The world has grown accustomed to a booming China for so long that the latest signs of a weakened economy are causing serious concerns. One area of particular concern is global financial and foreign exchange markets. On August 11, 2015, China began a devaluation of its currency, the yuan. Three days later, the value of the yuan dropped 4 percent against the U.S. dollar. In subsequent days, however, the yuan stabilized as the People’s Bank of China effectively liquidated over $106 (or more) billion in foreign exchange reserves. Most troubling to financial circles, however, is the sale of as many U.S. Treasuries in two weeks as sold in the first half of this year, an additional $107 billion. China’s financial woes are also raising major concern in Latin America where the PRC’s appetite for raw materials and other commodities stimulated local economies for the past decade. Today, the drop in commodity prices, primarily oil, has halted the Latin American boom generated by Chinese trade. Lacking prudent economic policies some of the region’s populist governments went on spending sprees largely squandering the benefits of trade with a strong and commodity hungry Chinese. Several countries in the region face grim prospects now that the Chinese Dragon seems to be ailing. While China’s GDP growth is still substantial at 5 percent, it represents a significant decline of 30 percent compared to its robust rate of 7 percent. Given that China drives about 50 percent of global growth the stakes are high. The recent meltdown in Chinese share prices reflects weak economic fundamentals and has had some contagion on other stock markets. For years, China’s abundance of capital and low interest rates led to cheap money available for a host of otherwise unsustainable investments. China’s housing market, for instance, developed a serious bubble with many projects undertaken that had little or no prospect of sustainability. The cheap money diverted both human and material resources to areas of insufficient demand. A readjustment in the structure of production was long overdue. For Latin America, China’s loans, grants, and investments, initially aimed at subsidizing Chinese industry abroad, in some cases, proved to be untenable. In Venezuela, for example, where the government of Hugo Chávez more than $50 billion in Chinese assets to promote its populist agenda in exchange for petroleum exports to China, the net effect is an economic catastrophe including rationing of basic goods and widespread shortages. Venezuela’s oil production has declined, in part, due to failure to maintain and update production facilities. Lower oil prices and a stronger dollar make it necessary to produce more in order to pay back loans. Ecuador, another oil exporting nation in the populist orbit, which uses the dollar as its currency, is deeply indebted to China and lacks the monetary wherewithal to inflate the currency to pay off its loans. With fewer dollars per barrel the Ecuadorean government’s spending to stimulate the economy is unsustainable and the Correa government is looking to adopt electronic currencies and other roundabout methods of financing its populist agenda. Earlier this year, massive demonstrations in Quito and Guayaquil underscored popular opposition to the government’s confiscating available dollars from private citizens to pay for its deficits and

debts. A monetary junta has been established to divert dollar holdings to politically designated projects. In Brazil, China’s largest trade partner in the Americas, the economy is in free fall with the government’s favored resource exporting sector feeling the slowdown in Chinese demand, while the nascent industrial sector resents cheaper Chinese manufactured imports. Scandals involving Petrobras, the state-owned oil monopoly, have involved major political figures and public indignation against the political classes is palpable.

Imperialism with Chinese Characteristics?

Despite Premier Li Keqiang’s most recent visit to the region and promises of increased investments in infrastructure, there is growing criticism that China’s strategy towards Latin America reinforces the continent’s role as a resource exporter and an importer of capital and finished goods, not unlike the terms of trade with Western nations long plaguing the continent’s economic development. Some critics of China’s presence in the region have begun to refer to the phenomenon as “imperialism with Chinese characteristics.” There is growing nationalist sentiment as China attempts foreign direct investments. Chinese purchases of rainforest areas for oil exploration in Ecuador and land in Brazil, as well as the building of a transoceanic canal across Nicaragua, have met with considerable opposition from environmental, indigenous and trade union groups. Commodity exporting and importing finished goods is symptomatic of short-term path dependency thinking among Latin American governments and planners. Instead of focusing on higher value manufacturing, such as software development for instance, and opening markets, some of the populist regimes in the region continue to chase after cheap money fueling their political ambitions while erecting protectionist walls. Mercosur and other trade pacts in the region are common markets more in theory than in practice.

The Pacific Pumas

The Pacific Alliance of Chile, Colombia, Mexico, and Peru, however, constitutes an alternative whose orientation is access to the U.S. and Asian markets. The Pacific Alliance record is noteworthy for sustained growth, stability, low inflation and the general reduction in poverty rates as well as for attracting four of every ten dollars invested in Latin America while accounting for fifty percent of the continent’s trade. By comparison, the Pacific Alliance has exported 65 percent more than Mercosur and has worked towards an integrated stock market. Countries seeking greater economic growth and potentially more lucrative markets are looking to the Pacific Alliance. Costa Rica applied for membership in the alliance in 2014. A more prudent and long-term Chinese strategy in the Americas suggests closer ties to the so-called “Pacific Pumas.” China’s investors, bankers, and other

financial planners should look closer at the Pacific Alliance with its promise of more robust and diversified markets, and reduce ties to the protection-laden, populist regimes that have performed dismally in the last decade. Moreover, it is critically important to cut its losses in places like Venezuela before political events sweep away any amity China might have had there. A Chinese trade and investment focus on the Pacific Pumas would also help reduce tensions and suspicions between the U.S. and China in the region. China’s backing of radical, populist anti-American regimes, such as Venezuela, has raised concerns that it is projecting geopolitical power in the guise of economic relationships. A shift in focus away from bankrolling deadbeat dictators might prove mutually beneficial. Read the original article, from China US Focus, here.