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A bridge to development? Changes in Latin America's trade with the United States and China

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Abstract

This text analyzes the impact of China's emergence on Latin America's trade relations with the United States. To this end, it examines the foreign trade of the six largest economies in the region: Mexico, Brazil, Argentina, Chile, Colombia, and Peru in relation to the two powers mentioned above. It is argued that, although the growing trade relations with China may help to mitigate the historical dependence of Latin American countries on the US economy, in the absence of a development strategy of their own, they tend to deepen a passive profile of international insertion based on the traditional comparative advantages offered by natural resources and/or cheap labor.

Keywords: Latin America; foreign trade; China; United States; dependence.

1. INTRODUCTION

Just over a decade after the fall of the Berlin Wall and the disintegration of the Soviet Union, the unipolar world based on neoliberal globalization spearheaded by the United States began to be threatened. While it is true that there were multiple geopolitical and economic changes (for example, the creation of the Euro and the "take-off" of the Asian tigers), the main factor that has conspired against the consolidation of a unipolar world is the rise of China (Dabat Latrubesse and Leal Villegas, 2019).

Until the early years of the 21st century, a strategic partnership existed between the United States and China. However, it was a contradictory process that gradually generated conditions for China's takeoff and the emergence of a major competitor for world dominance. This situation prompted a strategic change in US foreign policy toward China during the first administration of the then President G. W. Bush (2001-2005) when it shifted from strategic partnership to strategic competition (Merino, 2020). This reorientation by the government noticeably intensified during Donald Trump's presidency (2017-2021), whose *America First* policy prompted a "trade war" between the two countries, which continues to this day and the real undercurrent of which is the battle for global dominance of new technologies (Katz, 2020; Rosales, 2022). The consequences of the Covid-19 pandemic and the Russian invasion of Ukraine have exacerbated the tendencies toward a partial decoupling between the two economies.

In this context of growing disputes between the two largest economies on the planet, the following question is relevant: where does Latin America fit in? In the early 1990s, the vast majority of countries in the region (with the notable exception of Cuba) adopted the main recommendations of the Washington Consensus and bowed to the interests of the side that emerged "victorious" from the Cold War. However, most neoliberal projects the United States and its allies promoted ended in major economic, social and political crises between the late 1990s and the early 2000s.

These crises gave rise to what became known as the "pink tide", with the electoral victories of a series of progressive forces in the majority of the countries of the region (Ellner, 2019). This, together with an international context characterized by an improvement in trade terms for countries exporting raw materials and derivatives, resulted in a period of greater autonomy for Latin American governments with respect to the United States.

It should be noted that the US encouraged this situation by concentrating its foreign policy objectives in other regions of the world, especially the Middle East,¹ thus diverting its attention from Latin America.

This increased autonomy was not only due to a more nationalist or anti-imperialist stance on the governments' part but was also made possible by China's growing importance in the world economy. This should be emphasized because, although the partial distancing from the North American power, evidenced in the creation of continental organizations such as the Union of South American Nations (UNASUR) and the Community of Latin American and Caribbean States (CELAC) (which excluded Canada and the United States), was more significant in those countries with left and center-left wing governments (including Venezuela, Honduras, Bolivia, Ecuador, Brazil and Argentina), the countries that maintained governments politically aligned with the United States (Chile, Peru, Colombia and Mexico) also built growing trade and financial bridges with China.

The rise of China in the world economy resulted in two opposing viewpoints in Latin America regarding the opportunities, advantages and disadvantages of a strategic partnership with that country: optimistic and pessimistic (Bekerman et al., 2014). The former considers that the industrialization of China had an indirect positive effect on the current balance of payments and on the level of activity of Latin American countries that produce raw materials by improving trade terms. In this respect, increasing trade and financial relations with China is an opportunity to reduce US influence. However, the pessimistic view is that closer economic ties with China will result in an involuntary regression in the region's countries characterized by a reprimarization of their productive structures.

In this context, an analysis of the impact of China's health emergency on Latin America's trade relations with the United States, the region's leading trading partner throughout the second half of the 20th century, is of particular interest. To this end, we examine trade between the six largest Latin American economies - Mexico, Brazil, Argentina, Chile, Colombia and Peru - and the two major world powers. Although previous papers have discussed the increase in trade between the six largest Latin American economies and China (Bekerman et al., 2014; ECLAC, 2010; Dussel Peters, 2016; González García, 2015; López Arévalo and Rodil Marzábal, 2019; Ludueña and Cibils, 2016), this article seeks to relate this phenomenon to the

evolution of trade with the United States, a subject that has received relatively limited attention outside of the Mexican case. (Castillo, 2006; López and García, 2019).

Of course, trade exchange does not limit the relations between both powers and the region's countries since direct investments, loans, and political and military relations must also be considered. In addition to strengthening trade ties with countries in Latin America and other regions of the world, China has increased the number of its direct investments and has financed large infrastructure works, in addition to providing financial assistance to several countries in the region (Dussel Peters, 2021; Ugarteche and De León, 2020; Villasenin, 2021).²

Without ignoring the growing importance of Chinese investments,³ this paper focuses on trade since this is the area in which the impact of the rise of this new power can be observed earliest and most clearly, and how this did or did not affect traditional North American domination in the region. Although the analysis of trade does not fully answer the question of changes in the correlation of forces on an international level, it is a key indicator that provides a long-term perspective.

In this respect, the region's countries and their respective middle classes face growing tension regarding whether to continue strengthening their trade and financial ties with China or maintain their traditional subordination to the United States. Drawing on some of the main contributions of Latin American structuralist thought and dependency theory, it is proposed, as a hypothesis, that growing trade relations with the Asian giant, while they may help to mitigate the historical subjection of Latin American countries to North American policies, will not easily overcome underdevelopment and dependence under the current conditions. This is because, in the absence of national development projects, these tend to deepen the traditional profile of international insertion based on the comparative advantages of natural resources and/or cheap labor.

For this purpose, after this introduction, a brief theoretical digression is presented regarding the contributions of Latin American structuralism and dependency in order to reflect on the consequences of a pattern of productive specialization built on comparative advantages based on natural resources. This is followed by a general characterization of Latin America's trade relations with the United States and China over the last two decades, followed by an analysis of the exports and imports of the region's countries with each of these powers. Finally, the article briefly reflects on the changes observed and the opportunities and limits presented by the new scenario for the region's countries.

2. THE ROLE OF TRADE IN SITUATIONS OF UNDERDEVELOPMENT AND DEPENDENCE

Various Latin American structuralists consider that one of the central characteristics of underdevelopment in Latin American countries is the concentration of their exports, mainly in raw materials and derivatives (Furtado, 1964; Pinto, 2008; Prebisch, 1976). This would result in at least two problems: firstly, it would lead to an increase in the productivity and income gap with developed countries since technological change is more pronounced in industrial activity than in the primary sector; and, secondly, this situation would be aggravated by the tendency of the trade terms for countries exporting raw materials and derivatives to deteriorate (Love et al., 1980; Prebisch, 1949).

Some dependency theorists have approached this issue based on the theory of unequal trade, whereby disadvantaged nations would freely cede part of the value produced in favor of industrialized countries with lower production prices (Braun, 1973; Marini, 1973). For authors such as Marini (1973), this situation pushed capital operating in dependent countries to resort to the super-exploitation of labor as a way to compensate for the decrease in the rate of profit produced by unequal trade, thus deepening social inequalities in said countries and reducing the potential of their domestic markets.

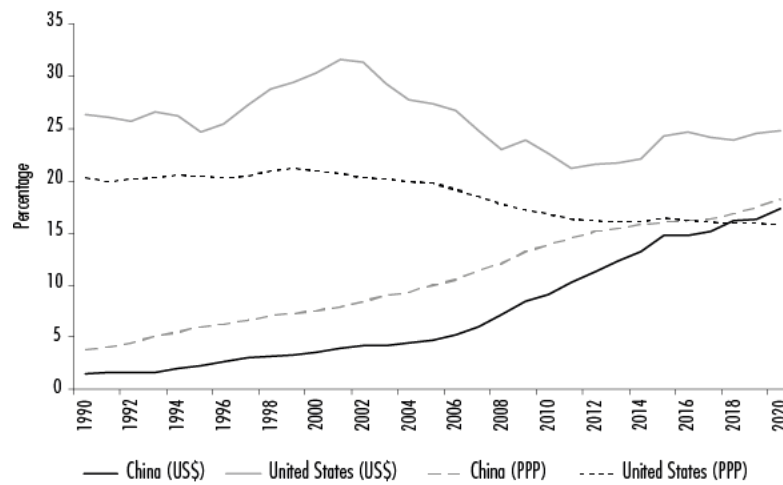
Although it does not deny them, this paper does not focus on the transfers of value that may occur between countries through trade but will address the structure, understanding that the export of goods with low added value or with little endogenously generated technological content reflects an uncompetitive industrial structure with low national density (Ferrer, 2007), which tends to act as an obstacle to achieving significant and lasting improvements in terms of income and income distribution. In this respect, a pattern of trade specialization based on the export of primary products and derivatives means that these countries operate in international production relations as a kind of "extension" of the industrialized countries' natural resources, driving the development of productive forces based on the needs of the latter.

3. CHANGES IN LATIN AMERICA'S TRADE RELATIONS WITH THE UNITED STATES AND CHINA

Almost without exception, throughout the second half of the 20th century, the US has been Latin America's leading trading partner - outside the countries of the region themselves. However, this situation has changed rapidly in recent years with the growing presence of China in world trade.

China's growth is not exclusive to trade, although it has been fundamental in expanding its production capacities to become the world's second-largest economy (measured in US dollars). The speed with which the Chinese economy has grown in recent decades is remarkable, rising from 1.6% of the gross global product in 1990 to 17.4% in 2020. In contrast, the US economy's share of the worldwide total has declined. If the respective GDPs in Purchasing Power Parity (PPP) were considered, in 2017 the Chinese economy would have surpassed the US economy in size (see Figure 1).⁴

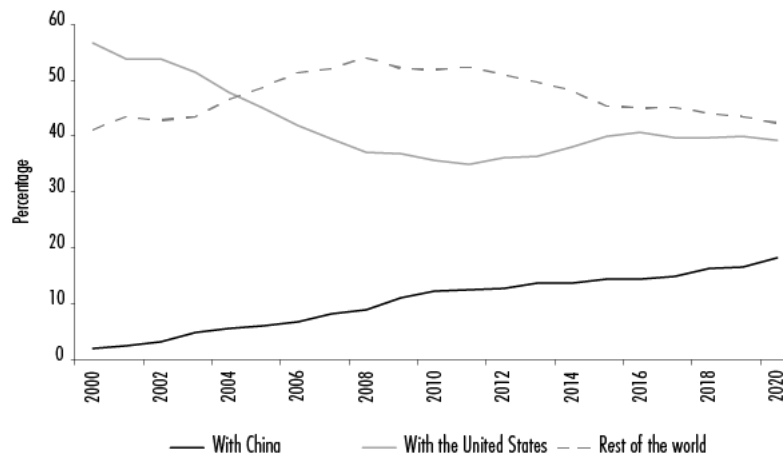
Figure 1. Global share of the GDP of China and the United States measured in US dollars and purchasing power parity (PPP), 1990-2020 (percentages)



Source: Prepared by the authors based on World Development Indicators - World Bank (2022).

The Latin American region's trade ties with China began to show sustained growth after China joined the World Trade Organization (WTO) in 2001. Figure 2 shows how the share of trade of the six selected Latin American countries with China and the US and the rest of the world changed between 2000 and 2020. Given that in 2020, international trade was severely affected by the Covid-19 pandemic, 2019 was considered the most appropriate point of comparison.

Figure 2. Trade share of selected Latin American countries* with China, the United States and the rest of the world, 2000-2020 (percentages)



Note: *includes Argentina, Brazil, Chile, Colombia Mexico and Peru.
Source: Prepared by the authors based on COMTRADE (2022).

While in 2000, the United States alone accounted for more than half of the region's trade transactions, in 2019, it still held the top spot, although its share had fallen below 40%. In contrast, China's share of these countries' imports and exports in the same period rose from 2.1% to 16.5%, while that of the rest of the world remained virtually stable. It should be noted that the fact that the United States continues to hold the podium among Latin America's trading partners can only be explained by the trade link that this country maintains with Mexico, which was strengthened after the signing of the North American Free Trade Agreement (NAFTA) between the two countries and Canada in 1994.⁵ If we take into consideration the remaining five countries (Argentina, Brazil, Chile, Colombia and Peru), not only is greater diversification of destinations observed, but the share of the United States drops from 23% of the total in 2000 to 16.5% in 2019 while that of China increases from 3.5% to 23.5%, thus surpassing the United States (see figure 3). It should be noted that the increase in the weight of trade with China not only implied a relative displacement of trade with the United States but also with other countries.

Figure 3. Trade share of Latin American countries excluding Mexico* with China, the United State and the rest of the world, 2000-2020 (percentages)



Note: *includes Argentina, Brazil, Chile, Colombia, Mexico and Peru.
Source: Prepared by the authors based on COMTRADE (2022).

This exponential increase in trade between Latin American countries and China has been bidirectional, i.e., both exports and imports have increased. In both cases, the period of most accelerated growth was between 2002 and 2013, when a cumulative annual growth rate (CAGR) of 27% for sales and 26% for purchases from China was recorded. Meanwhile, the joint trade balance of the six selected Latin American countries with China was always in deficit, reaching a combined deficit of USD \$73,738 million in 2015.

Even though they started from a much higher level, increases in imports and exports between the region's countries and the United States were much slower: while sales to the US increased at a CAGR of 4.7%, purchases rose at a CAGR of 3.2% between 2000 and 2019. Unlike trade with China, in this case the joint trade balance of the six countries in question was always positive, exceeding a USD \$100 billion surplus as of 2015. At first glance, it could be concluded that although trade with China advanced rapidly in the last two decades, its balance would not have been in any way satisfactory for the countries of the region since the deficit increased; while it seems that it would have been more productive to deepen and expand trade with the United States, a country with which a surplus was recorded. However, it is worth taking a closer look at the differences between the various countries in the region, mainly Mexico, in relation to the South American countries.

Indeed, a quite different picture emerges if we only look at the trade balances of Argentina, Brazil, Chile, Colombia and Peru with China. In this case, there are more years with a surplus (16) than those with a deficit (5), and the latter is much smaller than when Mexico is included (see figure 4). Meanwhile, the situation is reversed when the situation with the United States is considered, with a trade deficit recorded from 2008 onwards. This is because, while Mexico has a high trade surplus with the United States, it has a large deficit with the Asian giant.

Figure 4. Trade balance of selected countries excluding Mexico* with China and the United States, 2000-2020 (in millions of US\$)



Note: *includes Argentina, Brazil, Chile, Colombia and Peru.
Source: Prepared by the authors based on COMTRADE (2022).

Three of the six selected countries (Brazil, Chile and Peru) had a trade surplus with China during the last ten years. In contrast, Colombia and Argentina recorded systematic deficits in addition to the aforementioned case of Mexico.

4. THE GROWING IMPORTANCE OF CHINA IN LATIN AMERICA

As already noted, China's share both as a destination for Latin American countries' exports and as a source of imports increased exponentially, from a marginal 1.5% and 2.7% respectively, at the beginning of the century, to around 14% of foreign sales and 20% of foreign purchases at the end of the 2010s (see table 1).

**Table 1. Share of exports and imports to and from China in the total of the selected countries,*
2000-2020 (in percentages)**

	2000	2006	2009	2012	2015	2019	2020
Exports to China	1.5	4.3	8.7	9.8	9.9	13.5	15.4
Imports from China	2.7	9.4	13.5	16.0	18.8	19.6	21.5

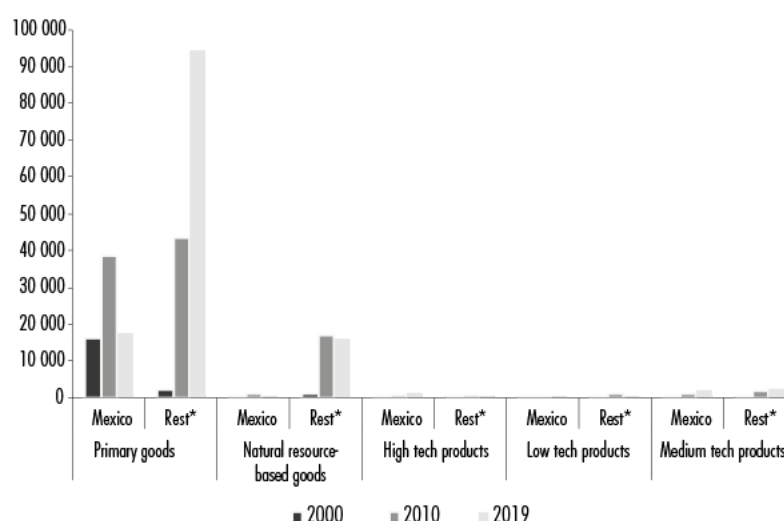
Note: *includes Argentina, Brazil, Chile, Colombia, Mexico and Peru.

Source: Prepared by the authors based on COMTRADE (2022).

The Chinese market has grown in importance for the exports of all the countries in question, but not to the same extent for all of them. While Brazil, Chile and Peru became the leading destination (with a share of nearly 30% of total external sales in each case), Argentina and Colombia were the second most important destinations, receiving around 10% of the external sales of both countries. Although Mexican exports to China increased, they accounted for 2% of the total at most.

In addition to registering a much higher level of dependence on the North American market, Mexico stands out from the rest of the countries in the region due to the greater diversification of its exports, which include primary products (copper minerals and crude oil) and manufactured goods with a certain degree of complexity (Bekerman et al., 2014; López Arévalo and Rodil Marzábal, 2019). However, as shown in figure 5, its exports to China are heavily concentrated in primary products and are closely tied to the evolution of mineral and oil prices. In this respect, although Mexico is an exporter of manufactured goods, they are mainly exported to its northern neighbor, the US, not the Asian giant and, to a lesser extent, to the countries to the south.

Figure 5. Evolution of exports to China according to technological content
(in millions of US\$)**

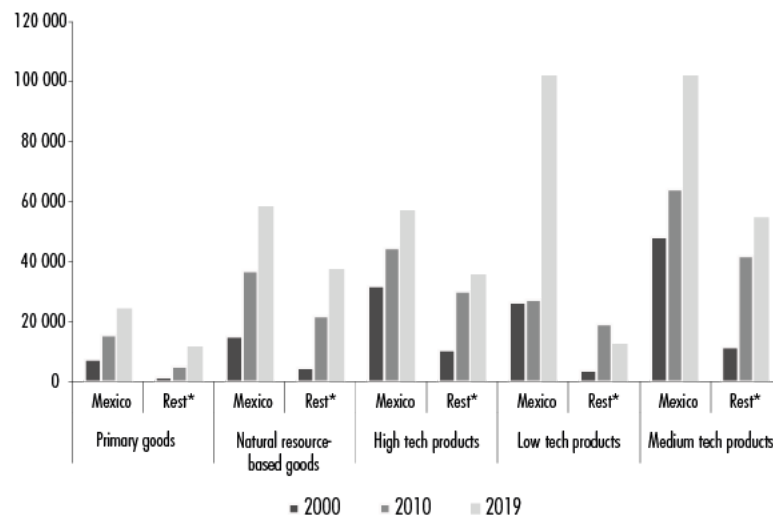


Note: *includes Argentina, Brazil, Chile, Colombia and Peru; **the classification of products according to technological content was carried out using the methodology developed by Lall (2000).

Source: Prepared by the authors based on World Bank (2022), COMTRADE (2022), UNCTAD (2022) and WTO (2022).

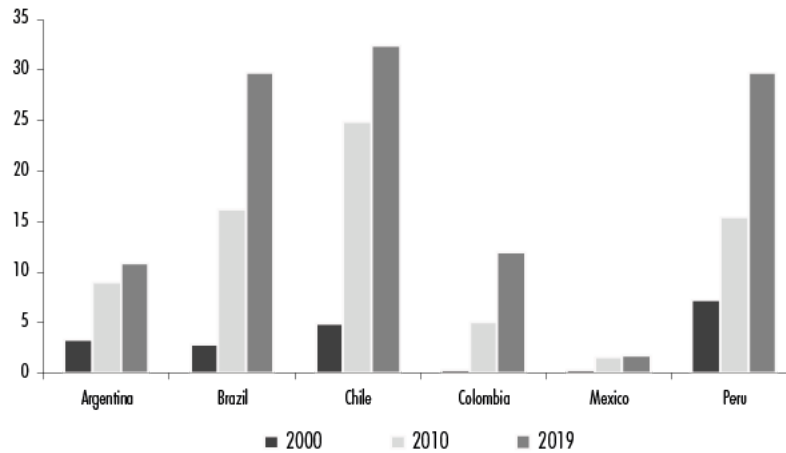
On the other hand, Mexico's purchases from China include low- and medium-tech manufactured goods, which have proliferated in recent years, although high-tech and natural resource-based purchases have also increased significantly (see figure 6), thanks to the growing importance of imports of machinery and mechanical and electrical equipment. Given that the purchase of manufactured goods by the Aztec country far exceeds the sales of primary products from Mexico to China, as indicated, Mexico's trade deficit with China has increased from USD \$ -2779 million in 2000 to USD\$ -75,362 million in 2019. Unlike Mexican exports to China, which still represent an extremely low proportion of the total (see Figure 7), imports from China rose from 2% at the beginning of 2000 to almost 20% at the end of the 2010s (see figure 8).

Figure 6. Evolution of imports from China according to technological content
(in millions of US\$)**



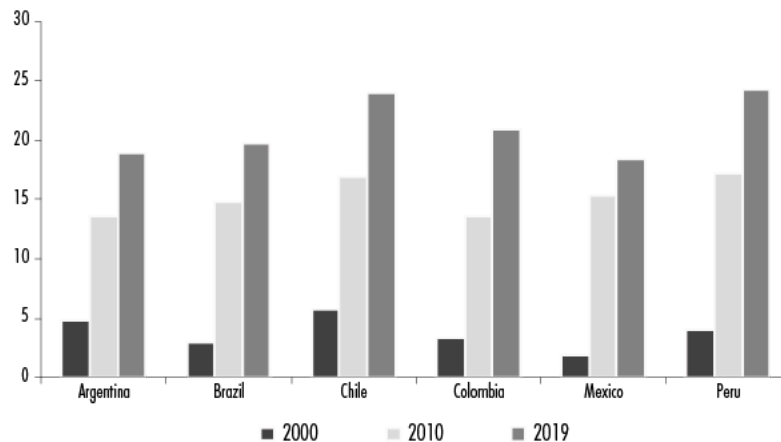
Note: *includes Argentina, Brazil, Chile, Colombia and Peru; **the classification of products according to technological content was carried out using the methodology developed by Lal (2000).
Source: Prepared by the authors based on World Bank (2022), COMTRADE (2022), UNCTAD (2022) and WTO (2022).

Figure 7. Share of exports to China in the country's total exports, 2000, 2010 and 2019 (percentages)



Source: Prepared by the authors based on COMTRADE (2022).

Figure 8. Share of imports from China in the country's total, 2000, 2010 and 2019 (in percentages)



Source: Prepared by the authors based on COMTRADE (2022).

This imbalance between exports and imports in trade between Mexico and China implies unequal trade in quantitative and qualitative terms and impacts trade relations between Mexico and the United States. Although the level of industrial integration between Mexico and China continues to be much lower than with the United States, the change in the importance of imports from both destinations suggests that an essential part of Mexican purchases from the United States is being displaced, in relative terms, by those of Chinese origin.

In this respect, Mexico is a strategic market for China, but unlike the rest of the countries in the region, this is not only due to its capacity to supply raw materials (which is essential but more limited than for the rest) but also due to the relative importance of its domestic market (something it shares with Brazil) and, above all, due to the strategic position it occupies within the framework of the Free Trade Agreement with the United States and Canada. This has made Mexico an important recipient of Chinese manufacturing exports and also explains to a large extent why it continues to run a substantial trade surplus with the United States while it has a growing deficit with China: an increasing part of the intermediate inputs and capital goods used in the Mexican export industry (mainly to the United States) is supplied by the Asian country, partially displacing purchases of this type made from the United States.

However, the increase in purchases from China of manufactured goods with increasing technological content is not a phenomenon that is restricted to the Mexican economy. In addition to durable consumer goods, China has become an essential supplier of industrial inputs and capital goods for the entire region (and the world). In this respect, the differences observed between countries in the place occupied by China as a destination for their exports are significantly reduced when the latter's importance as a source of imports is analyzed. In all cases, it went from a minority share at the beginning of the century (with a maximum of 5.7% in the case of Chile) to between 18% (Colombia) and 24% (Peru) of external purchases in 2019 (see figure 8).

This significant steady increase in the share of purchases from China is due to its role as the world's leading supplier of certain essential industrial goods that are involved in or are at the top of global value chains. On the other hand, the Asian giant's share in the exports of the region's countries is primarily determined by the diverse natural resources they offer. In this respect, it is no coincidence that most of China's direct investments are concentrated in the primary sector and, to a lesser extent, in the financial sector; the priority objective has been to carry out infrastructure works to facilitate the commercialization of raw materials, as well as their financing.⁶ In this respect, it is clear that the Chinese government considers that Latin America provides direct access to natural resources (González García, 2015).

Although Colombia is the country that increased its sales to China the most in the last two decades (111 times), it presents the lowest value exported to that destination since the South American country's sales started at an exceptionally low level. Nevertheless, thanks to this remarkable expansion, China now accounts for 12% of Colombian exports, making it the second-largest export destination. Other countries that significantly increased their sales to the Asian giant were Chile and Peru. In both cases, exports of minerals (mainly copper, silver and gold) played a decisive role⁷ since China has become the world's leading consumer of these products, which also explains the increase in the price of metals. Indeed, Chile and Peru are among the Latin American nations that have benefited the most from the evolution of the terms of trade. In contrast, Mexico's terms of trade have remained stable since, as mentioned above, it has a more diversified export structure with a higher incidence of industrially manufactured goods. It should also be noted that both Chile and Peru have signed free trade agreements with the Asian giant.⁸

In short, the notable growth in exports from the region's countries to China is due to sales of primary goods and, secondly (and much less so), natural-resource based manufactured goods (see Figure 5). This is also the case of Argentina, whose sales to China have increased the least; even so, sales to China increased eightfold in volume between 2000 and 2019, making the Asian country the second largest export destination behind Brazil. Argentine sales to China are highly concentrated in the soybean complex and meat, representing over three-quarters of the total. In this respect, the expansion of Argentine exports to the Eastern power did not result in greater diversification of exports but has favored a certain reprimarization. This is not only because almost all exports to China are primary products and their manufactured derivatives but also to the fact that the latter's commercial penetration in the region has affected intra-regional trade: the entry of Chinese manufactured goods into Brazil has led to a partial displacement of Argentine industrial exports to that nation.⁹

Brazil alone accounts for more than half of the total exports to China by the selected Latin American countries as a whole, making it the Asian giant's leading trading partner in the region after displacing Mexico in 2010 (González García, 2015). The quality of exports from the former Portuguese colony is intermediate compared with its South American peers and Mexico since, although it has a more diversified range of export goods than the aforementioned countries, raw materials have gained importance in recent years. In the absence of an autonomous international insertion strategy, China has favored the reprimarization of Brazil's range of export goods, with the main product exported to China being iron ore, with nearly half of the total, followed by soybeans, which account for almost a quarter of the total. Meanwhile, as mentioned, Chinese exports partially displaced intra-regional sales of manufactured goods, particularly affecting Brazil (especially its exports of high-tech consumer goods such as computers and electronic devices and certain links in the textile chain, such as knitted fabrics and knitted garments and accessories) and, to a lesser extent, Argentina (especially chemical products and capital goods).

5. THE DECLINE IN THE RELATIVE IMPORTANCE OF TRADE WITH THE UNITED STATES

As already mentioned, at the beginning of the 2000s, the United States was still Latin America's leading trading partner, accounting for more than 60% of exports and 50% of imports for the six selected countries. Although it continued to hold first place thanks to Mexico, its share has since declined significantly (see Table 2).

Table 2. Share of exports and imports to and from the United States in the total of the selected countries, *2000-2020 (in percentages)

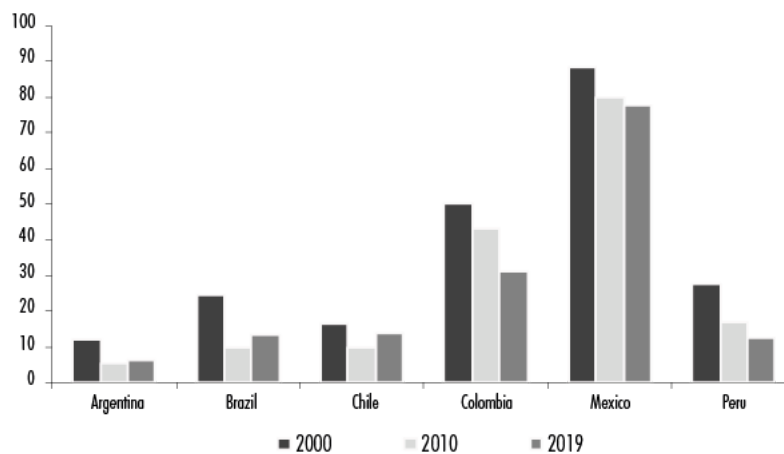
	2000	2006	2009	2012	2015	2019	2020
Exports to the US	61.2	49.0	41.4	40.8	47.7	46.6	46.2
Imports from the US	52.5	34.1	31.8	31.5	32.7	33.0	31.5

Note: *includes Argentina, Brazil, Chile, Colombia and Peru.

Source: Prepared by the authors based on COMTRADE (2022).

Once again, differences between countries should be noted, the first being the strong Mexican-US trade integration. Despite declining, Mexico's dependence on its northern neighbor for its external sales continues to be notable since, at the beginning of the 2000s, almost 90% of Mexican exports were sent to the United States. This figure remained at around 80% during the 2010s (see Figure 9).

Figure 9. Share of exports to the United States in the country's total, 2000, 2010 and 2019 (in percentages)

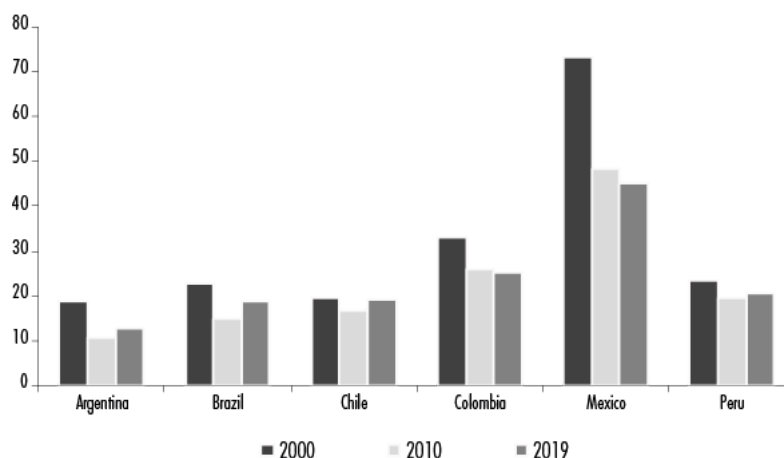


Source: Prepared by the authors based on COMTRADE (2022).

Although Mexico's sales to the United States are not the ones that have grown most proportionally (the countries that increased their exports the most between 2000 and 2019 were Peru and Chile, both of which have trade agreements with the US), they have accounted for more than 80% of total exports to the United States by all the countries in question, more than doubling Brazil's exports, the region's second-largest exporter to the US. However, although Mexican exports to the United States did not fall in absolute terms during the period under consideration, Mexico has lost a relative share of the North American market to China. Indeed, since 2003 the Asian nation has displaced Mexico as the second-largest supplier of imports to the North American market (Castillo, 2006; González García, 2015).

In any case, Mexico has been the only country to register systematically increasing surpluses with the United States. In contrast, the credit balance for the rest of the countries during the early 20th century was reversed. Meanwhile, the trade surplus obtained by Mexico in its trade with the United States did not only not decrease but instead increased. This was because Mexico's purchases from the United States increased less than its exports. Although the share of the US market as a destination for Mexico's external sales fell by about ten percentage points, the drop in the share of imports from the United States was much more significant, from 73% of the total in 2000 to around 45% in recent years (Figure 10). Although at a lower level than the case of Mexico, the decline in the share of US production in imports is repeated in all the selected countries.

Figure 10. Share of imports from the United States in the country's total, 2000, 2010 and 2019 (in percentages)

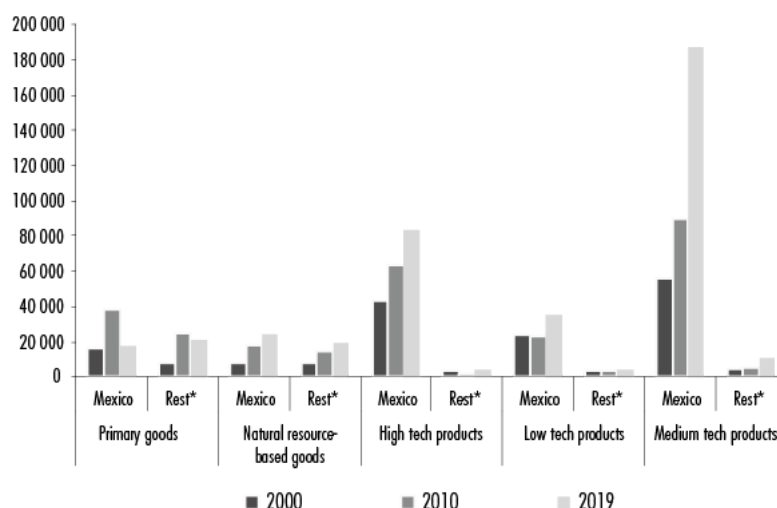


Source: Prepared by the authors based on COMTRADE (2022).

Even more remarkable has been the loss of US share as a destination for exports from the rest of the selected countries, which has been incredibly significant in the cases of Argentina, Brazil, Peru and Colombia. At the same time, it has also declined in Chile, but to a lesser extent (Figure 9).

As shown in Figure 11, the bulk of exports from Argentina, Brazil, Chile, Colombia and Peru to the United States were concentrated in primary goods and natural resource-based manufactured goods. Sales of goods with high, medium and low-tech content were practically insignificant. In contrast, although Mexico also exports primary goods and natural resource-based manufactured goods to its northern neighbor (with a volume similar to that of the other five countries combined), a significant difference is observed when considering low and high-tech manufactured goods and, even more so, medium-tech manufactured goods, which are the main types of products exported by Mexico to the US market. It should be noted that in the latter case (manufactured goods with medium-tech content), car sales play a significant role. It has expanded considerably in recent decades thanks to foreign investment and, unlike most Mexican industry, has a substantial degree of industrial integration.

Figure 11. Evolution of exports to the United States according to technological content,** selected years (in millions of USD)



Note: *includes Argentina, Brazil, Chile, Colombia and Peru;
 **The classification of products according to technological content was carried out using the methodology developed by Lall (2000).

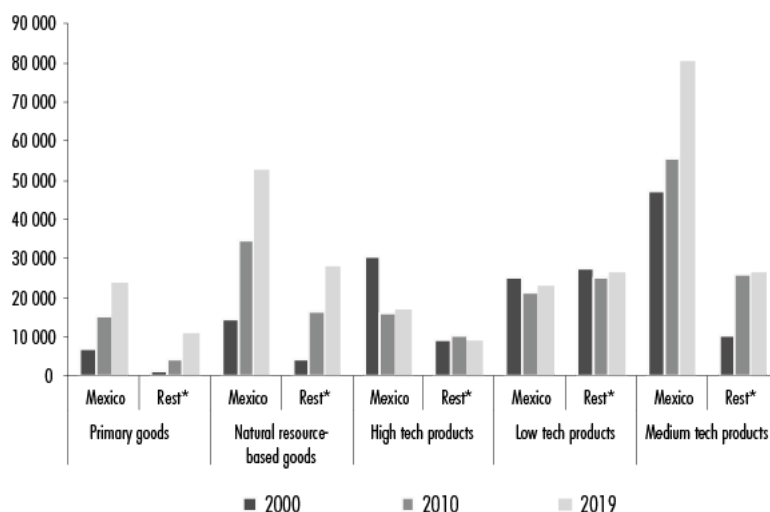
Source: Prepared by the authors based on World Bank (2022), COMTRADE (2022), UNCTAD (2022) and WTO (2022).

Based on the foregoing, one might conclude that the North American market plays no decisive role in the placement of manufactured goods with some degree of technological development for the South American countries in question; on the contrary, it would be increasingly decisive for the Mexican economy. Without minimizing its importance, it should be noted that most of Mexico's manufacturing industry, with the notable exception of the automotive industry, was developed using the assembly plant system, especially after the signing of the North American Free Trade Agreement (Salama, 2020). This implies that a large part of the most technologically sophisticated components of exported manufactured goods are items previously imported for assembly, taking advantage of cheap Mexican labor and low transportation costs due to its proximity to the final destination of the goods (the United States). In these cases, the classification of manufactured goods according to their technological content has limitations since the methodology focuses on the technology incorporated into the final products rather than on the technology used in the production process in the exporting country.¹⁰

Meanwhile, it should be noted that although China's penetration of the North American market was initially based on low-tech products (Castillo, 2006), the technological complexity of the Asian giant's exports has increased significantly in recent years. As a result, medium and, above all, high-tech Chinese products are increasingly competing with part of the goods of this type originating in Mexico (López and García, 2019).

Something similar has occurred with Chinese exports to Latin American countries. In this respect, it is interesting to compare the evolution of the technological composition of Latin American countries' imports from China with that of imports from the United States. As shown in Figure 12, although the United States has always been a major supplier of manufactured goods with high-tech content, the different evolution of these imports is remarkable. First of all, stagnation has been observed in low-tech imports, but most striking is the decrease in imports with high-tech content to Mexico and their virtual stagnation in the rest of the countries. This contrasts with the growing importance of purchases of these types of goods from China.

Figure 12. Evolution of imports to the United States according to technological content,** selected years (in millions of USD)



Note: *includes Argentina, Brazil, Chile, Colombia and Peru;
 **The classification of products according to technological content was carried out using the methodology developed by Lall (2000).

Source: Prepared by the authors based on World Bank (2022), COMTRADE (2022), UNCTAD (2022) and WTO (2022).

This contrasting evolution in imports of high-tech manufactured goods over time, depending on the country of origin, is an indicator of a phenomenon that has already been noted: the partial and gradual displacement of the United States by China in relation to the supply of capital goods and increasingly sophisticated technological inputs.¹¹ This implies that, although the import structures of Latin American countries have not changed significantly (they are primarily buyers of manufactured goods with technological content), the origin of the goods has changed to some extent. This not only refers, as it did at first, to labor-intensive manufactured goods with low-tech content but increasingly includes goods with a higher level of incorporated technology. In other words, China sources primary products and some manufactured derivatives in the region and supplies it with increasingly technologically complex industrial goods.

In this respect, the growing trade with China and the relative displacement of the United States has yet to diversify further the products exported from Latin American countries. On the contrary, the place occupied by the region's countries in the international division of labor has been reinforced since China not only buys primary goods and natural resource-based manufactured goods but has also partially displaced sales of industrial products between countries in the region.

6. FINAL THOUGHTS

China has become an important destination for foreign sales from Latin American countries, which ties in with a lower relative share with the United States. In the last two decades, the change has been so remarkable that China has become the leading trading partner of Brazil, Chile and Peru and is second in Argentina (only surpassed by Brazil), Colombia and Mexico. Although the North American country continues to be the leading destination for foreign sales in the latter two cases, it has been losing its share.

The change is not minor when we consider what has happened to imports, where we see a much more unified situation characterized by a substantial increase in the proportion of purchases from China, especially of manufactured goods with increasing technological content. As with exports, only Colombia and Mexico had a higher proportion of purchases from the United States than from the Asian giant. However, in these cases, the loss in the share has been proportionally more significant.

Based on this scenario, we need to ask ourselves once again whether or not the trade rapprochement with China has benefited the countries in the region, i.e. whether the optimistic or pessimistic thesis regarding the emergence of the Eastern giant is corroborated. There is no doubt that the relationship with China has enabled Latin American countries to significantly increase their exports (in quantity and prices), which has had positive consequences by reducing their need for external financing. Given that the latter was usually directly or indirectly conditioned by the United States (based on its financial power, its decisive importance in multilateral organizations and the domination of the dollar), this situation has allowed for greater autonomy in the policies pursued by the region's countries.

However, the increase in trade with China has yet to lead to diversification and increase in the complexity of Latin American exports; on the contrary, it reinforces the tendencies towards their reprimarization. As already mentioned, not only have the production and exports of primary goods and manufactured derivatives increased, but the entry of Chinese manufactured goods into the region has made it more difficult for local products to compete in domestic markets and third markets in more complex branches.

While it is true that some significant technological developments have been incorporated into the production of certain primary products, especially in biotechnology, through transgenic products, agrochemicals, veterinary vaccines, hybrid seeds, etc., it should be noted that a significant part of the research and development associated with these technologies is not carried out in the countries of the region but is acquired abroad in the form of closed technological packages. Furthermore, there is no doubt that there is a certain potential for technological development linked to primary production that has yet to be exploited, partly because of the influence of large transnational companies in Latin America. In this respect, these large firms invest little in research and development in the region's countries since most of these tasks are carried out in their countries of origin and other subsidiaries in developed countries. The main advances in technological innovation locally in this type of primary production originate, directly or indirectly, from state agencies and firms. Thus, greater planning and increased direct state participation in primary production could help boost local incorporation of knowledge.

In short, the commercial integration of Latin American countries relies mainly on static comparative advantages (natural resources or cheap labor). At the same time, China operates increasingly based on dynamic advantages, complexifying an industrial network that has turned it into the "factory of the world" (López Arévalo and Rodil Marzábal, 2019). Thus, the Asian giant has been industrializing based on centralized planning by its government. At the same time, most Latin American countries saw their state capacities eroded by the neoliberal programs and reforms adopted in the 1990s. The deindustrialization processes suffered by Latin American economies are not related to having reached desired "maturity" in terms of development but rather to having left the orientation of production factors to the "invisible hand" of the market.

The Mexican case only partially escapes this path due to its high level of integration with the North American economy since its industrialization process is fundamentally based on reduced labor and transportation costs, which has not permitted a significant development of new sectors with high added value and intensive knowledge, obtaining poor results in terms of income for the majority of the population (Salama, 2016 and 2017).

Considering this scenario, it is difficult to believe that China's emergence on its own will contribute to a regional development process. To take advantage of the opportunities presented by the new international market, Latin American countries must create national development projects that will enable them to advance strategically in global value chains worldwide.

The passivity with which most of Latin America has positioned itself on the new world stage does not seem to be dissociated from the personality of its dominant classes, who have ended up becoming junior partners in foreign capital or else competing peacefully with it based on the exploitation of comparative advantages linked to natural resources. In this respect, it is worth asking whether the current Latin American bourgeoisies and their respective national States can carry out development projects that seek to modify the place to which the region has been relegated in the international division of labor. However, this question will be left for further research.

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¹ After the terrorist attacks on the twin towers in New York and the Pentagon in September 2001, the United States focused its foreign policy on the so-called "war on terror", which included the invasions of Afghanistan (2001) and Iraq (2003).

² Although the One Belt, one Road Initiative has so far made most progress in Asia, Africa and Europe, the number of Latin American countries joining the Beijing project has increased in recent years. Argentina was the most recent Latin American country to join (February 2022); the first was Panama (November 2017). Although they initiated talks, the two largest economies in the region - Brazil and Mexico - have yet to join.

³ Although Chinese foreign direct investments in Latin America and the Caribbean show a clear upward trend in recent decades (they went from representing less than 1% of FDI in the region in 2012 to 10.8% in 2019), they are still lower than those originating in the United States and the European Union (Dussel Peters, 2022).

⁴ The differences in the calculations of GDP in US dollars and in PPP are related to exchange rate parities, given that the Chinese yuan is devalued in relation to the US dollar, in other words, prices in Chinese dollars are, on average, lower than those in the United States.

⁵ The North American Free Trade Agreement established a free trade zone between Mexico, Canada and the United States. This agreement, highly questioned by former Republican President Donald Trump during his presidential campaign and his administration (he argued that it harmed North American industry in favor of Mexican industry) was replaced on July 1, 2020, by the United States-Mexico-Canada Agreement (USMCA).

⁶ China's direct investments in Latin America have increased sharply over the last decade and a half, mainly oriented towards the acquisition of firms dedicated to primary-extraction activities, such as hydrocarbons, mining, grains and, to a lesser extent, timber and fishmeal. In second place are investments in tertiary activities that support

extraction activities, such as the financial sector, logistics and infrastructure works. See Bittencourt (2012); Dussel Peters (2021), ECLAC (2018), Nacht (2013) and Slipak (2014).

⁷ Copper represents more than half of Chile's total exports and 80% of Chile's sales to China, while 80% of Peru's exports to the Asian nation are composed of copper, iron ore, tin and fishmeal (Cesarin, 2013).

⁸ Chile signed a Free Trade Agreement with China in October 2006 and Peru did the same in March 2010. Both countries have also signed trade agreements with the United States: Chile's was signed in 2003 and came into force the following year, and Peru's was signed in 2004, although it was only implemented at the beginning of 2009.

⁹ Between 1998 and 2011, Argentina lost slightly more than six percentage points of its share of the Brazilian import market (from 14 to 7.5%), while China increased its share by just over 12 percentage points (from 1.9 to 14.5%) (Bekerman et al., 2014).

¹⁰ Regarding the advantages and limitations of the methodology for classifying manufactured goods according to their technological content, see, among others, Bianco (2006).

¹¹ In this respect, it is worth noting that in 2017 total Chinese research and development (R&D) expenditure reached USD\$ 296 billion, moving into second place in the world behind the United States (Zhihao, 2019).