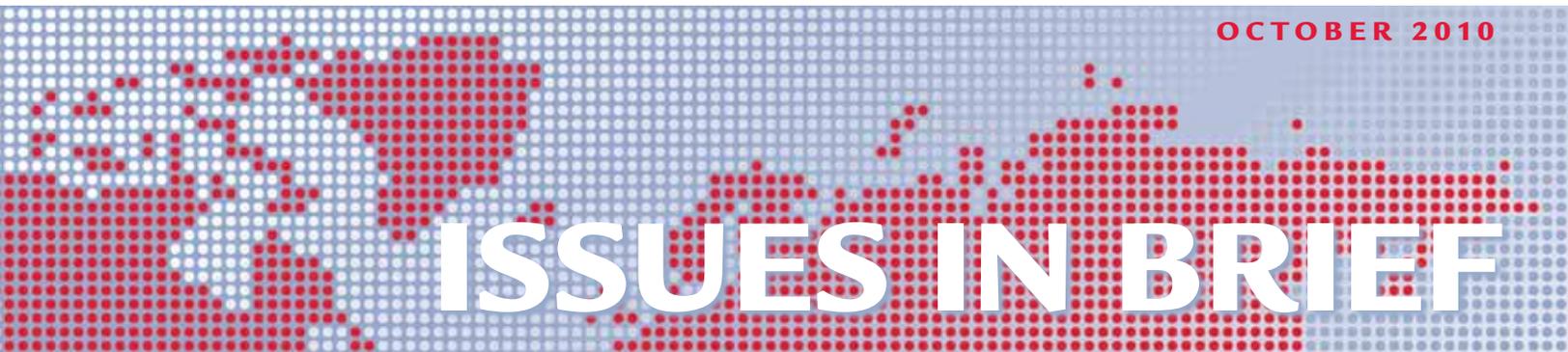


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China and the future of Latin American industrialization

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China and the Future of Latin American Industrialization



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The rise of China has created an unprecedented demand for Latin American and Caribbean exports, which has helped boost the region’s growth for almost a decade. But ultimately, such export growth may not be sustainable. Perhaps even worse, Chinese manufactured goods are more competitive than those from Latin America in both home and world markets. These twin trends may jeopardize prospects for long-term growth in the region.

This short policy brief is based on the book, *The Dragon in the Room: China and the Future of Latin American Industrialization* that I co-authored with Uruguayan political economist Roberto Porzecanski. This brief charts how China’s rise has stimulated Latin American exports significantly. However, we show that at the same time China has leapt over Latin America to become the most competitive exporter of manufactured goods in the world – leaving 92 percent of Latin America’s manufacturing exports under threat from China in 2009.

Manufacturing and modern services are the key to long-

term growth and prosperity. While China soars ahead by such measures, Latin America seems to be returning to a primary commodity-led export path. At a deeper level, China’s focus on building domestic productive capacities has been far more effective than Latin America’s “Washington Consensus” approach, which stresses the rapid liberalization of trade and investment, and the general reduction of the state in economic affairs.

“China has leapt over Latin America to become the most competitive exporter of manufactured goods in the world – leaving 92 percent of Latin America’s manufacturing exports under threat from China in 2009.”

Short-term Gains

China and the Latin American-Caribbean region (LAC) began to implement economic reforms within a few years of each other; China in 1978, much of Latin America in 1982. In 1980, the collective economic output of Latin America and the Caribbean was seven times that of China – 14 times greater on a per-capita basis. Nearly 30 years later, China had pulled ahead, with gross domestic product of \$2.7 trillion in 2009 versus pan-regional GDP of \$2.6 trillion in Latin America. Over the three decades, China registered a robust annual economic growth rate of eight percent. The average annual rate in Latin America has been a more modest 3.8 percent. Between 1980 and 2009, GDP per capita increased by 6.6 percent annually in China, while in Latin America, per-capita GDP edged up by a mere 1.7 percent annually during years that were marked by crises and volatility.

Boom times in China have been good for Latin America, whose exports to the Asian powerhouse increased nine times between 2000 and 2009 in real terms, far outpacing the region's overall export growth, which didn't even double over the same period. In 2009, LAC exports to China reached \$41.3 billion. The pre-financial crisis peak for LAC exports to China was \$22.3 billion in 2006. However, this windfall was not widely shared: five countries and eight sectors generated just over 80 percent of all regional exports to China. In 2006, six countries and ten sectors dominated LAC trade to China. Regardless of the period, the sectors that have dominated LAC exports to China are metals, including iron and copper, accounting for nearly half and soybean and related oils, highlighting how the China factor was limited to certain sectors.

Table 1: Five Countries, Eight Sectors, Dominate LAC Trade to China (2009)

Sector	Share of Total LAC Exports to China	Country (Share of Total LAC Exports to China in Sector)
Copper Alloys	17.9%	Chile(90%)
Iron ore and concentrates	17.3%	Brazil(89%)
Soybeans and other seeds	16.8%	Brazil(83%), Argentina(16%)
Ores and concentrates of base metals	13.5%	Chile(47%), Peru(39%)
Crude petroleum	4.5%	Brazil(65%), Colombia(20%)
Soybean oil and other oils	4.5%	Argentina(79%), Brazil(20%)
Pulp and waste paper	4.4%	Brazil(55%), Chile(43%)
Feedstuff	2.4%	Peru(63%), Chile(30%)
TOTAL	81.3%	

Source: Author's calculations from United Nations Commodity Trade Statistics.

China is increasingly investing in many of these same Latin American sectors. Hard statistics are difficult to come by but Chinese firms have invested at least \$25 billion in Latin America since 2005. Table 2 exhibits the larger Chinese foreign investments in Latin America between 2005 and 2010.

As shown in the Table 2, the majority of this foreign direct investment (FDI) is “resource-seeking” in the key sectors that serve as the source of Chinese demand: copper, oil, iron, and soybeans. However, Chinese FDI is also “market-seeking”, meaning it seeks to serve Latin American markets such as in the auto and tourism sectors. Finally, some Chinese investment

Table 2: Chinese Foreign Direct Investment in Latin America

Year	Month	Investor	Quantity (m)	Sector	Subsector	Country
RESOURCE-SEEKING						
2005	May	Minmetals	\$500	Metals		Cuba
2005	June	Minmetals	\$550	Metals	Copper	Chile
2005	September	CNPC and Sinopec	\$1,400	Energy	Oil	Ecuador
2006	September	Sinopec	\$420	Energy	Oil	Columbia
2007	February	Zijin Mining	\$186	Metals	Copper	Peru
2007	April	Golden Dragon	\$100	Metals	Copper tubes	Mexico
2007	June	Chalco	\$790	Metals	Copper	Peru
2007	December	Minmetals and Jiangxi Copper	\$450	Metals	Copper	Peru
2008	May	Chinalco	\$2,150	Metals	Copper	Peru
2008	May	Jinchuan Group and China-Africa Development Fund	\$214	Metals	Copper Tubes	Mexico
2009	February	Shougang Group	\$1,000	Metals	Iron	Peru
2009	December	Shunde Rixin	\$1,900	Metals	Iron	Chile
2010	March	State Grid	\$1,050	Metals	Copper	Chile
2010	March	East China Minerals (Jiangsu)	\$1,200	Metals	Iron	Brazil
2010	March	CNOOC	\$3,100	Energy		Argentina
2010	April	CNPC	\$900	Energy	Oil	Venezuela
2010	May	China Sci-Tech	\$255	Metals	Copper	Peru
2010	May	State Grid	\$1,720	Power		Brazil
2010	May	Sinochem	\$3,070	Energy	Oil	Brazil
2010	September	Chongqing Co	\$300	Real estate	Soy land	Brazil
MARKET-SEEKING						
2009	May	Lenovo	\$40	Manufacturing	Electronics	Mexico
2009	September	State Construction Engineering	\$100	Real estate	Tourism	Bahamas
2009	November	Wuhan Iron and Steel	\$400	Metals	Iron	Brazil
2010	August	Chery Auto	\$700	Transport	Autos	Brazil
2010	September	Sany Heavy Industry	\$100	Manufacturing	Metalworking	Brazil
EFFICIENCY-SEEKING						
2007	June	Chery Auto	\$100	Transport	Autos	Uruguay
2008	April	Sinotex	\$92	Manufacturing	Textiles	Mexico
2009	December	Hebei Zhongxin	\$400	Transport	Autos	Mexico
2010	April	Foton Mexico	\$250	Manufacturing	Autos	Mexico
Total			\$23,437			

Source: Chinese Ministry of Commerce, 2010; Scissors, 2010; SinoLatin, 2010; Ellis, 2009; author interviews and newspaper research.

in Latin America is “efficiency-seeking” whereby it has located in Uruguay or Mexico to serve as an export platform to Brazil and the U.S. respectively.

Beyond creating a new, hungry market for Latin American trade and Chinese investment, China’s voracious appetite resulted in more demand and higher prices for these Latin American raw materials and agricultural outputs in markets around the world. From 2000

to 2007, the year before the financial crisis hit, Chinese demand accounted for 20 percent of world export growth in metals, 11 percent for copper, 55 percent for iron, and 58 percent for soy. Since the crisis, while global demand for these same commodities decreased, Chinese demand for them doubled.

Longer-Run Implications Could Be Costly

Over the longer-run future it is hard to predict whether China will be a sustained source of demand for Latin American commodities. Even if China does maintain its appetite for Latin American commodities, the consequences may not all be beneficial. China could accentuate Latin America’s (over) reliance on commodities exports and jeopardize the region’s capabilities for diversifying its export basket toward manufacturing and modern services. Long-lasting social and environmental effects could be acute as well.

As we show in the book, for example, between 1995 and 2009, Brazilian soy production quadrupled, in part because approximately half of all Brazilian soy exports went to China. At the same time, employment in the soy sector shrank as cultivation became highly mechanized. Moreover, increased demand for soy has been linked to the deforestation of more than 528,000 square kilometers in the Brazilian Amazon. Such deforestation has threatened the livelihoods of many indigenous Brazilians and contributed to accentuating global climate change.

Economists also express concern that China’s tug on the LAC export basket will inflict the region with “Dutch disease”, where primary commodity-dependent countries do not develop strongly because they are victims of a “resource curse.” Nations overly dependent on commodities have been shown to deindustrialize because discoveries of such resources and their subsequent export raise the value of a nation’s currency and make manufactured and agricultural goods as well as services less competitive. This eventually results in increasing imports and decreasing exports, creating balance-of-payments problems, and leading to poor economic performance.

In the past few years we have witnessed significant currency appreciation across Latin America, though it is not clear that such appreciation has been due to commodities prices or other factors. In terms of competitiveness however, it is clear that China is outcompeting Latin

Table 3: China Becomes Most Competitive

1980		1985	
Fmr Fed. Rep. of Germany	17.8%	Japan	
USA	16.1%	Fmr Fed. Rep. of Germany	
Japan	14.5%	USA	
France	8.8%	France	
United Kingdom	8.4%	Italy	
Italy	7.4%	United Kingdom	
Netherlands	3.7%	Canada	
Canada	2.9%	Netherlands	
Switzerland	2.7%	Rep. of Korea	
Sweden	2.5%	China, Hong Kong SAR	
China, Hong Kong SAR	2.1%	Switzerland	
Rep. of Korea	1.8%	Sweden	
Austria	1.6%	Spain	
Spain	1.5%	Austria	
Poland	1.2%	Singapore	
Denmark	1.0%	Brazil	
Singapore	1.0%	Denmark	
Finland	0.8%	Finland	
Norway	0.6%	Poland	
Ireland	0.5%	Ireland	
India	0.4%	Norway	
Australia	0.4%	Turkey	
Portugal	0.3%	Malaysia	
Malaysia	0.3%	Portugal	
Greece	0.2%	India	
Argentina	0.2%	China	
Thailand	0.2%	Israel	
Philippines	0.1%	Australia	
New Zealand	0.1%	Thailand	
Hungary	0.1%	Greece	
Saudi Arabia	0.1%	Pakistan	
Tunisia	0.1%	Argentina	
China, Macao SAR	0.1%	Venezuela	
Colombia	0.1%	Philippines	
Bangladesh	0.1%	Saudi Arabia	
Peru	0.1%	Indonesia	
Indonesia	0.0%	New Zealand	
Morocco	0.0%	China, Macao SAR	
Cyprus	0.0%	United Arab Emirates	
New Caledonia	0.0%	Hungary	
Kenya	0.0%	Bangladesh	
Sri Lanka	0.0%	Tunisia	
Syria	0.0%	Morocco	
Mauritius	0.0%	Colombia	
Barbados	0.0%	Sri Lanka	
Trinidad and Tobago	0.0%	Uruguay	
Iceland	0.0%	Mauritius	
Jamaica	0.0%	Jordan	
Senegal	0.0%	Peru	
Ecuador	0.0%	Zimbabwe	

Source: Author’s calculations from United Nations Com

Competitive Manufacturing Exporter

(percent of World Manufacturing Exports)										
1990		1995		2000		2006		2009		
17.9%	USA	13.6%	USA	13.3%	USA	14.4%	Germany	11.8%	China	15.9%
15.4%	Japan	13.5%	Japan	12.8%	Japan	10.4%	China	11.5%	Germany	12.6%
14.8%	France	7.3%	Germany	12.6%	Germany	10.2%	USA	10.2%	USA	9.7%
6.9%	Italy	7.0%	France	6.3%	France	5.2%	Japan	7.5%	Japan	7.0%
6.7%	United Kingdom	6.5%	Italy	6.0%	China	5.0%	France	4.7%	France	5.0%
6.3%	China, Hong Kong SAR	3.7%	United Kingdom	5.4%	Italy	4.7%	Italy	4.4%	Italy	4.6%
4.7%	Netherlands	3.4%	China, Hong Kong SAR	4.9%	United Kingdom	4.6%	United Kingdom	4.1%	Rep. of Korea	4.6%
3.1%	Canada	3.1%	China	3.7%	China, Hong Kong SAR	4.5%	China, Hong Kong SAR	4.0%	China, Hong Kong SAR	4.4%
2.9%	Rep. of Korea	3.0%	Rep. of Korea	3.5%	Canada	3.7%	Rep. of Korea	3.7%	Belgium	3.5%
2.9%	Switzerland	2.5%	Canada	3.2%	Rep. of Korea	3.6%	Belgium	3.2%	United Kingdom	3.3%
2.2%	China	2.1%	Netherlands	3.1%	Mexico	3.3%	Netherlands	2.9%	Singapore	2.8%
2.2%	Sweden	2.0%	Singapore	3.0%	Belgium	2.8%	Singapore	2.7%	Mexico	2.5%
1.6%	Spain	1.9%	Switzerland	2.0%	Singapore	2.7%	Canada	2.5%	Canada	2.0%
1.4%	Singapore	1.8%	Spain	2.0%	Netherlands	2.7%	Mexico	2.5%	Switzerland	2.0%
1.2%	Austria	1.6%	Mexico	1.9%	Spain	1.9%	Spain	1.9%	Malaysia	1.5%
1.1%	Denmark	1.0%	Malaysia	1.7%	Malaysia	1.8%	Switzerland	1.6%	Thailand	1.5%
0.9%	Malaysia	0.8%	Sweden	1.6%	Sweden	1.5%	Malaysia	1.5%	Austria	1.4%
0.7%	Brazil	0.7%	Austria	1.3%	Switzerland	1.5%	Sweden	1.4%	India	1.4%
0.6%	Finland	0.7%	Thailand	1.2%	Thailand	1.2%	Austria	1.3%	Czech Rep.	1.3%
0.6%	Ireland	0.7%	Denmark	0.8%	Ireland	1.1%	Thailand	1.2%	Sweden	1.3%
0.5%	Thailand	0.7%	Ireland	0.8%	Austria	1.1%	Czech Rep.	1.0%	Turkey	1.1%
0.5%	Portugal	0.6%	Finland	0.7%	Philippines	0.8%	Poland	1.0%	Ireland	1.0%
0.4%	Mexico	0.5%	Brazil	0.7%	Denmark	0.7%	Turkey	0.9%	Denmark	0.8%
0.4%	India	0.5%	Portugal	0.5%	Indonesia	0.7%	Ireland	0.9%	Brazil	0.7%
0.4%	Norway	0.5%	Indonesia	0.5%	Finland	0.7%	India	0.8%	Russian Federation	0.6%
0.4%	Turkey	0.4%	India	0.5%	Brazil	0.7%	Brazil	0.8%	Indonesia	0.6%
0.4%	Poland	0.3%	Czech Rep.	0.5%	India	0.6%	Hungary	0.8%	Finland	0.6%
0.3%	Australia	0.3%	Turkey	0.5%	Hungary	0.6%	Denmark	0.7%	Philippines	0.5%
0.3%	Israel	0.3%	Poland	0.5%	Czech Rep.	0.6%	Finland	0.7%	Israel	0.5%
0.2%	Indonesia	0.3%	Australia	0.4%	Poland	0.5%	Russian Federation	0.5%	United Arab Emirates	0.5%
0.2%	Pakistan	0.2%	Israel	0.3%	Russian Federation	0.5%	Philippines	0.5%	Romania	0.4%
0.2%	Romania	0.2%	Norway	0.3%	Turkey	0.5%	Indonesia	0.5%	Portugal	0.4%
0.1%	Greece	0.2%	Hungary	0.2%	Israel	0.4%	Slovakia	0.4%	Norway	0.3%
0.1%	Argentina	0.2%	Philippines	0.2%	Portugal	0.4%	Portugal	0.4%	South Africa	0.3%
0.1%	Philippines	0.1%	Pakistan	0.2%	Australia	0.3%	Ukraine	0.3%	Australia	0.3%
0.1%	Saudi Arabia	0.1%	Slovenia	0.2%	South Africa	0.3%	Romania	0.3%	Slovenia	0.3%
0.1%	United Arab Emirates	0.1%	Argentina	0.2%	Norway	0.2%	South Africa	0.3%	Argentina	0.2%
0.1%	Tunisia	0.1%	Slovakia	0.2%	Slovakia	0.2%	Israel	0.3%	Saudi Arabia	0.2%
0.1%	Morocco	0.1%	Romania	0.2%	Ukraine	0.2%	United Arab Emirates	0.3%	Pakistan	0.2%
0.1%	New Zealand	0.1%	Greece	0.2%	Pakistan	0.2%	Australia	0.3%	Tunisia	0.1%
0.1%	China, Macao SAR	0.1%	Saudi Arabia	0.1%	Argentina	0.2%	Viet Nam	0.3%	Luxembourg	0.1%
0.1%	Venezuela	0.1%	Tunisia	0.1%	Romania	0.2%	Norway	0.2%	Belarus	0.1%
0.1%	Syria	0.1%	Croatia	0.1%	Slovenia	0.2%	Saudi Arabia	0.2%	Lithuania	0.1%
0.0%	Colombia	0.1%	New Zealand	0.1%	United Arab Emirates	0.1%	Slovenia	0.2%	Bulgaria	0.1%
0.0%	Bangladesh	0.1%	Bangladesh	0.1%	Viet Nam	0.1%	Pakistan	0.2%	Morocco	0.1%
0.0%	Egypt	0.1%	Colombia	0.1%	Luxembourg	0.1%	Argentina	0.2%	Colombia	0.1%
0.0%	Malta	0.0%	Venezuela	0.1%	Bangladesh	0.1%	Bangladesh	0.1%	Croatia	0.1%
0.0%	Sri Lanka	0.0%	Dominican Rep.	0.1%	Greece	0.1%	Greece	0.1%	Kazakhstan	0.1%
0.0%	Mauritius	0.0%	China, Macao SAR	0.1%	Belarus	0.1%	Luxembourg	0.1%	Estonia	0.1%
0.0%	Uruguay	0.0%	Morocco	0.1%	Morocco	0.1%	Belarus	0.1%	New Zealand	0.1%

Commodity Trade Statistics.

America in world manufactures and services exports. Table 3 shows that China has become the most competitive manufacturing exporter in the world, measured by the China share of manufacturing in total world manufacturing exports.

Table 3 shows that in 1980 China was not even on the radar screen in terms of global competitiveness but by 2009 China's manufacturing sector became the most competitive in the world. Argentina, Brazil, and Mexico are the only Latin American nations with significant world export share and all three have struggled to maintain competitiveness during the period exhibited in Table 3.

Table 4: Percentage of LAC Export Markets under “Threat” from China

	Direct	Partial	Total
Argentina			
As % of Manufacturing Exports in 2009	20%	53%	73%
As % of All Exports in 2009	6%	15%	21%
Brazil			
As % of Manufacturing Exports in 2009	30%	54%	84%
As % of All Exports in 2009	10%	18%	28%
Chile			
As % of Manufacturing Exports in 2009	21%	70%	91%
As % of All Exports in 2009	1%	4%	5%
Colombia			
As % of Manufacturing Exports in 2009	27%	62%	89%
As % of All Exports in 2009	6%	14%	20%
Costa Rica			
As % of Manufacturing Exports in 2009	48%	51%	99%
As % of All Exports in 2009	21%	22%	43%
Mexico			
As % of Manufacturing Exports in 2009	52%	45%	97%
As % of All Exports in 2009	38%	33%	71%
LAC			
As % of Manufacturing Exports in 2009	52%	40%	92%
As % of All Exports in 2009	22%	17%	39%

Source: Author’s calculations from United Nations Commodity Trade Statistics.

In our book we calculated that nearly all of the exports from Latin America and Caribbean are under “threat” from China. Drawing on previous work from the Asian Development Bank, we characterize a “direct threat,” as those products in global or home markets where China’s market share is increasing while the market share of Latin America and the Caribbean is decreasing. A “partial threat,” occurs when Latin American market share is increasing at a slower rate than China. We found that 94 percent of manufacturing exports from Latin America and the Caribbean are facing a partial or direct threat from China. These products represented 40 percent of all regional exports in 2006, and were collectively worth more than \$260 billion. There was a slight improvement in 2009, with 92 percent of Latin American manufacturing exports falling under threat from China, representing 39 percent of the region’s total exports.

Mexico is most vulnerable, with 97 percent of its manufacturing exports — which represent 71 percent of the national export base — under threat from China in 2009. Table 4 exhibits our threat analysis for Latin America.

Central America, one of the poorest sub-regions in Latin America, is of particular concern. In the 1980s, most of the countries

in that region established processing zones that assemble apparel for export into the United States. By 2001, such zones generated 87 percent of all Salvadoran exports to the United States, 78 percent of those from Honduras and 63 percent for both Guatemala and Nicaragua.

As recently as 2001, China and Central America were on par, with each selling about \$6.5 billion worth of apparel to the United States and each holding a 12 percent share of the American apparel market. In 2004, Central American clothing exports to United States had risen to \$7.5 billion, while those from China, whose entry in to the World Trade Organization was under way, had jumped to \$10.7 billion.

In 2005, the capstone of this relationship, the Central American Free Trade Agreement (CAFTA) took effect. By lowering tariffs and locking in access to the U.S. economy, CAFTA was supposed to solidify Central America as a clothing hub. Instead, clothing exports from Central America plunged 25 percent from pre-CAFTA days to \$5.6 billion in 2009. Their share of American apparel imports has slipped to 8.7 percent while China enjoys a commanding 38 percent share.

Latin America is being outcompeted by China on its home turf as well. Other Latin American markets are very important to nations in the region, representing 23 percent of all Latin American manufacturing exports and 19 percent of total Latin American exports in 2009. For some nations, such as Argentina, manufacturing exports to other Latin American nations

represented 73 percent of all manufacturing exports in 2009, or 42 percent of total exports. For Chile, Latin American represents 65 percent of all manufacturing exports and 16 percent of total exports. For Columbia, 70 and 31 percent. For Argentina, Chile, and Colombia, 50, 93, and 80 percent of all manufacturing exports to Latin America were under direct or partial threat from China in 2009.

China as Latin American Opportunity

China is not to blame. These trends are largely the result of policies made by Latin American countries. Many had adopted “shock therapy” or the “Washington Consensus.” Governments rapidly liberalized trade and investment regimes and reduced the role of the state in economic affairs, often through privatizations that, in a number of cases, went painfully awry. China has taken a more gradual approach to integrating with world markets.

Rather than blaming China, Latin America can build on some of its own recent success, and learn from China in order to maximize the gains from its new economic relationship with China.

The additional revenue generated by exports to China and elsewhere can provide new sources of funds for stabilization and growth programs. In the book we outline how Chile and a handful of other Latin American nations have created stabilization funds that save some of the proceeds from commodities exports for periods when prices are low or when the nation needs macroeconomic stimulus. Chile’s such fund, which comes from copper exports, enabled that nation to put together a stimulus package in response to the financial crisis.

There is no reason why such funds need only to be earmarked toward macroeconomic stabilization. Revenue from commodities exports could also be used to invest in environmental programs to mitigate the negative effects of commodity-driven growth, and, perhaps most importantly, in programs to boost industrial competitiveness.

It is in terms of industrial competitiveness where Latin America can learn from China. China’s path to integration with world markets has been a gradual and strategic one whereas most Latin American nations have rapidly relinquished the role of the state in economic affairs.

Whereas Latin America roughly started its reform period following the oil crisis in 1982, Chinese economic reforms started in 1978, two years after the death of Mao Zedong. In that year, China embarked on a program of economic reform aiming at strategic integration into the world economy by following a “dual track” policy. The policy consisted of liberalizing FDI and inflow of imported inputs to selected industries while buttressing those sectors to the point of maturity and nurturing other sectors until they were ready to face competition with imports.

According to the literature, China’s industrial strategy has been three-pronged. First, government policy aimed at creating domestic productive capacity, in the form of targeting specific industries through state ownership (SOEs) or government support, paying increasing attention to science and technology policy, and linking the SOEs with the private sector and research institutes. Second, and very importantly, Chinese support for domestic industry has always had an eye on markets outside of China. China has also gradually and strategically integrated into world markets in order to gain access to technology and finance.

Third, in undertaking economic reform, China’s new leaders followed an experimental approach. In the case of LAC, free trade and a market-based economy could be seen as an end in itself; it was taken for granted that such a transition alone would enhance learning through trade and lead to the deepening of industrialization and promotion of growth. By contrast, Chinese policy was based on using the market and trade as a means to development. Hence,

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in the eyes of Chinese policy makers, market and government policies were to supplement each other while the weight of each would change as the economy develops.

Such an approach stands in stark contrast to Latin America. The region experimented with industrial policy during its Import Substituting Industrialization period (roughly 1940 to 1980). The approach was a modest success at best. The policy did help industrialize nations like Brazil, Mexico, Argentina and others in the region. Yet, with a few exceptions many of the firms within those industries were extremely inefficient by global standards because there was too much a focus on domestic markets. What is more, Latin American industrial policy was financed largely by debt, in contrast to export revenue and savings in the Chinese case. One exception is Brazil, where the country's development bank is aggressively promoting industrial competitiveness.

Inigorating and expanding stabilization funds with export revenue from China and elsewhere coupled with an innovative approach to industrialization could form part of a strategy where China becomes an opportunity for the future of Latin American development. A business-as-usual approach could be dangerous. Over-reliance on primary commodities could cause macroeconomic, employment, and environmental problems in the longer-run. What's more, China is already swiftly out-competing Latin America in world manufacturing markets. As China has shown, nations can conduct economic reforms to great benefit. Latin America could follow suit. ●

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