The China Triangle: Latin America's China Boom and the Fate of the Washington Consensus

Kevin P. Gallagher
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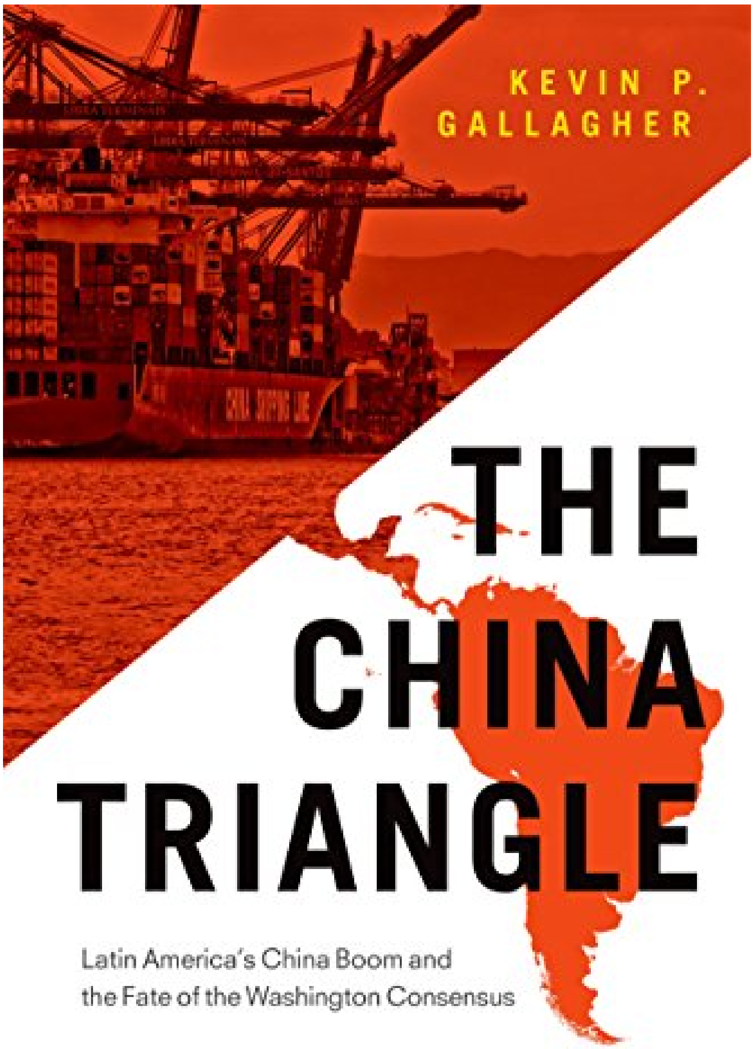

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Kevin P. Gallagher : The China Triangle: Latin America's China Boom and the Fate of the Washington Consensus before purchasing it in order to gage whether or not it would be worth my time, and all praised The China Triangle: Latin America's China Boom and the Fate of the Washington Consensus:

1 of 1 people found the following review helpful. Good up-to-date overview of the China x LAC commercial relationsBy IgorAs a Brazilian who works for the federal government at the internacional sector of the Ministry of

Finance, I must say that this book is for those interested in the recent commercial ties between China and Latin America countries, and was a good introduction to the subject.I haven't given 5 stars because I've missed more analytical comments. I also found the conclusion a bit too obvious: saying that LAC are the only responsible for the develop of their own economies.Despite that the book is very informative and can be useful for those who need to be introduced to the subject.0 of 0 people found the following review helpful. A well-researched book, but with presentation deficitsBy Qaisar Rashid, DrChina has not only outdone Latin America in exporting commodities, but it has also become the main importer of Latin Americarsquo;s natural resources: China has reduced Latin America from exporting commodities to the world to exporting natural resources to China. This is the central idea of the book.Three points are writ large upon the book. Firstly, it mostly focuses on China-Latin America economic relationship. Secondly, many ideas are repeated to banality. Thirdly, its presentation needs rearrangement. Regarding the last, five phases can be used to present the book in a better way. The first phase spanned from the nineteenth century (1870) to the Great Depression (1929). During this phase, Latin America was a winner of lsquo;commodity lotteryrsquo;,as Western Europe needed Latin Americarsquo;s vital natural resources such as copper, gold, silver and iron ore and commodities such as coffee, cocoa, tobacco, sugar, beef, hides, wool, and bananas to support its industrial revolution. These commodities not only substituted European agriculture produce to spare peasantry to be utilised as industrial workforce, but these commodities also prompted European and the US companies to invest heavily in Latin Americarsquo;s infrastructure to hasten the provision of commodities. During this phase, Latin Americarsquo;s economies grew by 3.4 percent per year (i.e. GDP growth).The second phase continued from the Great Depression (the 1930s) until the early 1980s. During this phase, the state took over the role of laying infrastructure and boosting industries to make Latin America produce consumer goods for consumption and export. This state-led industrialisation remained the best phase in terms of growth at almost 5 percent per year. However, this phase also witnessed accentuated economic inequalities, besides the absence of democracy. Unfortunately, macroeconomic mismanagement during this phase ultimately led to a regional financial crisis in the 1980s.The third phase covered from the 1980s to 2002. During this phase, the state-led economic management was replaced with the Washington Consensus, the basic tenet of which was a package of reforms having ten economic policy solutions for crisis-ridden developing countries. The reforms encompassed macroeconomic stabilisation, liberalisation of trade and investment, reduced role of the state in economic affairs, and the adoption of a market-based approach called neoliberalism. The International Monetary Fund (IMF) and World Bank (WB) introduced these reforms (privatisation, liberalisation, and deregulation). During this phase, the growth plummeted to the slowest at just 2.4 percent per year, with inequality getting accentuated more than in the state-led industrialisation era. However, the phase ushered in return to democracy mdash; the regionrsquo;s hallmark achievement of the late twentieth century. The Washington Consensus was a dominant economic paradigm that ended with a major financial crisis in Argentina in 2002.The fourth phase sustained from 2003 to 2013, and it was called the China Boom. During this phase, the economic inequality that accrued during the Washington Consensus phase lessened. Latin Americarsquo;s economies grew by 3.6 percent per year, the best surge since the regionrsquo;s state-led industrialisation era. This period also helped many Latin American economies recover from the global financial crisis of 2008-2009.In December 2001, China became 143rd member of the World Trade Organization (WTO). Since 2003, China enhanced its trade relations with Latin America. China was already enjoying trade ties with Latin America. About the consequent triangle, called the China triangle, Gallagher writes on page 3: ldquo;At the top of the triangle tip is the United States, while China and Latin America form a new base of cooperation from left to right.rdquo;China-Latin America trade ties did not begin in 2003. Since the late 1970s, the Chinese growth miracle had been feeding on Latin Americarsquo;s natural resources, but there were other competitors such as Europe and the US. On page 66, Gallagher writes: ldquo;As early as 1998, then Chinese President Jiang Zemin championed the globalisation of Chinese investment and lending. He argued that lsquo;regions like Africa, the Middle East, Central Asia, and South America with large developing countries have huge markets and abundant resources; we should take advantage of the opportunity to get inrsquo;.rdquo; There are two implications. First, Gallagher mentions on page 65: ldquo;[Compared to Dollar diplomacy, Yuan Diplomacy (named after Chen Yuan, Chairman of the China Development Bank, in 1998) is that] Chinarsquo;s development banks started financing foreign governments to help them support energy, mining and infrastructure investment... Chinese loans do not come with the harsh strings attached.rdquo; Second, Gallagher writes on page 74: ldquo;All of Chinarsquo;s commodity-backed loans to Latin America are secured in oil [i.e. the loans-for-oil policy].rdquo; Two developments are the hallmark of this phase. First, Latin Americarsquo;s export industry could not compete with Chinarsquo;s low-priced but high-quality export products. Resultantly, Latin America smarted financially. Second, China came to Latin America with banks and investment to import natural resources. Resultantly, Latin America profited.To get entrenched in Latin America, China adopted two soft approaches. First, edging out competitors from Latin America, as Gallagher writes on page 75: ldquo;Chinese loans often come with a tacit understanding that Chinese companies will be doing a significant amount of the work related to the project or that the project will involve Chinese imports.rdquo; Second, offering an alternative to the Washington consensus, as Gallagher writes on page 82: ldquo;Chinese lending follows the nationrsquo;s Five Principles of Peaceful Coexistence, which prohibit meddling in other countriesrsquo; domestic affairs [i.e. not to impose political conditions].rdquo;Consequently, during this phase, China got oil to run its transport; copper to manufacture electronics products; iron ore to construct buildings, bridges, and automobiles; and soya beans to feed its cattle. On page 7, Gallagher writes: ldquo;Chinese companies have flocked to the Americas to invest in these commodities, backed by Chinarsquo;s state-run development banksrdquo;. However, on page 92, Gallagher call it Latin Americarsquo;s ldquo;resource curse,rdquo; which attracts one country or the other to exploit these resources to create wealth for itself. On page 93, Gallagher writes that this will keep on happening unless Latin America ldquo;invest the windfalls into industry, innovation and education,rdquo; besides managing the currency exchange-rate.The fifth phase continued from 2014 to date. China has reduced import of Latin Americarsquo;s natural resources and is turning into a consumer-based economy. Resultantly, the economic growth of both China and Latin America has slowed down.This discussion surfaces two main possibilities. First, loans for development may be available to developing countries from other than the IMF and WB. Second, the provision of commodity-based loans is a viable option.0 of 0 people found the following review helpful. While Washington Slept -By Loyd EskildsonOver a century after first coming to the Americas as laborers on large infrastructure projects, the Chinese are back in Latin America - this time as the bankers financing them, rather than laborers. Chinese policy banks and entrepreneurs are pouring billings into a 3,000 mile high-speed rail projecting connecting Brazil's Atlantic coast to Peru's Pacific coast, and into a new canal through Nicaragua. Latin America previously experienced a 'China Boom' from 2003 until about 2013 - during that period Latin America's economies grew 3.6%/year. The region's economies had experienced slow growth and financial instability for over two decades under the preceding 'Washington Consensus' period. The 'China Boom,' however, eventually weakened with China's lessening demand for raw materials from Latin America.In response to the crises of the 1980s the region was forced to adopt the Washington Consensus, ending with a major Argentine financial crisis in 2002. The basic tenet of the Washington Consensus was to reduce the role of the state in economic affairs, and open up to global trade and finance. Growth in the period fell to 2.4%/year, with inequality accentuating more than in the state-led industrialization era. At the end of the century, financial crises hit Mexico, Brazil, Uruguay and Argentina, and many of the region's newfound democracies threw out those who had embroiled their nations in the Washington Consensus.China did not have Washington-based experts dictating its reforms - its globalization centered around Deng Xiaoping's 'Crossing the river by feeling for stones.' China had sequencing the liberalization of some sectors while fostering other sectors until they were ready to compete on a global basis. After 9/11, while the U.S. wasn't paying attention, Latin America became strategically important to China as a source for many natural resources and foods.Gallagher tracks Latin America's China Boom and contends that Latin Americans have not capitalized in many ways. During the region's commodity boom, windfalls but few jobs were created for the commodity sector, the exchange rate of the countries appreciated - making non-commodity exports more expensive, commodity producers got rich, and non-commodity exports became less competitive - 78% of Latin American manufacturing was under threat from Chinese counterparts in world markets during the boom. Further, the World Bank estimated the economic costs of environmental degradation during the China Boom as 8.6%/year - deforested , polluted waterways, and sometimes mistreatment on indigenous communities.Norway mitigated the curse by parking windfall profits into special funds to be reinvested into expert competitiveness, financial stability, and environmental protection. Not so in Latin America.In January 2015, the Chinese sat down with the Latin American region and pledged to boost trade to $500 billion and investment to $250 billion over the next decade. The IMF estimated the region's growth for 2014 at less than 1.3%, and less than 1% for 2015. According to the United Nations, the region also faces an annual infrastructure gap (new and upgraded roads, ports, energy systems, communications networks) of 6.2% of GDP. Chinese finance comes with few stings attached, other than using Chinese corporations when possible.The 1980s are known as Latin America's "lost decade." Seeing endless profits from high oil prices, Mexico, Brazil and others borrowed heavily to fund state-led industrialization. Then, when the cost of borrowing shot up and prices for oil fell in the early 1980s, the region suffered a financial crisis. During that same period, Asian nations had higher rates of growth, relying less on domestic demand to fuel expansion of industrial production. This also had the advantage of breeding even more technological sophistication and international competitiveness. Exports as an ultimate goal also helped put a lid on corruption in Asia, which was much more prevalent in Latin America. Brazil incubated computer companies and, while never competitive enough to export, thrust them on the domestic market. The lack of competition in the Brazilian computer market gave little incentive to innovate, and then Brazil opened the sector to foreign competition, Brazilian computer companies were immediately wiped out.This period of state-led industrialization for many nations in Latin America was also characterized by bloody dictatorships. The financial crises of the 1980s put Latin American countries on their knees, and most turned to Washington for money and ideas. Hence, the next two decades were the era of the Washington Consensus. Latin American governments had to agree to limit government budget deficits, dismantle national development banks, and to shift subsidies away from big industrial projects. Central banks were also required to keep interest rates relatively high to tame inflation. Nations also fully liberalized all forms of foreign investment flows - allowing foreign firms to set up factory, and enter/exit local financial markets. Floating exchange rates were also required. Finally, they were all required to become committed to free trade and members of the WTO. China, on the other hand, later offered public investment in infrastructure and strategic industries, and were happy with fixed and competitive exchange rates.Previously surges of inflows into Latin America often went into financial markets rather than roads, factories, and modern services. These inflows tended to push up exchange rates and make Latin American exports less attractive, large current account deficits, and the need to take on ever-larger amounts of debt. More often than not, the debt was denominated in U.D. dollars. However, when interest rates were hiked in the U.S., there was a flight of capital out of the region, rapidly depreciating their currencies, despite the fact that debts still had to be paid in dollars. Moreover, the relatively high interest rates, free-trade policies etc. started a hollowing out of the region's manufacturing industries.Previously, China's economy amounted to one-third of the entire world in 1820, while Latin America produced 2.2%. Chinese growth from 1879 to 1929 is estimated to have been 0.8%/year. This reversal was a factor triggering internal social strife and military conflict with Britain and Japan. By 1913, China had only 9% of world output; Latin America was up to 4.4%.After 1949, the Chinese realized they needed to transform from a society based on peasant agriculture to one based on modern industry. Believing they could not compete with Western industry, they looked inward for sources of industrialization and growth. It worked to establish SOEs involving large steel mills, smelters, coal plants, and factories.Eventually, the dual-track approach of supporting the state sector while focusing on the development of private markets and by 2011 the share of SOEs fell to 26%, from 78% in 1978. By 2012, 35.6% of jobs were in the private sector.In 2000 both China and Mexico produced about 5% of the world's computers; by 2010 China was at 50% and Mexico's share shrank. China had invested in infrastructure and building networks between foreign and domestic firms, while Mexico simply opened its doors to foreigners, who promptly put many locals out of business.China's rise has also helped Latin America enter a new era of economic growth, its best era in over 100 years. Brazil and Peru have a great deal of the world's iron ore, Chile and Peru had the copper, Uruguay the wool, Columbia, Venezuela, Ecuador, Brazil, and Mexico have oil, Brazil, Argentina and Bolivia supplied the soy and some beef. Chile and Argentina - wine. In 2000, Latin American exports to China were just 1% of their total exports, by 2013, most in the region had China as their #1 or #2 trading partner. China passed the U.S. as South America's most important destination for exports in 2013. On the other hand, China is simultaneously out-competing Latin American manufacturers in world markets - so much that it may threaten the ability of the region to generate long-term economic growth.Chinese banks lent Latin American countries $22 billion in 2014, and a total of $119 billion over the past 10 years. In 2015, China offered $65 billion to Latin America, its biggest bet yet - many see these moves as a power play to counter U.S. influence in the region. Chinese loan commitments to Latin America in 2014 amounted to more than the combined loans from the World Bank and the Inter-American Development Bank. Virtually that lending went to raw material extraction-related projects in countries having a hard time getting loans from world markets - Venezuela, Argentina, Ecuador, and Brazil. These loans will have to be repaid in U.S. dollars, and the Latin American currencies are depreciating. China's massive purchases of Latin America's primary commodities has caused Latin American currencies to appreciate, making non-commodity exports more expensive in world markets. Halving of oil prices is a particular problem for some of the Latin nations. Venezuela's industrial bonds now yield 24% - China has loaned it $51 billion. Latin America has failed to take advantage of the massive profits from commodity exports to reinvest them into upgrading industrial competitiveness. Chinese banks are also over-exposed to Argentina and Venezuela. The IMF projects inflation in Venezuela this year will skyrocket - since 2007, china has loaned $65 billion to Venezuela, which has the world's largest oil reserves.Gallagher believes China's road to globalization, one that emphasizes gradualism and coordinated macro-economic and industrial policies, is far superior to the 'Washington Consensus' route taken by most Latin American nationals, particularly Mexico.

Since 1980, China has evolved from a poor and mostly rural society into one of the largest economies in the world. As it grew into a major industrial power, it demanded enormous amounts of steel for new factories and cities, copper for electronic wires, petroleum for cars and manufacturing plants, and soybeans and cattle to feed its workers. By the 1990s, many Latin American countries were riding China's coattails and beginning to prosper from the new demand. Ever since China entered the World Trade Organization at the turn of the century, Latin America supplied China with more and more of the primary commodities it needs and more. That in turn has produced one the most impressive periods of economic growth on the continent in fifty years. And it was more evenly spread too - a region infamous for its extreme inequality saw it decline by a couple of percentage points over the course of the era.In The China Triangle, Kevin P. Gallagher traces the development of the China-Latin America trade over time and covers how it has affected the centuries-old (and highly unequal) US-Latin American relationship. He argues that despite these opportunities Latin American nations have little to show for riding the coattails of the 'China Boom' and now face significant challenges in the next decades as China's economy slows down and shifts more toward consumption and services. While the Latin American region saw significant economic growth due to China's rise over the past decades, Latin Americans saved very little of the windfall profits it earned even as the region saw a significant hollowing of its industrial base. What is more, commodity-led growth during the China boom reignited social and environmental conflicts across the region.Scholars and reporters have covered the Chinese expansion into East Asia, Southeast Asia, Australasia, Africa, the US, and Europe. Yet China's penetration Latin America is as little understood as it is significant-especially for America given its longstanding ties to the region. Gallagher provides a clear overview of China's growing economic ties with Latin America and points to ways that Latin American nations, China, and even the United States can act in order to make the next decades of China-Latin America economic activity more prosperous for all involved.

"A well-written and insightful analysis of the economic ties between China, Latin America, and the United States that will be of interest to academics..." -- Library Journal"Kevin Gallagher's The China Triangle adds much to a profusion of books on China-Latin America relations."--Nature About the AuthorKevin P. Gallagher is a Professor of Global Development Policy at Boston University's Pardee School for Global Studies, where he co-directs the Global Economic Governance Initiative. He has been a visiting scholar at Johns Hopkins University, Tsinghua University, and the Center for the State and Society in Argentina. Gallagher has authored and edited more than ten books and writes frequently in the Guardian, Financial Times, Al-Jazeera, and beyond.