A Dependency Perspective on the United States, China, and Latin America

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The dependency framework, while very popular in Latin America in the 1970s and 1980s as a way to explain the failure of development, had virtually disappeared from academic and policy discourse by the 1990s. There were many reasons that dependency analysis fell out of favor, but one was the "fuzziness" of the concept of dependency and the lack of mechanisms through which it operated. In earlier works (Stallings, 1992, 2020), I have proposed three mechanisms that lie behind dependency relations: markets, leverage, and linkage. These mechanisms are useful for understanding the way dependency functions in a particular situation, but they are also useful for making comparisons across time and space. In particular, I argue that dependency is a useful framework for interpreting relations between China and Latin America today, just as it was for US-Latin American relations in the post-WWII period.

As is well known, there were two main versions of dependency theory. One emphasized the role of external actors in determining development outcomes; the other highlighted the way that external and internal actors join forces to produce outcomes (see also the Introduction to this volume). My focus is on the latter version, introduced by two Latin American social scientists: Fernando Henrique Cardoso and Enzo Faletto (Cardoso and Faletto, 1969, 1979). By way of definition, they said: "[f]rom the economic point of view a system is dependent when the accumulation and expansion of capital cannot find its essential dynamic inside the system" (1979: xx). Cardoso and Faletto were interested in "situations of dependency," whereby the nature of dependent relations varied according to characteristics of both dominant and dominated actors.

The rest of the chapter is organized in four sections. First, I explain the three dependency mechanisms. Second, I illustrate them in the case of the United States and Latin America in the second half of the 20th century. Third, I use the same mechanisms to analyze links between China and Latin America in the 21st century, as China became an important player in the region. I conclude with some hypotheses to explain the differences between the United States and China in how they relate to Latin America.

Mechanisms of Dependency

Markets represent the economic context within which developing countries operate; especially important are markets for exports and finance. Demand for exports is a function of the growth rate and level of protection in importing countries. When export volume declines or negative price shocks occur, severe economic problems can result. If finance is not available to cover trade deficits, imports must be cut, leading to lower consumption and/or investment.

The importance of financial markets is related to the trade balance, but also to past borrowing patterns since new borrowing may be required to service old debts. Like terms of trade, terms of borrowing – interest, fees, maturity – are largely determined exogenously. These terms vary by type of lender, with public lenders generally having softer terms than their private-sector counterparts. During the era preceding the 1980s debt crisis in Latin America, private banks lent at floating interest rates that shifted much of the risk to borrowers.

While short-term fluctuations and long-term trends in international markets are important for all countries, evidence indicates that developing countries are more vulnerable to negative shocks. Likewise, booms and busts will have differential impacts, depending on the factor endowment and economic structure of individual countries. A country with an open economy will be especially vulnerable, but the structure of exports and imports is also crucial. Raw materials are particularly susceptible to price shocks, while industrial exports are vulnerable to protection. A second set of characteristics further increases susceptibility to financial shocks: a low volume of export revenue and/or low domestic savings increases vulnerability to a cutoff of finance or a sharp rise in its price.

Leverage manifests itself when economic or political actors specifically set out to influence the behavior of others – usually those who are less powerful. It involves the direct use of power, promising a reward (or threatening punishment) for carrying out (or not) a desired action. Leverage exists in both political and economic forms.

The most obvious kind of political leverage is one country's use of its military to compel another to behave in a certain way. This tactic is used less frequently than in the past, but it still occurs. In the postwar period, the United States invaded a number of Latin American countries that were perceived as supporting "socialism" or "communism." More common than overt military force, but more difficult to document, is the use of covert intelligence operations to get governments to change their policies or to undermine support for them.

Economic leverage is more frequently used today. It can involve providing access (or not) to markets, where bilateral or plurilateral free trade agreements (FTAs) have become an important tool. More common is leverage involving access to finance. The best-known kind of economic leverage in the postwar period has involved conditionality bargains with international financial institutions (IFIs), especially the International Monetary Fund and the World Bank. Private actors vary in their interest in, and ability to exert, financial leverage. For example, private banks in the 1970s disbursed large amounts of loans with few strings attached; they had neither the will nor capacity to impose conditions. When the debt crisis broke out in 1982, however, the situation rapidly changed. The banks joined forces with the IFIs and industrial country governments to reschedule loans in exchange for orthodox economic policies and the continuation of debt-service payments.

Linkage is the set of relationships – based on ideas, education, employment, living experience – whereby actors in dependent countries come to identify their interests with those of a more powerful country. The dea behind the linkage concept was particularly stressed by Cardoso and Faletto (1979: 173): “There is no metaphysical relation of dependence between one nation and another, between one state and another. These relations are made possible through a network of interests…that bind some social groups to others, some classes to others.”

Businesspeople constitute the most important network for economic policymaking. Ties between local and international businesspeople involve both interests (access to markets, technology, and finance) and culture (education, travel, and consumption patterns). Top-level technocrats are also likely to have studied abroad, and perhaps worked in the IFIs. Military technocrats and leaders from developing countries constitute another group likely to have received training abroad. The US military has traditionally set up training programs for top military brass in developing countries, supplemented by purchase of US equipment.

The middle class is a much more diffuse component of the network of interests that Cardoso and Faletto spoke of. Middle class groups are linked mainly though consumption and lifestyle ambitions. Through the media, imported products become known and the perceived necessity to purchase them provides a powerful link with counterparts in industrial countries. For the upper-middle class, ownership of goods is supplemented by travel and perhaps education abroad.

The effectiveness of international linkage networks is likely to vary according to two factors discussed previously. One relates to economic structure. The more open an economy, and the more reliant it is on international trade and finance, the denser will be international networks. A second factor has to do with the state of international markets. In times of global economic crisis, the influence of technocrats is likely to increase in any government. Likewise, a crisis can give an edge to a coalition that claims to have access to foreign assets.

Substantial overlap exists among these three concepts although they were presented separately. In ideal (neoclassical) textbook terms, markets operate on their own without interference from governments or interest groups; in this sense, they simply provide a context in which economic and political transactions take place. For example, in a boom period, it is easy for governments or private actors to obtain access to finance to carry out desired projects. Likewise, it is easier to form political coalitions when resources are flowing freely. In the real world, however, markets are generally manipulated in one way or other, so they can serve as tools of economic leverage.

Both economic and political leverage involve power relations, but they work best when combined with linkage. If leverage implies the use of some kind of force by a more powerful actor to achieve a desired end, linkage is less costly since it leads the world-be targets of leverage to *want* to behave as the more powerful actor wishes. To provide an economic example of leverage and linkage, it is clearly better to have a local finance minister follow policies to maintain debt payments to an international bank because she thinks it is right, rather than to have the IFIs threaten to cut off funds if payments are not made. In a more extreme political example, if a foreign military is involved in a coup in a developing country, it surely prefers to have the collaboration of local armed forces rather than occupy the country itself. (A similar argument was presented by Levitsky and Way [2006]; as indicated in their article, their framework builds on my 1992 discussion.)

US-Latin American Relations in the 20th Century

As World War II ended, the United States replaced Britain as the world's dominant political and economic power. Latin America was initially of little interest to the new hegemon, although the United States had not been completely absent from the region previously. The Monroe Doctrine proclaimed future US ambitions as early as 1823, and the so-called Spanish-American War in 1898 gave the United States quasi-colonies in Puerto Rico and the Philippines as well as major influence over Cuba. Moreover, US capital had begun to flow to the region by the end of the 19th century, accompanied by various demonstrations of military power to ensure that debts were paid through the policy known as dollar diplomacy (Stallings, 1987). Throughout the following century, the United States played a dominant role in the political and economic processes and outcomes in the region. The rest of this section examines the US-Latin American relationship through the dependency categories just discussed, dividing the period into an era focused on import substitution industrialization (ISI), followed by the shift toward a new economic model.

Import Substitution Industrialization (ISI)

When World War II ended, Latin American governments were eager to build on the ad hoc industrialization that had occurred during the Great Depression. Debates focused on which policies to follow and how to finance the large-scale investments that would be required. The path was strongly influenced by the publication in 1950 of a diagnosis of Latin American economies by the United Nations Economic Commission for Latin America (ECLA, 1950). ECLA proposed that Latin America should push to industrialize through the substitution of products that had previously been imported. Industrialization, in turn, would require that governments take a more active role in the economy, but foreign capital would also have to be a partner in the provision of finance and technology.

Regional responses to ECLA's proposals varied according to the size and strength of the industrial sector in different countries. Those wanting to expand their industrial sectors began to undertake policy changes that they hoped would advance this process. Import tariffs were a key policy tool. While tariffs had been in place previously for revenue purposes, the idea was to use them in a more strategic way to protect new industries that would be established. Another crucial policy involved finance for new industries or the expansion of existing ones. Given the lack of local capital markets and limited access to international financial markets, governments revised legislation to attract multinational corporations (MNCs).

The MNCs, mainly from the United States, flooded into Latin America with their technology, marketing, management skills, and financial resources. Soon, however, differences in approach began to appear. While Latin American governments hoped MNCs would produce capital and intermediate goods and export manufactured products, the interest of the corporations was to sell basic consumer goods in the protected markets of the largest countries. Other conflicts arose over the use of transfer pricing to avoid taxes and the sourcing of investment capital on local markets. Controversy also appeared over governments' desires to have a high level of inputs produced locally, and by the transfer of resources out of the countries as profits and interest payments exceeded capital inflows (On the ISI period, see Thorp, 1998; Bulmer-Thomas, 2014.)

Not all countries were able to ride the ISI strategy to success, but several developed very sophisticated manufacturing capacity. Thus, Brazil and Mexico were typically paired with South Korea and Taiwan as newly industrializing economies. Evans' (1979) analysis of Brazil is the iconic example both of the success of the ISI strategy and its shortcomings. In explaining Brazil's impressive level of industrialization, Evans portrayed MNCs as the "main character" in the story. But this protagonist combined forces with a strong state and a national bourgeoisie to form a "triple alliance." This alliance was able to increase capital accumulation and improve technological capacity to turn Brazil into an industrial powerhouse, but it was "inherently incapable of serving the needs of the mass of the population" (p. 13). The result was the phenomenon that Cardoso and Faletto called "dependent development."

Many changes in economic and political relations came about during the 1970s in the international environment as well as Latin America itself. A number of developing countries, including some in Latin America, had come to believe that they were not fully benefiting from international growth, trade, and capital flows. Indeed, this was the heyday of dependency analysis. Nationalism was on the rise in many parts of the world. It included the inauguration of numerous governments that wanted to limit the power of privileged groups, both domestic and foreign, and to give more power and economic benefits to "the masses." The US response was often intervention, overt or covert, to overthrow the governments and restore the status quo ante (Kinzer, 2006).

A key turning point was the quadrupling of oil prices in late 1973 by the Organization of Petroleum Exporting Countries (OPEC), which sent the world economy into a tailspin. Since most Latin American countries were oil importers, the result was to exacerbate their balance-of-payments problems and threaten their economies. As it happened, the oil shock itself provided an apparent solution for oil importers. The OPEC countries deposited their new resources in the major international banks, which had to lend out the money to pay interest to depositors. Eager bankers met eager borrowers in Latin America and other oil importers. By the end of the 1970s, Latin America had accumulated an enormous debt with the international private banks.

The Debt Crisis and the New Economic Model

This debt proved impossible to service, given the region's limited export revenues and spiking international interest rates. In August 1982, Mexico declared that it would be forced to default if it did not receive international support. The ensuing years saw a highly asymmetrical battle erupt between debtor countries and creditor banks. A few Latin American governments tried to form a debtors' cartel, but their differing interests (and side payments from lenders) made it impossible. The banks, by contrast, did act in concert through bankers' committees for each country, supported by the banks' home governments and the IFIs. Before the banks eventually agreed to write off some of the debt, Latin American countries had been forced to follow austerity policies that led to a "lost decade" – when per capita growth during the 1980s was nil and social problems burgeoned (Ocampo et al, 2014).

More importantly, the crisis marked the end of the closed-economy industrialization policies that Latin America had been following in previous decades. They were replaced by a new, market-oriented economic model. While many analysts portrayed the new model as being imposed on Latin America as a consequence of the debt crisis, the process behind the adoption of these policies was actually more complex. Certainly, outside pressure existed, but many Latin American policymakers, especially those trained in the United States, were aware of the shortcomings of ISI and so had their own reasons for advocating alternative policies.

For a mix of motives, then, Latin America embarked on a new economic approach that had three pillars: macroeconomic stabilization; liberalization, privatization, and a greater role for the private sector; and opening up to foreign trade and capital flows (Williamson, 1990). As always there were differences in the extent to which the new model was adopted. Chile was the first advocate, following the military coup in 1973. Some governments were very aggressive, others proved more reluctant (Stallings and Peres, 2000).

Stabilization was an important component of the new economic model because many countries had run up large fiscal and balance-of-payments deficits during the 1970s, and inflation was rising. The deficits were manageable while loans continued, but with the cutoff of lending after 1982, stabilization measures became necessary. Stabilization programs, traditionally designed by the IMF, featured expenditure cuts and tax increases to reduce fiscal deficits together with devaluations to increase exports, reduce imports, and thus reduce balance-of-payments deficits.

If interest rates were raised to combat capital outflows (or attract capital inflows), they would also restrain growth as credit became more expensive.

More controversial than the macroeconomic stabilization measures were policies related to the microeconomic management of the domestic economies – privatization and deregulation. Privatization was relevant since many countries had substantially increased the role of state-owned enterprises (SOEs) during the 1970s. Operating behind a wall of protection, the SOEs were generally inefficient and ran large deficits, often financed by international bank loans. Deregulation was meant to unwind much of the red tape put in place over the years, whereby governments "guided" private-sector operations.

The third set of measures aimed at opening the region's economies. The essence of the ISI regime had been the protection of domestic firms from foreign competition. This protection was largely removed as part of the new model and more emphasis was put on exports. Moreover, since the nationalizations and expropriations that had taken place in the 1970s had harmed relations with foreign investors, privatization was necessary to bring foreign capital back to the region. New legislation provided conditions that were attractive to foreign investors, and renegotiations with the banks aimed to re-open another source of finance.

Dependency under US Domination

Table 1 summarizes my arguments about dependency in Latin America under US domination in the postwar years, focusing on the three mechanisms of dependency discussed earlier. I argue that dependency generally became more significant in the years after the debt crisis hit Latin America in 1982, and the characteristics changed somewhat.

Table 1. Dependency Involving the United States and Latin America, 1950-2000

	ISI (1950-1980)	New model (1980-2000)
Markets	Medium	High
Leverage	Medium (Political)	High (Economic)
Linkage	Low	Medium

International *markets* remained important for Latin America after World War II, but the main market for goods shifted from Britain to the United States. For most of the early postwar period, until the oil shocks of 1973, international markets were quite buoyant. Indeed, many argued that the region missed a major opportunity by opting for closed economies in those years. Since the bond markets remained closed to Latin America because of earlier defaults, the main source of finance was MNCs. The combination meant that Latin America was dependent on the vagaries of international markets for its growth.

Political leverage was used to combat the wave of nationalism that brought to power a number of governments that wanted to penalize wealthy groups in their own societies and to take control of foreign properties. The response by the US government in several cases was to bring to bear covert (CIA) – or occasionally overt (military) – power to undermine these governments. *Economic leverage* was less commonly used in this period. new source of economic leverage was the IFIs, which worked together with the United States as their largest shareholder, but also had significant autonomy. The IFIs provided foreign exchange, but it generally came with strict conditions. For IFI programs to work, they had to operate in tandem with other creditors. In the 1970s, creditor unity disintegrated when the private banks provided unlimited amounts of unconditional finance, thus undermining economic leverage in these years.

External leverage worked best when combined with the participation of local groups, so *linkage* with business groups, technocrats, and the military was significant. Linkage between local businesses and MNCs was the basis of the dependent development that Cardoso described. Both groups shared the goal of rapid growth and high profits from Latin American investments and wanted help from local governments. Political linkage was also important. For example, in the cases of US military or CIA intervention, linkage with local military officials – who had often been trained by their US counterparts – became crucial. And, when governments were overthrown or changed by electoral means, technocrats trained in the United States often assumed key roles in new, more conservative governments.

With the onset of the debt crisis, m*arkets* assumed a more dominant role. Most important were financial markets. While financial markets had provided an enormous volume of funds in the 1970s, those markets were virtually closed to Latin America during the 1980s. These trends provided the context in which economic leverage could be brought to bear. In the 1990s, foreign capital began to return to the region, but the structural changes that had begun in the 1980s generally continued in conjunction with revived capital flows.

Economic leverage could be exerted via markets during the debt crisis because of creditor unity, the opposite of the situation in the 1970s. This leverage was jointly asserted by private banks, creditor governments, and IFIs; it affected three issue areas in particular First, debt service was maintained in most cases, especially early in the decade, even when this meant cutting investment and social expenditure. Second, stabilization measures were agreed to and generally implemented. Third, and most important, the ISI model was substituted by a new market-oriented strategy that put the private sector in the dominant position. A new source of leverage in the 1990s, the FTAs that several Latin American countries signed with the United States, embodied conditions with respect to trade in goods and services, intellectual property, and foreign investment.

Linkage functioned to reinforce leverage in this period. The technocrats that assumed government positions following the debt crisis, often after training in the United States, already believed in the need to maintain debt service and undertake macroeconomic stabilization. Many of them were also advocates of market-oriented policies, and the new circumstances presented the opportunity to carry out these policy reforms with less opposition than in the past. The new economic model, of course, provided renewed opportunities for foreign investors and their local allies to work together. A new area of cooperation was in the export sector, which had moved to the center of the economic development strategy of many governments; MNCs could provide access to international markets as well as capital and technology.

China-Latin America Relations in the 21st Century

The virtual explosion of Latin America's economic relations with China constitutes one of the most dramatic changes in the region's history. A useful starting point is the year 2000, when trade and financial links between the two sides were minimal. Two decades later, China has become the main trading partner of a number of South American countries and the second largest of several others. It is also one of the largest sources of FDI and loans for the region. Beyond economics, Latin America is a frequent destination for top Chinese leaders, and new Latin American presidents hasten to visit Beijing. Thousands of Latin American students are studying Mandarin or taking classes in Chinese universities or other training programs.

Given the magnitude and speed of these changes, many questions are being asked by scholars, policymakers, and the general public. Why and how did the new relationship develop? What are its main elements? Will the relationship last? What are the costs and benefits? Who is winning? Who is losing? Are there ways to maximize the benefits while minimizing the costs? In this section, I provide an interpretive framework for the new relationship. In particular, I suggest that dependency offers a useful approach to understanding the changes that have come about. To carry out the analysis, I divide the two decades into sub-periods: the “China Boom” (2003-13) and the follow-on recession (2014-19).

The China Boom in Latin America

Latin America’s economy was in the doldrums by the early 2000s. Annual growth averaged only 0.9 percent in 2001-03, investment was falling, and unemployment was on the rise. These problematic trends had to be seen in light of the shift in development model. Was more time needed, was poor implementation the culprit, or were the policies themselves the cause of the problems? Debates about these alternative explanations were intense, since the new model remained very controversial. Moreover, the economic debate took place within a political context that made it especially compelling. A number of leaders with leftist ideologies came to power from the late 1990s. While differing in their specific characteristics, all were looking for ways to distinguish themselves from their conservative predecessors, to resume growth in their countries, and to make progress in dealing with unemployment and poverty. It was these governments under these political and economic circumstances that welcomed the unexpected new relationship with China.

Exports to China were the basis of the boom, and imports quickly followed. Thus, total trade rose from US $12 billion in 2000 to a peak of US$268 billion in 2013. This trade, however, was very unequally distributed across the region. Four countries alone – Brazil, Chile, Venezuela and Peru – accounted for 80 percent of total exports; imports were more evenly spread. The largest importer was Mexico, which meant that Latin America’s large deficit with China – over US $80 billion in 2013 – was largely accounted for by Mexico (calculated from IMF, Direction of Trade Statistics, online).

China’s main partners were in South America, where the large majority of natural resources were located – oil in Venezuela and Ecuador, copper in Chile and Peru, iron ore in Brazil, and soybeans in Brazil and Argentina. These were the products that China needed: oil and metals to keep its economy running at double-digit growth rates and soybeans to provide animal feed and thus satisfy the demand for meat by a rising middle class. For the region as a whole (excluding Mexico), five products accounted for 75 percent of exports to China. Imports from China, by contrast, were mainly high- and medium-tech manufactured goods (ECLAC, 2015).

These two factors – a skewed distribution of countries and a high concentration in a few commodities – severely limited the benefits to the region. A particular concern was Mexico, whose exports were of little interest to China, since the two countries had a competitive rather than a complementary relationship as found in South America. Moreover, China's cost advantage enabled it to displace Mexico from the crucial US market as well as creating problems in Mexico's own market. But even South American "winners" were worried about the implications of this boom in trade with China, as their 21st century economies began to look more like those of the 19th century.

Trade is the best known aspect of China's economic relations with Latin America, but the export of capital has been equally important. Chinese FDI began to enter the region in significant amounts in 2005 and accelerated after the financial crisis in 2008. From 2005 till the boom ended in 2013, total FDI inflows from China were nearly US $60 billion . Some came in as new projects (greenfield investment), but more came from the purchase of existing assets (mergers and acquisitions). The Chinese prefer M&A transactions, since they provide access to successful, ongoing companies, but for host countries greenfield operations are preferable since they increase production capacity, rather than shift ownership (unpublished data from ECLAC's Unit of Investment and Corporate Strategies).

As with trade, the distribution of FDI across countries was very uneven. Over half went to Brazil alone; the top three recipients accounted for three-fourths of Chinese FDI inflows to the region in 2005-13. Concentration also occurred by sector. ECLAC (2015) estimates that nearly two-thirds of Chinese investments in the boom period were in coal, oil, gas and mining. In manufacturing, Chinese firms followed the same path as US MNCs earlier; they wanted to produce for the domestic market in Latin America.

The other main source of capital flows from China to Latin America involved loans from government-owned "policy banks": China Development Bank (CDB) and the China Export-Import Bank (CHEXIM). Policy bank loans started in 2005 on a very small scale, but US $82 billion were lent by 2013. While the loans were again very concentrated by country, the mix of recipients was different. Four borrowers represented 92 percent of all loans to the region: more than half went to Venezuela. With the partial exception of Brazil, the main recipients were countries that could not access international capital markets because of their policies, high risk, and ideological stance; China became a lender of last resort for this group. For the period, over half of all loans financed oil, gas, coal, mining and renewable energy; lesser amounts went for infrastructure and general budget support in Venezuela and Ecuador (Gallagher, Irwin, and Koleski, 2012).

While Chinese relations with Latin America during the boom focused primarily on economic activities, they were reinforced by incipient political initiatives. The most important were the issuance of the first “White Paper on Latin America and the Caribbean,” visits by top political leaders, membership in several regional organizations, and cultural exchanges of various kinds. They also included China’s attempts to convince countries in Central America and the Caribbean to switch their diplomatic recognition from Taiwan to the mainland.

The 2008 White Paper indicated that Chinese leaders were thinking about how to incorporate Latin America into their rapidly expanding set of relations with the developing world. The document itself was filled with diplomatic boilerplate, but it outlined a large number of areas in which the relationship might expand in the political, economic, socio-cultural, and security arenas. The emphasis was on cooperation and exchanges, although very little specificity was provided (PRC, Ministry of Foreign Affairs, 2008).

Visits by Chinese presidents included two trips by Jiang Zemin in the immediate pre-boom years: a 12-day visit to six countries in 2001 and one to Mexico in 2002. They also included four trips by Hu Jintao: to Argentina, Brazil, Chile, and Cuba in 2004; to Mexico in 2005; to Costa Rica, Cuba, and Panama in 2008; and to Brazil in 2010. Presidential trips involved highly symbolic declarations of friendship, but also promises of expanded economic relations. In addition, China pursued affiliation with regional organizations. It was accepted as a permanent observer at the Organization of American States (OAS) in 2004. More significantly, it became a member of the Interamerican Development Bank (IDB) in 2008. As a donor member of the IDB, China agreed to contribute US $350 million for IDB programs.

While China has pursued relations with the Latin American region as a whole, bilateral relations were of utmost importance, especially with the major countries in the region. Bilateral diplomacy was on display in the visits to individual countries of which the largest number involved Argentina, Brazil, Chile, Cuba, and Mexico. Before the economic boom began, political relations were centered on Cuba and Venezuela. Cuba was the first Latin American country to recognize the People's Republic of China (PRC) as the legitimate government of the mainland. Unlike the rest of the region, where economic relations were centered on natural resources, China helped Cuba to strengthen its production and export capacity in manufacturing (Hearn, 2012).

China-Venezuela relations began in the early 2000s, when Hugo Chavez courted the Asian giant to help reduce his reliance on the United States. While China refused to get involved in Chavez's political battles, it was willing to finance him under certain conditions. In 2007, CDB began supporting Venezuela's oil investments with two conditions: repayment via delivery of future Venezuelan oil shipments and guaranteed contracts for Chinese companies. The loans burgeoned after the financial crisis, enabling Chavez to continue his massive social programs in the face of falling oil prices. Venezuela has received more money from China than any other country in the region, but this later came back to haunt China as we will see (Ferchen, 2020).

Finally, cultural exchanges between China and Latin America got a start in the boom years. China offered scholarships to Latin Americans to study in China and sponsored various kinds of visitor programs to acquaint Latin Americans with China. One of the most important ways in which China pursued cultural relations was through its Confucius Institutes, which were hosted by many Latin American universities and sponsored joint projects and exchanges (NED, 2017).

The End of the Boom

In 2014, a crucial change occurred in China-Latin American relations. China cut back on its imports from the region, which led to the beginning of an extended recession that still continues today. This shift resulted in various changes in the economic and political links described above.

Just as trade underpinned the China Boom, it was also the principal mechanism through which economic relations between China and Latin America suffered when the boom ended. Regional exports to China fell more than 25 percent before beginning to recover. The largest loser in absolute terms was Brazil, but by far the biggest loser in percentage terms was Venezuela. Other commodity exporters also suffered significant losses. The regional deficit actually increased since exports fell more than imports. Deficits were very unevenly distributed across countries, but overall the largest deficits continued to be in Mexico (ECLAC, 2018).

While trade relations between Latin America and China fell off after the boom years, capital flows actually increased. Although both FDI and loans were volatile, a clear pattern can be discerned. According to ECLAC (unpublished data from the Unit on Investment and Corporate Strategies), the post-boom period saw substantially more FDI from China than entered during the boom years. Average inflows in 2005-13 were US $6.5 billion per year, but in 2014-18 they nearly doubled to US $12.2 billion. This was despite the fact that the Chinese government began to restrict outward FDI to all regions in 2017.

Loans from the Chinese policy banks also increased in the post-boom period, although they were slightly lower than FDI inflows. The average annual loan inflow for the period 2005-13 was US $9.2 billion, while in 2014-18 it was US $11.7 billion. The main recipients between 2014 and 2018 were Brazil, Venezuela, Ecuador, and Argentina, which continued the trend that governments lacking access to the international capital markets turned to China. It is notable, however, that Venezuela did not receive any new money in 2017 and only a US $5 billion credit line in 2018 to support oil production, after being the dominant borrower up to that time. Again, oil and other energy investments, together with infrastructure, were the main areas of interest for China. Within the infrastructure area, the main projects have been in buying or constructing ports, which some fear could have dual commercial-military use (Myers, 2018; Gallagher and Myers, 2020).

With the onset of recession in Latin America in 2014, new challenges faced China. Polls indicated that Latin Americans might be blaming China for the downturn, as public opinion about China became much more negative (Walz, 2018). The Chinese government engaged in a number of activities to bolster relations. One was increasing the level of finance, as just seen. This tool was basically under government control since it involved state-owned companies and banks. But there were also more direct political responses, including a second White Paper, more official visits, increased regional activities, and expanded cultural activities.

In 2016, the Chinese Foreign Ministry issued a second “White Paper on Latin America and the Caribbean.” It was similar to the first one, but laid out more detail, reflecting the greater understanding of Latin America that China had acquired in the intervening years and China’s continuing interest in Latin America for economic and perhaps political reasons as well (PRC, Ministry of Foreign Affairs, 2016). It is notable that Latin American countries have failed to match China in laying out goals and visions for the relationship.

Since the end of the boom, Xi Jinping himself has made four trips to Latin America. In June 2013, shortly after assuming office as President of China, Xi visited Mexico, Costa Rica, and the Caribbean. He returned to the region the following year, combining a BRICS Leaders' Meeting in Brazil with bilateral meetings in Brazil, Argentina, Venezuela, and Cuba. His third trip was to attend the APEC Leaders' Meeting in Lima in November 2016, which he combined with visits to Chile, Ecuador, and Peru. Finally, President Xi attended the G-20 meeting in Buenos Aires in late 2018. The G-20 was followed by Xi's second visit to host country, Argentina, and then he proceeded to Panama, one of the countries that recently switched its allegiance to the PRC. In each case, Xi signed multiple agreements, promising new trade and investment initiatives and expanded exchanges between China and Latin America.

Complementing official visits were regional initiatives. The most significant was the China-CELAC Forum. At the meeting establishing the Forum in Brasilia in 2014, Xi hinted at broadening Chinese economic activities from natural resources to other sectors including energy, infrastructure, agriculture, manufacturing, science and technology, and information technology. At the second summit in 2018 in Chile, China invited Latin America to join its multibillion-dollar Belt and Road Initiative (BRI). The BRI was an enormous program of loans to finance infrastructure needed to connect China to various parts of the world. While some countries were enthusiastic, others were more suspicious; later, however, a number of individual Latin American countries became affiliated with the BRI.

Bilateral relations remained crucial in the post-boom period to deal with two particular types of problems. The most obvious concerned Venezuela. While Chavez was president, he managed to hold Venezuela's economy together to some degree, initially aided by high oil prices. His successor had far greater difficulties and came to rely on China even more. The Chinese seemed unsure about what to do. Their main client in Latin America had an economy and a political system in chaos; moreover, Venezuela's oil production was plunging so it could not keep up with loan payments. The Venezuela disaster has tarnished China's reputation internationally, and the government fears that it will arouse political protests at home if Venezuela were to default on its loans (Ferchen, 2020).

The other kind of bilateral problem that has worried Beijing is of a quite different sort – although it might come to pass in Venezuela as well. That is, a number of leftist governments to whom China had made extensive commitments via loans and/or FDI were replaced by more conservative governments. In Argentina and Brazil, the new governments eventually decided to continue their links with China (Patey, 2017; Spring, 2018), while Ecuador has turned to the United States and the IMF to deal with the problems resulting in part from its relations with China (Rathbone and Smith, 2019).

Cultural activities were also stepped up after the boom ended. Education has been an important topic in all presidential visits to the region. During President Xi's 2016 speech at the APEC summit, he promised to provide scholarships for at least 10,000 students per year to study in China. The Confucius Institutes were also expanded, and a regional center was set up in Santiago, one of only three in the world.

Dependency with Chinese Characteristics?

To conceptualize China's relations with Latin America, I again use the mechanisms of markets, leverage, and linkage. I take it for granted that the exact forms of the three have changed significantly over time and place. But, of course, there must be recognizable similarities, despite the changes, for the use of the categories to make sense. My argument is that those similarities exist and that we can gain traction by employing the three mechanisms to understand China's relationships in the region.

Markets, of course, are less important in China's socialist economy than in the West; they are also distorted in the sense that the government provides help of various kinds to both public and private firms. In particular, firms have access to subsidized credit, while wages may be held in check. *Economic leverage* can be brought to bear through the great asymmetry in the size of China's economy compared to any in Latin America. Especially in cases where negotiations are carried out with little transparency, and where governments have few alternative sources of markets or finance, economic leverage can be widespread. *Political leverage*, by contrast, has not been deployed in Latin America unlike the situation with the United States in Latin America earlier. Finally, *linkage* is beginning to be developed as a tool in the China-Latin American relationship in some countries. High-level visits are a way that Chinese leaders demonstrate respect for partner countries, membership in regional organizations provides reinforcement, while cultural links expand from governments to individuals and groups. Other characteristics of US-Latin American linkage – such as business networks and military connections – have not been part of China's linkage attempts. In general, since China has a shorter history with Latin America and has concentrated heavily on economics, linkage relations have proved harder to forge.

Table 2 divides Latin American countries into two categories. Latin America-1 represents those that have been willing to accept China's rules. The countries I have in mind are Venezuela, Bolivia under Morales, Ecuador under Correa, Argentina under the Kirchners, perhaps Peru under Humala. Their willingness to sign contracts in back rooms left them at the mercy of China's economic leverage in spite of the apparent market context. This power was reinforced with respect to finance, since these governments had little access to international capital markets and so China operated as lender of last resort. Trade relationships, which often involved countries' major export products pledged to repay loans, were another example of the interrelationship between markets and economic leverage. In this situation, linkage was less important because government officials already identified with the Chinese perspective.

Table 2. Dependency Involving China and Latin America, 2003-19

	Latin America-1 2003-2019	Latin America-2 2003-2013	Latin America-2 2014-2019
Markets	Low	Medium	Medium
Leverage	Medium	Low	Low
Linkage	Low	Low	Low-Medium

For definitions of Latin America-1 and -2, see text.

For other countries in the region, by contrast, the dependency mechanisms look different. Portrayed in the table under the Latin America-2 heading, these are countries that pride themselves on following transparent rules and international standards of governance. Examples include Chile, Colombia, Costa Rica, Mexico, Uruguay, and Brazil most of the time. Since these countries do not need China as much as their counterparts just discussed, they have more power in negotiating the rules of the game. Of particular importance is an open bidding process for government procurement and infrastructure projects as well as trade contracts that are openly negotiated and based on international prices. In these circumstances, markets become more important and leverage less so.

In the absence of political or economic leverage, the relevance of linkage increased during recent years in this group of countries. As economic performance in Latin America deteriorated after the boom ended, with some tendency to blame China for the recession, China began to increase its political activities in the region. As we saw, examples included presidential attention in the form of extended visits; institutions such as the new China-CELAC Forum, which offered cooperation in various areas; and educational opportunities for Latin American students to study in China and the Confucius Institutes locally. Nonetheless, it must be emphasized that the conditions under which the United States expanded the use of linkage in the 1980s were radically different from those when China tried to establish linkage in the 2000s. Starting from scratch is very difficult.

Conclusions

In this chapter, I have argued that a dependency approach – based on the mechanisms of markets, leverage, and linkage -- can help to understand China-Latin American relations in the 21st century as well as US-Latin American relations in the 20th century. I did admit, however, that there have been some important changes that must be taken into account. The tasks in this final section will be to summarize the main changes between the two periods and to speculate on reasons for the differences.

Tables 1 and 2 showed the market, leverage, and linkage relations over two periods for both the US-Latin American and China-Latin American cases. Thus, we have four sub-periods: US-Latin America in 1950-80 and 1980-2000 and China-Latin America in 2003-13 and 2014-19. Going back to the Cardoso-Faletto terminology, we can think of the four sub-periods as four *situations of dependency*, where the nature of the dependent relationships varied according to internal characteristics of dependent countries (Latin America) and dominant ones (United States and China). Given the long time span involved, we can also expect changes in the international context in which the countries were embedded.

US-Latin American relations in the early postwar years represented a first situation of dependency, where the Latin American economies were relatively closed in economic terms (under the ISI model) and thus less vulnerable to markets and economic leverage. They were, however, susceptible to political leverage. Linkage was not significant. In 1980-2000, by contrast, the more open Latin American economies (under the market-oriented model) experienced a second situation of dependency. Dependency increased on every measure: the role of markets and economic leverage rose, as did linkage, although use of political leverage became less common. One way of expressing the evolution is that the dependency relationship became more sophisticated, as economic leverage substituted for political leverage and linkage grew in importance.

A third situation of dependency was found with respect to China-Latin America during the China boom years. Here, rather than the degree of openness, the "style" of economic policy making (level of transparency and adherence to rule of law) distinguished one situation of dependency from the other *among groups of Latin American countries*. The availability (or not) of alternative sources of finance reinforced the variation in policy making style. As Table 2 shows, one group of countries faced a significant amount of economic leverage during the boom years, while the other was more influenced by markets. The former was the group of countries with less transparency and where China was the lender of last resort; the latter featured greater transparency and had more financial opportunities. Linkage was not important for either group. When the boom ended, the first group continued as before with dependency relations based on economic leverage. For the second group, by contrast, linkage increased in the absence of (economic) leverage. Again, the dependency relationship was becoming more sophisticated over time, at least for one group of Latin American countries, as China became more familiar with the Latin American context. Nevertheless, as mentioned earlier, China lacked the deep political, economic, and cultural ties that the United States had established over many decades. Thus, creating linkage was quite difficult for China and only partially successful.

As to why these differences exist, my hypothesis is that it involves five main factors. First, time was a factor: national and international norms changed as the 20th century drew to a close. Resort to military force and intelligence services to undermine governments became less acceptable, and economic leverage tended to displace political meddling. In the process, linkage became more necessary as a way for dominant countries to achieve their goals. This shift can be seen between the two US-Latin America sub-periods, but it also comes into play in China's evolving relations with Latin America, where political leverage has never been an option.

Second, characteristics of dominant countries are relevant. While the differences between the United States and China are far too vast to discuss, one is of special importance here. In the United States, and the West more generally, markets and prices play a far more important role than they do in China, despite China's opening and reform since the late 1970s. "Socialism with Chinese characteristics" still places strong emphasis on state directives at home but also abroad. Not surprisingly, then, the role of markets in China-Latin American interactions is less significant than in the US-Latin American context. Economic leverage and/or linkage must be used instead.

Third, geography was very important. As neighbors, the United States and Latin America had many overlapping political, economic, and cultural interests. It was also far easier for US government officials and businesspeople to travel between the two areas; transportation links both reflected and enabled the interconnections. US-Latin American production networks were partly a reflection of geographical proximity. For China, Latin America was very far away. Transportation was difficult, both for people and goods; indeed, one of China's main activities in Latin America has been building infrastructure to get products to market.

Fourth, history and knowledge reinforced geography. Partly because of geographical proximity, US actors had a much longer history in the hemisphere and greater knowledge of the ways that politics and business were conducted in Latin America. China's serious engagement with Latin America is very recent. Thus, China's knowledge of the region and its customs is limited, and language difficulties have compounded lack of understanding. US universities have hundreds of Latin American Studies programs, and hundreds of thousands of Latin Americans have studied in the United States; neither is common in China. As a consequence, linkage is much easier to establish in the US-Latin American case. It is important to point out, however, that China has been learning about Latin America; this is reflected in the increased attempts to construct linkage relations in some countries and the greater willingness to abide by local regulations (where they exist).

Finally, combining variation in geography and history, when China began to play a greater economic role in Latin America, it always had to take account of the looming presence of the United States. This was true in economic but especially in political terms. Not surprisingly, then, China concentrated heavily on the former and was extremely reluctant to get involved in the latter. It had to deal both with conservative US government officials criticizing China and US businesses striving to limit Chinese competition. While Latin America was of interest for China, China's relationship with the United States was far too important to risk by taking a more aggressive stance in the US sphere of influence.

In conclusion, I argue that a dependency framework is useful for understanding China's relations with Latin America in the 21st century. But the specific characteristics of the dependency relationship with China – the situations of dependency – vary in comparison with those typical of US-Latin American relations in the 20th century. They differ for a number of historical, geographical, and structural reasons, but the three mechanisms of markets, leverage, and linkage nonetheless give us a handle on understanding China's new presence in the region.

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