “the provision was sensitive because metals and minerals are considered part of Chile’s national patrimony.” As the leading magazine about the information of Chile’s mining sector *Minería Chilena* reported: “In March 2007, these sensitivities came to the fore when China Minmetals indicated its intent to exercise its option to purchase interest in Gaby (for \$838 million), promoting protests by CODELCO workers.”<sup>32</sup>

According to another report by *Diario Financiero*, finally, the Chilean government declined to sell interest in Gaby to China Minmetals, and although the latter initially sought to take the matter to arbitration, by late 2008, China Minmetals had effectively abandoned efforts to acquire the mine.<sup>33</sup> Chinese companies have not yet become significant owners or operators of mines in Chile.

The other interest of China in Chile is the access to a market for Chinese goods just like other middle-income countries of Latin America. Chile is one of the wealthiest countries in Latin America in terms of per capita income.<sup>34</sup> Owing to its wealth and purchase power, Chile has been a leading market for the PRC as it seeks to diversify its exports to higher value-added products, such as motorcycles and computers. For example, as the news of *El Mercurio* stated in 2006: “Companies in Chile began to expand sales of Chinese cars, taking advantage of the fact that Chinese autos cost, on average, 30 percent less than those of the competition.”<sup>35</sup>

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April 2007 to give it a more ‘local’ flavor.) *El Mercurio*. Santiago, Chile. <http://diario.elmercurio.com>. April 25, 2007.

<sup>32</sup> “China Minmetals hará uso de su opción por mina Gaby.” (Under the deal, China was given the option to purchase 25 percent of the Gaby Mine in 2008, with the option of later acquiring another 24 percent.) *Minería Chilena*. <https://www.mch.cl/2007/03/30/minmetals-hara-uso-de-su-opcion-por-gaby/>. March 30, 2007.

<sup>33</sup> “Codelco y Minmetals podrían acudir a arbitraje por Gaby.” *Diario Financiero*. Santiago, Chile. <http://www.df.cl>. July 16, 2008.

<sup>34</sup> “GDP per capita (current US\$)- Latin America & Caribbean”. 2019. *The World Bank*. <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=ZJ>

<sup>35</sup> Soledad Miranda, “El coqueto con el auto chino.” (Flirting with Chinese cars.) *El Mercurio*. Santiago, Chile. <http://diario.Elmercurio.com>. April 14, 2006.

The other example reported by *China Daily* was the market that have been strong in Chile even before the introduction of Chinese cars: “Brands such as Takasaki, Jianshe, Lifán, and Kinlon. In 2003, 4,000 Chinese motorcycles were sold in Chile; by 2007, this figure had jumped to 70,000, representing 70 to 80 percent of the entire Chilean market.”<sup>36</sup>

Furthermore, Chile has also provided a strong market for the expansion of Chinese telecommunications companies. The two representative Chinese telecom giants, Huawei and ZTE have offices in Santiago, the capital of Chile. Both of them have won major contracts in Chile. For example, ZTE was awarded a contract to build a network in Santiago for the local telecom provider Transam, using the (then-new technology) global system for mobile communications (GSM).<sup>37</sup> With regard to Huawei, its products have been used across Chile in a range of applications, from fixed lines to fiber-optic and wireless networks, including the construction of network backbones for three Chilean telecom operators and a transmission network in Santiago.<sup>38</sup>

For the lower-end Chinese products, an estimated 80 percent of the clothing sold in Chile, for instance, comes from China.<sup>39</sup> Ellis nevertheless summarized: “Despite this penetration, Chilean manufacturers have been less prone to respond with calls for protection than have counterparts in other Latin American countries.”

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<sup>36</sup> “Sales of Chinese Motorcycles Booming in Chile.” *China Daily*. Beijing, China. [www.chinadaily.com.cn](http://www.chinadaily.com.cn). June 17, 2008.

<sup>37</sup> “ZTE Strengthens South American Market Position in Santiago Chile.” *WiFi Technology Forum*. <http://www.wi-fitechnology.com/displayarticle1688.html>. December 7, 2004.

<sup>38</sup> “Chile.” *Huawei*. Official website. <http://www.huawei.com/es/catalog.do?id=324>.

<sup>39</sup> Survey by Artaza, 2007b.

## Conclusion

According to the preface of China's Policy Paper on Latin America and the Caribbean released by The State Council of PRC's government in 2016,<sup>40</sup> "China has entered a crucial stage in achieving the great rejuvenation of the Chinese nation... The development of China cannot be possible without the development of other developing countries, including countries in Latin America." It is not only an empty slogan launched by the Chinese government, but also a series of actions through major initiatives and measures on reinforcing China's relations and cooperation with Latin America in many varieties of aspects. In other words, guided by the China-Latin American and Caribbean Countries Cooperation Plan (2015-2019), China and these countries had utilized trade, investment and financial cooperation as driving forces, and identified energy and resources, infrastructure construction, agriculture, manufacturing, scientific and technological innovation and information technology as cooperation priorities

In the first policy paper on Latin America issued by the Chinese government in 2008, the goal of "establishing a comprehensive and cooperative partnership featuring equality, mutual benefit and common development with Latin American countries" was put forward. In 2014, leaders of the two sides held a meeting in Brasilia and together announced the establishment of the comprehensive and cooperative partnership of the aforementioned good-natured principles. China also claimed it would stick to the Five Principles of Peaceful Coexistence and maintain that all countries among the region would be treated equally, whether big or small, strong or weak, rich or poor.

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<sup>40</sup> Xinhua, Nov. 24 2016, "China's Policy Paper on Latin America and the Caribbean", The State Council of The People's Republic of China.  
[http://english.www.gov.cn/archive/white\\_paper/2016/11/24/content\\_281475499069158.htm](http://english.www.gov.cn/archive/white_paper/2016/11/24/content_281475499069158.htm)

To be more economically specific, first of all, in terms of trade, China claimed it would promote the trade of high added-value and technology-intensive products and strengthen trade in services and e-commerce cooperation between China and Latin American countries. Based on the principle of reciprocity and mutual benefit, China will discuss with Latin American countries the establishment of long-term and stable trade relations and various trade facilitation arrangements including the FTA. Trade frictions will be properly handled to promote sound and balanced development and structural diversification of trade between the two sides.

Secondly, in terms of financial support, on the basis of bilateral financial cooperation, and owing to the China-Latin America Cooperation Fund, China claimed it would provide concessional loans, special loans for Chinese-Latin American infrastructure, China-Latin American Production Capacity Cooperation Investment Fund, and relevant financing arrangements between China countries. China would keep expanding cooperation with regional financial institutions in Latin America in order to support cooperation in crucial areas and major projects between the two sides.

However, generally speaking, the trade between China and Latin America is asymmetric. Being China's most open and market oriented trade partner in Latin America, Chile was the most successful one to negotiate with China and provided a good example for the cooperation with China. After the establishment of the FTA with China in 2006, Chile's trade volume with China quadrupled. Chiles' FDI inflows from China had been modest, partly due to the fact that FDI in copper is China's main interest and Chilean copper was largely state-run. Therefore, China sweetened the FTA deal by accepting numerous exceptions in the Chilean domestic manufacturing sector. The domestic producers then tried harder to export non-traditional and higher value-added products to the Chinese market and made a goal to transform Chile into a dynamic and service hub for transpacific trade. In order to build up a more equitable

economy, it is more crucial to take the quality and content of its production and exchange into consideration more than just caring about the total amount, and this story did provide the emerging economies with considerable confidence.



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