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Final assignment:

"Brazil & China: Forever Friends and Foes?"

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Final assignment:

"Brazil & China: Forever Friends and Foes?"

Extract:

Even though one can see an intensification of their co-operation, the BRICS differ substantially in terms of "economic systems, military and political weight and their regional and global ambitions". It appears quite obvious that insofar, the nature of the cooperation between China and Brazil has been immune from direct territorial skirmishes and that in some respect their mutual (in)dependence stand them apart, as based on more intertwined, yet clear, trade interests.

Brazil and China epitomize the (South–South) world trade transformation, with China constituting itself as the leading global pole of primary, particularly agro-industrial exports, and Brazil establishing itself as the principal destiny for many of these products. As the decade progressed, it became clear that "South–South" was more about the emergence of a Sino-centric dynamic in world trade and investment activities.

Already a middle-income country, Brazil faces the challenge of moving its labor and employment system to the next higher level from its current plateau. Indeed, one sector in Brazil with a huge amount to gain from the deepening economic ties with China will be infrastructure. China's interest in investing in the sector is twofold. Firstly, facilitating improvements in transport links, particularly railways and ports, will secure Brazilian commodity exports to China, keeping both transit times and costs down. Secondly, Brazil's massive infrastructure deficit, means the opportunity for returns on Chinese investment is large.

China's hunger for energy and (food) self-sufficiency being challenged in its meeting by its still growing appetite driven by its inner (population) and outer (trade partners) world. It is then worth noting that Brazil is one of the few countries to have a sizeable and growing trade surplus with China. "Forecasts are that commodities may drive trade relations between the two countries for the next 10 years. Brazil offers in that respect an adequate "fix" for it while "swapping" access to capital, know-how and infrastructure in a (much needed) hastened way.

The challenge for Brazil is to employ the available capital and workers more efficiently by moving into higher quality and higher value activities. Analysis points to the risk of "middle-income traps" in which countries enjoy a rapid sectorial transformation at early stages of economic growth and development but then seem unable to achieve the increments that could move them to high-income status. Indeed, in order for Brazil to really achieve long-term growth, it needs foreign capital because it's not generating the level of savings to complete the infrastructure investment that the country needs. All leads China to also be Brazil's largest investor, in an intertwined mutual (trade against investment) apparent dependence.

The challenge China poses for Brazil goes beyond the asymmetry of its trade and investment relations and begins to affect Brazil´s overall insertion in the global economy. Recent studies, have shown that "China has displaced Brazilian exports in Chile by 14.4 percent, in Argentina by 6.8 percent, in Mexico by 6.6 percent and in Venezuela by 8.6 percent. The measures taken in Brazil in 2010 to limit foreign ownership of land were "motivated by concerns over China". Some sources mention as much as seven million hectares as having been bought or negotiated, prompting the Brazilian government to take severe steps that have apparently made some Chinese investors feel unwelcome.

Even so, the prospect of future competition over agricultural exports ties into broader fears among many Brazilians that their economy is becoming reliant on commodities exports, and that China's demand for its resources could prove volatile. China could become a major partner in solving Brazil's logistical problems, and Brazil could complement its raw material exports with in situ processing, while China's urbanization provides the guarantee of continued vigorous demand.

Introduction

In a twist of macroeconomics and political events, the “Brazilian Economic Miracle”, of the 1960s and 1970s (*anos de chumbo*), saw a rapid growth period which allowed the country to rank ahead (in GDP nominal per capita) of China and India[1], which suffered (at that time) of relatively inefficient production outputs. This period was subsequently echoed in Asia, a decade later, by a “Chinese Growth Miracle” and an ensuing “Indian Economic Liberalization” period. The former followed the 1978’s “Reform & Opening up” program, under the leader of China Deng Xiaoping, while the latter, initiated in 1991, under the leadership of (Finance Minister) Manmohan Singh, increasingly adopted free-market principles and liberalized its economy to international trade. For a decade or so, Brazil’s economic growth went unfocused, the country fighting for democracy and against pandemic inflation (macroeconomic instability), up till the mid-1990s and early 2000s, where it stabilized its economy, began a slow process of trade liberalization, and implemented some structural reforms which allowed it to catch up with its Asian peers and narrow its (then enlarged) production’s gap.

Yet it somehow (structurally) lagged for the following period behind its main BRIC affiliates, China and India specificially, which showed more rapid growth than Brazil. A World Bank (2007) report concluded “*the effects of knowledge and innovation on competitiveness and growth .… contributed more to rapid growth of China and India compared to Brazil than natural resources or cheap labor. This is the case of the Indian software industry and of the Chinese manufacturing sector*”. This view being however a bit challenged by Pinheiro et al. (2004), who offered different explanations about the changing dynamics of Brazil’s long-term growth, with for example, the “*focus on economic policies of 1930 - 1980 to explain changes in total factor productivity that contributed to high growth, as well as the policies that contributed to the stagnation of the 1980s and low growth afterwards*”.

In the ensuing period (2003-2008), from President Luiz Inácio Lula da Silva first five years at the helm of the country till the “Global Financial Crisis”, Brazil’s annual GDP growth rate averaged 4.216 percent[2], while in 2009, its economy contracted by 0.3 percent - its first full-year negative real GDP growth reading since the early 1990s. Yet, among the first major economies in the world, Brazil emerged from recession already in 2010 with a (bouncing) 7.5 percent GDP growth rate, followed by a then paling (averaged) growth rate of 2.06 percent in the period 2011-2013, as compared to China’s 8.23 percent and India’s 6.2 percent[2] respectively.

In the light of it, the following topics of discussion will aim to assess if, and how, Brazil is able to sustain the catch with China in the years to come and how is China playing Brazil?

[1] *According to the World Bank estimates and for the period 1965-1969, Brazil averaged a GDP (nominal) per capita of ca. US $336.8, while China averaged a US $96.8 and India a US $103.4. Retrieved June 10th, 2015, from https://en.wikipedia.org/wiki/List_of_countries_by_past_and_projected_GDP_(nominal)_per_capita#World_Bank_estimates_between_1960_and_1969*

[2] *Retrieved June 10th, 2015, from http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?page=1*

Brief about the BRICS

On the whole, 40 percent of the world population (over three billion people) live in BRICS (O'Neill, 2001) states. The acronym standing for Brazil, Russia, India and China (with a later addition of South Africa as in BRICS) and has "*come into widespread use as a symbol of the shift in global economic power away from the developed G7 economies towards the developing world*" (Malhotra et al, 2014). But, as pointed out by Keukeleire and Hooijmaaijers (2014), "*the differences between the emerging powers raise doubts about the likelihood of the BRICS framework being transformed into a firm and coherent bloc. However, what unites these countries is the willingness to transform the predominantly western-dominated international organizations, inherited from a 20th century context, in which Europe is over-represented*". **Figure 1** illustrates how the BRICS differ among themselves, starting with key aggregates, not to mention their divergent and sometimes conflicting interests, as gathered on the following pages.

		selected aggregates
Demographics	Population[3]	**China (#1**; 1.361 bn), **India (#2**; 1.251 bn), **Brazil (#5**; 0.204 bn), **Russian Federation (#9**; 0.142 bn), **South-Africa (#27**; 0.048 bn)
	Land area[4]	**Russian Federation (#1**; sq km 16.37 m), **China (#2**; sq km 9.32 m), **Brazil (#5**; sq km 8.46 m), **India (#7**; sq km 2.86 m), **South-Africa (#25**; sq km 1.2 m)
Economics	GDP[5] 2013	**China (#2**; US$9.240 bn), **Brazil (#7**; US$2.245 bn), **Russian Federation (#9**; US$2.096 bn), **India (#10**; US$1.875 bn), **South-Africa (#33**; US$0.366 bn)
	PPP GDP[6] 2013	**Russian Federation (#43**; US$25.247), **Brazil (#72**; US$15.037), **South-Africa (#80**; US$12.866), **China (#83**; US$11.906), **India (#122**; US$5.417)
	Inflation[7] 2014	**China (#64**; 2.0%), **South-Africa (#108**; 5.6%), **Brazil (#117**; 6.3%), **India (#118**; 6.4%), **Russian Federation (#130**; 7.8%)
Social	HDI[8] 2013	**Russian Federation (#57**; 0.778), **Brazil (#79**; 0.744), **China (#91**; 0.719), **South-Africa (#118**; 0.658), **India (#135**; 0.586)
	GINI[9] 2009	**India (#13**; 33.9), **Russian Federation (#20**; 39.7), **China (#23**; 42.6), **Brazil[10] (#41**; 53.9), **South-Africa (#45**; 63.1)
	CPI[11] 2013	**Brazil (#72**; 42), **South-Africa (#72**; 42), **China (#80**; 40), **India (#94**; 36), **Russian Federation (#127**; 28)

Figure 1: BRICS selected aggregates.

Their contribution to global production increased from 15 percent in 1995 to 25 percent in 2010, while it is estimated that "*BRIC economies will overtake G7 economies by 2027*" (Malhotra et al 2014).

[3] *Countries and Areas Ranked by Population: 2015. Retrieved June 10th, 2015, from http://www.census.gov/popclock/*

[4] *Countries and dependencies by area. Retrieved June 10th, 2015, from https://en.wikipedia.org/wiki/List_of_countries_and_dependencies_by_area*

[5] *GDP (current US$). Retrieved June 10th, 2015, from http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?order=wbapi_data_value_2013+wbapi_data_value+wbapi_data_value-last&sort=desc*

[6] *Gross Domestic Product converted to international dollars using Purchasing Power Parity rates. Retrieved June 10th, 2015, from http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?order=wbapi_data_value_2013+wbapi_data_value+wbapi_data_value-last&sort=desc*

[7] *Inflation as measured by the consumer price index. Retrieved June 10th, 2015, from http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG/countries/all?order=wbapi_data_value_2014%20wbapi_data_value%20wbapi_data_value-last&sort=asc&display=default*

[8] *Human Development Index. Retrieved June 10th, 2015, from http://hdr.undp.org/fr/content/table-1-human-development-index-and-its-components*

[9] *A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality in the distribution of income or consumption expenditure among individuals or households within an economy. Retrieved June 10th, 2015, from http://data.worldbank.org/indicator/SI.POV.GINI?order=wbapi_data_value_2009+wbapi_data_value+wbapi_data_value-last&sort=asc&page=1*

[10] *Brazil is among the few countries that have managed to reduce inequality in recent decades. Its Gini coefficient declined dramatically, dropping from 59.3 (2000) to 52.7 (2013). Retrieved June 10th, 2015, from http://data.worldbank.org/indicator/SI.POV.GINI?order=wbapi_data_value_2009%20wbapi_data_value%20wbapi_data_value-last&sort=asc*

[11] *The Index scores 177 countries and territories on a scale from 0 (highly corrupt) to 100 (very clean). Retrieved June 10th, 2015, from https://www.transparency.org/cpi2013/results*

Indeed, even though one can see an intensification of their co-operation, with regular summits held[12], the BRICS differ substantially as well in terms of "*economic systems, military and political weight and their regional and global ambitions*", as cited by Keukeleire and Hooijmaaijers (2014). "*The divergent and sometimes conflicting interests, the territorial conflicts between China and India, and between China and Russia, call into question the potential of the BRICS dialogue and co-operation to a firm and coherent bloc*." It appears quite obvious that insofar, the nature of the cooperation between China and Brazil has been immune from direct territorial skirmishes and that in some respect their mutual (in)dependence stand them apart, as based on more intertwined, yet clear, trade interests.

Notwithstanding their differences "*economists have noted that these "South-South" investments are increasing and almost two-thirds of foreign direct investments in 2010 were from BRICs to other developing nations*" as noted by Marie (2011), while Brazil (at that time) Deputy Foreign Minister, Antonio Patriota, was coined saying (as cited in "Trillion-dollar club"[13]), that [in the view of diminishing the "G2" alike duopoly of the economic world, with China and USA, each standing on one side] the purpose of the summits are "*to increase, if only at the margin, the degree of multipolarity in the world …. Multipolarity reduces the power of individual countries and potentially improves worldwide political and economic stability*". Talks of conducting future bilateral trade in Brazilian *real* and Chinese *yuan* were even made, back in 2009[14], to highlight the growing importance of trade links between the two countries so to put additional pressure on the G7 group and push for a more prominent strategic role for the two BRIC states in the International Monetary Fund and other multilateral institutions.

"*Brazil and China epitomize this (*South–South) *transformation, with the former constituting itself as the leading global pole of primary, particularly agro-industrial exports, and the latter establishing itself as the principal destiny for many of these products. Initially, this South–South shift was broadly associated in a positive way with the emergence of increasing horizontal trade between a similar set of "emerging economies" that came to be known as the BRICS bloc. As the decade progressed, however, it became clear that "South–South" was more about the emergence of a Sino-centric dynamic in world trade and investment activities. Rather than revealing common interests, this shift may imply a starker polarization between exporters of primary and manufactured products*", as further assessed by Wilkinson and Wesz (2013). In contrast to China, where much of its growth was export-led, concerns have been expressed that "*export-led growth may be playing a lesser role in the cases of Brazil, India and South Africa due to relatively limited diversification of their export baskets and greater specialization in commodity exports*", as cited by Naudé and Rossouw (2010).

[12] *The VII Summit of Heads of State and of Government of BRICS shall be held in Ufa, Russian Federation, on July 9th - 10th 2015. Retrieved June 10th, 2015, from http://www.ufacity.info/eng/press/news/169945.html*

[13] *The trillion-dollar club. Retrieved June 10th, 2015, from http://www.economist.com/node/15912964*

[14] *The Brazil-China Linkup - A Powerful Partnership. May 2009. Emerging Markets Monitor. Vol. 15 Issue 8, P13.*

Best Friends in tows

Brazil, already (on paper) a middle-income country, faces the challenge of moving its labor and employment system to the next higher level from its current plateau. Even though the country has become largely urbanized in recent decades, its workforce is underutilized in the north and the north-east, while southern Brazil experiences critical labor shortages. The country's large landmass has a relatively poor infrastructure that makes it hard to relocate the workforce and jobs. As such Brazil does not suffer from lack of academic competences and necessary skills, yet does ache from a recurrent imbalance (or lack thereof) of proper (world spanning) infrastructure, having most of its (limited in numbers) roads, airport and other doors to the export markets located mainly on its South East coast. "*Although Brazil has a flourishing economy, it still has many characteristics of a third world country …. Overall, its operational success is still constrained by infrastructure inefficiencies. Bottlenecks in every sector hamper the development of industry. In order for Brazil to maintain a growing GDP and benefit from foreign investment, the country must heavily invest in its infrastructure capability, and also elevate its jurisprudential efficiency*", stated Moraes (2010).

Indeed, one sector in Brazil with a huge amount to gain from the deepening economic ties with China will be infrastructure as "*China's interest in investing in the sector is twofold. Firstly, facilitating improvements in transport links, particularly railways and ports, will secure Brazilian commodity exports to China, keeping both transit times and costs down. Secondly, Brazil has a massive infrastructure deficit, particularly in light of the (past) 2014 World Cup and (coming) 2016 Olympics, meaning the opportunity for returns on Chinese investment is large*"[15].

In that perspective, and as underlined by Ferrari et al (2011), "*the Brazilian exports to China have grown by about 97.45 percent since 1990. China plays no role in reducing the Brazilian exports: its presence in the world market shows a positive correlation with the Brazilian exports. The Brazilian exports are complementary to those of China: both countries have become more specialized as a result of trade*". Conversely, it is worth noting that China-Brazil trade and investment is moving beyond commodities and into infrastructure (as illustrated by the 2011 US$1 billion investment made by *State Grid Corporation of China* for a lease of 30 years to operate 3.000 kilometers of power lines linking the Sao Paulo, Rio & Brasilia cities[16]). Brazilian exports to China (2013) amounted to US$46 billion, while Brazilian imports from China accounted for US$37.25 billion. China's share of total Brazilian trade represented about 19 percent, while Brazil's share of total Chinese trade weighted about 16 percent[17].

[15] *Business Monitor International. June 2011.*

[16] *BRICs and mortar. China Economic Review. 2011. Retrieved June 10th, 2015, from http://www.chinaeconomicreview.com/node/51087*

[17] *Commercial Relations: Brazil and China. Retrieved June 10th, 2015, from http://thebrazilbusiness.com/article/commercial-relations-brazil-and-china*

Already in 2009, China overtook the US as Brazil's largest trade partner, Brazil benefitting (still to these days) enormously from China's seemingly insatiable demand for commodities (following closely, in value, by its iron ore exports). At a time when the western world struggled with the aftermath of the financial crisis, it is interesting to look at the adjustments operated in the emerging countries. In the past, when the western world would slow down, world demand would cause the emerging countries to slow down as well. It is no longer the case. China has allowed Brazil to retire most of its foreign debt and accumulate US$250 billion in reserves (which at a later stage will come handy in many ways) and helped to shield the country from the worst effects of the global economic downturn. It is then worth noting that Brazil is one of the few countries to have a sizeable and growing trade surplus with China. "*Forecasts are that commodities may drive trade relations between the two countries for the next 10 years*[18]".

Yet it is interesting to remember that according to Brazilian trade data, "*three leading commodities - iron ore, oil and soy and their derivatives - account for 80 percent of Brazil's exports to China*"[19]. China's hunger ("feeding the dragon") for energy and (food) self-sufficiency being challenged in its meeting by its still growing appetite driven by its inner (population) and outer (trade partners) world. Brazil offering in that respect an adequate "fix" for it while "swapping" access to capital, know-how and infrastructure in a (much needed) hastened way.

Happily engaged

Moreira (2004) estimates, suggest though, that "*the productivity increases following Brazil's trade liberalization in 1988 - 1990 were actually larger than those in Mexico following NAFTA*". He attributes subsequent slow growth to the lack of an aggressive trade policy. "*The positive effects of liberalization on productivity were mainly concentrated in the export sector with limited spillover effect on the rest of the economy*". Most of that decrease has been made up by an increase in the share of manufactures from 44 to 54 percent. However, the share of manufactures in Brazil's total merchandise exports appears relatively small when compared with 70 percent for India, and 92 percent for China. Over the same period, India's increase in the share of exports of manufactures was 12 percent, but China's was reaching 66 percent. Indeed diversification of a country's export basket is often seen as "*desirable for stabilization of export earnings and for stimulating export-led growth by allowing a country to benefit from growth in different sectors of the world economy*", as cited by Naudé and Rossouw (2010). This is particularly true in developing countries whose exports have traditionally been specialized in agricultural and mineral commodities. Here the argument is often based on the view that "*their export specialization leaves them vulnerable to commodity shocks, price fluctuations and declining terms of trade, especially since the income elasticity of the demand for*

[18] *China Economic Review. February 2010*

[19] *The journal of commerce. March 2014. http://www.joc.corr.*

commodities is low", they add, whereas Lederman and Maloney (2002) found that "*highly concentrated exports are negatively associated with growth*". In 2010, around 85 percent of China's imports from Brazil were still basic commodities, namely oil, iron ore and agricultural products, leading Brazil to specialize, narrow its export expertise to a few fields, and somehow limit its potential growth on the domestic and world markets. Diversifying the production structure of its economy may thus be a prerequisite for export diversification and further specialization.

A distinction can be made between vertical and horizontal diversification. Vertical diversification occurs when a country's production and export structure shifts from primary commodities to manufactured products, while a horizontal one involves exporting a greater variety of manufactured goods. For Brazil, Bonelli (2008) describes "*significant vertical diversification from agricultural to manufactured goods taking place during the 1970s and 1980s"* but note *"that more recently diversification has tended to be more within specific manufacturing sector (intensive) than across sectors (extensive)"*. For China, Amiti and Freund (2007) stress "*significant vertical diversification in China's export structure from 1992 to 2005"* but find *"very little diversification within manufacturing"*. They suggest that *"China's manufacturing exports may have become more specialized in recent years*". This is why, for high growth rates to be kept, it cannot come exclusively from an increase in availability of production factors but need to be built on improvements in total factor productivity.

The challenge for Brazil is to employ the available capital and workers more efficiently by moving into higher quality and higher value activities. Analysis points to the risk of "middle-income traps" in which countries enjoy a rapid sectorial transformation at early stages of economic growth and development but then seem unable to achieve the increments that could move them to high-income status. Brazil indeed experienced relatively modest economic growth over the years 2010-2013 with an averaged growth of 2.06 percent[20]. It has also seen more growth in 2013 than in 2012, with 2.5 percent and 1.0 percent respectively, but felt short of expectation by 0.4 percentage point[21] due mainly to lower than expected consumption growth (lowest rate for household consumption since 2004). Many observers have pointed to the large size of Brazil's public sector as a growth constraint, as it "*burdens the private sector with rising cost of capital and high taxes*" (Nazmi and Revilla, 2010). Yet, for Brian Bremmer[22], "*history has shown that all growth miracles come to an end at some point .... countries with long periods of elevated growth eventually converge with the long-term global average of about 2 percent*". The International Monetary Fund[23] predicts for instance that Chinese expansion will steadily decline to 6.8 percent in 2015 and 6.3 percent in 2016, when archrival India is expected to eclipse China at 6.5 percent.

[20] *Retrieved June 10th, 2015, from* http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG

[21] *Retrieved June 10th, 2015, from* https://www.itau.com.br/itaubba-es/analisis-economicos/publicaciones/macro-vision/we-revised-brazilian-gdp-growth-forecast-down-to-24-in-2013

[22] *Is China Coming Down to Earth? Retrieved June 10th, 2015, from* http://www.bloomberg.com/news/articles/2015-01-22/china-s-risks-in-shedding-debt-fueled-investment-led-growth

[23] *IMF Cuts Global Economic-Growth Outlook. Retrieved June 10th, 2015, from* http://www.wsj.com/articles/imf-cuts-global-economic-growth-outlook-1421722801

For the better or the worse?

It is worth noting that, and for some years now, the Chinese government may no longer be as concerned about attracting FDI to China. Instead, the Chinese government is promoting foreign direct investment from China to the U.S. and other nations. From the Chinese business perspective, the investments are a means to "*escape trade barriers, capitalize on the U.S. government's energy push, and learn lessons that could help them in their home market*" (Lynch, 2010). China's significant foreign direct investments also include Latin America and Africa, which caused some to call China the "*America of this century*" (James, 2009).

That is how Brazil, which has been acutely confronted with the dilemma of meeting China's apparently inexhaustible demand, which pushed up commodity prices (prompting expansion of agro-industrial and mineral exports), saw in the meantime a sharp decline in its manufacturing exports to China. Unsurprisingly, and as witnessed the world over, especially in Africa (Beuret, 2008), the rapid rise of manufacturing imports from China, which have not been limited to low technology sectors such as textiles and footwear, also included sectors of increasing technological intensity, which has been accompanied by a huge increase in Chinese investments in lands, mining and gas outside their own borders. The same goes as well for China with mining and oil and gas in Brazil, while the country's foreign direct investments in China (to gain access to a large and growing domestic market) remained insignificant. Trade appears to be more important than FDI in economic relations between the two countries, or at least it may appear as being the best option offered to Brazil.

Brazil faces the further dilemma of having a very good (recent) domestic growth story, yet only sustainable with continuous foreign investment. Indeed, in order for Brazil to really achieve long-term growth, it needs foreign capital because it's not generating the level of savings to complete the infrastructure investment that the country needs [China's gross savings (% of GDP) is assessed at about more than thrice Brazil's[24]]. Brazil has abundant fresh water, abundant quantities of oil, gas, iron ore and other natural resources, all of which China could happily consume. At the same time, China has the financial capability and the experience in delivering on infrastructure projects. All leads China to also be Brazil's largest investor, in an intertwined mutual (trade against investment) apparent dependence.

That is also where Brazilian government officials have been for a decade lobbying China for financial assistance to fund improvement projects, in a need to solve infrastructure problems, such as railroads, roads and farm development. The recurrent lack of proper infrastructure (prior to the 2014 World Cup and 2016 Olympics though) makes it difficult (till to these days) to ship more goods abroad. It prompted the, at that time, President Lula to ask China for help directly[25], back in 2004. As a result, over the period 2005 - 2010, China's foreign direct investment in Brazil averaged

[24] *Retrieved June 10th, 2015, from http://data.worldbank.org/indicator/NY.GNS.ICTR.ZS*

[25] *Brazil asks for funding from major exporter. July 2004. http://www.PMI.org*

US$14.9 billion per annum. Yet, in 2010 alone, this figure increased dramatically to US$17 billion, with estimates that investments reached US$25 billion in 2012[26]. In 2010, China surprised the world by emerging as Brazil's top direct foreign investor, up from 29th just one year earlier. As a reminder, and in sharp contrast, from 2000 to 2010, Brazil invested only US$572.5 million in China[27].

However, many Chinese industrial, mining and agribusiness companies have found Brazil to be a more complex and messier place to do business than they had anticipated and some Chinese companies have become frustrated with Brazil's slow pace of economic growth, its high costs of doing business ("Brazil cost"), and a growing political and populist backlash against China's presence. Apparently unprepared for such a backlash, Chinese investors in the region have confronted cultural challenges rooted in their ignorance of South American political and business cultures. "*In Africa, where the Chinese have made strong inroads as investors and traders, deal-making is often a straightforward, relatively simple matter of finding the right person at the top - often, a political leader - and winning him over, sometimes by under-the-table means. In some South American countries, such as Ecuador and Venezuela, this top-down approach may appear the obvious, acceptable way for the Chinese to conclude trade and investment deals*"[19], but apparently less so in Brazil. Protectionism is indeed not the only concern for Chinese firms in Brazil, as burdensome regulation, high taxes, and a bloated and inefficient bureaucracy all hamper growth. "*Brazil is quite expensive because of labor laws, because of taxation*"[18], or so it seems.

Till the Foes depart?

The challenge China poses for Brazil goes beyond the asymmetry of its trade and investment relations and begins to affect Brazil´s overall insertion in the global economy. Studies show that "*China is beginning to eat into Brazil´s principal market for manufactured goods which is essentially located in Latin America*" (Rosales, 2012). Traditionally, Brazil's manufactured goods have been exported to Latin American countries. Recent studies, however, have shown that "*China has displaced Brazilian exports in Chile by 14.4 percent, in Argentina by 6.8 percent, in Mexico by 6.6 percent and in Venezuela by 8.6 percent*" (Rhys and Barbosa 2011). Along similar lines, another study shows that "C*hina has had a 12 percent negative impact on Brazil's inter-regional trade*" (Rosales 2012). China also has signed bilateral agriculture, fishing, and forestry-related agreements and other cooperation agreements with local governments in the region. Moreover, the China-Pacific Alliance Multi-Chamber Union was established recently to promote logistics services and capital flow between China and the region[19].

The furious pace of commodities exports has driven up the value of Brazil's currency, hurting exporters. "*Popular concerns have also increased the risk of protectionist measures against Chinese*

[26] *Desaceleração não freia investimento chinês/Slowdown does not affect Chinese investment. 2012. Brasil Econômico. Retrieved June 10th, 2015, from http://brasileconomico.ig.com.br/ultimas-noticias/desaceleracao-nao-freia-investimento-chines_111607.html*
[27] *Investimentos Brasileiros na China/Brazilian Investments in China. 2012. Conselho Empresarial Brasil-China*

firms in the country"[18]. In late 2009, Brazil increased import tariffs from 20 percent to 35 percent on a list of toys from China and other Asian countries to prevent the influx of cheap goods[28], openly acknowledging that the move would affect Chinese exports. The actions, interpreted as a nontariff barrier shielding Brazil's domestic industry and consumers, pertained to 240,000 models of goods in the textiles, steel products, car parts and children's items (particularly toys) sectors.

Further to it, as China had also shown great interest in gaining access to land in Brazil, indications that the measures taken in Brazil in 2010 to limit foreign ownership of land (Wilkinson et al., 2012) were "*motivated by concerns over China*". Some sources mention as much as seven million hectares as having been bought or negotiated, prompting the Brazilian government to take severe steps that have apparently made some Chinese investors feel unwelcome, as has been reported. Indeed, Brazil's 2011 tax increase on foreign-made cars, as well as other measures, resulted from populist concerns that the Chinese were purchasing too large a share of Brazil's natural resources. Even so, the prospect of future competition over agricultural exports ties into broader fears among many Brazilians that their economy is becoming reliant on commodities exports, and that China's demand for its resources could prove volatile.

[28] *Brazil to put quality controls on Chinese goods. 2012. http://www.qualitymag.com.*

Conclusion

A pessimistic scenario would see Brazil increasingly locked into commodity trading dependency with over half of its exports depending on agricultural commodities and with China as its key client. The high level of trade concentration of Brazilian exports to China may be a bit of a concern. While the top export commodities, such as soy, iron and crude oil, accounted for over a quarter of total Brazilian goods exports in 2009, raw material and intermediate products do make today 62 percent of Brazil's total exports[29]. China alone, standing at 18 percent of total exports, followed by the United States (11 percent) and Argentina (8 percent), as of time of editing. This suggests that a decline in Chinese demand, could still spell trouble for the Brazilian economy down the road

However, as the US and Europe are partnering with Brazil in a wide variety of industries, not just commodities, China could still play a relatively big role, "*but not a central one*"[30]. A more optimistic perspective would identify the opportunities for trade and investments is primarily based on mutual dependence. Indeed, "*there are three phases in which Chinese companies come to countries like Brazil. The first phase is Chinese companies basically trying to cut the middlemen out by coming to Brazil and buying directly from the source. The second wave is more strategic in nature because Chinese firms are coming to establish a manufacturing presence in Brazil or acquire an existing asset, while the third phase is firms coming to support existing Chinese operations, and includes banks, lawyers, accountancies and other service providers*[31]". Chinese investments in Brazil seem nowadays to be moving beyond the second phase and into the third.

In the light of it, China could become a major partner in solving Brazil's logistical problems, and Brazil could complement its raw material exports with in situ processing, especially around food and commodities processing, while China's urbanization provides the guarantee of continued vigorous demand. However, even this optimistic scenario would appear to do little to mitigate the broader challenge China poses to Brazil over the long term, given its industrial competitiveness and determination to continuously advance along the value chain, threatening Brazil's ability not only to maintain its presence in Latin American markets but also to defend its own domestic market.

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