Chapter 3

What Does China's Integration to the Global Economy Mean for Latin America? The Mexican Experience

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In the Latin American press, China's increasing presence in the region's energy and raw material sectors, the displacement of Latin America's production and exports in some domestic- and export-oriented sectors, and the diplomatic and "strategic" issues that accompany Chinese investment in sectors such as oil and steel, among other issues, all receive significant attention. However, in contrast to China's presence in the media, the socioeconomic and trade experience of Latin America with China has received much less attention from national and regional institutions. Only recently, for example, have the Economic Commission for Latin America and the Caribbean (ECLAC) and the Inter-American Development Bank (IADB) started analysis of this sort. Nationally, particularly in the cases of Central America and Mexico, systematic and detailed discussions of the changing socioeconomic conditions in China and the ensuing bilateral economic relationships have been even scarcer. At the policy level, there is little analysis and thus little knowledge of the short, medium, and long-term strategy of China's socio-economy, and, moreover, the profound challenges (and opportunities) that China's rapid development bring for Latin America.

This chapter attempts to fill this intellectual and analytical gap. The first section contrasts Mexico's and China's strategies for integration into the global economy since the 1980s. The section presents the basic logic of export-oriented industrialization (EOI) that has become dominant in both countries and highlights not only similarities between the countries in terms of specialization patterns and employment challenges but also points to substantial differences in how EOI is conceived and implemented.

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These differences, it is argued, mean that competition in the global economy presents the two countries with different challenges for long-term economic development strategies. The second section examines Chinese development in historical perspective, arguing that the country's rapid integration and extraordinary economic dynamism are unique. The third section examines the effects of China on Latin America, pointing to the differences among Latin American countries, but cautioning against making strong distinctions regarding the effects of China on "northern" versus "southern" Latin America. The fourth section considers the specific trade relationship between China and Mexico.

Mexico and China: Different Strategies for Integration into the Global Economy since the 1980s

Over the course of the 1980s, the new orthodoxy of EOI was widely adopted by policy-makers in Latin America. The lessons of the East Asian miracle, famously summarized by the World Bank in its 1993 report, combined with influential analyses of the "rent-seeking" pathologies associated with earlier import-substituting industrialization (ISI) regimes in Latin America (Krueger, 1978; 1997), led to a categorical rejection of statistic development strategies throughout much of the region and an embrace of export-oriented policies as the key to growth and development. Convinced that creating a market-friendly environment was the best way to generate foreign direct investment (FDI), policy-makers eschewed targeted industrial policy in favor of a neutral or "horizontal" approach, and macroeconomic stabilization became the highest priority of governments that attached great importance to the task of getting the "macroeconomic fundamentals" right.

The argument in favor of EOI builds on the positive association between exports and economic growth or development. Contrary to ISI, EOI stresses that the global economy, through exports, is the "point of reference" for any economic unit (firm, region, nation, group of nations, etc.). Exports, in general, reflect efficiency; that is nonexporting economic units are not efficient from this perspective. It emphasizes neutral or export-oriented production of manufactures to maximize the efficient allocation of factors of production and a specialization among nations according to their respective comparative cost advantages (Balassa, 1981). Moreover, it underlines the central role of manufacturing in economies of the periphery, even though the theoretical justification for doing so has not been sufficiently developed to date. Contrary to structural restrictions or "bottlenecks" imposed by industrialization—as stressed by some ISI-authors—this "intuitive Darwinian rationale for free trade" (Bhagwati, 1991: 17) argues that the degree and the structure of protection in the