

# China and the reshaping of the Argentinian and Brazilian development models during the 21<sup>st</sup> century \*

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## Abstract

During the 21st Century, China has played a growing role in international trade and geopolitics, with important consequences for the Global South. In Argentina and Brazil, international insertion as a development model has been questioned. Although this situation has allowed for economic growth, it has also recreated old relationships of dependency. This study contributes to the discussion of the possibilities of implementing development policies in Argentina and Brazil in a scenario in which the international (re) emergence of China reinforces the structural power of the historical ruling classes. To do so, dependency categories, as well as notions of the accumulation regime and Poulantzas' power bloc, are used in an international political economy framework, which empirically focuses on elaborate data on trade and investment.

**Keywords:** China; Argentina; Brazil; Development; Power bloc; Dependency.

## Resumo

### *China e a reestruturação dos modelos de desenvolvimento de Argentina e Brasil durante o século XXI*

Durante o século XXI, China desempenhou um papel crescente no comércio internacional e na geopolítica, refletindo em com consequências importantes para o Sul Global. Neste sentido, a inserção internacional de Argentina e Brasil como modelo de desenvolvimento tem sido questionada. Embora esta situação tenha permitido o crescimento econômico, também recriou antigas relações de dependência. Este estudo contribui para a discussão das possibilidades de implementação de políticas de desenvolvimento na Argentina e no Brasil em um cenário no qual a (re)emergência internacional da China reforça o poder estrutural das classes dominantes históricas. Aos fins de debate, um marco teórico que incorpora categorias da teoria da dependência, noções do regime de acumulação e do bloco de poder de Poulantzas é utilizado sob um marco mais geral de economia política internacional, com foco empírico na elaboração própria de dados de comércio e investimento.

**Palavras chaves:** China; Argentina; Brasil; Desenvolvimento; Bloco no poder; Dependência.

**JEL:** F50, N16, O11.

## 1 Introduction

Since the beginning of the 21<sup>st</sup> century, China has played a dominant role in international trade and geopolitics. The Asian giant has been experiencing great economic growth for decades, a significant increase in its share in the global production of goods, its own novel technological developments, and an unparalleled reduction in poverty (Rosales, 2019). The re-emergence of China

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has increased the demand for commodities and supplies to maintain its levels of growth, which has resulted in significant increases in the Global South's exports. Argentina and Brazil, the two largest South American economies, were among their main beneficiaries. These international insertions have been questioned as development models since Chinese demand has driven economic growth, but the focus of these countries on primary production could reduce their political autonomy, generate negative environmental consequences (Svampa; Slipak, 2018), and recreate old dependency relationships (Marini, 2007).

In political terms, at the beginning of this century, both states were controlled by progressive government coalitions under a wave of anti-neoliberal movements after the crisis of the late 1990s. Subsequently, conservative administrations strengthened and undertook to change the preceding tendency (2016-2020/22). Did these changes in political parties in power modify the structural tendencies of both countries' developmental models? What is the role played by Chinese re-emergence and international insertion in the accumulation regime?<sup>1</sup>

As international reserves decline, the ruling classes that provide foreign exchange concentrate their veto power over economic policy. Faced with the possibility of an economic crisis, the rest of the dominant and subordinate classes aligned themselves with the political interests of the first group. Consequently, the policy space was considerably reduced. Due to the relevance of international insertion, foreign exchange providers gain centrality in the power bloc.<sup>2</sup> Has Chinese re-emergence promoted relative autonomy to government coalitions from the historical ruling classes? Has it been sufficient to promote a new development model?

Historical evidence shows that geopolitical interest could forbid financial support and improve unilateral trade conditions as a way to open political space.<sup>3</sup> The developmental state is a particular historical case of geopolitical conditions, coalitions of class fractions, and economic policies. In this sense, debates about development models for Latin America (LA), as opposed to those of the "Four Asian Tigers" (South Korea, Taiwan, Hong Kong, and Singapore), are characterized by the lack of long-term development plans with stable economic and social policies. However, the region also lacks the geopolitical characteristics that allow for the creation of national, developmental states due to permanent foreign threats or even due to playing a strategic role in the interests of the hegemonic conflict that would promote an "invitation to development" from power with interests in the region.

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(1) "The accumulation regime describes growth models in the long run... Its typical parameters essentially result from two institutional forms: the salary relation and the form of competence" (Boyer, 2007, p. 81-82). In addition to the pro-regulation approach, other authors have gone beyond and considered that "it refers to the articulation of a given operation of the economic variables connected with a defined economic structure, a specific form of State, and clashes between existing social blocs" (Basualdo, 2007, p. 6).

(2) "(The power bloc) thus indicates the contradictory unity of the ruling classes or class fractions, in their relation to a particular form of the capitalist state. (...) In this sense, the concept of the power bloc refers to the political level, it includes the field of political practices, to the extent that this field concentrates on itself and reflects the articulation of the set of instances and of the levels of class struggle at a given stage. The concept of the bloc in power has here a function analogous to that of the concept of the form of State with regard to the legal-political superstructure" (Poulantzas, 1969, p. 302-303).

(3) From a dependentist perspective, Osorio (2015) argues that the geopolitical factor is quite relevant for the understanding of the "success" of South Korea and recently also for the Chinese case. From the International Political Economy perspective, Fiori (2015) also highlighted the central role of geopolitics in the generation of national development strategies.

Given this disadvantage from a geopolitical standpoint, the Latin American economic path is subject to fluctuations in the international prices of exported goods, international liquidity, and internal political conflicts. In the early decades of the 21<sup>st</sup> century, different administrations proposed economic policy platforms that were significantly different depending on the various coalitions, alliances, and movements in civil society they represented. Thus, different administrations took different paths concerning foreign, commercial, social, and economic policies. Considering these conflicting political models, this study aims to discuss the feasibility of an accumulation regime based on the deepening of the exploitation of natural resources (led by fractions related to agribusiness and the financial sector) in the context of China's international (re) emergence and its derived transformations.

This paper has four sections in addition to the introduction. The first section provides a historical outline of structural economic reforms in China, Argentina, and Brazil throughout the last decades of the 20<sup>th</sup> century. The second section includes a description of the political economy of these countries, necessary to understand the dynamics in China and South America in the first two decades of the 21<sup>st</sup> century. These elements are connected to domestic accumulation regimes and power blocs (Poulantzas, 1969) during 2003-2020. The third section connects the paths in the commercial and investment spheres at the beginning of the century. Finally, we offer concluding remarks.

## **2 Divergent paths between China and Latin America (1970-2000)**

Occupying a peripheral place in the global economic system, China and Latin American countries have started a structural transformation process in the last decades of the 20<sup>th</sup> century. Argentina changed its capitalist development strategy in the decade of 1970 with military governments that saw industry as the fundamental basis of a worker movement defying domination relations, which was, therefore, dismantled. According to military leaders, the foreign debt crisis of the 1980s reinforced the idea that industrialization had failed in the region, and it was adequate to start a neoliberal reform process, which became consolidated in the West (Cepal, 1996). In Brazil, the long-lasting military dictatorship (1964-1985) only started the abandonment of the industrialization model led by the state when the debt crisis (1982-1991) conditioned the country's economic capacity (Bona; Páez, 2020).

At other latitudes, China started a process of opening, selectively, and gradually liberalizing its economy between 1978 and 1989.<sup>4</sup> However, this process of "liberalization" was quite different from the Latin American neoliberal reforms because there were geopolitical issues that opened up an opportunity for Chinese "developmentalism". The US strategy to increase the disagreements in the Socialist Bloc promoted the normalization of the diplomatic relationship with China in the early 1970s (Kissinger, 2011). This strategic partnership gave rise to one of the conditions for the beginning of the Eastern economic miracle: the inclusion of the Asian giant in the product and capital markets of

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(4) The main points of this new roadmap of the Chinese project were: (i) the decentralization of economic decisions through the delegation of power to the provinces and local authorities; and (ii) the adoption of management models and technologies of the West. These main points were introduced in stages based on the legitimization of the "strategic principle of opening up to the external world" and "peaceful evolution" (Pinto, 2011). China scored a triple transformation: from a planned economy to a market economy, from a closed economy to an open economy, and from a rural society to an urban society (Rosales, 2019).

the United States of America, which allowed for an increase in its exports and access to international financial flows until Tiananmen events. Some authors from different perspectives considered this process an “invitation to development” from the United States of America (Medeiros, 2006; Pinto, 2011; Osorio, 2015). The difference between China and the other Asian states that were “invited” by the USA (Japan, South Korea, and Taiwan) was that China never abandoned its autonomous defense strategy and its anti-imperialism rhetoric led by the State/party (Medeiros, 2006).

The new international insertion of China was useful for US capitalist projects, not only to isolate the URSS but also because of its cheap labor force and its role in the global value chain configuration. Meanwhile, the US hegemony was consolidated under three tendencies: global manufacturing industry restructuring with the expansion of high technology, the dollar as the international monetary standard, and a new era in finances after its liberalization and internationalization. These transformations weaken the organization and identity of the occidental working class (Panitch; Gindin, 2012).

During these years, Latin American countries were affected by failed sovereign debt restructuring negotiations, which entailed political strategies of recessive import controls and the promotion of exports through aggressive exchange rate policies. The actual restructuring came with a U.S. project (the “Brady Plan”), which included a package of policies designed by international agencies, called the “Washington Consensus”<sup>5</sup> (Ocampo et al., 2014).

The purpose of economic policy changed from full employment to controlling inflation levels (in some cases, hyperinflation in the 1980s). In this regard, the independence of the Central Bank ensured “structural adjustment” by limiting the state’s ability to respond to democratic pressures on social expenditure. This might have been the first time in the history of Latin America that economic liberalism agreed with political liberalism (Panitch; Gindin, 2012). Even though these policies emerged as provisional, the proposal was implemented with high initial acceptance, since it attacked the *Hobbesian* scenario generated by hyperinflation (Abeles, 1999) and, in turn, reaffirmed the structural power of the dominant classes and brought together their interests with the ability to access international financial flows.

In the early 1990s, China experienced unrest in connection with internal and external factors. The Tiananmen Square protests and the collapse of the Soviet Union entailed strong questioning of the process of decentralization and opening up. After several rounds of negotiations (CCP) with the support of provincial leaders and the People’s Liberation Army, the Great Compromise was established, which ensured the reform and opening-up process for 100 years, intending to make China a rich and powerful nation by the middle of the 21<sup>st</sup> century. The configuration of the Great Compromise meant, on the one hand, the acceleration of the “strategic principle of opening up to the external world” through the expansion of special economic zones, and, on the other hand, the promotion of internal development, through the increase of public investment in infrastructure and

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(5) Reforms in peripheral countries revolved around four elements: (i) liberalization of trade, (ii) deregulation of markets, especially the financial market, (iii) privatization of State-owned companies (mainly in the areas of transportation, energy, pensions, and public utilities), (iv) relaxation of regulations/precarization of the labor market (Antunes, 2009). This resumption resulted in an increase in the profit rate, which had fallen in the 1970s (Duménil, 2007).

industrial policies aimed at generating administrative and productivity gains for Chinese businesses (Andreas, 2010; Pinto, 2011).

During the last decade of the 20th century, China went from being a centrally planned economy to being a “socialist market economy,” where diverse forms of ownership are stimulated (state, private, and foreign capital joint ventures) (Picketty, 2019). In this context, the privatization policy was implemented by the CCP; as a result, large enterprises remained under state ownership, and small enterprises were assigned to their managers and provincial political leaders (insider privatization) (Naughton, 2007; McNally; Wright, 2010). During this period, there was a change in the profile of industrial exports, which used to focus on products with low added value (textiles and clothing) to include an increasingly diverse array of consumer and capital goods. China managed to improve its export basket and achieved a manufacturing percentage in international sales exceeding 90% (Rosales, 2019). This upgrade was the result of a strong industrial policy guided by successive five-year plans. They promoted a series of state-controlled reforms in the areas of agriculture, industry, defense, and science and technology as key aspects of their developmental strategies.

Latin America also intended to expand its exports as part of the new regulatory framework defined in the creation of the World Trade Organization (WTO) and the diffusion of bilateral investment treaties (BITs), which replicated U.S. law and adopted U.S. courts as if they were global courts (Treacy, 2021) and financial deregulation.<sup>6</sup> This strategy aims to increase foreign capital flows to accumulate foreign currencies, control inflation, and integrate national financial markets into international financial circuits (Kulfas, 2007). However, after the financial turmoil in the Southeast Asian region in 1997, LA entered a crisis and experienced what Bértola and Ocampo (2012) termed the ‘lost half-decade’: stagnation or drop in the GDP per capita and increase in inequality and poverty. In its most extreme versions, this period showed serious socio-economic crises, such as in the cases of Brazil (1998), Ecuador (1999), Argentina (1998-2001), and Bolivia (2003), which paved the way for challenging Washington Consensus neo-liberal policies.

After entering the WTO in 2001, China became a more important player in multilateral institutions, such as the United Nations, the International Monetary Fund, the World Bank, and G-20, as well as in bilateral negotiations with other countries, which shows an upgrade in its ranking in the inter-state system. Its economy has been growing 10% per year for more than 30 years and it is now considered the “world’s factory.” In this scenario, China’s rise brought about significant changes to capitalist dynamics at the turn of the century. As for Latin America, the discussion has to do with how to best become part of this new global dynamic in a way that will ensure both the sustainability of its economic expansion and the creation of employment.

Global accumulation has become a growth model fuelled by two articulated poles: the United States of America (USA) and China. The USA plays the role of “ultimate consumer” at the global level, while the latter performs as the “world factory, world factory’, the main producer of

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(6) There was a difference in the degree and speed of adoption of neoliberal reforms between Argentina and Brazil. Menem (1989-1999) in Argentina implemented a more aggressive transformation than the neoliberal administrations in Brazil. The differences lie mainly in privatisation and the celebration of BITs embracing the legal framework of US-led neoliberalism (Páez, 2017). Argentina signed 56 BITs, while Brazil signed only 2, which would strongly limit Argentina’s legal and economic sovereignty in the following decades, creating a favourable scenario for international companies to compete with local firms (Ghiotto, 2015; Araujo Junior, 2021).

manufacturers. The transmission mechanisms of Chinese dynamics have allowed for almost synchronized growth in several countries across many regions of the world: Asia, Africa, Latin America, and Europe. China's growing demand for commodities, the maintenance of a low interest rate by the U.S. Federal Reserve, and the increase in commodity prices have all given place to high growth rates in Latin American economies.<sup>7</sup> Donald Trump's interregnum (2016-2020) and the emergent nationalism in the context of the COVID-19 pandemic opened up the space for "decoupling theories." However, these new tendencies spark debate in connection with the next trends in the world in reorganization (Treacy, 2021). Even under the effects of the pandemic, China managed to cushion the global downturn with relatively meager but positive growth (2.3%) in 2020 (IMF, 2021).

### **3 Accumulation regimes and power blocs during the chinese boom in Argentina and Brazil (2000-2020)**

In the first two decades of the 21<sup>st</sup> century, this scenario of transformation at the international level was the background of administrations with different political orientations in Argentina: Kirchnerism in 2003-2015 and Cambiemos in 2015-2019, and in Brazil: PT [Workers' Party] in 2002-2016 and Temer-Bolsonaro in 2016-2022. They express political and economic projects with different geopolitical alignments (Morgenfeld, 2019). As part of the Pink Tide Movement, Kirchnerist and PT governments sought to reassess the role of the state in the economy and relations of production, which allowed them to create the capacity to receive and channel popular demands. They adopted political projects challenging the Washington Consensus, but they faced limits in this attempt to recreate a new accumulation regime. As the 1990s reinforced dependency relations (Arceo and Basualdo, 2006), their structural conditions remained during the 21<sup>st</sup> century.

The characterization sketched out based on its relationship with China reproduces its role in the historical division of labor in South America. While Argentina and Brazil were successful in diversifying their productive structures during industrialization led by the state in the middle of the last century, their international insertion remains rooted in a natural resource exploitation pattern (Belloni and Wainer, 2014), in which trade and investment flows reinforce this tendency by promoting the export of primary products.

This section discusses the social sustainability of the accumulation regime in Argentina and Brazil, based on the capacity to create jobs and sustained improvements in the living conditions of substantial majorities. Therefore, it is necessary to discuss public policies and political space to promote the acceleration of economic growth and improve the redistribution of income. Along these lines, the concepts of the power bloc allow us to show the convergent interests of certain economic sectors and how they contrast with the interests of subordinate classes. While the task of characterizing an accumulation regime and showing its links with the power bloc in two social formations is too ambitious for this study, we present some ideas based on recent literature and the previous analysis.

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(7) This growing demand for commodities in China and the low interest rate policy of the U.S. Federal Reserve entailed a rise in international prices of commodities traded by Latin America. This boom mainly favored countries producing minerals and oil and, to a lesser extent, agricultural producers (Ocampo, 2007; Pinto; Gonçalves, 2015).

Gramsci developed the concept of hegemony to explain how ruling classes articulate their interests and manage to present them as general ones. He used this term, among other objectives, to understand how bourgeois domination manifests in capitalism. As a social relationship, it spreads the vision of the world imposed by the ruling group, and if it manages to consolidate, it articulates a particular type of state. The latter is thus transformed into an organism that creates the conditions for its maximum expansion, presenting this program as universal, as the development of “national energies”. Hegemony, therefore, is not simply an alliance of classes, but rather the intellectual and moral direction of the non-dominant classes, building a unity between the different spheres of society that gives coherence to the historical bloc (a concept that serves to understand the unity between structure and superstructure in Marx’s categories) (Gramsci, 2003).

The concept of hegemony is used to understand how class or class fraction drives a power bloc. That hegemonic class or fraction constitutes the dominant element of the contradictory unit of the politically “dominant” classes or fractions, which integrate the power bloc. In this sense, the state unifies these classes to exercise domination, although there is the relative autonomy of the state to achieve the social cohesion of the class fractions constituted in that bloc (Poulantzas, 1969).

Studies focused on the Chinese impact on Latin American accumulation dynamics have highlighted the *chiaroscuro* of the new international scenario. On one hand, it entailed relief regarding external constraints<sup>8</sup> through an increase in the price and number of commodities exported, although with the counter effect of reinforcing the predominance of primary products in the export basket, a tendency that was amplified by China’s own investments in the commodities sector (Svampa; Slipak, 2015; Natch, 2013). On the other hand, the trade opening resulting from the dismantling of industrialization mechanisms led by the state (Bértola; Ocampo, 2012) opened the way to competition, in some cases under the accusations of dumping Chinese manufactured products. Finally, Chinese financial expansion also made it possible for countries suffering instability resulting from fluctuations in commodity prices to execute currency swaps to strengthen their reserves (Argentina, Brazil, and Venezuela, among others) (Horn et al., 2023).

### **3.1 Argentina: soybean boom and the debt burden**

The 1990s neoliberal experience ended with the worst economic, social, and institutional crisis in Argentina’s history. By 2002, the unemployment rate had increased to 22%, the poverty rate had reached 57%, and the economy had fallen by 10 pp. Neoliberal hegemony was questioned among mass sectors of civil society, as well as the fluid relationship with the United States of America and multilateral credit organizations (IMF and World Bank). This promoted space for a state’s relative autonomy to save the system of domination and redefine international relationships. Unlike the Chilean and Brazilian cases, the democratization process during the 1980s and the 1990s severely reduced the power of the military sector, which was unable to intervene in the political scene during the neoliberal crisis (Páez, 2020).

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(8) The external restriction has to do with the insufficiency of foreign currency in peripheral economies to pay for imports, to make foreign debt payments, to accumulate reserves (and, consequently, to maintain the stability in the exchange rate) (Thirwall, 1979), in a region with high capital flight (Kar; Freitas, 2012).

Between 2003 and 2015, goods-producing industries (manufacturing and civil construction sectors) were revitalized, and the Kirchner administration's policies allowed for a gradual recovery of the living conditions of subordinate classes (Basualdo et al., 2020). This restoration of the political order offered the conditions to relaunch a capital accumulation dynamic with a focus on full employment in the context of a favorable external scenario due to the increase in commodity prices and the growing demand from China for foodstuffs.

The main economic macroeconomic policies were a high (competitive) exchange rate, taxes on commodity exports, sovereign debt default, recovery of real wages by decree, and subsidized transport and energy bills to reduce the cost of living. The power bloc (led by large-scale manufacturing enterprises), which openly supported this program, consisted of export-oriented companies (due to rents valued in foreign currency and a cost structure valued in Argentinean peso), mainly agricultural (benefiting from Chinese demand) and large domestic market industries (benefiting from the protection provided by a depreciated exchange rate against imports and recovery of domestic demand). Small local manufacturers recovered and benefited from low real wages and subsidies, but occupied a subordinate role. Meanwhile, the financial sector and foreign companies (especially privatized public services firms) became "losers", because of the pesification of their assets and incomes (Páez, 2020). Additionally, the subaltern classes started to recover employment and real wages in the context of high economic growth (Bona, 2019).

This trajectory did not show major fractures within the ruling classes until 2008 when it faced a distributive conflict expressed in inflation, a political clash with the agrarian sector<sup>9</sup>, and the international financial crisis. Until 2008, there had been no conflict in this bloc in a scenario of high economic growth (legacy of high idle capacity in manufacturing, depreciated exchange rate, sovereign debt default, and later restructuring), relatively low prices of basic products, and (increasing but still low) real wages (Cenda, 2010). However, employment recovery created a scenario of higher demand in terms of income redistribution and generated a dispute with the dominant classes, in particular, landowners (mainly exporters) who were profiting from the commodity boom (Basualdo et al., 2017).

After the export duties conflict cropped up (in March 2008), the Kirchner administration adopted a national-populist approach which enhanced the Keynesian strategy of government-induced stimuli on consumption and employment. This expressed movement within the power bloc due to the confrontation between the government and landowners and some specific business groups (media and service conglomerates as pension funds) and the consequent recreation of an internal market alliance between manufacturing conglomerates, minor domestic enterprises, and popular sectors (particularly workers, small firms, and socio-territorial movements) (Wainer, 2018). These stimuli, an upward trend in commodity prices and Asian demand, together with the economic recovery in the region after 2009, extended the expansion phase to 2011. Argentine administration entered into multiple

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(9) In 2008, the federal government tried to increase the taxation on agricultural income by a wind-fall duty on soybean, corn, wheat, and derivatives. The proposal was rejected by the major agricultural organizations, which had historically supported opening-up and liberalization policies. Large sections of the civil society also took part in protests, especially in large cities. The episode allowed to articulate conservative groups against the federal government (Basualdo et al., 2020).



agreements with China, related not only to commercial but also to investment, tourism, cooperation, and other matters (Oliva, 2017).

Although the extractive sectors benefiting from Asian demand have increased their global participation, the manufacturing sector has not completely lost its relevance. Although different authors (Fernández Bugna; Porta, 2011; Lavarello, 2017) have highlighted the reindustrialization process in the 2000s, it is important to note that this sector did not improve its international insertion, except for the automotive industry and chemical products. Similarly, the existence of a relevant manufacturing capitalist fraction associated with technology-intensive sectors (motor vehicles), commodities (manufacture of chemicals, basic pharmaceutical products, and basic metals), and traditional industries (manufacture of rubber and leather) earned considerable profits (Bona, 2020). Even when the new international dynamic has benefited extractive sectors and traditional ruling classes (landowners) due to increasing Chinese demand, the presence of these relevant fractions reinforced the dependent character of the industrial sector (Páez, 2020).

In this context, industrial fractions had different interests in the growing commercial relationship with the Asian giant. Some sectors were negatively affected by direct competition from Chinese imports (textile, toys, shoes, plastics, mainly small and medium enterprises with internal insertion), while high-value-added manufacturers (automobile, capital goods, machinery, and equipment) benefited from lower-cost imports of intermediate and capital goods. Other sectors, such as civil construction, transport, and energy, were also affected by direct competition and expressed their rejection of this commercial link (San Cerbino; Rodríguez Nievas, 2022).

As there were pending issues after the 2001 sovereign debt default,<sup>10</sup> the relative autonomy of the government from the agricultural sector (landowners, producers, and transnational traders) decreased, as did the trade surplus. Although the sovereign debt restructuring reached almost all the creditors, “vulture funds” acquired a minority percentage (around 7,6%), which resulted in a judgment that blocked access to international financial flows for the National and Subnational States as well as for some local companies. A stagnation/recession period for the region started in 2012-2014, with a reversal of the positive cycle of commodity prices (Cepal, 2021b).

While the rhetoric of the Kirchnerist administration advocated for a project to diversify production and maintain full employment, the need for foreign currency places a clear limit on political aspirations, reflecting historical structural problems in the productive structure and traditional dependency relationships. The Kirchner administration’s response to this situation was the implementation of import quotas (which reduced the Chinese presence in textiles, toys, and other manufactured goods that compete with local industries) and quantitative controls on the foreign exchange market. Faced with the impossibility of obtaining international financing, the Chinese government encouraged swap agreements to shore up international reserves. This has become a global strategy for the Asian giant (Horn et al., 2023)

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(10) Argentina restructured its sovereign debt in 2005 and 2010, with a 35-45% reduction in the nominal amount of principal and interest. Some of the holdouts (vulture funds) did not enter these debt swaps and claimed payment of 100% of their claims. The litigation venue was New York, where the courts allowed the plaintiffs’ claims. From 2002 through 2015 Argentina was virtually excluded from international credit markets (Datz, 2021).

In summary, the Kirchner administration expressed a redefinition of the social power block of the 1990s, with the prominence of the goods-producing sectors (market-domestic manufacturing and civil construction to the detriment of the financial sector and privatized firms), which simultaneously enabled the recovery of the material conditions of subaltern classes: an *internal-market consensus*. This strategy, relatively harmonious until 2008 (and as we will see in the following section, which registered a trade surplus with China), collided with the limits of the “all win” cycle (which had been possible due to the combination of several factors inherited from the crisis: the high idle capacity, the growing cycle of commodity prices together with the sophistication of the agricultural technological package, and the very low post-devaluation salaries). Since 2008/9, the dispute over land rent (subjected to increasing taxes mainly on soybean, wheat, and corn) and the *internal-market hegemonic consensus* that had operated until that moment was broken, triggering a *national popular* drift that was accompanied by a recovery in commodity prices (post-2009), was complemented with a state stimulus package on consumption and employment that proved electorally successful in 2011 (Wainer, 2018).

The National-popular period (2009-2015) was centered on a more interventionist strategy that required an increasing confrontation with the financial and agrarian sectors, and with large firms in the civil construction, commerce, and manufacturing industries (Basualdo et al., 2020). Since the external constraint in 2012/4 (with the increasing trade deficit with China), the possibilities for progressive income distribution have reduced. Economic limits have been key to understanding the Latin American neoliberal turn since 2015. Structural changes would have allowed for progress in income distribution (Wainer, 2018) and a national-popular power bloc. However, macroeconomic fundamentals deteriorated severely in the second Fernández de Kirchner administration 2011-2015 (fiscal deficit, currency appreciation, current account deficit, energy imbalance, parallel exchange rates, among others) in the context of blocked access to external financial markets (which reinforced swap agreements with China).

Simultaneously, within the forms of modern imperialism, it can be signaled as elements of the hybrid war (political destabilization) during this period. In this context, incipient lawfare cases (i.e. the use of legislation and the judicial system to persecute and destroy political opponents) were developed to question the active role of the state in the economy (notably among public contracts in the construction sector). In terms of geopolitical consequences, this scenario sought to suppress or reduce Chinese influence (Merino, 2019) by preventing the construction of dams by Chinese firms, maintaining a spatial scientific base in Patagonia, and/or blocking the purchase of strategic assets in the oil chain without affecting commercial flows.

The decline in terms of trade and deterioration of external accounts made it impossible to improve the material conditions of the subaltern classes, which, along with other factors of internal political struggle, led to political changes in the presidential elections in 2015. Power over the state shifted to the ruling classes linked to agricultural and international financial capital (Bona, 2019).

The successor administration led by Mauricio Macri (2015-2019) proposed reestablishing a neoliberal approach, which entailed a geopolitical alignment with the axis led by Washington. Thus, their aim was not to challenge the country’s dependent type of insertion but to ratify it (Arceo, 2016). This did not entail a change in relations with China from production and commercial points of view;

the change was geostrategic (Morgenfeld, 2018). However, the ruling sectors benefiting from connections with the Asian giant (agrarian sector) and the country's own logic of accumulation (primary sector-exporter) entailed the maintenance and deepening of commercial relationships, as well as several ongoing projects and financial support exchanges (swaps) (Oliva, 2017). Macri's electoral triumph implied the recognition and payment of sovereign external debt with vulture funds, which reopened the possibility of international indebtedness; the result was the highest recorded debt issuance in Argentine history (Basualdo et al., 2020).

This experience expressed the political representation of a new bloc with a different political project: the regressive redistribution of income from the subaltern classes to the capitalist classes was prioritized above the objective of growth and stabilization. Within this set of capitalist fractions, it is worth distinguishing those who have positioned themselves as hegemonic: transnational capital and the financial sector (with concessions towards the agricultural sector, not without tensions). Instead, the fractions associated with the big local bourgeoisie, especially the large manufacturers, as well as some services (real estate and retail trade), were relegated to this power bloc. They benefited from a new regressive distributive order; they could improve their profit rate, but the developmental (and therefore manufacturing) agenda was abandoned (Bona, 2019).

The redefinition of winners and losers among the power bloc showed the rise of the international financial groups as ruling classes of the new strategy (due to the reintroduction of external debt-carry trade policies and the liberalization of capital controls), reducing the power of major domestic manufacturing. Simultaneously, many small-scale (internal market) enterprises and workers have suffered severe income reduction (Belloni and Schorr, 2019). Even so, these changes did not affect general productive trends and bonds with China. As the conservative administration wished to deepen competition based on natural resources, the deepening of asymmetric trade with China was a logical consequence regardless of geopolitical alignments. In other words, the conditions of capital accumulation in Argentina are stronger than the ideology on which the neoliberal project rested (Morgenfeld, 2019).<sup>11</sup>

### **3.2 Brazil: Orthodox macroeconomics and social policies**

In the case of Brazil, the path was similar to that of Argentina, but the limits for further transformations were not imposed by balance-of-payments (BOP) constraints. The Workers' Party administrations, led by Lula da Silva and Dilma Rousseff (2002-2016), benefited from Chinese demand and the cycle of increase in commodity prices (2003-2012), as well as from the technological changes that allowed agricultural productivity growth. In addition, the geopolitical situation even allowed for coordination within BRICS, a bloc that included Brazil, Russia, India, China, and South Africa. In general terms, foreign conditions were favorable, and agribusiness landowners consolidated their political relevance in Congress (Oderich; Greco Martins, 2018).

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(11) In 2018, exchange rate instability and the interruption of external financing (due to, among other aspects, the liberalization of the capital account) forced the government to start negotiations with the IMF to obtain a stand-by loan. With Trump's support and contradicting its statute, the IMF agreed to the greatest loans in its history with the usual austerity "recommendations". It demanded fiscal discipline focused on the reduction of public investment in infrastructure, current transfers to subnational states, public employee wages, and social benefits. The recession was a prelude to the new presidential election in 2019, where the Peronist party won the elections, in the context of an economic recession, a higher level of inflation (54% in 2019) and the consequent increase in poverty.

As the *tripé* macroeconomic model was maintained for more than two decades, the changes in the political scenario were associated with transformation in the role of the State, which came to be known as “social developmentalism” or “developmental and inclusive neoliberalism” (Saad Filho, 2019). Then, the focus on social inclusion (and, in a way, the democratization of social life) was based on increasing social expenditure<sup>12</sup> and minimum wage, among other policies (Filgueiras et al., 2010; Singer, 2012). “Lulism” (Singer, 2009) expresses the political support of the subaltern classes in exchange for these social public policies. In this line, Fonseca et al. (2020) highlight that Lula’s and Rousseff’s administrations had an agenda in terms of income distribution.<sup>13</sup> Complementary, “developmentalism” was possible thanks to the BNDES (Brazilian Development Bank) financing policy (Ghibaudi; Laltuf, 2017).

Thus, the Workers’ Party consolidated a growth process with income redistribution, especially to lower-income sectors, within a favorable context in which the large financial, agribusiness and certain products’ capital strengthened (Sader, 2013) and constituted the leading classes in the power bloc (Páez, 2020). Improvements in minimum wages, increases in median income, subsidies for industrial production by SOE banks, and transfers to lower-income sectors have reduced inequality in one of the most unequal countries worldwide (WIID, 2021). These policies were part of the class coalition (or no class conflict) strategy implemented by Lula’s administration (Pinto et al., 2019) and, formerly, announced in its message previous to the election.<sup>14</sup> PT considered that structural changes were also possible, even when the financialised and export-oriented strategy for agriculture and São Paulo’s and southern manufacturers were kept untouchable (Carvalho, 2018).

Lula’s reelection<sup>15</sup> (2006-2010) led to a Keynesian turn, increasing public expenditure on infrastructure (*Programa de Aceleração do Crescimento*) as a way out of the international crisis. Even when the growth rate did not reach the 1970s record levels, the general balance was positive due to the increase in social inclusion and growing international relevance.<sup>16</sup>

Rousseff’s administration (2011-2014) assumed state power with the commitment to go deeper with the developmental policy, as in the case of Argentina, which promoted a shift inside the power bloc to create a market-internal alliance between local producers and working classes. The

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(12) As this increase in social expenditure was not universal and was focused on specific policies, it sparked rejection among subordinate classes which were excluded based on income levels (middle- and high-wage workers). In general, this gap which was not covered by the State promoted those social expenditures such as education, health care, and social protection to be subject to the market logic with the support of the financial system. In addition, revenue collection on individuals’ income increased. Then, salaried employees of subordinate classes became new taxpayers as a result of paycheck withholdings. Moreover, ruling classes kept their tax obligations low by means of tax avoidance and evasion (Fagnani, 2018). The information available in Brazil suggests that poverty and income inequality decreased, but the exceptionally large concentration of income at the upper level did not change. As a result, the most vulnerable sectors profited at the expense of the middle sectors (Morgan, 2017; Prates et al., 2020).

(13) Brazil’s historical growth pattern has always intensified income concentration, but since 2003 this trend has been constantly decreasing. The minimum wage as an index for pensions and social security played an important role in maintaining the historical commitment to income redistribution.

(14) Lula da Silva, Luís Inácio. *Carta ao povo brasileiro*. In: Fundação Perseu Abramo (Documentos Históricos, 002). Available at: <http://goo.gl/u7yIOW>.

(15) This was preceded by the *mensalão*, a corruption case in which the PT administration was charged with buying votes in Congress. The scandal almost made Lula step down.

(16) For a detailed analysis, see Boito (2012) and Singer (2009).

favorable international context promoted a large financial flow to developing countries, such as Brazil, and resulted in the appreciation of the Brazilian currency (Serrano; Summa, 2015). Thus, lowering the reference interest rate (Selic) should be a way to increase productive investment in the global context of low-interest rates while negatively affecting banking-financial sector profits. However, Real depreciation refloated fear of inflation (Singer, 2015). At this point, a new change was introduced to the political orientation. The administration moved to promoting private investment through tax exemptions, while the international prices of commodities dropped. The shortfall in tax revenues led to fiscal austerity because of fiscal rules.

The reduction in revenues promoted a decrease in primary disbursements, triggered a drop in aggregate demand, and resulted in a recession (Serrano; Summa, 2015; Dweck; Teixeira, 2017). This was the last step in the developmental project. The change in the international scenario, especially in prices, made it impossible to continue the win-win strategy for labor and capital (Pinto et al., 2019). Rousseff was re-elected in 2014, but the economic crisis was ongoing. The economy has stagnated since 2014, while the unemployment rate doubled and reached two digits, and inequality started to increase again. The economic downturn was a prelude to political decline. Rousseff abandoned the market-internal strategy and bet on an orthodox Minister of Finance that guaranteed market-friendly economic policies and a reduction in public expenditure. The subaltern classes started to suffer a reduction in income. With the erosion of the PT political base, former allies, and opponents carried out a parliamentary coup in 2016 with the promise of implementing neoliberal reforms (privatizations, labor, and pension reform) (Pinto et al., 2019; Páez, 2020).

The ruling sectors in the country, reorganized but not replaced during the PT administrations, traditionally and symbolically opposed to the Workers Party, promoted a questionable impeachment in 2016 to remove Rousseff when the government had abandoned its Keynesian growth strategy to approach the agenda of public expenditure adjustment (2015-2016) (Carvalho, 2018).

While the fourth PT administration maintained the idea that exports and private investment should be the engines of the economy, fiscal rules reduced the political space for betting on an endogenous growth vector: public expenditure. Thus, economic deceleration contributed to the undermining of the social base supporting the administration, which lost parliamentary elections and scored Rousseff's impeachment.

The coup allowed Rousseff's vice president Michel Temer to take office. Temer passed the labor reform, a constitutional reform freezing the primary fiscal expenditure in real terms for 20 years, and a change in oil exploration contracts to benefit transnational companies to the detriment of State-owned Petrobras. Notwithstanding the promise of the neoliberal paradigm, the economy did not reactivate. Against the backdrop of a discredited political class, the new elections made Jair Bolsonaro, a former military and congressman, president. With the motto "fighting corruption", the economic plan included fiscal austerity, privatization, and pension reform (Saad-Filho, 2019). At the same time, as in Argentina, a hybrid war appeared in the form of lawfare, which permitted the sentence to be sent to ex-president Lula to 12 years in prison in 2018. According to Mendonca (2019), this represented an attempt on the part of the ruling classes in alliance with middle-class sectors to

avoid greater participation of working classes in national income, as well as the defense of the interests of major international companies.

The main plan was to reverse the social improvements observed between 2003 and 2014, which could be seen as a unified agenda for the business sectors in Brazil. Bolsonaro's supporters were connected with concentrated capital, especially in the agribusiness sector (as in the case of Macri in Argentina), the financial sector, large manufacturers, and the armed forces (Cavalcante, 2020). The power bloc was not transformed during the new administration but reloaded, while the structural change strategy, such as the increase in value-added and the incorporation of technology (Dilma's political purpose), was abandoned. Beyond the centrality of the primary and derivative products on exports, parts of the manufacturing industries (basic metals, chemicals, paper, pharma, and automotive), civil construction, infrastructure, telecommunications services, and retailers were relatively *winners* of economic expansion until 2014. Although these sectors could have an interest in a larger internal market and commitment to the developmental agenda, the tensions between capital and labor imply a first-order contradiction. The change in the international scenario and the rise in inflation rates broke the *win-win* scenario, so these capitalist fractions moved to support the political project that maintained their position of dominance. Domestic capital (meat processing, pharma, basic metals, among others) abandoned the developmental agenda as they deepened their internationalization and reduced dependence on the domestic market, a political weakness of the *national champion* strategy (Páez, 2020).

Regardless of the initial rhetoric of Bolsonaro, who announced a revision of the relationship developed with China during PT administrations, as well as his accusations on how deficient China was in handling the pandemic, the Brazilian government continued with the previous commercial agenda. Indeed, the agricultural exporting sectors are largely dependent on China's demand, while Brazilian local production depends on supplies produced in China. Beijing, for its part, depends on Brazilian food supply, particularly soybean, its derivatives, and animal protein, which limits its ability to react to Bolsonaro's anti-Chinese verbiage. This event implies a relative reprivatization process of exports because the extractive sectors have expanded their international insertion to a larger share. Silva Amaral (2016) argued that this is mainly due to changes in international demand. Since Brazil had already revealed a comparative advantage in extractive industries, the change in the composition of global demand eventually accelerated the growth of exports, causing the country to deepen its commercial specialization.

Unlike Argentina, external constraints are not considered to be one of the causes of the fall in PT administration. Considering the transformations in global capitalist dynamics, Brazil was not accurate because of the balance of payments constraints since 2003, notwithstanding the large current account deficits or turbulence in international financial markets after 2008 (Serrano and Summa, 2011).

#### **4 The “China effect” and its impact on Argentina and Brazil**

Commercial and investment flow from China expanded exponentially during the second decade of the 21st century as part of a generalized strategy of China's influence. First, China Goes

Global and lately, the New Silk Road involved several investments in infrastructure and natural resources with the participation of 144 countries out of a total of around 200 nation-states. As China established itself as a new economic, financial, and diplomatic power, international analysts began to talk about a hegemonic conflict scenario (Arrighi, 2015; Merino, 2019).<sup>17</sup> Taking this into account, we review the main points of China's commercial and investment flows in Argentina and Brazil.

#### 4.1 China-Argentina and China-Brazil Trade Integration (2000-2020)

Between 2002 and 2018, Latin America and the Caribbean (LAC) reduced their share of global exports of goods from 4% to 2%. This is in stark contrast to the performance of Asians, who in the same period increased from 28% to 34% (WTO, 2021). The relative stagnation of Latin American exports shows how difficult it is for the region to overcome a productive structure with low diversification by exporting primary and manufactured products based on natural resources (Cepal, 2016a).

From this perspective, trade between South American countries and the Asian giant has become important. Only Brazil, Chile, and Venezuela have a trade surplus with China (Cepal, 2021b). At the other extreme, Mexico's trade deficit equals over two-thirds of the aggregate deficit of Latin America and the Caribbean with China (Cepal 2016b). If we look into long-term trends, the relationship between the region and China shows virtually no trade until China entered the WTO in 2001, while in the following years, the flows increased, reaching 3/3.5% of the GDP and becoming especially relevant for the nations in the Southern Cone.

In Argentina, the trade balance showed a growing negative balance with China between 2008 and 2018 (Graph 1). The exports peak recorded in 2008 (\$ 6.3 billion) – only exceeded more than a decade later (\$ 6.8 billion) –, while imports grew uninterruptedly during 2008-2018. Only after the 2019 debt crisis<sup>18</sup> and the pandemic, did the drop in imports result in a reduction in the trade deficit. These data lead to the inference that China has consolidated as its main trade partner due to its growing weight in trade relative to GDP (approximately 3.5% in an economy that is not very open to foreign trade), putting aside the relevance of commercial regionalism led by Brazil and its relationship with the last century hegemonic reference, the United States of America.

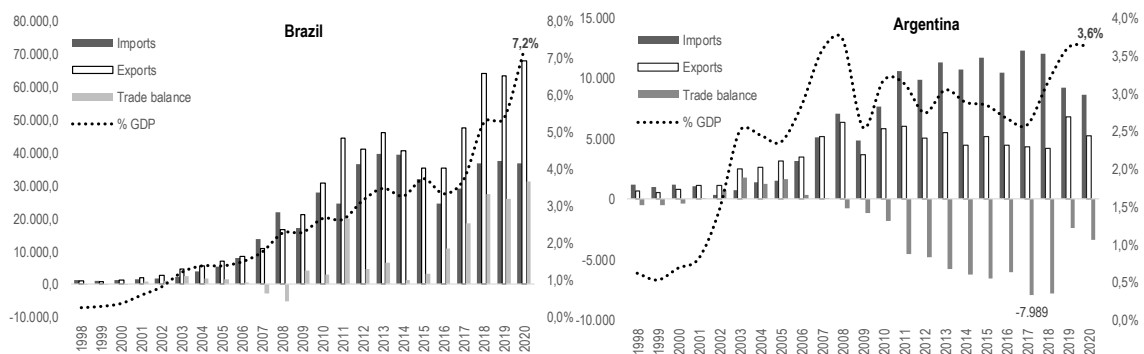
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(17) The literature has highlighted reprimarisation as the main result of LAC-China commerce. Bértola and Ocampo (2012) established a direct relationship between this trend and a wider change in Latin American development strategy from state-led industrialisation to an export-oriented neoliberal macroeconomic policy strategy oriented towards exports. Ray and Gallagher (2017) state that it is important to refrain from exaggerating the degree of reprimarisation caused by China. The production of goods has decreased in relation to the general growth of GDP over the last two decades (mainly fuelled by financial services and trade), but this is especially true for the manufacturing industry. Indeed, of the three industries producing commodities (agriculture, mining, and manufactured products), only agriculture maintained its share of GDP in the Latin American economy. The Asian giant is said to have contributed through two mechanisms to reprimarisation: (i) the increase in global demand (and prices) for raw materials and (ii) the intensification of competition in the production of cheap manufactured products. On the one hand, Chinese investment and demand for imports stimulated primary production. On the other hand, China has exceeded Latin America's share in the market of worldwide manufacturing exports and has become a major competitor in the industrial product markets of the main trading partners in the region, especially in the United States and even in Latin American countries. Therefore, domestic industrialists are concerned about how difficult it is to compete with China (Salama, 2017).

(18) In 2018, Argentina suffered a serious foreign exchange crisis and the government resorted to an IMF loan exceeding \$44 million. In 2018 and 2019, the economy got significantly contracted and by 2020 the country restructured its external debt with private creditors.

Graph 1

Brazil-China (left) and Argentina-China (right) trade balances. Exports, imports, and balances in current dollars, and foreign trade in % GDP. Years 1998-2020



Source: Own preparation based on ECLAC and the World Bank.

As for the content of the exchange, Argentina's trade model reproduces the historical peripheral pattern of the provision of commodities and derivatives (mainly soybean and its derivatives, and recently, beef) in exchange for manufactured products and machinery. Trade with China reinforced the structural economic and political relevance of the primary exporting sectors (international export traders and landowners), considering their role in the balance of payments (BoP) constraint (Thirlwall Law) (Páez, 2020). The territorial expansion of soy consolidated the integration of the interests of the Pampas traditional agrarian sector with those of the rest of the agrarian sector, reaching up to 15 of the 24 Argentine subnational states, which nationalized the agrarian conflict of 2008 and prevented the government from acting politically on regional differences (Páez, 2016). The accelerated expansion of exports to China became a fundamental piece of accumulation in the logic of Thirlwall's law and, ultimately, the support of economic indicators. The fluctuation of rains/droughts and international prices became a concern for the entire society, showing the structural power of the primary exporting sector, regardless of the rhetoric of the governments in power. As shown by Duran Lima and Pellandra (2017), this pattern of insertion based on one or two products is also reproduced by the rest of Latin America and is a trend that has been increasingly deepening. Argentina's insertion in the Chinese accumulation pattern is in tune with regional experience.

As soybean demand was guaranteed by China, agrarian political interests focused on increasing the profit margin through income (depreciated exchange rate), tax reduction (mainly tax on exports), and public construction of export infrastructure. In this sense, the development of a solid and diversified internal market was never part of its interest, in the same way that a national innovation system was not necessary.

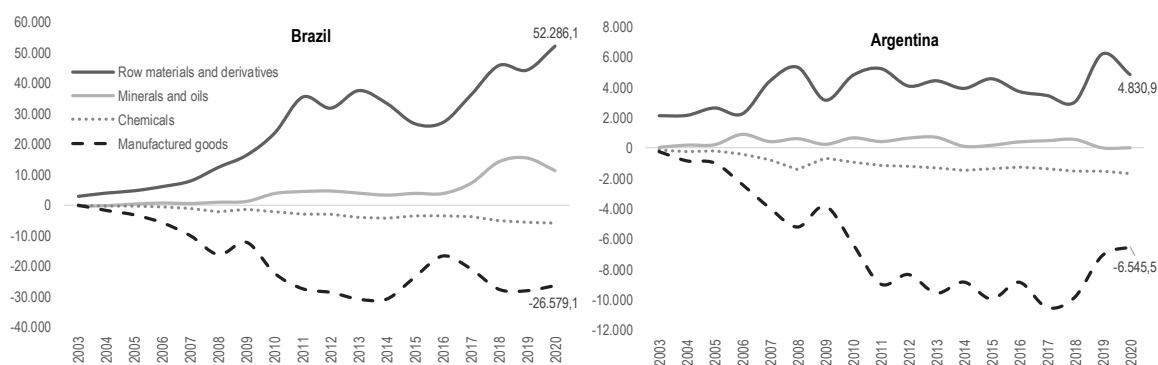
The scarcely integrated character or semi-industrialized productive structure implies that economic expansion promotes an increasing share of intermediate and capital goods imports of around 65-80%. Likewise, Argentina has shown an expansion of capital goods to the detriment of intermediate goods (Páez, 2020). The main imported products are telephones, computers, and other electronic and mechanical equipment. It should be noted that although Tierra del Fuego constituted a special economic zone for domestic provision, Argentina has remained relatively outside the



dynamics of global value chains (Medeiros; Trebat, 2017); therefore, the increase in intermediate goods imports cannot be explained by this factor.

There is no direct relationship between imports and identifiable class fractions. In this sense, the type of imported goods shows a technological dependence that, so far, has not necessarily been linked to the Chinese rise due to world manufacturing reconfiguration. First, Chinese competition for low- and medium-value-added manufacturing production is evident. In the second instance, as we can see, the manufacturing industries depend on Chinese imports of medium- and high-technology products. These tensions within the manufacturing group require more detailed study. Unlike Brazil, the institutional framework inherited from the massive signing of bilateral investment treaties strongly limited the ability to implement industrial policies to promote the development of medium and high-value-added industries, which would potentially reduce this technological dependence. What should also be highlighted is that, regardless of political coalitions (and blocs) in power, principal trends in terms of trade did not change.

Graph 2  
Brazil (left) and Argentina (right). Bilateral trade balance with China by economic category (USD million) (2003-2020)



Source: Author's own preparation based on the SITC classification and ECLAC. **Raw materials and derivatives:** food and live animals, mainly for eating; beverages and tobacco; crude materials, inedible, except fuels; animal and vegetable oils, fats, and waxes. **Minerals and oils:** Mineral fuels, lubricants, and related materials. **Chemicals,** chemicals, and related products. **Manufactured goods:** Manufactured goods, machinery, transport equipment, and other manufactured items.

Brazil's case differs from that of Argentina. First, the bilateral trade volume is way higher (\$13.9 billion for Argentina versus \$104.5 billion for Brazil in 2020). In addition, the South American giant remarkably multiplied commercial exchanges with China during the 21<sup>st</sup> century, its exports exceeded its imports, and China became a net provider of foreign currency for Brazil. Finally, imports did not shrink in 2019 and 2020, while exports continued to grow even during the pandemic (Graph 3).

The commercial Chinese effect has been expressed mainly in the soybean and mineral ore sectors and, to a lesser extent, in crude petroleum. Among natural resource countries, Brazil's distinctive feature is its strong presence and competitiveness in three major commodity groups: agriculture, mineral, and oil. Chinese fast expansion exerted a strong push effect on all of them.

Geographical political representation has also experienced a turnout. Soybean exploitation accounted for 53% of the total grain area. The expansion occurred in the lands of Mato Grosso, Paraná, Rio Grande do Sul, and to a lesser extent, Goiás, Mato Grosso do Sul, Minas Gerais, Bahia, São Paulo, Maranhão, Tocantins, Piauí, Santa Catarina, and Pará, involving 13 of the 26 Brazilian states (Escher; Wilkinson, 2019). This transformation valued lands that were not traditionally agricultural and almost nationalized the “modern” agricultural practice while increasing the need for infrastructure to connect with port areas. Similarly, it increased the pressure (political and para-state violence) on indigenous lands, quilombolas, and biodiversity reservoirs such as the Amazon, reproducing primitive accumulation. The Center-West Region gained economic power, while the historical elite has been in São Paulo and the South-East Region since the coffee boom.

In addition, soybean meal, which has long been considered a by-product, has become the main product sought after in the world market because it is the principal input (along with corn) for animal production industries, such as poultry and hog breeding. This element is connected to another sector that has experienced strong growth, namely the meat chains of the bovine, chicken, and pork industries. The agricultural boom and expansion of the productive frontier involved the development of this production, which allowed firms located in Brazil to climb to the first steps of the world market. The most significant cases were JBS and Brasil Foods, meat processing companies owned by domestic capitals that acquired worldwide assets leveraged by the Brazilian Development Bank (BNDES). In addition to historical and “new” landowners, transnational companies that own export structures were also relative winners, such as Cargill, Bunge, ADM, Louis Dreyfus, and Nidera (bought in 2014 by COFCO, Chinese capital), among others. These are the main actors in the Brazilian-China soybean-meat complex (Escher; Wilkinson, 2019).

Iron ore exploitation lies almost entirely in the hands of Vale (more than 80%), the largest mining company in the world, and one of the ten largest companies in the region. The firm was privatized during F. Cardoso’s administration in the 1990s and its ownership is currently distributed among domestic and international shareholders (listed in New York, Paris, and Madrid) and the national state (BNDES participation). Unlike Argentina, the State’s shareholding shows how the Brazilian developmental project was not completely dismantled in the neoliberal transformations of the 90s.

Moreover, the discovery of large petroleum reserves in the pre-salt layer has reinforced the Chinese effect and placed the Brazilian economy in a prominent position in the global petroleum market. In Latin America and the Caribbean, Brazil has the second biggest proven oil and gas reserves and it is the leading oil producer, having surpassed Venezuela since 2016. Extraction increased by one-third between 2009 and 2018, while exports doubled, with China as its main destination (about 50%). The Brazilian government has opened up the sector for private investment (transnational capital such as Shell, Petrogal, Equinor, Sinopec, and Total); however, SOE Petrobras was still responsible for more than 85% of oil and gas production in 2018. Petrobras’ relevance shows the importance of disputes over the state apparatus.

Similar to Argentina, as external demand for raw materials and their derivatives was guaranteed by China, the political interests of these sectors focused on increasing the profit share via income (depreciated exchange rate), cost reductions via tax exemptions, public construction of export infrastructure, and accelerated enrichment from SOEs privatization. A solid and diversified internal

market is not relevant to their interests. A national innovation system was particularly relevant for SOE oil nonconventional and offshore exploitation.

In terms of imports, Brazilian-Chinese commerce flow is focused on intermediate goods (60%), and taking into account capital goods as well, productive items represented about 70% of international purchases during the 2000s and the 2010s (Páez, 2020). Similar to the Argentinian case, the increase in imports of intermediate goods cannot be explained by Brazil being part of the global value chains because it is relatively outside these flows (Medeiros; Trebat, 2017). China's top exports to Brazil were semiconductor devices, phones, nitrogen heterocyclic compounds, electrical transformers, motor vehicles, parts, and accessories. This shows that Brazilian manufacturing requires inputs and fundamental parts from China, thus defining technological dependence.

In this analysis, we should point out two differences and some similarities between the South American cases regarding the content of bilateral foreign trade.

On the one hand, Brazil's trade results are positive, while those of Argentina are negative. Although the historical pattern of trade in raw materials for manufacturers is maintained, Brazil has obtained an accumulation of international reserves that expand the political space to direct a productive development policy. In Argentina, commercial relationships generate a trade deficit, which shows the inability to finance Chinese imports with raw material exports to the Asian giant.

On the other hand, we can see a low contribution of added value in exported products (Graph 2) with a focus on soybean, meat, oil, and iron ore exports and a preponderance of deficit in the industrial field. There is evidence of eroded contributions by these countries to the value chain of these products, as China is replacing imports of manufactured products with national production and only buying raw materials (Duran Lima; Pellandra, 2017; Slipak, 2017). The difference is that the Brazilian state maintains large SOEs and the BNDES, which play an important role in the developmental strategy. Nevertheless, China threatens manufacturers in both countries, particularly high-tech firms, which suffer from challenging competition from Asian firms in LA (López Dafonso et al., 2021).

South America's international insertion is mainly controlled by transnational companies and is based on primary production and low value added. Thus, it is difficult to promote significant employment creation, major structural diversification, or autonomous technological development (Belloni; Wainer, 2014). These are key elements of the dependency approach, which highlights the lack of connection between peripheral industries, the need to import, the control of key sectors by foreign companies, and the alliance between dominant local classes (traditionally linked to export sectors) and international capital (Marini, 2007).

Additionally, both cases show that the Chinese effect contributed to the consolidation of the political block of landowners. Soybean production has unified regional coalitions against redistributive public policies and consequently implies a strong political veto for a developmental state. Similarly, considering the *Chinese White Book on Sino-Latin American relations*, there are no geopolitical elements of Chinese interest beyond the commercial provision of natural resources (Vattuone, 2022).

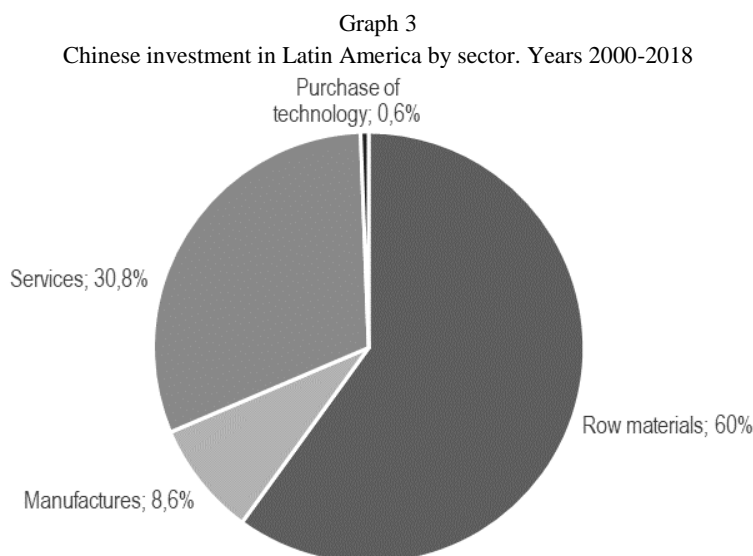
In particular, Brazil and Argentina have become two of the main countries in which the production of genetically modified seeds has expanded. This, in addition to fertilizers, herbicides, new machinery, and production techniques, has allowed for an exponential increase in agricultural

productivity, especially concerning soybeans. The agricultural frontier expanded, existing livestock and agricultural production were displaced, and agribusiness grew, in connection with the transgenic technology suite. These changes have led to numerous environmental concerns regarding the damage caused to human health, soil conditions, and sustainability of monocrops (Isidro; Forlani, 2019).<sup>19</sup>

#### 4.2 Chinese FDI and employment in Argentina and Brazil (2000-2020)

Chinese investments in the world have made a quantitative leap since the beginning of the century, redefining the accumulation process on a global scale. According to China's Ministry of Commerce (MOFCOM), the Asian giant has increased its foreign direct investment in the world from \$5.5 billion in 2004 to \$196 billion in 2016. Thus, China has become the second largest investor on a global scale, only after the United States (Cepal, 2018). While 89% of Chinese companies investing abroad are privately owned, more than 63% of Chinese foreign stock is owned by state-owned companies (SOEs). The Chinese government directly controls Foreign Direct Investment (FDI) flows. Even if companies are nominally privately owned, they have close ties with the State Party as they are partly owned by local governments or their senior executives are members of the Communist Party (Monitor of Chinese OFDI in Latin America and the Caribbean, 2019).

Annual FDI flows in China increased by 45% between 2012 and 2019, but the flows to Latin America remained stagnant. The Chinese FDI in Latin America was modest between 1990 and 2010. Since then, it has grown through the major acquisitions of oil companies in Argentina and energy companies in Brazil. Chinese FDI in Latin American countries has focused on Brazil and Peru and has largely ignored other countries receiving a lot of FDI from other sources, such as Colombia, Chile, and Mexico (Perez Ludueña, 2017).



Source: Own preparation based on the Monitor of Chinese OFDI in Latin America and the Caribbean.

(19) Finally, it is important to highlight some information limitations. Trade in services is about to gain relevance as digitalisation is growing: big data, clouding, social media, and streaming, among others. So far, Comtrade information has allowed us to infer the importance of travel and transportation, and the main transformation of digitalisation disruption is completely out of analysis.

Raw materials were targeted at 60% of the foreign currency inflow to Latin America and the Caribbean between 2000 and 2018 (Graph 3): extractive industries supplying food, minerals, and energy to China. Chinese oil companies are currently present in most oil- and gas-exporting countries. Argentina had two major acquisitions in the oil industry in 2010 and 2011. In the mining industry, there were some investments in Brazil, but the largest transactions were in Peru (Latin America and the Caribbean Network on China, 2019). In addition to oil and mining, major investments have also been made in agriculture and fishing.<sup>20</sup>

The rest of the Chinese investments in the region are focused on the service industries (30.8%), while manufactured products only account for 8.6%, and technology purchases only account for 0.6% (Graph 3). Indeed, investments in services grew considerably after the 2008/9 crisis, although the role of the primary sector remained dominant.

Argentina was not a relevant destination for direct investments from 2000 to 2020 among Latin American countries (OFDI Monitor, 2022). In the same way that financial capital was affected by sovereign debt default in 2001, Western transnational companies remained on alert due to (re) nationalization policy, price control, and policies other than reduced profits from 2003 to 2015. As they maintained the protection of the BITs, they initiated trials on the World Bank's International Centre for Settlement of Investment Disputes (ICSID) and stopped investment projects in Argentina (Páez, 2020). Therefore, Chinese direct investment did not compete with other international capital and was well received by the Kirchner administration.

Brazil, on the contrary, has been the sixth most important destination for FDI decade in the world between 2010-2020 and has received investments in a variety of sectors, given its semi-industrialized production structure. This has meant an increasing share of GDP of up to 4.0%, implying the internationalization of its structure. Services (retailers, telecommunications, real estate, and transportation), natural resources, and commodity manufacturing were the leading groups in terms of flows and have concentrated about 70% of total flows (2006-2017) (Páez, 2020, p. 172-173). Even in times of international crisis, flows have grown due to a large domestic market, lower dependence on exports than in other emerging economies, and the Brazilian banking system's low exposure to the financial crisis (ECLAC, 2009, p. 26; 2017b, p. 61-63). Chinese direct investment (FDI) in Brazil has been part of a global phenomenon.

Beyond the differences in FDI flows, Chinese investments show similar trends in Argentina and Brazil (Chart 1). Chinese SOEs accounted for 88% of the amount and clearly prevailed in the total amount of \$56.194 billion invested in Brazil. The situation is the same in Argentina: investments of approximately \$11.657 billion by SOEs, representing 89%. Similarly, Mergers and Acquisitions (M&A) prevailed over greenfield investments.

The primary and service sectors have been the focus of Chinese investments. In Brazil, energy, minerals, and mining have received the most of these investments. The Chinese strategy in Brazil reproduces the plan for the rest of Latin America: control of strategic assets to diversify the

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(20) Some major agricultural projects were canceled after local governments and civil society groups expressed fierce opposition. The most controversial aspect of agricultural investments was land purchasing. Also, there were large investments in the trade area of agriculture with international operations, such as the acquisition of Noble's agricultural assets and a majority share in Nidera by China National Cereals, Oils and Foodstuffs Corporation (COFCO). These firms hold significant assets in Argentina (Perez Ludueña, 2017).

origin of the oil supply (minerals) and build the infrastructure necessary for exporting raw materials (minerals, mining, and food), mainly electrical systems (services) (Rocha; Bielschowsky, 2018). Similarly, investment in Argentina has focused on oil and mining (lithium). The internationalization of Chinese companies such as Huawei, ICBC, and an engineering company (Beijing Construction Engineering Group) has promoted the services industry to second place. Although purchases in the oil sector are relevant for Argentina and Brazil, they play marginal roles in the global market and do not generate crossovers with global capital. In contrast, lithium is likely to generate increasing tension in the energy transition process in the geopolitical arena because of the USA's interest in this area (Bona, 2024).

All of these investments are fully associated with the strategy of Chinese global rise and not with a geopolitical interest in unilaterally favoring South American countries. Complementarily, it does not respond to receivers' strategies. In a cooperative sense, the new "Beijing Consensus" implies a commitment to financing infrastructure and renewable energy sources that are also functional in the development trajectory of Latin America (Svampa; Slipak, 2015). For this reason, the idea that association with China is essential for economic growth has been widely accepted by a large part of the political and economic elites that supported entry into the BRI (Treacy, 2022).

Chart 1  
Main Chinese investments according to the amount in Brazil and Argentina. Years 2004-2020

	Parent Company	Target Company	Industry	Investment	USD Million
Brazil	China Petroleum & Chemical Corporation (Sinopec)	China Petroleum & Chemical Corporation (Sinopec) – Repsol	Energy	M&A	7,100
	China Petroleum & Chemical Corporation (Sinopec)	Petrogal Brasil Ltda	Energy	M&A	4,800
	China Three Gorges Corporation (CTG)	Hydroelectric Utilities Jupia and Ilha Solteira	Energy	M&A	4,200
	State Grid Corporation of China (SGCC)	CPFL Energia SA	Energy	M&A	2,300
	State Power Investment Overseas Co., Ltd.	Companhia Energética de Minas Gerais	Energy	M&A	2,250
	China Minmetals Group	China Minmetals Group	Minerals	New	2,000
	Taiyuan Iron, CITIC, Baosteel	Taiyuan Iron, CITIC, Baosteel	Minerals	M&A	1,950
	China Investment Corporation (CIC)	BTG Pactual	Finance	M&A	1,800
	State Grid Corporation of China (SGCC)	Serra Paracatu Concessionaire	Electronics	M&A	1,726
	State Grid Corporation of China (SGCC)	Plena Transmissora	Energy	M&A	1,700
	China National Petroleum Company (CNPC) & China National Offshore Oil Corporation (CNOOC)	Petrobras	Energy	New	1,700

To be continued...

Chart 1 – Continuation

	Parent Company	Target Company	Industry	Investment	USD Million
Brazil	China Molybdenum	Anglo American	Mining	M&A	1,687
	State Power Investment Corporation Limited (SPIC)	Gas Natural Acu (GNA)	Energy	M&A	1,650
	China Aluminium Group	China Aluminium Group	Minerals	New	1,500
	East China Mineral Exploration and Development Bureau (Jiangsu)	East China Mineral Exploration and Development Bureau (Jiangsu)	Minerals	M&A	1,200
	China Three Gorges Corporation (CTG)	Duke Energy	Energy	M&A	1,200
	CITIC Agri Fund Management Co., Ltd.	Dow AgroSciences Industrial Ltda, a portion of the corn seed business in Brazil	Agro	M&A	1,100
	China General Nuclear Power Group (CGN)	Actis	Energy	M&A	1,000
	Sub-total Brazil				40,863
Argentina	Beijing Construction Engineering Group (BCEG)	Beijing Construction Engineering Group (BCEG)	Real Estate	New	3,500
	China National Offshore Oil Corporation (CNOOC), Bidas Energy Holdings Ltd.	Pan American Energy LLC	Minerals	M&A	3,100
	China Petroleum & Chemical Corporation (Sinopec)	China Petrochemical Corp.	Minerals	M&A	2,450
	Shandong Gold Mining	Barrick Gold Corp./Veladero Mining Property	Mining	M&A	960
	CRRC Corporation Limited (SHSE:601766)	Emprendimientos Ferroviarios S.A. Emfer S.A.	Industrial Machinery, Equipment & Tools	M&A	500
	Sub-total Argentina				10,510
	Total				51,373

Source: Author's own preparation based on data from Latin America and the Caribbean Network on China and Monitor of Chinese OFDI in Latin America and the Caribbean (2019).

The manufacturing sector maintained secondary relevance in terms of amounts and investments in the automotive sector, auto parts, and oil processing in both countries. According to López Dafonso et al. (2021), China's effect on manufacturing generates de-industrialization, especially at higher levels of technology industries. This shows the different results of the Chinese challenge for Argentina and Brazil, which modifies the impact on dominant classes. China prefers to produce locally and export its surpluses, while local ruling classes experience both competition for final goods in some sectors and association with intermediate goods in others (Sanz Cerbino; Rodríguez Nievas, 2022; Dussel Peters, 2023). Similar to service companies, the diffusion of an

internationalization process is observed to take advantage of the Mercosur Commercial Bloc. In this sense, the geographical focus was on Brazil as a platform for reaching other regional markets. As part of global competition, the automotive and manufacturing industries have small-scale versions in Brazil and, on an even smaller scale, in Argentina. The interest of transnational companies is merely to take advantage of subsidies and/or tax exemptions to guarantee profitability in this country.

Chart 2

China investments in Brazil and Argentina (USD thousand) and employment (number of workers) created by sector, type, and nature of the transaction (2003-2020)

Number of employees and amount of investment (USD)		Brazil			Argentina		
		Employment (i)	Investment (ii)	(i)/(ii)	Employment (i)	Investment (ii)	(i)/(ii)
Property	Private	75,028	7,003	10.7	8,060	1,444	5.6
	Public	99,990	49,161	2.0	11,106	11,657	1.0
Sector	Primary	57,217	30,510	1.9	12,039	5,879	2.0
	Manufacturing	30,645	10,788	2.8	1,851	413	4.5
	Services	73,443	13,136	5.6	5,276	6,809	0.8
Characteristics	M&A	140,484	44,826	3.1	9,449	8,192	1.2
	green field	34,534	11,338	3.0	9,717	4,909	2.0
Total		175,018	56,164	3.1	19,166	13,101	1.5

Source: Own preparation based on data from Latin America and the Caribbean Network in China (2021).

Trends in the connection with employment are similar to those of investments regarding the prevalence of Chinese public capital, mergers, and acquisitions, and the release of the manufacturing sector. However, the elasticity of investment and employment shows significant differences between both countries: every one million dollars invested in Brazil results in an additional 3.1 jobs, while the impact is less than half in Argentina (1.5). The low elasticity of investment/employment in Argentina is noteworthy, as while the country occupies third place in investments in Latin America and the Caribbean (10% of the dollars invested in the region), it only accounts for 4.8% of employment (Latin America and the Caribbean Network on China, 2019).

These new investments have focused on industries in the primary sector (oil, gas, and mining) and service sectors, except for investments in manufactured products (motorcycles and automotive components). Strictly speaking, mergers and acquisitions are more relevant in terms of foreign currency than employment, as the Chinese landing has not caused major alterations in the already-established staff of these companies.

Evidently, Chinese investments in Argentina and Brazil are related to the Chinese government's strategy. These data show how key Latin America is for the Chinese supply process; the Chinese government chooses industries that can provide commodities to attain local production processes. In the last 10 years, Chinese investments have increased in the service sector in Latin America and the Caribbean; however, these investments are still relatively scarce compared to the primary sector. The increasing presence of China in the service sector also shows that its government



is making a bet on industries that produce non-tradable goods, *that is*, those whose products cannot compete with its local products.

As part of the internationalization strategy, financial investments were also part of the process. On one hand, the Industrial and Commercial Bank of China (ICBC) announced the purchase of the majority block of shares of Standard Bank (a South African bank) in 2011 and, in turn, obtained clearance to open a branch in Brazil in 2012. In terms of assets, ICBC is the largest bank in the world and is controlled by the Chinese government. On the other hand, in the context of the decrease in terms of trade since 2012, the Chinese government offered the possibility of executing swaps in national currency to guarantee international reserves for the countries in the region. Under these conditions, Brazil and Argentina executed a swap for the equivalent of \$30 and \$11 billion in 2013-2014.

Chinese investments in Argentina and Brazil have mainly focused on the agricultural and extractive industries (mainly mining and energy). Projects also include services that are a direct part of the primary sector (primary product trade, technology solutions, and fertilizer trade). While the roles of Argentina and Brazil are not key investment destinations, we can identify these three elements: (i) the South American main role in food provision, particularly soybean and meat; (ii) a clear interest in the possibility of obtaining oil from Argentina and Brazil considering the reserves of YPF and Petrobras (both state-owned oil companies) and their future production; and (iii) the interest of local governments in taking advantage of the possibilities of global multipolarity given China's growth, especially from a financial point of view. In this regard, some geopolitical challenges arose in connection with U.S. hegemony during the 20<sup>th</sup> century: oil diplomacy and the dollar-based international monetary system.

Once again, these indicators show that the industries where China chooses to focus its investments in the region have to do with providing basic supply to its internal market, but they are very unlikely to result in progress for Latin American countries in value chains. Similar to trade flows, these Chinese interests are directly linked to the economic interests of the traditional ruling classes that control the main export chains. However, there is no Chinese geopolitical interest in promoting structural transformation beyond the commercial provision of natural resources. Therefore, the characteristics of the developments by invitation that promoted unilateral trade openings, unrestricted financing, or access to cutting-edge technology were not reproduced.

## **5 Final remarks: diversifying structure rhetoric versus power bloc veto**

The consolidation of China in the international arena favored Argentine and Brazilian economic recovery owing to a larger supply of foreign currency, which considerably relaxed the Balance of Payment constraints in the first decade of the 21<sup>st</sup> century. In Argentina, the Chinese effect was insufficient to finance a developmental agenda (the trade surplus has reversed since 2008). The relative autonomy of the government from the agricultural sector (landowners, producers, their cooperatives, and transnational traders) decreased, as did the trade surplus and the political veto of the power bloc limited the rhetoric of structural change. In Brazil, the Chinese effect was quite large, therefore economic expansion was not limited by the external front.

We present evidence that in the first two decades of this century, in terms of productive specialization, the association between Argentina and Brazil expresses traditional dependency relationships: these South American countries are agricultural and energy net exporters and capital and intermediate goods net importers. Consequently, Chinese investment is focused on raw materials and is mainly conducted by Chinese SOEs. Most of this investment is explained by M&As, benefiting from previously installed enterprises.

In this sense, the relationship between the domestic ruling classes and the rise of China ratifies Chinese economic power. The fraction of capital associated with the agricultural, energy, and mining industries promotes a growing commercial relationship with China that goes beyond officers in power and their projects and ideology. In contrast, the manufacturing fractions of capital, whose dynamics of accumulation depend on the internal market or, in its extended version, on Mercosur and are the focus of a developmental agenda, express fundamental political tension. We highlight some differences among the industrial firms.

Large capitals, such as the automotive, chemical, and plastic industries and other transnational firms, are under global market logic and do not have an interest in a (peripheral) developmental state; their interest is pressure for tax exemption and local benefits to increase their profits. Similarly, domestic manufacturing large-scale firms lose their interest in developmental as they gain internationalization they go through looking for a selective “liberalization” (without losing their relative protection). Both require intermediate and capital goods from China, thus reinforcing productive dependency. Only small-scale, internal-market industrial sectors are opposed to (some types of) liberalization policies and competence with Chinese firms if they cannot ask for protectionist mechanisms.

Regarding the relationship between the ruling classes and the state, the increase in exchanges with China meant a deepening of the trends starting at the end of the 20<sup>th</sup> century: the consolidation of dependent and peripheral accumulation regimes under the leadership of the traditional (primary exporting) ruling classes, with harmful environmental and potentially unsustainable consequences. After Macri (2015-2019) and Temer-Bolsonaro (2016-2022), the strengthening of projects, exchanges, and agreements with China shows that this relationship goes beyond administration in power and responds to the logic of capital-dependent cycles.

From the point of view of Chinese interests, as shown in this study, the roles of Argentina and Brazil are secondary in terms of commercial integration and as an investment destination. Insertion in the Chinese accumulation regime makes South America the supplier of commodities and the destination of investments that facilitate such supply (infrastructure and direct investments in extractive activities). Therefore, the old dependence relations ratify these tendencies. Complementary, there is no Chinese geopolitical interest in promoting structural transformations or support for an “invitation to development” based on unilateral trade openings, unrestricted financing, or access to cutting-edge technology. Nevertheless, political developmental coalitions could plan a common South-South alliance with China by defining specialization sectors, technological transfers, and progressive income redistribution for the next few years, but this will depend on the capability of subaltern classes to discipline or deal with the traditional ruling classes.

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