

## The Expansion of China's Global Hegemonic Strategy: Implications for Latin America

Li Xing<sup>1</sup>

**Abstract:** The paper aims to provide a historical context for understanding the transition of China's development strategies from the "keeping a low profile" approach (Chinese: *Tao Guang Yang Hui*) during the past three decades to the current "striving for achievement" approach (Chinese: *You Suo Zuo Wei*) in recent years. The former lays a foundation for China's peaceful environment and economic success, while the latter represents a shift toward a more proactive foreign policy. The paper examines the two strategies from historical, regional and global perspectives and analyses the motivation behind China's current strategic repositioning. The author proposes an analytical lens of combining both Neo-Gramscian IR theory and the world system theory in order to comprehend the nexus between the accumulation and consolidation of China's internal hegemony and its inevitable outward expansion. What are the implications of China's outward expansion of its global strategy? The author argues that Beijing's capital and hegemonic outward expansion represents a world system's new round of capital and production relocation, which will dialectically enlarge or reduce "room for maneuver" and increase or decrease "upward mobility" for developing regions including Latin America. The paper concludes that it is in the political and economic interest of Latin America to seize the chance of this external "promotion by invitation" and to increase its upward mobility by finding the strategic convergence with China's global strategy.

**Keywords:** China-Latin America, Capital expansion, Room for maneuver, Upward mobility.

### China's "Tao Guang Yang Hui" Strategy: Accumulation and Strengthening

After Deng Xiaoping's political recovery following Mao Zedong's death, he was determined to lead China toward a grand development goal: developing the national economy, increasing production and productivity, raising the living standards of the population, as well as regaining the legitimacy of the CCP leadership. The strategy adopted during early periods of the economic reform in the 1980s and the mid-2000s was heuristically underlined by Deng Xiaoping's maxim, "watch cautiously, keep a low profile, bide your time, while also get something accomplished." The reform strategy in tune with the above maxim was idiomatically called "Tao Guang Yang Hui," a Chinese idiomatic expression, which literally means "to hide brightness, and to nourish obscurity." The notion reflects an implicit strategic choice, namely to wait for a time when China is ready to assert itself in the global sphere and ready to make a challenge. Meanwhile Beijing's explicit development objective projected to

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<sup>1</sup> Li Xing is Professor, Department of Culture and Global Studies, Aalborg University, Denmark. E-mail: xing@cgs.aau.dk

the whole world was “peaceful ascent” (*heping jueqi*), or “peaceful development” (*heping fazhan*).

### *Joining the flying geese regional economic order*

The first phase of the “Tao Guang Yang Hui” strategy in the early period of China’s economic reform marked Beijing’s willingness to accept the regional division of labor and to be part of the regional flying-geese economic order based on dynamic comparative advantage. The concept of the East Asian “flying-geese” pattern of regional economic integration was coined in the 1930s by a Japanese economist, Kaname Akamatsu (1935) who developed the theory of a multi-tier hierarchical “flying geese” model in which industrialization could be promoted and spread from developed countries to the less developed countries as costs in those economies rose. The hypothesis of the flying-geese pattern suggests that a group of nations in this region are flying together in layers with Japan at the front layer. The layers signify the different stages of economic development of various countries. The flying-geese model implies a life cycle of industries by which older technology and know-how is passed down the chain of developing economies. It also entails a product-cycle (PC) theory of trade and investment. The main characteristics of the flying-geese model in East Asia can be summarized as: 1) Intra-regional “take-over”, “ladder” and “chain” pattern of economic relations; 2) Intra-regional market and trade; 3) Intra-regional investment (Li, 2007).



Figure 1: The flying-geese model of East Asian industrialization and integration  
Source: Author’s own

If the failure of Japan’s first attempt at the “flying geese” process of industrialization in East Asia was connected to the victory of the Chinese Revolution in 1949 and the defeat of Japan

during the Second World War, it is an irony of history that a contributing factor to the disruption of the Japan-based second phase of the “flying-geese” pattern of regional development attributed to the rise of China as one of the key regional and global economic actors. Since the late 1990s, the region has witnessed a gradual shift away from the previous Japan-led “flying geese” model of vertical economic integration through investment, technological transfer and supply of manufacturing parts, which was based on a hierarchical market exchange and a clear regional division of labor and production networks, to a new horizontal intra-regional economic integration driven by the rise of China.

*The emergence of the China-centered regional economic order*

Since the 2000s the region witnessed a gradual shift away from the vertical “flying-geese” model to a new horizontal modeling of regional economic integration. The new pattern of regional economic relations indicated an emerging phenomenon of “bamboo capitalism”:

This regional model appears to be shifting towards that of “bamboo capitalism” or “parallel development.” Based on foreign direct investment (FDI) flows in the region, which create intricate intra-regional production networks, “bamboo capitalism” also focuses on the exchange of parts, components and other intermediate products, and hence a “horizontal network of trade and capital” – with China at its core (Cheow, 2004: 3-4).

The rise of China as a new regional economic hegemon shows a unique and complex relationship with the flying-geese dynamics. On the one hand, it can be argued that China’s domestic development in the past three decades also resembled certain flying-geese characteristics manifested by its coastal and inland economic interactions (Yue Qu, et al. 2012), while its economic success can be seen as a result of its integration in the intra-regional flying-geese dynamics. On the other hand, China’s vast size and its unbalanced development levels in different internal regions with their respective levels of industrial stages and comparative advantages enabled China to cooperate with the rest of the countries of the region and even the whole world – core, semiperiphery and periphery countries - both vertically and horizontally.

Today there is a consensus in East Asia that China’s economic power, especially its growing domestic market, has been a major engine for growth boosting regional trade growth and economic integration. China is now virtually the no. 1 trading partner for most East and Southeast countries, and only in 2013 did the United States take over China’s position as Japan’s largest trading partner (due to the China-Japan crisis over the territorial disputes).

This situation is not only an East Asian phenomenon, but also a global one: in 2013, China overtook the US as the world's largest goods trader (*Financial Time*, 2014a). As noted in a RT.com article "As recently as 2006, America was the larger trading partner for 127 countries, versus just 70 for China. By 2011, the situation had changed drastically: 124 countries for China, 76 for the US" (quoted by *Forbes*, October 19, 2014). The same situation has been taking place in East Asia (see Figure 2).

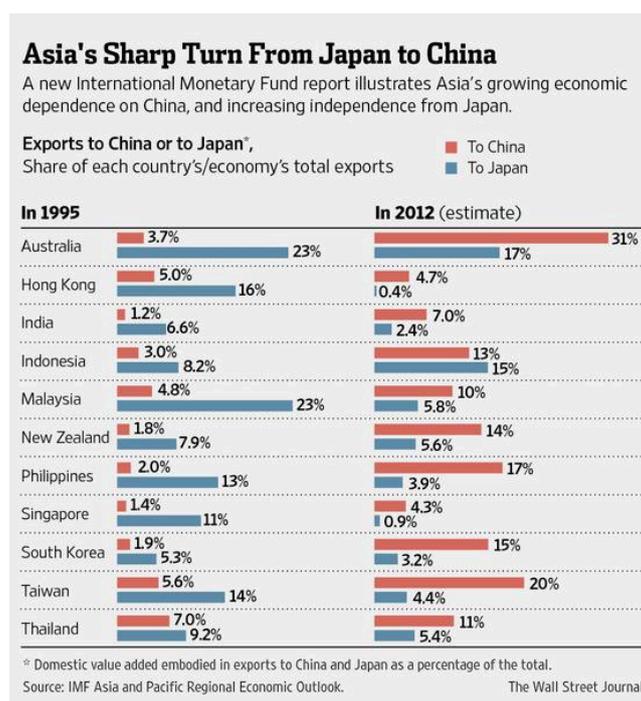


Figure 2: The return of China's historical position as the region's gravity  
 Source: *The Wall Street Journal*, May 13, 2014

During the financial crisis in 1997 which seriously deteriorated the regional economy, the strong supportive measures by China played the most important role in stabilizing the region's economy and were a key contributor to the region's economic recovery (Kirton, 1999). Beijing did so through drawing on its extensive foreign exchange reserves to assist distressed nations. It also refused to devalue its currency and refused to withhold its committed aid to Asian nations that tried to rebuild their vulnerable economies.

Today, virtually every East Asian country counts China as its largest trading partner and its largest market (Figure 2). There is no doubt today that China is increasingly looked upon as the locomotive of the region's economic growth and development. While having a large

surplus in its trade with the United States and the EU, China had trade deficits with most Asian countries for many years. According to a research study, “Between 2002 and 2007, China’s total deficit to ASEAN, Japan and Korea more than tripled from US\$25.5 billion to US\$93.7 billion ... in 2009, China’s trade deficit to Japan, the Republic of Korea and ASEAN stood at US\$20.8 billion, US\$35.1 billion and US\$1.3 billion” (Huang and Zhang, 2011:57). China’s import is helping to fuel the economic recovery and growth of its smaller neighbors. Both the East Asian region in general and Japan in particular have been acknowledging that exports to the Chinese market have become an important force for promoting regional economic cooperation and trade growth and helping to spur their economic recovery (Gonçalves, 2009: 13).

If the analytical perspectives are extended to depict the regional “economic order”, then recent studies indicate that the Chinese economy is playing a pivotal role not only as an engine of growth for East and Southeast Asia, but also as a hub for regional economic integration (Figure 3):

China has in fact become an important regional ‘integrator’ through its many global and regional production networks. China’s exports (over 50% being processing trade) embody raw materials, parts and components, technology and equipment, and financial and economic services from different Asian economies, converting ‘Made-in-Asia’ into ‘Made-in-China’ products for the world market. (Wong, 2013: 288)

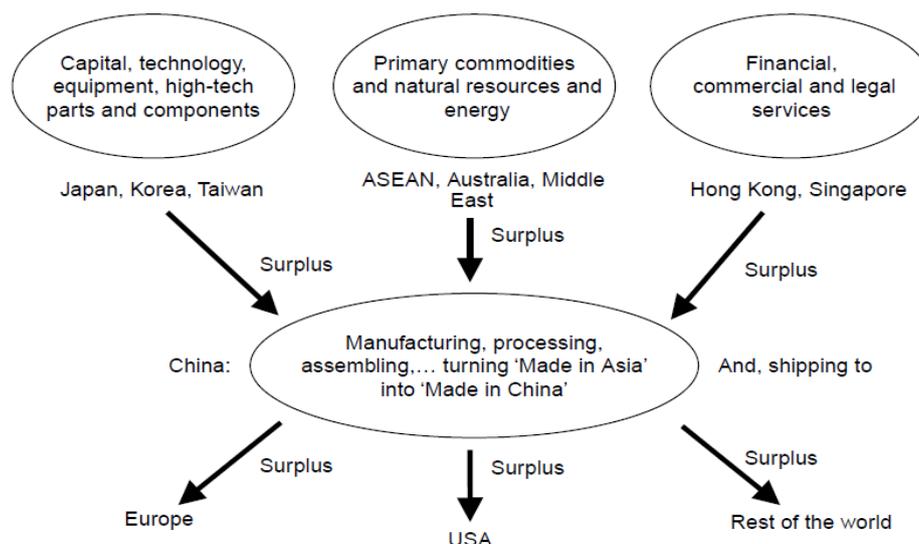


Figure 3: China has become a regional economic integrator  
Source: Wong, 2013: 288, Figure 2

### China's "You Suo Zuo Wei" Strategy: Outward Expansion

As the result of the 3-decade "keeping a low profile" strategy, China today is the world's second biggest economy. Since the beginning of 2010, China alone has contributed over one-third of global GDP growth (The Economist, 2013, Sept. 21). Despite experiencing its weakest GDP increase in 24 years in 2014, China remained the largest contributor to global growth (The Economist, 2015, March 21). The rise of China is indeed making its economic impact felt worldwide and is leading the world order to a close interdependent relationship between the Chinese economy and that of the rest of the world:

1) China's economic performance and market indicators have a profound impact on the global financial and commodity markets.

2) Its soaring demand for energy has led to competition and conflict; China's shifts in supply and demand cause changes in prices, hence leading to adjustment in other countries. The economic growth of many countries and regions is becoming more dependent on their trade with China.

3) The Chinese currency Yuan has been enlarging its regional and global roles, while global financial banks are becoming sensitive to Beijing's monetary policies. It has also become a focus of discussion on global governance and institutional reform of the international monetary system as well as the balance of power between major world currencies, especially when the Chinese Yuan was recently accepted by the IMF to become one of world's major SDR<sup>2</sup> currencies.

4) China's strong competitiveness in international trade has raised concerns for workers and firms in both developed and developing countries.

5) The effects of Chinese overseas investments have begun to be felt across the world. Beijing's policies on finance, currency, trade, security, environment, resource management, food security, raw material and product prices are increasingly seen as affecting the economies of millions of people outside of China's boundary.

By 2015, according to the Fortune Global 500 list by the *Fortune Magazine*, China will be the second largest country in terms of the number of companies listed in the ranking with a

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<sup>2</sup> SDR refers to Special Drawing Rights. They are supplementary foreign exchange reserve assets defined and maintained by the International Monetary Fund (IMF). Currently, the existing SDR currencies are the US Dollar, the Euro, the British Pound and the Japanese Yen. According to the IMF's recent decision, the Chinese Yuan will be part of the SDR currencies beginning from October 2016.

total of 106 companies on it, only behind the US. According to the Credit Suisse report, which was widely cited internationally, e.g.: in 2015, China's middle class also surpassed the U.S. and is now the biggest in the world. The country now accounts for a fifth of the world's population, while holding about 10% of global wealth. Already in 2014, China was calculated by the major international economic institutions to be the largest economy in the world in PPP terms (Purchase Power Parity).

With astonishingly higher economic growth over the last three decades and with its mounting accumulation of capital and wealth, China has begun to increase its influence on global issues and to shape international agendas and governance patterns. Since 2010, the world has been witnessing an unfamiliar pattern of China's behavior in which Beijing is seen to have become increasingly assertive and uncompromising both in rhetoric discourse and foreign policy. Both Chinese and Western academia and media believe that China has now abandoned its "keeping a low profile" strategy and moved on to "striving for achievement" (Yan, 2014). The latter can be seen as China's determination to make more global contributions "with Chinese characteristics". Some scholars also interpret this as an indication that China cannot be expected to maintain a passive rule-follower of the world order. Rather, China is striving to become one of the rule-makers (Li and Shaw, 2014). What are the implications and impact of this development to developing countries in general and to Latin American countries in particular?

### **Chinese Hegemonic Expansion: the Gramscian and Neo-Gramscian Dimensions**

#### *Internal hegemony and its external expansion*

The linkage between a state's internal power accumulation and consolidation of hegemony and its external power projection to shape the regional and global order can be conceptualized through the lens of the neo-Gramscian school of international relations represented by the theory's leading proponent Robert Cox. Cox raised the level of analysis on the concept of hegemony from the nation level to the international one, i.e. the formation of world hegemony begins with an outward expansion of the internal (national) hegemony. He developed a critical theory of understanding the nexus between hegemony, world order, and historical change. Such a nexus explains how internal hegemony, driven by dominant class and social forces occupying a leading position within a nation-state, is then extended and projected outward on a world scale leading to the shape of the international order (Cox, 1981, 1983).

This neo-Gramscian understanding of internal-external nexus of hegemony (Figure 4) is, on the one hand, ideal, but on the other hand, sensible, logical and mutual influencing. Bieler and Morton (2003) well describe the domestic-international interplay between ideas, material capacities and institutions:

Yet once hegemony has been consolidated domestically it may expand beyond a particular social order to move outward on a world scale through the international expansion of a particular mode of social relations of production .... This can further become supported by mechanisms of international organisation. Finally, within each of the three main spheres it is argued that three further elements reciprocally combine to constitute an historical structure: *ideas*, understood as intersubjective meanings as well as collective images of world order; *material capabilities*, referring to accumulated resources; and *institutions*, which are amalgams of the previous two elements and are means of stabilising a particular order (Bieler and Morton, 2003).

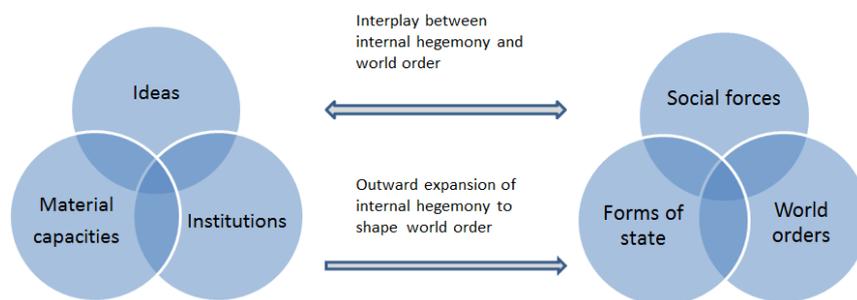


Figure 4: The nexus of internal hegemony and its external expansion from a neo-Gramscian IR perspective

Source: Cox, 1981:136 and 138 - with the author's addition in the middle

Figure 4 shows the linkage between a hegemon's internal power constellation (the left side of the figure) and the nexus to the external world order (the right side of the figure). Cox's theory of hegemony was initially aimed at explaining how the United States, driven by domestic power relations and social forces, was able to shape and lead the post-war world order. His empirical ground was based on studying how the US hegemony was institutionally sustained by the US-led international organizations (the Bretton Woods order) that enabled the US and its allied regimes to perpetuate their favorable position in the world order and to shape the development direction of the system as a whole. Cox's contribution was that he raised the analytical level of the notion of hegemony from the national level to the international level. He conceptualized "world hegemony" as the interplay between national

and international pattern of relationships crossing social, economic and political configurations:

Hegemony at the international level is thus not merely an order among states. It is an order within a world economy with a dominant mode of production which penetrates into all countries and links into other subordinated modes of production. It is also a complex of international social relationships which connect the social classes of the different countries. World hegemony can be described as a social structure, an economic structure, and a political structure; and it cannot be simply one of these things but must all three (1983: 171).

Understanding the neo-Gramscian comprehensive concept of hegemony of international relations as a combination of “structural power” and “superstructural forces”, we can see some limitations of its applicability in analyzing the rise of China and the Chinese hegemony because most of the existing literatures are centered on China’s hard structural power. However, if we read Marx, Gramsci and Cox in the conditions of globalization and the contemporary transformation of international political economy by taking into consideration the mutually interactive base-superstructure relationships, we can still postulate that in the history of international relations, the economic base (imperatives), given the law and logic of capital accumulation, tends to shape the development of the world order. Although the outward expansion of the Chinese influence is primarily driven by its global economic power, its superstructural normative constituents (soft power domain) in terms of norm-negotiating, agenda-setting, and policy-institutionalizing will eventually become systematized. This view is believed to be shared by the world system theory, which, albeit the theory is intentionally based on economic analysis, would likely agree with the normative impact as an anticipated or unanticipated consequence of economic forces and power.

### **Chinese Hegemonic Expansion: The World System Perspectives**

The world system theory developed by Wallerstein (1974, 1979, 1997, and 2004) provides a broad theoretical perspective to understand the historical evolutions and changes involved in the rise of the modern capitalist world system. This system expanded over a long historical spectrum and brought different parts of the world into its division of labor, leading to a perpetual condition of economic core-peripheral relations. Under this single division of labor within one world market, a political structure consisting of sovereign states and multiple cultural systems interacts within the framework of an interstate system (1974). The world system is conceptualized as a dynamic one in which changing positions within the system’s

structural morphology is possible by taking advantage of global capital mobility and relocation of production. Historically, the division of labor within the capitalist world economy brought about and resulted in flows of commodities, labor, and capital across different geographical areas through chains of production, exchange and investment. China and India are seen as the last reserves (unexploited areas) that have been brought into the capitalist world system (Li, 2008). The world system theory attempts to explain the system's embedded inequalities in which nation states have quite different development stages within a seemingly unified global economy. In line with this theory, the different positions in the global division of labor and the change of patterns of competition and competitiveness planted the system from the very beginning with contradictions that led to the dichotomy of development vis-a-vis underdevelopment.

The world capitalist system, according to the world system theory, is understood to be embedded with fundamental features, characterized by a series of cyclical rhythms, i.e. economic prosperity or crisis, and upward or downward mobility. More importantly, this series of cyclical rhythms was followed by the rise and decline of new guarantors (new hegemonies) of the world system, and each one had its own unique pattern of control (Wallerstein, 1997). Likewise, the emergence of China can be plausibly perceived as part of the system's rhythmic cycles in the upward mobility, and China continues to follow the core features of the world capitalist system. China is believed to be motivated or driven to act as a new political and economic system-guarantor due to its economic integration and market dependence in the system's mode of production and capital accumulation.

Nevertheless, new emerging powers, especially China, are also described as a challenger to the system's existing dominant guarantor and other core powers because they have different political and economic governing cultures. Nowadays China is perceived as having an intention of establishing a "Sinicized" world order – an order with "Chinese characteristics". The "Chinese characteristics" are often translated into expressions such as "market economy with Chinese characteristics", or "Chinese model", etc. However, in line with the world system theory's interpretation, even if the future world order were to be injected with Chinese characteristic, it would simply be a reflection and extension of China's internal economic, political and cultural structures without altering the core architecture of the world capitalist system.

Thus, contrary to the pessimism of conservative realism, the world system theory does not view the rise of new guarantors (later-comers) as a threat as long as the system's

fundamental core features - mode of production and the logic of capital accumulation - are maintained. This is because the advance of the latecomers hugely benefited from their integration in international division of labor and active participation in the process of capital and wealth accumulation. Accordingly, the rise of China and emerging powers is understood as part of the cyclical rhythms of the system, which symbolizes the strength and success of the world system in bringing more untapped parts of the world to the logic of capitalism without changing the fundamental relations of inequality within the system. The world system theory's argument is clear: when China is successfully moving toward the core, it still needs periphery. Such argument is verified by recent studies on Latin America's growing commodity dependency on China (Ferchen, et al., 2013; Pereira and Neves, 2011).

#### *Room for maneuver and upward mobility*

“Room for maneuver” refers to the external conditions for “upward mobility” in the world capitalist economy that is conducive to internal development. Seen from a long historical perspective, the global core-semiperiphery-periphery hierarchy defined by the world system theory has been a relatively stable structure over centuries. The system's rhythmic cycles and the rise or decline of hegemonic powers provide both upward and downward mobility. The rise of the US is the clear example of upward mobility, and so is China since the 1980s. A positive effect of upward mobility is reflected by the combination of external forces, e.g. “promotion by invitation”, and internal forces, e.g. “seizing the chance”.

“Promotion by invitation” refers to the upward mobility path enjoyed by a semi-periphery or periphery country, whose geopolitical position is vital during the period of global power struggles, or whose internal condition is favorable to global capital mobility and production relocation. This upward mobility is stimulated by the favorable external environment created by the promotion and invitation of the existing hegemon, or by a group of core nations, for the sake of their own geopolitical and geo-economic interests. In East Asia, Japan and the East Asian Newly Industrialized Economies (NICs), including post-Mao China, are good examples of this type of upward mobility by external promotion. “Seizing the chance” indicates the internal capability in taking advantage of a new situation or condition that is taking place in the international political economy and to adjust the internal development mobility accordingly.

In line with the world system's analysis, the rise of China together with its capital outward expansion and global hegemonic strategy seemingly represents another rhythmic

cycle of the rise of a new hegemon, which is an opportunity in terms of room for maneuver and upward mobility for some countries, while a challenge and downward mobility for others.

### **Chinese Capital Expansion and Financial Hegemony**

According to Cox's analytical method (1981, 1983), to understand and measure the way in which hegemony is exercised and maintained at the global level by a leading hegemon is to examine how international organizations are led to function in the way that reflects the hegemon's internal ideology, interest and objective. The world system theory would assumedly recognize and share the importance of international organization, especially international economic and financial institutions, where the core features of the capitalist world system are produced/reproduced, maintained and expanded.

During the early reform periods driven by the "Tao Guang Yang Hui" strategy, Beijing's goal was to become a "good citizen" and a "loyal member" of various international organizations that deal with economic, political, security, cultural and environmental issues, etc. China membership in the World Trade Organization in 1995 further integrated itself into the global economy and benefited from the existing international economic and financial institutions. China has learned to become more effective in utilizing international organizations to advance its national interests as well as to extract what it needs from these institutions. One Chinese scholar pointed out that "China's growing role in all kinds of international organizations is part of the story of China's rise" (Xie, 2011:85). Another scholar argued, "globalization works only because of a high degree of institutional and legal interdependence, and China's growing prosperity depends on tightening these bonds and participating in those global and regional institutions" (Agnew, 2010: 578).

However, since 2008 the devastating effects of the global financial crisis and the stalemate of the "Doha Round" negotiation, the US-based institutions - the World Bank, the IMF and the WTO - have been criticized and questioned about their discourse authority, governance capability and institutional legitimacy. More broadly, the existing world order, with these economic institutions as their supporting pillars, is experiencing crises in four comprehensive dimensions: functionality, scope, legitimacy and authority (Li, 2014). Ironically, while the United States and much of Europe were plunged into a serious recession, China emerged to become a global economic power and a pivotal stakeholder to international economic and financial institutions: 1) the largest trading nation and the largest trading

partner for a majority of countries; 2) an important source of aid and development assistance; 3) a relevant and attractive model of economic development. As some scholars noticed,

China's remarkable growth story, and its strengthened relative position as result of the GFC cannot help but deeply impact the make-up and functioning of the international institutions in which it participates, many of which have traditionally mirrored a US view of the world. In the aftermath of the economic crisis, China's calls for greater representation in institutions such as the World Bank and the International Monetary Fund became more vociferous, and other nations, including western developed nations, have seemed to signal a greater receptivity to this notion. The moral authority and credibility the Chinese can now carry into a variety of international economic institutions is greater than it ever has been (Olson and Prestowitz, 2011: 6).

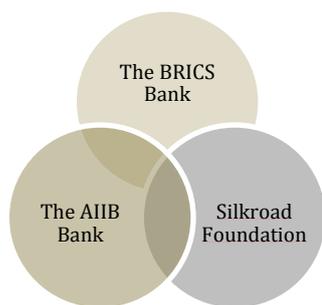
In recent years China's proactive engagement in financial multilateralism has caught global attention (Wang, 2014). China's relationship with international financial institutions has always been controversial for many years. Early disagreement on China's role and position in international institutions as a "free-rider" or as a "stake-holder" is being turned into a dispute about whether China is a "status quo" or "revisionist" power to the current world order. By a "status quo" power it refers to the extent that Beijing respects international relations as a system based on the acceptance of norms. By a "revisionist" power it denotes the opposite, and the China-led multilateral financial institutions – The BRICS Bank<sup>3</sup>, the AIIB<sup>4</sup> and the New Silk Road Fund<sup>5</sup> - (see Figure 5), are seen as good examples that demonstrate "Beijing's challenge to the world of Bretton Woods" (*Financial Times*, 2014b).

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<sup>3</sup> China is the largest stakeholder of the BRICS Bank contributing 41% of the total 100 billion US Dollars capital base, at the 6th BRICS summit in Fortaleza, Brazil. According to the official published *Fortaleza Declaration*, "the BRICS Development Bank is designed to mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging and developing economies" (*Fortaleza Declaration*, 2014).

<sup>4</sup> It refers to the China-led "Asian Infrastructure Investment Bank" (AIIB). The bank was proposed as an initiative by the government of China in 2015, and it is an international financial institution with a pivotal aim to support and finance infrastructural projects in the Asia-Pacific region.

<sup>5</sup> During the APEC Summit in Beijing in November 2014, China's President Xi Jinping announced that China would contribute 40 billion U.S. dollars to set up a Silk Road Fund at a dialogue meeting on strengthening connectivity and improving cooperation in the country's neighborhood. According to Xi's explanation, "the new Silk Road Fund will be used to provide investment and financing support to carry out infrastructure, resources, industrial cooperation, financial cooperation and other projects related to connectivity for countries along the 'One Belt and One Road' initiative" (Ma and Gao 2014).



(China-led international banks)



Figure 5: China's proactive engagement in financial multilateralism  
Source: Eyler, 2015.

In line with the world system understanding, the emergence of a China-led world financial order is not a menace, and it is simply a reflection and extension of China's internal economic, political and cultural structures without altering the core architecture of the capitalist world system. Moreover, it actually revitalizes the world system's continuous rhythmic cycles in upward mobility. In other words, a financial order with "Chinese characteristics" will inevitably be shaped and molded by the system's law of value.

### **China's Presence in Latin America: Room for Maneuver and Upward Mobility**

In the view of the world system theory, for capital to be shifted away from the declining sectors into the profiting sectors, the declining sectors need to be relocated to semi-periphery or periphery countries according to their labor condition and technological level. Some of these countries will benefit from global capital mobility and production relocation. Historically, it was in such pivotal moments that opportunities for upward mobility within the system were generated and regenerated (promotion by invitation) (Wallerstein, 1979). China's high economic growth in the past decades is a good story reflecting the positive spill-over effect of taking advantage of the system's upward mobility (seizing the change). Li Minqi, a Chinese scholar in the U.S., sees China as primary beneficiary of the latest round of global capital relocation (Li, 2008). This is the historical and economic foundation of China's "win-win" understanding and rhetoric. Accordingly, the current debate on China's burgeoning presence in Latin America can also be related to the above discussion.

The discussion on opportunities and constraints in China-Latin American relations can be conceptually related to the theoretical analysis by the world system theory in the previous section. One aspect of the debate is connected with the nexus between the rise of new emerging powers and the consequence of chronic rivalries among major core states (the US, the EU, China) as well as the nexus between these core rivalries and the expansion or reduction of political and economic “room for maneuver” for periphery states (the developing world). As previously discussed, “room for maneuver” refers to the conducive external condition for internal upward mobility, a favorable external environment/opportunity that leads to an internal driving force for modernization and technological upgrading. According to the author’s previous research, the rise of China does present a dual effort for semiperiphery and periphery countries – the coexistence of opportunities and constraints (Li and Christensen, 2012).

There is a clear common interest between China and Latin America in improving the international system and global governance. Beijing’s outward global strategy has also been witnessed by its proactive leadership in initiating several financial and development institutions and mechanisms in recent years. These new platforms on global governance are creating more opportunities and choices for Brazil and other Latin American countries to make their voices heard, to strengthen their negotiation bargaining and to participate in decision-making process on matters related to global governance.

#### *The Chinese development model as a lesson and inspiration*

As the backyard of the United States, Latin America was forced for decades to implement the neoliberal economic policies underpinned by the Washington Consensus. The consequence was that countries in this region had to reduce their ability of the state to play a significant role in their economic development in terms of extensive deregulation, privatization and liberalization, etc. The failure of the neoliberal economic model in many parts of the world after the Cold War contrasted China’s economic rise, and it may have inspired local emerging economies by the Chinese distinct development model in which economic success was not through the “free market” but through the “governed market”, a concept which was derived from studying economic development models in East Asia (Wade, 1990). According to some scholars, China’s economic model, with its emphasis on an active market-friendly role of the state, is increasingly perceived to be a good attractive case which provides important lessons and inspirations for the Latin American region (Devlin, 2008). Such an opinion is shared by

many other scholars, who argue that “China’s rise shows developing countries that there are viable alternatives to the Washington Consensus” (Gilberto and Hogenboom, 2012).

More specifically, some of the key drivers behind China’s economic success point to a possible policy recommendation. Firstly, China’s successful growth story is a potential source of policy lessons for Latin America to examine the Chinese experience (Devlin, et al., 2006). Secondly, the Chinese lessons provided by the country’s proactive development strategy demonstrate the importance of developing domestic technological capabilities and diversifying the productive structure with a move-up objective toward to higher end of the value chain. Thirdly, the Chinese success invites rethinking about the global conventional debate on “democracy and development relationships”. The Chinese success is changing the global debate on development and underdevelopment from a conventional focus on the nexus between “development versus democracy” to a contemporary emphasis on the linkage between “development and governance” (Lai, 2016). To put it more clearly, the question is whether underdevelopment or mal-development is the consequence of the lack of democracy or the lack of governance competence?

*Financial and trade opportunities: upward and downward mobility? Or both?*

Dismayed by their lack of influence both in IMF and the World Bank due to the unfair voting shares, China, Brazil and other emerging powers determined to set up alternative financial institutions. Thus the establishment of the BRICS Development Bank in 2014, and especially the Asian Infrastructure Investment Bank (AIIB) in 2015 aimed to response to the widely acknowledged shortcomings of the existing global financial system and to fund member countries’ infrastructural projects and sustainable development projects. According to the Fortaleza declaration, the purpose of this new Development Bank is to “mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging and developing economies” (6<sup>th</sup> BRICS Summit 2014). It is also noticed that despite its rhetorical inclusiveness, the BRICS Bank is not defined to be inclusive, and its main purpose is to serve the interest of the core founding members.

The AIIB is argued to be the most recent example of China’s “circuitous strategy” and “go global” strategy. Unlike the BRICS Bank, the AIIB is meant to be global, with similar functions of the IFM and World Bank. All BRICS countries are the founding members of the AIIB. China is also becoming increasingly involved in multilateral fora in Latin America,

such as the Inter-American Development Bank, the Organization of American States, Mercosur and the Andean Community (Jenkins, 2010).

Since the global financial crisis started in 2008, China intensified its “you suo zuo wei” strategy (striving for achievement) in a “go-global” approach to expanding its international economic influence. The Chinese “go Latin America” motivation as part of its outward expansion is also driven by the constraint it is facing in East Asia. China’s policy to strengthen its relationship with Latin America in recent years implies new strategic thinking which can be characterized as being a “circuitous strategy” as a way to counter the US proactive “Rebalance to the Asia-Pacific” policy. The Chinese expression of “power” (实力) in international relations consists of two words “Shi” (实) and “Li” (力). The former implies gaining a targeted outcome and occupying a position of strategic importance, while the latter refers to physical strength. By a “circuitous strategy”, it focuses on the former (Shi) where in a conflictual situation or in face of hostility from a strong adversary, it is wise to approach the ultimate objectives by winning a favorable position (Shi) even at the cost of losing much physical strength (Li). The Chinese strategy resembles the Gramscian notion of “war of position”<sup>6</sup>. As one US military official points out, “China’s expansion into Latin America might well outflank the US rebalance in Asia” (Morgan, 2015: 103).

Viewing the US economic and security policies in East Asia as an attempt to contain China, as a countermeasure Beijing designated to use a global or a trans-regional market and trade strategy to extend its trade and investment to other strategic regions such as Africa and Latin America as well as to form an alternative “united front”<sup>7</sup>. In recent years, global attention is turning to China’s growing presence in Latin America, a region which has traditionally come under the US “sphere of influence”. It is argued that China’s increasing presence in Latin America clearly reflects its outward expansion as part of its “striving for

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<sup>6</sup> The original concept is derived from Antonio Gramsci, who refers to the stage of class struggle aimed to gain positions of influence and to develop counter-hegemonic forces. It is a slow, hidden and protracted struggle in an attempt to seek to gain influence and power. The concept intends to be distinguished from another notion termed by Gramsci as “war of maneuver”, which refers to a direct, violent and immediate assault on the state for achieving political power (Gramsci, 1971).

<sup>7</sup> Since 2000, China has established a number of international cooperative platforms in order to increase its global political and security rooms for maneuver, such as, The Shanghai Cooperation Organization; The Boao Forum, The BRICS, etc.

achievement” strategy. The China-Latin America relationship is providing new economic opportunities and political maneuvering spaces for the region. Bilateral trade between China and Latin America has grown exponentially since the early 2000s—from \$12 billion in 2000 to \$289 billion in 2013. China is now the third largest destination of the Latin American exports (China is now the largest export destination for Brazil, Chile and Peru, and the second-largest export destination for Argentina). According to Anthony Elson,

China’s demand for these goods is one reason for the significant terms-of-trade gains Latin America enjoyed in the five years before the 2008 global financial crisis. These gains and the attendant growth in export volumes provided a significant boost to the region’s real GDP and income growth over that of the preceding decade (Elson, 2014: 45).

On the one hand, China’s comparative strength in commodities can force local producers to enhance their productivity and competitiveness; on the other hand, China’s vast domestic market can generate significant export revenues for Latin America. More importantly, China’s strong card in financial capital can be a critical source of investment capital for this region’s infrastructure development. One of Beijing’s recent initiatives was that Chinese Premier Li Keqiang, on May 19, 2015 during his visit to Brazil, announced that Beijing would establish a 30 billion USD special fund for promoting China-Latin America cooperation in production capacity and equipment manufacturing (Xinhua, 2015).

A recent study “Chinese Investments in Brazil from 2007-2012”, made by China-Brazil Business Council (CBBC), examines China’s investment in Brazil during this period from a number of dimensions, such as ownership structure, investment motivations, entry mode, and sectoral distribution. The report indicates that,

Over the past few years, an unprecedented surge in Chinese foreign direct investment (FDI) in Brazil has marked a new phase in Sino-Brazilian economic relations. This phenomenon comes after a decade of increasing Chinese outward foreign direct investment (OFDI) globally. Nevertheless, throughout the 2000s as the geographic distribution of Chinese OFDI widened significantly, Brazil remained noticeably absent from the list of main countries that served as host to Chinese OFDI. This picture changed dramatically in 2010 when an influx of US\$ 13.1 billion in confirmed investment - twenty times the accumulated value of Chinese investment in Brazil during the previous two years - made China one of the largest sources of foreign direct investment in the country (CBBC, 2013: 8).

Despite the promising improvement in China-Brazil bilateral economic relations, the report also points out Brazil's internal barriers for both domestic and international investors: "regulatory uncertainty, a heavy tax burden and a complex tax code, poor infrastructure, high cost of services, and an outdated and often dysfunctional labor code" (CBBC, 2013:16). The future of China's increasing investment in Brazil is promising, and according to Jose Graca Lima, head of Asian affairs in the Brazilian foreign ministry, a "second generation" of Chinese investment is under way, switching from trade in raw materials to heavy industry and infrastructure (the Guardian, 2015).

However, there is still no evidence to support the claim whether China's burgeoning presence in Africa has lifted or will lift the continent to a more favorable position in the global division of labor. According to the conclusion of a recent report that measures Latin America's trade dependence on China (Casanova, et al., 2015:15/9), "... the continent exports primarily commodities to China while importing primarily manufactured goods," and "dependency on China has increased overboard across Latin America for all countries and all products, with some exceptions". Particularly in the sphere of international trade and FDI, China is both an important "partner" and a strong "competitor" for Latin America --- the coexistence of upward and downward mobilities.

#### *Political and security spaces for maneuver*

Historically, as the "backyard" of the U.S., countries in Latin America were heavily dependent on the U.S. in terms of political regime, economic policy and military security. Latin American development in the 1980s was characterized by high levels of foreign indebtedness, leading to the loss of autonomy to pursue independent foreign policies and development strategies. In many ways, they have to face policy intervention by the dominant countries and the West-based financial institutions.

China's increasing role in Latin America provides the region with alternative options of strategic choice and partnership as well as more spaces for maneuver. From an economic perspective, "China's increasing demand for commodities is promoting the economic growth of many Latin American nations, especially those situated at its Southern Cone, making them less dependent of the Americans" (Santibanes, 2009: 18). As Gonzalo Sebastian Paz recalled, "the former Argentina President Kirchner, in 2004, secretly requested Chinese financial support to pay the debt with the IMF to 'liberate' Argentina from the sticky supervision of its economic policies" (Paz, 2012: 24). More importantly, due to the serious failure of

Washington Consensus in this region, China has inspired and excited several local emerging economies by its distinct development model which is called as “China model” or “Beijing Consensus”<sup>8</sup> (Ramos, 2004; Halper, 2010).

From the political perspective, for several decades, China always advocates the core value of its foreign policy – the Five Principles of Peaceful Coexistence. By sticking to this core value, China respects other countries’ territorial integrity and sovereignty, and it does not pursue any interference in others’ internal affairs. As one scholar noticed, China’s policy toward the Latin American region has been guided by Beijing’s adherence to the five-principles and non-intervention foreign policy:

China’s policy towards the region has been pragmatic rather than ideological. Far from allying itself strategically with left-wing or populist governments in the region, the Chinese government has consistently tried to maintain good relations with both right-wing military regimes in the past and democratically elected governments of different political hues more recently (Jenkins, 2010: 830-831).

On the contrary, by reviewing the U.S.-Latin America relationship, it can be found that the U.S. government has overturned several regimes in Latin America in order to serve the interest of its internal interest groups.

From the military perspective, military links between China and Latin America in recent years have gained momentum. The growing presence of Chinese state-led institutions, personnel, and Beijing’s arms sales in Latin America are perceived to be emerging security challenges to the U.S. (Pham, 2010), and the situation implies that the U.S. is not the only security guarantor in this region. According to the findings by a group of researchers, “In 2004-2007, China arms deliveries totaled \$100 million. In 2008-2011, their deliveries increased to \$600 million” (Brandt, Jon, et al. 2012: 14). Although the volume of the Chinese arms sale is still limited, as Horta argued, “It [China] has made substantial gains in a rather short period of time, and its defense relations with Latin America are multidimensional and

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<sup>8</sup> This notion was coined by Joshua Cooper Ramo (2004), who attempted to summarize the key experiences of China’s economic success. The concept entails three basic guidelines of the Chinese model, i.e. commitment to innovation and constant experimentation, sustainability of the economic system, and policy of self-determination. These “Chinese characteristics” are seen to be in contrast to the “Washington Consensus” of market-liberal policies promoted by the IMF, World Bank and U.S. Treasury.

sophisticated, reflecting the growing level of refinement and professionalism of the PLA and the Chinese state bureaucracy” (Horta, 2008: 55).

### **Conclusion**

The paper concludes that, on the basis of analyzing China’s development strategy at two different periods - “keeping a low profile” approach (Chinese: *Tao Guang Yang Hui*) during the past four decades to a “striving for achievement” approach (Chinese: *You Suo Zuo Wei*) in recent years, the former laid the foundation for China’s peaceful environment and economic success, while the latter represented a shift toward a more proactive foreign policy in face of new challenges and constraints by the existing US-led world order. The paper applies a conceptual analytical lens of combining both Neo-Gramscian IR theory and the world system theory in order to provide a framework for understanding the nexus between China’s intern hegemony accumulated during the first period of China’s development strategy and its outward expansion during the recent period in shaping the regional and world order. China’s grand strategic objective of shaping the world order is being realized through occupying a hegemonic position in the global financial order and providing financial public goods. However, from a Gramscian perspective, this is not full world hegemony, and “universal” world hegemony must contain political and socio-cultural aspects too. Nevertheless, from the structural analysis of the world system theory, the evolution of the world history shows that the core economic features of the world capitalist system remain to be the core driving force in driving and shaping the world order in general, and inter-state relations in particular. China, as a new rising “system guarantor” (world system theory), will eventually exert unavoidable and indispensable impact on the normative constituents of the emerging world order.

The implication and the impact of China’s new development strategy and policy orientation is far-reaching not only on the core, but on the semi-periphery and periphery countries. China’s increasing relationships with Latin America have caught global attention, partly due to the fact that the region was seen as the backyard of the United States. The paper documents that China’s economic outward expansion merges with the region’s comparative economic advantages in many ways in terms of increasing Latin American commodity exports and increasing Chinese FDI in the region.

However, China-Latin American economic relationships are facing many challenges and constraints too. Chinese trade and investment are periodically challenged and problematized by Latin American partnership countries’ internal socio-political forces which

are linked with global power relations. For example, the Chinese investment of \$50 billion for a trans-oceanic shipping canal through Nicaragua, which gives China a significant presence in the Western Hemisphere, was furiously protested by Nicaragua farmers. Every often, China's presence in the region is confronted by criticisms in three known dimensions: 1) dependence apprehension; 2) resource nationalism; 3) social-environment concern. Some criticisms point out that many of the region's trade agreements with China are rhetorically South–South based, but the actual trade patterns are of North–South in essence, with Latin America exporting primary commodities to China, and China exporting industrial goods to Latin America.

The paper concludes that it is in Latin America's political and economic interest to find the strategic convergence with Beijing's capital expansion and global strategy. Latin America will increase its “upward mobility” by learning from China's development experience, by increasing its economic opportunities and diversifying its trade partners, and by taking advantage of space of maneuver in global governance in an era of the emergence of a new world order. Within the near future both China and Latin America will have to go through a considerable period of accommodation and adjustment.

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