South-South competition: Asia versus Latin America?

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What does the rise of the East Asian countries, and China in particular, mean for the countries of Latin America? Will China, building on its hard-to-beat mix of wage advantage, labour supply, foreign investments, and technological capacity, crowd the emerging Latin American markets out of the world markets for industrial goods?[1]

The development of a unified system of world trade accompanied by a structural reorientation of the economic strategies of most countries to export-driven world-market integration is not only giving rise to new constellations in North-South economic relations. The process is at the same time leading to intensified competition between countries of the South. These countries, and their products, are not only entering into competition in the export markets of the industrialized countries, they are also faced with growing competition in their own domestic markets. While Asian countries – led by China – have been capturing larger and larger shares of foreign investments, export markets, but also of Latin American national markets, Latin American countries have – despite their break with import substitution and their adoption of an export-oriented growth strategy – been increasingly faced with a situation marked by a diminishing presence in the world market and losses of shares of their own domestic markets.

It appears to be mainly Mexico, with its low-wage maquila industry, that has felt the brunt of China's rise. In recent years hundreds of maquila factories in Mexico have been closed and relocated in Asia. And while East Asia has been developing at a breathtaking pace into the world's workbench, Latin America has, during the past 25 years, continuously lost larger and larger shares of its industrial output. The Cono Sur, with its relatively developed economies, appears to be in the grip of an accelerating process of deindustrialization: if in 1970 manufactured goods accounted for 30% of the GNP of the countries of southern Latin America, the figure had declined to 17.3% by the year 2000. By comparison, in Korea and Taiwan, but also in China, the corresponding figure rose in the same period (UNCTAD 2003: 96).

Foreign investments

One possible interpretation of this development is that the opening of the Chinese market and the relaxation of the investment restrictions originally in force in the first-generation newly industrializing countries (Korea, Taiwan, Singapore) had the effect of redirecting flows of foreign investment. This, however, was not the case: indeed, in the 1990s Latin America continued to receive substantial foreign investments – though nowhere near the amount that went to China, which, in the

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[1] This was the topic of a Friedrich Ebert Foundation conference in Mexico City: "South vs. South: The transpacific race to the bottom?" Mexico City, October 30-31, 2003; aside from Mexican experts, the conference was attended by experts from Korea, Brazil, China, and Germany. For the conference program and the papers presented, see: http://www.fes-alca.cl/archivos/Program%20South%20vs%20South.doc. The present paper sums up the main results of the conference.

past 25 years, has received foreign investments summing up to an almost incredible US-$ 446 bio.

We do, however, find clear-cut differences as regards the type and the orientation of these foreign investments: while in China the major share of these investments, classic "greenfield investments," went into the manufacturing sector, the development noted for Latin America was an entirely different one. Here a large share of investments went into company acquisitions and privatization of state-owned service companies. Peter Nunnenkamp of the Kiel Institute for World Economics noted that while in Asia foreign investments have served to complement domestic investments, in Latin America they have tended more to crowd out domestic investors.

Competition in many sectors

But Latin America's problems are not due only to the expansion of Chinese industrial production. Indeed, there is a great variety of competition between the newly industrializing countries of the South, which extends to their own domestic markets as well. In Brazil, for instance, Mexico's main competitor is not China but Korea. As the Brazilian economist Ricardo Sennes noted, there is every reason to expect that Mexican suppliers will be crowded out of nearly all sectors by Asian competitors. And Argentina's main competitor in Brazil is not, as might be expected, China but an entirely different country that is on the verge of breaking into the world economy: India.

But even the Asian countries are faced with growing competition among one another. Korea, for instance, sees itself challenged by Chinese industry in a great number of sectors: China is, as noted by Kim Won-ho of the highly reputed Korean Institute for International Economic Policy, taking advantage of favorable conditions to compete with Korea in most important branches of industry.[2] Korea has responded to this challenge by adopting a strategy similar to the one pursued by Japan in the 1970s to come to terms with the Korean challenge: restructuring of industrial production, technological upgrading, and targeted investments by Korean companies in China. If it is, in the long term, to remain viable in the face of competition from China, Kim noted, Korea would be forced to "convert the whole nation into a special economic zone."

On the other hand, Latin American countries are also competing with one another. A study on the ongoing exodus of Mexico's maquila industry came to the result that only one third of maquila producers have succumbed to the enticements of Chinese poachers, while over 10% have looked to the south, relocating production in Central America – another low-wage market and an area with one of the world's worst records in the treatment of labor union members and civil society.

Latin America has not been doing its homework

While Latin American countries bewail an allegedly unfair competition based on dumping wages, analysts are pointing out that what is behind this development is more than merely blatant differentials in wage levels. In recent decades, marked as they have been by a preeminence of neoliberal economic strategies, Latin America has in many respects been faced with a situation of declining competitiveness. Many Latin American countries have failed to do some of their essential homework and are now confronted with systematic weaknesses in many structural areas. Far from being the result of external factors, these weaknesses are mainly the outcome of political and economic decisions and emerging constellations within Latin American societies.

As Peter Nunnenkamp pointed out, the most important weak points besetting Latin American countries in their competition with Asian producers include:

- insufficient quantity and quality of schooling, with marked differences in training in the fields of mathematics and natural sciences;
- underdeveloped capital markets;
- insufficient quality of national infrastructures;
- inadequate quality of local input suppliers;
- insufficient expenditures for research and development;
- inadequate company-level innovativeness and innovation-mindedness;

[2] In some cases Korean wage costs are as much as 43 time as high as China's *(Korea Times* 21 Nov. 2002).

- insufficient labor productivity.

This finding, if it is correct, is bad news for both ends of Latin America's political spectrum: for the neoliberal ruling elites (and their ideological prompters from the World Bank and the IMF) it means that the policy pursued during the past two decades has failed. The outcome is that these countries now lack both sufficient growth and the structural foundations needed for growth and are faced with growing poverty, deindustrialization, and social polarization. On the other hand, though, Latin America's leftist critics of globalization are also going to have to rethink their positions: it is not Latin America's integration into the world economy per se that constitutes the problem but the weakness of innovation processes, the sclerotic state of some of the central institutions of the state and the economy, and the weakness of national companies and entrepreneurs.

The failure of the neoliberal model of the "shock therapy" and the privatization strategy is making itself felt in a neglect of some fields central to future development – education and research and development. Latin American schools are turning out poorly qualified graduates, and social differentials are having dramatic consequences for the quality of training. And while in China or Korea the private sector accounts for 70-80% of spending for research and development (R&D), in Latin America the picture is just the reverse. In Chile and Mexico, for instance, the public sector foots the bill for 80% of R&D expenditures (which are in any case far too low): far and wide, hardly a trace of the Schumpeterian enterprise. And this, too, has consequences: according to a UNIDO report, the technological competitiveness of a majority of Latin American countries declined markedly between 1985 and 1998 (UNIDO 2002: 44).

One other respect in which the successful Asian countries clearly differ from their Latin American counterparts: while Latin American countries – and precisely two of the continent's larger economies, Mexico and Brazil – are among the world's most inegalitarian societies, viewed in worldwide terms, the East Asian "growth champions" turn out to be comparatively highly egalitarian societies.

And it may further be assumed that another specifically Latin American "growth killer" is bound up with these distributional problems: a study by the Inter-American Development Bank estimates the costs of violent crime, an extremely widespread problem in Latin America, to be 14.2% of GNP (IADB 1999: 19). A World Bank study estimates that per capita incomes in Latin American would be 25% higher than they are if the continent had crime rates comparable to those in the rest of the world (CSIS 2003: 8).

No shadows without light: China as an export market

China's rise to the position of an important exporter has been accompanied by substantial growth in imports – some of which come from industrialized countries, some from newly industrializing and developing countries. Since 1992 Korean exports to China have grown by an annual average of 27%; in 2003 China will be Korea's most important export market. However, there are few prospects that Latin American countries will be able to profit from this import dynamic in the long term. It is estimated that China's industrial dynamics will in the long term lead to an above-average increase in imports of "capital-, technology-, and land-intensive" products. It is only in the last-named sector that Latin America has any appreciable comparative advantages – and is forced to fight for them in hard competition with subsidy-doped exporters from large developed countries like the US, Australia, or Canada. It is only niche suppliers that can turn this situation to their advantage: Chile, for instance, has profited for years now both from China's growing copper exports and from a increasing demand in "Coastal China" for fruit, mollusks, and bottled wines.

The race to the bottom

One of the standard arguments advanced in Latin America in discussions on the Asian challenge is that Asian countries have low wage costs and engage in "social dumping" practices. In fact, China aggressively uses the wage argument to lure production operations from Mexico – and other parts of the world – to China. But the differentials involved here are less pronounced than they are elsewhere (e.g. the German-Polish wage divide). And yet even in China's – expensive – coastal provinces the average wage levels indicated by Chinese recruiters are no more than one third of Mexican wage costs (http://www.chinafacturing.com/china_labor_costs.html).

It is true that much of the criticism voiced in Latin America is correct, and some of locational advantages enjoyed by China and other Asian countries are based on a ruthless and unsustainable exploitation of man and nature. However, in view of the social realities of Latin America this reference to a lack of respect for workers rights in China – e.g. a ban on free labour unions and systematic repression of autonomous workforce representations – would seem to lose some of its bite. Latin America is the continent in which most cases of violence against union members are reported. Of the 213 union members murdered throughout the world in 2002, Latin American countries accounted for 206 cases – with only four being reported from Asia as a whole and none from the alleged worker gulag China (ICFTU 2003).

In all, a number of indicators show that the erosion of working conditions and workers' rights noted in many countries is bound up with growing South-South competition (Ross/Chan 2002). International mechanisms designed to monitor and if need be enforce compliance with the ILO's core labor standards therefore continue to be one of the most important "missing links" in the emerging institutional structure of global governance and regulation of a globalized economy.

Lack of concepts and political will

In the end, the Asian participants noted, there is very little evidence of any genuine development strategy in Latin America. As Prof. Yin Xinmin of Shanghai's Fudan University stated it, China is in possession of a clearly defined, long-term national project. And while China's project is geared in essence precisely not to relying on cheap human resources and raw materials but keyed, as in Japan or Korea, to developing the domestic market and building strategic industrial and technological competence, Latin America has in the past decades relied solely on "natural" competitive advantages and an export orientation of its economies. If Latin America proves unable to reach agreement on a different strategic concept, the Chinese economist went on, Latin America's "ailments" are unlikely to be overcome in the foreseeable future.

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