



The World Turned Upside Down: The Complex Partnership between China and Latin America

Alfredo Toro Hardy (2013). *The World Turned Upside Down: The Complex Partnership between China and Latin America*. London/Singapore: World Scientific.

This is an ambitious book that addresses a topic of concern for academics, politicians, students of development, and policymakers. Scholarly without being pretentious, it not only covers in great detail and with an abundance of figures the state of Latin American economies today, but it also provides detailed analysis of the role China is playing in this “upside down world”. According to Toro Hardy, we are facing a true *boulversement* of the world order as we know it.

Extensive research, reflected in the comprehensive bibliography,

reflects the intellectual density and curiosity of Alfredo Toro Hardy: diplomat, academic, public intellectual. Questions such as what are the engines of growth? Have they changed in the last decade? Does China offer an alternative model of development? Is the US in decline? All receive a detailed, and sometimes controversial, treatment. This, his latest book, is a continuation of Toro Hardy’s intellectual reach. While looking at the whole world, his main focus lies where his heart is, in Latin America. His arguments are clear and well supported by facts and figures. The reader is

left in no doubt as to the author's *Weltanschauung*, which is unavoidably open to challenge.

The book, as Cambridge's Emeritus Professor Geoffrey Hawthorn states in his foreword, could be based on the premise that "the Cold War is over and it is now clear that China has won. The United States is by most economic measures declining, and the European Union is in difficulty also". While there can be few doubts about the parlous state of the European Union, the inexorability of China's rise and the decline of the US is less certain. Is it indeed "clear" that China has "won"? Not if we look at the arguments in two recent books: Linda Yueh's *China's Growth* (OUP 2013) and Juan Pablo Cardenal and Heriberto Araújo's *China's Silent Army* (Allen Lane, 2013). The former sets out the reforms that China needs to put in place to ensure that growth will continue for another three decades.

Toro Hardy's book is divided into four chapters. Chapter 1 offers a sweeping review of where we come from and where we are and in the process reveals both the author's preferences as well as his prejudices. In his revision of the last three decades, the biggest criticism is directed to the "market-oriented capitalism imposed during the Reagan-Thatcher years". This was purportedly an Anglo-Saxon model which excluded the state and favoured supposedly unchecked markets. In fact, the recent passing out of Margaret Thatcher provided the opportunity for thorough as-

essments of her legacy, which included debunking the myth that she destroyed the manufacturing industry in the UK. Rather than an "imposition", different forms of capitalism emerge not only as a result of the zeitgeist, but of the specific circumstances of each country. In an article in the *Washington Post* (11 April 2013) Fareed Zakaria noted that it was the regulatory, red-tape aspects of the state that Mrs Thatcher rolled back. Indeed, during her more than a decade in government the role of the state in the UK economy grew. She supported the National Health Service and cut top rate of taxes which she identified as disincentives for investment, but she substantially raised others. As Zakaria says, "Thatcher's ideas resonated because they were an effective antidote to the problems of the times", which he then goes on to list as "oil shocks, rising wages, rocketing inflation, slowing productivity and growth, labour unrest, high taxes and sclerotic state-owned companies". It was not markets that Reagan and Thatcher held in awe, but freedom.

The much maligned Washington Consensus could be reappraised in the light of today's successful economies. In its latest report, the Inter-American Development Bank reinforces this point. Looking at Latin American economies, it singles out financial and trade liberalisation, privatisation, fiscal and labour markets reform as the factors that have the greatest impact in enhancing productivity

and thus, growth (IDB, April 2013, p.32). In contrast, Toro Hardy blames the Washington Consensus and “market fundamentalism” for its alleged “devastating effects felt around the world”. It is arguable that it was not “fundamentalism” but errors in the sequencing and pace of the reforms that account for an uneven balance. And why describe Hayek, von Mises and Friedman among others, as “lonely preachers of the ‘truth’”? If there is one “truth” that they all shared was their belief in freedom, and their relentless opposition to any form of totalitarianism. In contrast the “Beijing Consensus” is the result of an authoritarian, state-led capitalism with no place for the values of liberty, justice and rights.

China’s “victory” is taken as a given, as is the decline of the West, the title of chapter 2.

Toro Hardy notes what may prove the biggest challenge for developed economies if they are to avoid a rupture brought about by increasing inequality. As the author remarks, “the jobs that are currently being created in the United States are those relatively low-skilled and low-paid that cannot be replaced either by offshoring or job-killing technologies”. Paradoxically, these are precisely the jobs necessary to maintain a degree of social cohesion. Poverty has been reduced in the world as a result of growth, most prominently in China. But inequality has increased. If inequality is the challenge ahead, then lower-skill jobs need to be massively created.

Chapter 3 (“A Dragon in Latin lands”) is based on the premise that China’s growth is unstoppable, and that the “Beijing Consensus” may presage what Toro felicitously labels “a plurality of modernities”. The only problem is that this “plurality” does not include political pluralism. This is where preferences and prejudices are revealed. China’s model seems to indicate that growth and poverty reduction are possible without the protection of rights and the rule of law. It may very well be. Whether it is desirable is another matter. Moreover, authors such as Daron Acemoglu and James Robinson (*Why Nations Fail. The origins of power, prosperity and poverty*, Profile Books, 2012) see this as the stumbling block in the forecast of a continuous path in China’s mixed state-market model. The authors analyse “authoritarian growth” in which the resorts of the economy are firmly in the grip of the Communist party, which still controls what giant corporations should do, where they should invest, and what their targets should be. Linda Yueh refers to the continuing wide reach of the state, albeit much more “opaque” in its operation. Transparency and accountability, two core values of democratic systems, do not form part of the Beijing Consensus.

Toro Hardy does not believe that the “China model” can or should be replicated. His view is a pragmatic one: China’s role and influence in world trade and investment is undeniable. How can Latin America countries make the best of it? In an impressively researched chapter,

the author analyses the reasons why there are economic winners and losers in the region.

He does not paint an uncritical picture of China's influence: "But even if this emerging economic partnership has produced impressive results it does not flow easily, at least not from a Latin American perspective. Costs as well as benefits are involved in the process even for the winners, but together with the winners there are losers as well. The latter are those Latin American countries for whom the Chinese juggernaut only spells problems." (p.119). As Toro persuasively explains, the main risk, and this also includes the winners (commodity exporters), is the pattern of investment in infrastructure projects that is not too dissimilar to that imposed by colonial powers in the 19th century (p.171).

In his magisterial review in Chapter 3 of the impact of Spanish and Portuguese colonial practices in the region, Toro reminds the readers of the distinctive features that make countries stand apart, and he concludes that "leaving aside the particularities of the different components of Iberian America, [...] the truth is that there is a strong sense of common destiny and solidarity not only between Hispanic Americans but between them and Brazilians" (p.123). The excessive number of regional organisations would seem to contradict any notion of unity or solidarity, as it transpires from the Venezuelan inspired ALBA, the increasingly protectionist decisions

of some members of MERCOSUR, and the newly-formed Trans-Pacific Partnership.

While there is much to criticise in the manner that the United States considered its southern neighbours for most of the 20th century, can we be certain that "from a Latin American and Caribbean perspective, there is much to be thankful to China for introducing a new element of counterbalance in the region"? (p.147). In terms of new trade partnerships there is little to object. If, on the other hand, China is presented as a version of modernity to be emulated, in the sea of "plurality of modernities" available, then the statement is more questionable. The USA can be blamed for many things but is it fair to also blame Anglo-Saxon capitalism and neo-liberal policies? One could argue that if the process of privatisation undertaken in the 1990s, in its preference for Spanish-owned businesses, had not been driven by anti-Americanism, the story would have been different. Did Washington Consensus-inspired policies "massacre" the industrial base in the region? The largest and most efficient industries are Brazilian and Mexican, countries which have not sailed too far from the main recommendations of the Washington Consensus.

Having described where we come from and where we are, in Chapter 4, Toro Hardy sets the roadmap of where we are going, provocatively asking "Is there a future for Latin America"? Future there definitely is. Whether it is promising is a

more appropriate question. The author pointedly singles out total factor productivity as the main challenge. The facts he presents the reader with speak for themselves: “North America’s share of gross expenditure in research and development [in 2005] was 37%, Asia’s 31.5%, Europe’s 28.8% and Latin America’s 2.6%” (p.182). Worryingly, the IDB report (2013) states that in Latin America technological innovation, higher skills and improved methods of production have evolved in a negative way during the last 30 years. This is the chapter where Toro Hardy describes the social context in Latin America, and its shortcomings in the areas of education, health, poverty, inequality and some of the highest indicators of violent criminality in the world.

Toro Hardy sees a role for China in helping to solve Latin American uncertainties in relation to its economic future: “Within the context of purpose, credibility and efficacy, acting as a block becomes essential” to negotiate with China (p.217). With almost twenty regional agreements, is it realistic to expect that countries in Latin America could come up with a common stand vis-à-vis negotiations with China?

The conclusions are bewildering. Globalisation is seen as the result of the West and the US putting in motion “a market-oriented globalisation process that it was unable to control and that ended up by eroding its competitive capacity and its social stability” (p.221). Thus “Developing economies, which

were submitted to ideologically-oriented prescriptions and double standards by the richer countries, ended up by becoming the main beneficiaries of this process. This unintended result was possible thanks to the strength attained by a group of developing economies and very particularly by China.” Rather than “unintended”, one can view globalisation as a process of change driven by technological innovation, and the lowering of trade barriers across the world.

As we have seen, China’s supposedly unstoppable path to great power status is a subject of much debate. There are not only doubts about China’s ability and willingness to undertake the needed reforms that will pull her along in the next few decades, but there are also the “known unknowns”: natural disasters, social upheaval, epidemics, environmental catastrophes, military adventurism, have to be included as possible obstacles in its way.

Alas, China’s supposed “victory” is far from certain. While we are told a lot about “growth” and economic development, values of freedom, tolerance, political and civil rights, good governance and rule of law are never mentioned. By all means let us open up the doors to the lithium factories, car assemblies, infrastructure projects, but let us also make sure the values that peoples in the West have struggled, and are still struggling for centuries to achieve are not left behind. After all, it was only a century ago that an economic crisis in Europe and the

US was used by rising totalitarian regimes as proof of the decline and defunctness of liberal democracies. The rest, as we know, is history...

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