Politically and economically, Latin America is a continent divided in two, with one bloc of nations pursuing market-driven economic growth, free trade and regional integration based on economies of scale and another made up of populist regimes with state-controlled economies and protectionism flirting with autarchy. The divide underscores relations with the rest of the world and especially with the United States. The first bloc seeing their future as integrated with the North American part of the hemisphere and the latter looking for external actors to subsidize their projects and stand as a counterweight to the U.S.

At a recent summit of the Community of Latin American and Caribbean States (CELAC) held in Havana, Cuba, January 28-29, the divisions were glossed over as the groups announced a CELAC-China forum to take place later this year.

China is Latin America's second largest trade partner – after the U.S. – a relationship primarily driven by demand for natural resources and a source of markets for Chinese products. By 2012, bilateral trade grew an additional 8% from the previous year to $261 billion.   While China's important presence in Latin America and the Caribbean (LAC) is unassailable, the critical question is which development model the PRC will choose to support in the continent.

Two Paths

In recent decades, several countries represented in MERCOSUR, UNASUR, ALBA, PETROCARIBE and other pacts have functioned largely as political fronts. For many of these nation's leaders the region is locked in a historical struggle against the United States. As Cuban President Raúl Castro told the assembled leaders at the CELAC summit: "The so-called centers of power do not resign themselves to having lost control over this rich region, nor will they ever renounce attempts to change the course of history in our countries in order to recover the influence they have lost."

Castro, CELAC's outgoing president, took the opportunity offered by the summit to excoriate the United States and emphasize that CELAC is based on regional unity minus – some might say against – the United States and Canada. CELAC was specifically established to create an alternative to the allegedly Washington-dominated Organization of American States, which suspended Cuba in 1962.

Politically, countries like Cuba and Venezuela have long wanted a forum to extend their influence within the larger LAC community. Historically, Latin American populists and nationalists have also sought a counterweight to the U.S. in the region. During the Cold

War, for instance, first Cuba, then the leftist military junta in Peru and the Allende regime in Chile drew closer to the Soviet Union. Today, the same anti-U.S. forces see China, with its economic and growing military power, as destined to play a similar role under new circumstances.

The rise of Venezuela's Hugo Chávez allowed that country's seemingly inexhaustible petrodollars to fuel a resurgent populist movement from Tierra del Fuego to the Rio Bravo. Despite initial political success, recently the correlation of forces is shifting away from these elements. Chávez's death removed a rallying point for anti-U.S. sentiment in the region. During the 2013 Venezuelan elections Chávez's chosen heir, Nicolás Maduro, barely won the presidency and subsequently the petrodollar-driven Bolivarian Revolution has yielded diminishing results at home and abroad. The statist policies followed in Argentina, an ally of Venezuela, have wrecked that economy and increased disaffection with the populist government of Cristina Fernández de Kirchner.

Integration or Protectionism?

Populist calls for regional economic integration, a staple at CELAC and other such conferences, remain more aspirational than operational, since the calls come from governments known for protectionist, illiberal and stagnant economic models. For instance, currency controls, like those imposed in Argentina and Venezuela, lead to mass outflows of investment capital adversely affecting actual and potential integration. Similarly, when Bolivia expropriates Brazil's Petrobras energy assets, capital is less likely to flow across borders to promote economic growth.

Many of these regimes, hostile to private initiative and enterprise, may be expecting China to subsidize their underperforming economies for geo-political advantage. Despite the PRC's vast resources, however, the tide is going against any such probability. While Chávez negotiated an oil-for-cash deal worth over $40 billion, the Chinese were realizing a strategic objective to feed their rapidly expanding economy. During Maduro's last visit to Beijing, on the other hand, he returned with only $5 billion, presumably to pay for sorely needed imports given Venezuela's depleted foreign currency reserves, a result of his own policies.

As China's economy re-orients to domestic consumption as a source of economic growth and demand for commodities decreases, some Latin American countries are beginning to feel the pain. Arguably, countries like Venezuela and the other populist regimes squandered the gains made during the Chinese-driven commodities boom.

Pacific Alliance and China

In contrast to the failed economic policies of the populist regimes, four countries – Chile, Colombia, Mexico and Peru – with a total population of 209 million and a GDP of $2.01 trillion, are poised towards greater economic integration with the United States in the newly-formed Pacific Alliance.

Unlike the populist regimes, Pacific Alliance countries both benefited from the boom and instituted reforms to liberalize their economies in the meantime. Having reaped the benefits of these policies – along with Brazil with a population 198 million and a GDP of $2.4 trillion – the Pacific Alliance countries are better positioned to buy goods from and sell higher value products to China's domestic market. As they eliminate remaining tariffs on imports to Canada and the U.S., Chinese investors will take advantage of lower labor costs and access to the U.S. market to establish their own production and distribution networks. In the long run, closer trade and cooperation with the Pacific Alliance will greatly benefit China's future. On the contrary, getting caught up in the political disputes between a segment of the continent and the U.S. will likely cost the PRC dearly.

Disturbingly, populist regimes concentrate on staying in power rather than creating robust and dynamic economies. As the costs of their failed policies outweigh any possible benefits, they look to external actors to keep them in power. Rising tensions between China and the U.S. would only serve to deflect pressure from these regimes to make necessary economic reforms.

At the start of its modernization process, Deng Xiaoping counseled China's leaders to avoid direct confrontations with the U.S. and to maintain a climate of international calm in which China would put its house in order. Beyond its borders China does not condone or restrain radical actors existing in other regions of the world but, on the other hand, it is rightly anxious to avoid support for Latin American and Caribbean regimes that might get out of control and lead China down a path she cannot risk following.

Read the original article at ChinaUSFocus.com.