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Does the dragon soar higher than the eagle?

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THESIS

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by	
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September 2011	
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Chinese economic penetration of Latin America has profoundly altered the economic and political relationships in the region. This thesis argues that while the growing relationship between China and Brazil has been beneficial for both countries, it is especially beneficial for China. While the Brazilian raw materials and agricultural industries have profited, the influx of finished Chinese products is making many Brazilian industries, especially textiles, uneconomical, and has raised fears that Brazil may contract the "Dutch disease"—reliance on a few industries for export income. However, China has offset the historic political influence of the United States in the region, and holds out the prospect of being a strong sponsor of Brazil's ambitions to become an international political player commensurate with its growing regional economic and political importance. Latin American states are finding various ways to expand lines of communication and to collaborate with the Chinese, who are clearly set to play a major role in aid-giving worldwide. We must better understand our future competitor in order to develop our own strategy for engagement in Latin America.

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DOES THE DRAGON SOAR HIGHER THAN THE EAGLE?

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ABSTRACT

Chinese economic penetration of Latin America has profoundly altered the economic and political relationships in the region. This thesis argues that while the growing relationship between China and Brazil has been beneficial for both countries, it is especially beneficial for China. While the Brazilian raw materials and agricultural industries have profited, the influx of finished Chinese products is making many Brazilian industries, especially textiles, uneconomical, and has raised fears that Brazil may contract the "Dutch disease"—reliance on a few industries for export income. However, China has offset the historic political influence of the United States in the region, and holds out the prospect of being a strong sponsor of Brazil's ambitions to become an international political player commensurate with its growing regional economic and political importance. Latin American states are finding various ways to expand lines of communication and to collaborate with the Chinese, who are clearly set to play a major role in aid-giving worldwide. We must better understand our future competitor in order to develop our own strategy for engagement in Latin America.

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I. INTRODUCTION

In the last few decades, the world has experienced a major alteration of old production relations and, consequently, of political ties. Free trade agreements and bilateral pacts dominate the new global economy characterized by increased connectivity and interaction among the market's diverse stakeholders. This integration of the markets has immensely benefited some countries while adversely affecting others.[1] The adoption of the free trade regimes by some of the developing countries in the past few decades has resulted in unprecedented economic growth in these countries. It has also led to a decline of the dependence of these countries on previous market relationships and on international institutions like the IMF and the WTO.

In the last decade, the People's Republic of China has witnessed explosive growth. By offering tremendous production capacity at the most advantageous costs, Beijing has led the country on a fast-paced growth trajectory that has attracted the attention of many of the developing countries while threatening the market dominance of a number of economic superpowers.[2] For years, China has remained closed to the outside world. Many of the more advanced countries have expressed their desire for free trade with China as it promised a huge market for their domestic goods. In the last two decades, China adopted the policy of liberalization and soon became one of the biggest exporters of manufactured goods. This tremendous growth has provoked a mixed reaction. For developing countries, China provided a model of opportunity and hope. The tremendous demand for raw materials by Chinese industries helped the export of raw materials in these countries. On the other hand, the domestic products of the developing nations had to compete with Chinese goods whose cost was kept artificially low by an undervalued Renminbi. As a result, Chinese growth had dual impacts on the developing

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1 Rex A. Hudson, comp., *Brazil: A country Study* (Washington, DC: GPO for the Library of Congress, 1997).

2 Daniel P. Erikson, "'The New Challenge': China and the Western Hemisphere," (Testimony before the House Committee on Foreign Affairs, Subcommittee on Western Hemisphere, June 11, 2011).

countries in Asia, Africa, and Latin America. In recent times, China has also made efforts to balance its trade with different countries. [3]

Recently, the Chinese government has sought a closer trade relationship with Latin American countries, with the goal of resource extraction, especially oil. Some Latin American countries have significant reserves of oil, especially Mexico, Venezuela and Brazil. Therefore, these countries can play an important role in the development of emerging countries like China and India. Chinese interests are also focused on Latin American agricultural products and mined resources as well as chemical and infrastructure-related goods. Despite this primary product extraction, China continues to run a trade surplus with Latin American countries.

Since 2009, the significance of trade between the China and the Latin American countries has risen significantly to almost $100 billion and growing. The value of China's trade with Latin American countries is estimated to account for five percent of the total value of global trade;[4] but further development of free trade is being negotiated between China and Chile, Peru, and Costa Rica. In 2010, the value of trade between Brazil and China was as high as $62.5 billion, an increase of 47.5 percent from the previous year's value of exports. China had a deficit of trade with Brazil to the tune of $20.28 billion in 2010.[5] The major items of export from Brazil to China are iron ore, soybeans, sugar and aircraft. China provides the second highest export market for Peru, Argentina and Cuba. Similarly, the Latin American economy provides a huge market for many kinds of Chinese goods. Electronic goods, machineries, textiles, and shoes of Chinese origin have a high demand in Latin American markets. Chinese officials project that trade with Latin America will be over $100 billion for the next five years. The cost advantages and the rich endowment of natural resources in many of the Latin American countries provide huge opportunities for investment by Chinese companies. It also provides a chance for

3 Michael Cerna, "China's Growing Presence in Latin America: Implications for US and Chinese Presence in the Region," *China Currents*, 10(2011): 1, accessed on June 20, 2011. http://www.chinacurrents.com/Vol10_No1_2011/cc_cerna.htm.

4 Ding Qingfen, "More Trade Pursued With Latin America," *China Daily USA*, May 17, 2011, accessed on June 20, 2011. http://www.chinadaily.com.cn/usa/epaper/2011-05/17/content_12524275.htm.

5 Ibid.

rapid expansion in these countries. As a result, Latin American countries have provided a lucrative destination for investment by Chinese companies. By 2009, investments by these companies in Latin America had touched $30.6 billion. It comprises about 12.5 percent of the countries' investment outside their own boundaries. The biggest destinations for Chinese investment in Latin America are the countries with sound economic performances, like Brazil and Peru. The other major countries are Venezuela, Mexico and Argentina. Latin America is the second biggest region for Chinese investment. The major sectors of investment are energy and mining. Due to the mutually beneficial effect on the respective economies created by the increase in trade, it can be expected that more and more development of multilateral economic ties will occur between China and the Latin American economies. [6]

6 Ibid.

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II. BIRTH OF THE CHINESE ECONOMIC EVOLUTION

A. GENESIS OF CHINA'S ECONOMIC MIRACLE

In the last three decades, the Chinese economy grew 20 percent annually. The total trade of the country amounted to $2.56 trillion in 2008, $1.43 trillion in exports with $1.13 trillion in imports. The following diagram shows the sector-wise composition of Chinese trade.

The Figure 1 shows that the manufacturing sector is China's leading export sector. The country is heavily dpendendent on the import of agricultural products, fuel, and mining goods. [7]

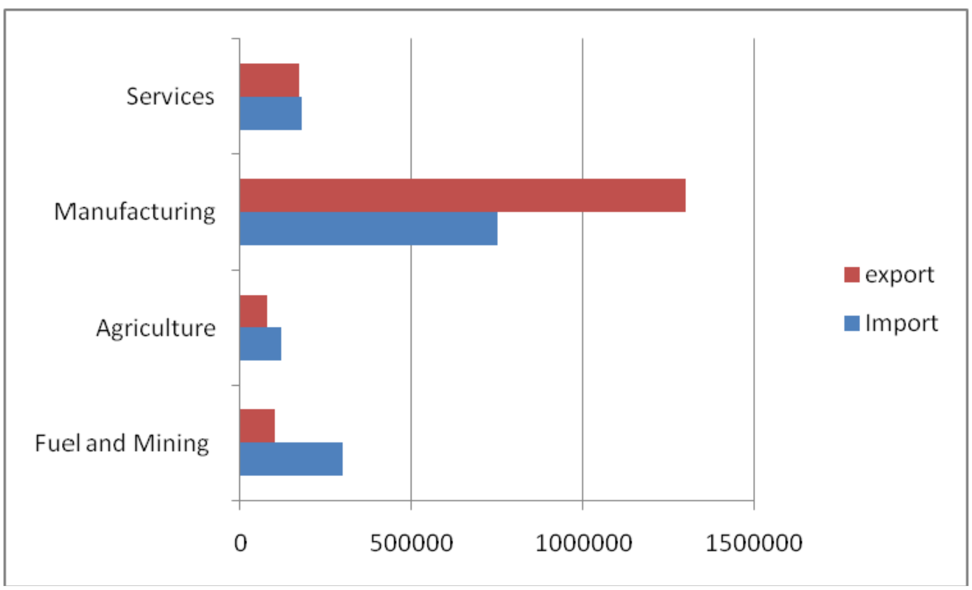

Figure 1. China Trading Structure: Consumption and Regions, 2008. (From Mingramm et al., 2009)

7 Rafael Mingramm, Ke Wang, Antonio Jimenez, and Jesus Reyes, "China- Latin America Commodity Trade and Investment: Enduring Trends towards 2027," (Nov 2009) accessed on June 3, 2011, 1–17. http://www.sinolatincapital.cn/Upload/20091123103159.pdf.

Figure 2 represents Chinese exports by country. China exports 20 percent of its goods to European Union, 18 percent to United States, 8 percent to Japan, 5 percent to Latin American countries and the remaining 49 percent to the rest of the world. [8]

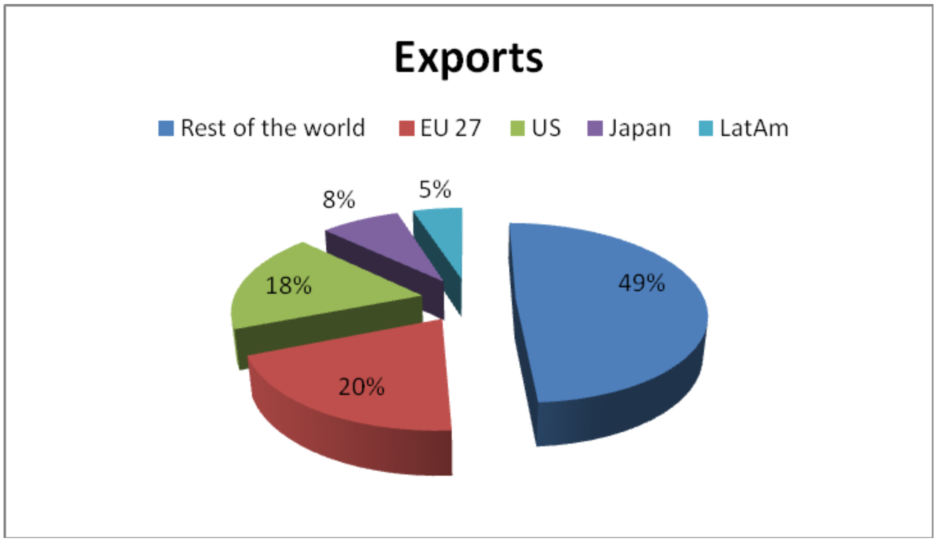

Figure 2. Chinese Exports to Different Parts of the World. (From Mingramm et al., 2009)

Figure 3 shows China's imports by country. It imports 13 percent of the goods from Japan, 12 percent of goods and services from European Nations, 10 percent from South Korea and imports from Latin America comprise 6 percent of the total goods and services imported by China. [9] China has shared trade relationships with the Latin American countries for a very long time. In recent times, the Sino-Latin American relationsips have gone beyond a trade relationship to a strategic partnership in various domains.

8 Ibid.

9 Ibid.

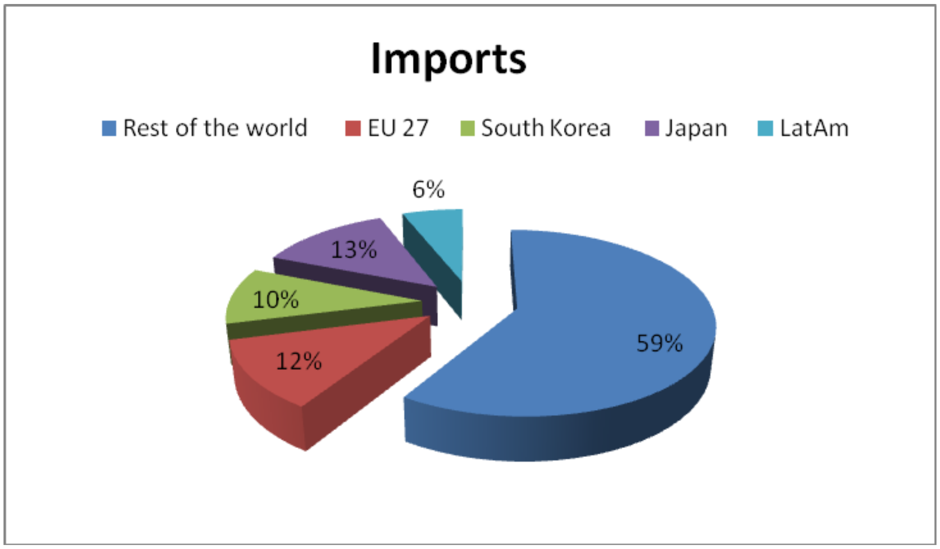

Figure 3. Chinese Imports from different Parts of the World. (From Mingramm et al., 2009)

B. CHINESE ECONOMIC POLICY IN LATIN AMERICA, THEN AND NOW

Beginning in 1978, the Chinese economy underwent considerable structural and institutional reformation from time to time. The success attained through this restructuring process is evident from the high growth rate of the country and the consequent gain in recognition on the international political platform. China's rise to political and economic prominence has been observed with caution by some of the advanced countries, while it has inspired many emerging countries. The country's high growth rate has not only transformed the poor Chinese economy of the 1960s into a booming economy with a highly productive export market, but it also demonstrates growth prospects for many other emerging countries of Latin America, Asia and Africa. However, China's economic growth has come without much change in the political structure of the country. China is still led by a single party, and officially it remains a communist country. Institutional economists have stressed metamorphosis of the socio-economic-political institutions and organizations in the reformation process of a country. The Chinese government has undertaken considerable institutional reform to promote its economic growth. For over 30 years, the process begun in 1978 has led to a complete transformation of the country. The purpose of the reform was, according to Chinese Communist Party Leader Deng Xiaoping, to attain socialism marked with Chinese character.[10]

Under Deng Xiaoping, China embraced a policy of structural reformation. Deng emphasized individual merit over party connections for the economic and social development of the person. He also understood the need for Chinese academicians and scientists to underpin sustainable growth. Deng's ideas were accepted in the Third Plenary Session of the Eleventh Central Committee of 1978.[11]China was to modernization every sector of the economy. Enhancing economic cooperation with other nations was central to Deng's plan, as was support of scientific and academic research. The major focus areas for development were agricultural, industrial, defense, and scientific and technological. Plans were laid to relax top-down bureaucratic control and other barriers to efficiency. Effort, imagination and ingenuity were to be rewarded.[12]

The Chinese economy, prior to the reforms, was characterized by a number of problems beginning with industrial bottlenecks caused by underdevelopment The Chinese development model, like that of the Soviets, had underperformed. Most heavy industries were owned by the state and absorbed the lion's share of resources. In 1978, 66 percent of the state's net fixed assets were in the manufacturing sector, while only 2.8 percent were in the agricultural sector. However, 76.3 percent of the country's population worked in the agricultural sector.[13] As a result of this huge imbalance, the industrial sector often faced slowdowns due to lack of growth in the other sectors. The usual remedy in this situation was the diversion of some of the resources in other sectors, primarily the light industries. These solutions, however, were only good for the short term.

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10 Clem Tisdel, "Economic Reform and Openness in China: China's Development Policies in the Last 30 Years" University of Queensland, June 2009, accessed on: June 20, 2011, 1-32. http://ageconsearch.umn.edu/bitstream/90624/2/WP%2055.pdf.

11 Ibid.

12 Ibid.

13 James K. Galbraith, Jaiqing Lu "Sustainable Development and the Open-Door Policy in China" (Paper presented at the Council on Foreign Relations, Austin, Texas, May 5, 2000).

Table 1 shows after 1978, the agricultural sector was completely revamped. Land equipment was reallocated from villages to farmers. This resulted in a considerable increase in efficiency. Chinese agricultural reforms and the Household Responsibility System increased productivity. Along with opening up the market, this productivity resulted in high growth for the primary agricultural sector, almost 126 percent, in the six years from 1978 to 1984. Moreover, this growth resulted in a rise in the contribution of the agricultural sector to the overall GDP.[14]

Sector wise Output	1976	1977	1978	1979	1980	1980 Increase over 1976
Agricultural Output	131.7	133.9	145.9	158.4	162.7	23.54%
Industrial Output	326.2	372.8	423.1	459.1	499.2	53.03%
Output from Light Industry	142.6	163.0	180.6	198.0	234.4	64.37
Output from Heavy Industry	183.6	209.8	242.5	261.1	264.8	44.23

Table 1. Sector-Wise Production in China, 1976 to 1978.
(From Wei and Chao, 1982)

China's leaders also decided to undertake reforms in the light industry sector. Special focus was given to the advancement of textile and other light industries to make their growth equal to that of the heavy industries. A number of favorable policies were announced in energy, transport, credit and foreign currency for import. This boosted the infrastructure of the light industries to a large extent. Moreover, the rigidities of the centralized administration system were relaxed. A number of sectors were given

14 Ibid.

autonomy or handed over by the state through the transfer of rights to the community or through leases to the individual. The policy of promoting efficiency was seen in these sectors. There was also an upward revision of prices for many of the price-regulated commodities.[15] The effects of all these reforms were perceived very quickly. Table 2 shows tremendous growth was exhibited by some of the sectors like steel, cotton and textile as well as agricultural products like peanuts, sesame and rapeseed.

Years	**Steel**	**Cotton**	**Cotton Cloth**	**Three Oil Crops**	**Electricity**
1977 – 80	16.1%	7.1%	11.1%	22.2%	10.3%
1966 – 76	2.9%	-1.2%	1.9%	-0.2%	9.4%

Table 2. Comparison of Growth of Some of the Products after Reform compared to Before Reform. (From Wei and Chao, 1982)

We can see that there was significant growth in some of the industrial and agricultural products after reform. The transport sector experienced huge growth including in railways, road and air transport. A larger volume of oil and gas was transported through the pipelines which was a result of the increased economic activity. There was a substantial rise in the domestic trade. Even international trade doubled from 1977 to 1980.[16]

Macroeconomic variables also reflected the success of the reform policies in the country. The national income grew by almost 50 percent in four years. During 1979 and 1980, there was a deficit in the country. However, it was accompanied by a growth in the investment of capital in the nation. Although it exerted a considerable burden on the population in later years, the capital accumulation helped the country to sustain a higher

15 Galbraith & Lu, “Sustainable Development,” 10-12.

16 Lin Wei, Arnold Chao, eds., “China’s Economic Reforms,” (Philadelphia: University of Pennsylvania Press, 1985), 3–7.

growth level. There was also a significant impact on the employment of the country's citizens. About twenty-seven million people were employed in the rural and urban sectors from 1977 to 1980. There was also a rise in the wages of the workers in the public sector. The average increase in wages from 1976 to 1980 was 7.3 percent. The wage rate in the rural sectors also rose significantly during this period, however, the growth in wage rates was in nominal terms and the growth in real wages remains unclear. Table 3 exhibits the changes in the economy during this period. [17]

Variable	**1976**	**1977**	**1978**	**1979**	**1980**	**Increase in 1980 over 1976**
National Income (based on Year's Price)	**242.7**	**264.4**	**301.1**	**335.0**	**363.0**	**49.6%**
State Revenue	**77.66**	**87.45**	**112.11**	**110.30**	**106.99**	**37.8%**
State Expenditure	**80.62**	**84.35**	**111.09**	**127.39**	**119.09**	**47.7%**
Capital Construction	**35.95**	**36.44**	**47.9**	**50.0**	**53.9**	**49.9%**

Table 3. Growth of National Income, State Revenue and Expenditure ad Capital Construction Investment, 1976–80. (From Wei and Chao, 1982)

In the above table, we see that the economy experienced considerable growth in the four years shown and that development in all areas was significant. The table also indicates that there was significant investment for capital accumulation, which helped the country to continue the growth rate into the future. Some of the major thrust areas of investment were education, scientific research, cultural development, public health and

17 Ibid.

urban infrastructural development. The country obtained significant successes from these investments. Enrolment rates in the universities and secondary technical schools doubled in the four years from 1976 to 1980.[18]

In October 1984, the Chinese government adopted another round of reforms to include the enterprise system, supplied materials, laborers and their wages, project financing, the prices of commodities, government revenue, tax, expenditures and other fiscal policies. The reform process was intended to target multiple issues at the same time, instead of sequencing reform. The aim of the government was to overhaul the entire economy to make it more competitive compared to the rest of the world and to become more competitive in the international market. The government tried to address the micro issues, like the individual enterprises, as well as the macro issues, like tax and fiscal control. The primary sector reforms were planned alongside restructuring of the public sector enterprises. [19]

The government achieved success in some of the reforms, like restructuring the taxes and decentralizing the public sector enterprises. However, some of the reforms did not give the results expected. The banking sector, in particular, could not implement the credit reforms planned in the face of increased local governance and regionalism. The expenditures of the local governments increased beyond planned levels, which increased inflation. [20]

Problems in the restructuring phases prompted the government of China to adopt another round of macroeconomic readjustment in 1988. Some of the political events during this time became fodder for some anti-reformist leaders of the Chinese Communist Party. The widespread inflation contributed to the June 1989 demonstration in Tiananmen Square that ended in bloodshed. Some of the public sector enterprises were mired in inefficient practices so that a fresh round of reforms had to be initiated in 1992, which were directed at transforming the fiscal system, investment policies, foreign capital

18 Ibid.

19 Galbraith & Lu, “Sustainable Development,” 10-12.

20 Ibid.

policies and the banking sector. The banking sector was modeled on the United States' banking system comprising a central bank and many commercial banks. The People's Bank of China became the central bank. The tax system was streamlined to introduce more efficiency into the central and local governments. The central and local taxes were separated to make budgetary processes more accountable. In 1994, the country adopted a managed floating exchange rate for their currency, which was also made convertible. Efficiency was introduced in public sector enterprises. Failed enterprises were merged or sold off. The remainder were modernized and brought under a shareholding system. The new enterprises were more efficient and did not have the overcapacity of the previous public sector enterprises.[21]

C. THE EVOLUTION OF CHINESE ECONOMIC POLICY IN LATIN AMERICA, THEN AND NOW

The Sino-Latin American relationship can be traced to the Spanish empire when Manila galleons plied the Pacific Ocean between the Philippine Islands, whose external trade was dominated by Chinese merchants, and Mexico. Diplomatic relations between Latin America and China became tenuous, especially following the 1949 triumph of Mao Tse-tung in China. It was only in the latter half of the twentieth century that the diplomatic and commercial ties between China and Latin American countries were renewed and strengthened. From 1990 onwards, the cooperation and collaboration between the two countries in terms of politics, economics, science, technology, trade and culture has increased. The two regions have often extended mutual support in times of international crises.[22] In recent times, China has established a deep bilateral relationship with Brazil, and together with India and Russia, has created the block of so-called BRIC countries—Brazil, Russia, India, China. Some experts have seen this Sino-Latin partnership as a natural outcome of the similarity in the history of the two regions. In spite of its immense growth rate, China is still identified as a developing country that has survived colonial rule.

21 Ibid.

22 Zhiqun Zhu, *China's New Diplomacy: Rationale, Strategies and Significance*, (London: Ashgate Publishing, 2010), 79–80.

China maintains close strategic relations with many Latin American countries including Cuba, with whom it exchanges intelligence and military technology.

China also has economic interests in Latin America. Latin America's call to establish a nuclear-free continent was supported by Chinese Foreign Minister JiPengfei in 1972.[23] China agreed not to manufacture, transport or store nuclear weapons in the region. In October 1952, China signed a bilateral trade agreement with Chile, which was the first such agreement between China and any Latin American country. From that time onward, Sino-Latin American trade grew progressively. By the year 2000, the two-way trade between China and Latin American grew to more than U.S.$12 billion. In the 1990s, China faced frequent trade deficits with Latin America, which, beginning in 1999 became a trade surplus of U.S.$2.3 billion. The main export to Latin America was manufactured goods like tractors, machine tools, engines, ships and similar items, as well as electronics, including TV sets, refrigerators and other household equipment, textiles and clothing, medical products, cosmetics, and light industrial products. China's five largest trading partners in Latin America are Brazil, Chile, Argentina, Panama and Mexico, which, together, accounted for three-fourths China's trade in 1999.[24]

1. China and Latin America: 1978 to 1981

As the Taiwan issue lost its focus and the Three World Theory died after the U.S.' withdrawal from Vietnam, China established a relationship with the United States. The Sino-American rapprochement sought, in part, to counter-balance the Soviet threat, as well as to isolate Taiwan. Despite criticism from Latin American leaders like Cuba's Fidel Castro, China continued to court Washington without any regard for the New Economic Order. However, several problems surfaced in the Sino-U.S. relationship, so that China was forced foster trade relationships partnerships in other regions, including

[23] Ibid.

[24] Peter Smith, Kotaro Horisaka and Shoji Nishijimma, East Asia and Latin America: The Unlikely Alliance, (London: Rowman and Littlefield, 2003).

Latin America, where Taiwan was diplomatically active. As a result, China established bilateral ties with Ecuador and Colombia in January 1980.[25]

2. China and Latin America: 1981 to 1984

Chinese foreign policy underwent considerable changes beginning in 1981. China repositioned its foreign policy to put distance between itself, the United States and the Soviet Union, and to form ties with countries of the third world. The then foreign minister of China, Huang Hua, led a delegation to Mexico, Colombia, and Venezuela. Relations were facilitated by the 1980 Treaty of Montevideo that created the Latin American Integration Association (ALADI) that incorporated eleven countries. The reestablishment of the New Economic Order to create an atmosphere of mutual trust and equality was demanded by the Chinese premier.[26] There were also demands for support to the emerging economies and to promote a North-South discussion. The premier also visited Mexico. From 1982 onwards, the focus of Chinese foreign policy was simultaneous good relations with the United States and the Soviet Union, and also to support and cooperate with Latin American countries, even those not aligned with Chinese interests, like Panama, Nicaragua and Costa Rica. China also promoted South-South cooperation. The interaction between China and Latin America was reinforced through diplomatic visits and agreements. The presidents of Brazil, Colombia and other countries visited China. Agreements on various issues like sea transportation, economic cooperation with Brazil, cultural exchange with Mexico, and on nuclear energy with Brazil were reached. The Chinese foreign minister also extended support for the debt crisis that was prevalent in Latin American countries. Antigua and Barbados became diplomatic partners. [27, 28]

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25 Stefanie Reiss, "Discovery of the *Terra Incognita:* Five Decades of Chinese Foreign Policy towards Latin America" (Working Paper, University of Mainz, Germany, October 2000).

26 Ibid., 31–53.

27 Ibid.

28 Galbraith, "Sustainable Development," 10-12.

3. China and Latin America: 1984 to 1988

Chinese intentions to promote peace were paramount foreign policy considerations out of fear that war would disrupt modernization and investment. This concern underwrote the international relations theory of One World that replaced the Three World Theory, through which Mao had attempted to balance the interests of China, the USSR and the United States. Agendas like mutual support, friendship and joint cooperation were promoted. The Chinese prime minister visited many of the Latin American countries in 1985 to promote common interests between China and Latin America by stressing a common history of colonialism and the experience of oppression, as well as the common agendas of developing economies, which required peace. The Chinese president promoted the idea of self-determination and independence in the respective foreign policies of the countries. The president also condemned the unfair burden of the international economic order. According to the president, economic development in China would help the country promote global peace. China's process continued with membership in the World Bank and the IMF. The Chinese economy opened up to foreign investments. Around this time, some of the Latin American countries, especially Brazil and Argentina, tried diversification strategies to fight recession. Therefore, the two regions shared complementary economic interests. Joint ventures, and trade and investment between the two countries started to grow. By 1987, more than ten Chinese companies had invested in eight Latin American countries. There were as many as seventeen joint ventures between Chinese and Latin American enterprises. The total value of investment was worth over $58 million.[29]

According to Table 4, with the exception of 1987, the volume of trade between the two regions increased. The 1987 sudden drop in the trade volume can be explained by the sudden rise in the price of crude oil and the recessions that hit Latin America during that period. Some political turmoil was also responsible for disturbances in Sino-Latin trade. [30]

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[29] Reiss, "Discovery of the Terra Incognita," 31–53.

[30] Ibid.

YEAR	TOTAL TRADE (IN MILLIONS OF DOLLARS)
1980	1363
1985	2572
1986	2087
1987	1728
1988	2576

Table 4. Trade Volume in Million Dollars between China and Latin America. (From Reiss, 2000)

4. China and Latin America: 1989 and Beyond

Since 1989, both China and Taiwan have looked for closer ties with Latin America. On one hand, China was trying to gain multilateral ties with the region to gain economically as well as politically. On the other hand, Taiwan tried to strengthen its position, internationally, after its membership in the United Nations was cancelled and diplomatic ties with the United States were severed. Taiwan followed a policy of extending credit and giving monetary aid to poor Latin American countries. China strongly condemned this strategy of gaining support through monetary assistance as "dollar diplomacy." However, a similar strategy of extending monetary assistance was also followed by China at times. In 1990, China gave loans to seven Latin American and Caribbean countries including Jamaica, Peru, Bolivia, Colombia, Nicaragua and Surinam. [31] Since 1990, China has advocated all-round exchange and cooperation between the two regions. Beijing announced a policy of high level diplomatic communication to promote trust. Development of trade and commerce through the exploration of new avenues was called for. There was also a policy for the exchange of science and technology to promote mutual economic development. There was to be more cultural exchange between China and Latin American countries. The country also promoted the development of the New International Economic Order with other Latin American countries. [32]

[31] Ibid.

[32] Ibid.

After 1989, the Sino-Latin trade volume increased steadily to $6,100 million in 1995 and $8,370 million in 1997, mainly through Chinese exports. In 1996 and 1997, Chinese exports rose by 24.5 percent while imports rose by a mere 4.4 percent. The major items of export were machines and electronic goods.[33] The major items of import were raw material and other commodities. The major Chinese export markets were Brazil, Chile, Peru and Argentina. The major import items were raw materials like iron, wood, soy oil, leather products and wheat. The Chinese and Latin American markets are complementary in nature. While the former has a high demand for raw materials, like agricultural products and minerals, the latter has a demand for machinery, electronics and consumer goods.[34] The Chinese demand for food items increased steadily during this time in spite of a growth in domestic production. As a result, China was looking to meet this requirement for food through imports from Latin American countries. [35]

During this time, a bilateral cooperation between Brazil and China also began, marking the beginning of a strategic partnership between the two countries. There was an increased exchange of technology. The two countries entered into an agreement to develop aerospace technology and launch satellites. One of the reasons behind this joint construction was the inspection of the rain forest, as well as exploration of the region for new sources of minerals. Brazil also made technological contributions to the first Chinese satellite in space. The number of investments and joint ventures between the two countries also increased. There were even communications between the Chinese and Latin American entrepreneurs to promote business, including investment, construction plans and technical assistance. The current trend of Sino-Latin cooperation seems to have had its roots in Chinese foreign and trade policies post -liberalization in 1978.[36]

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33 Renato Bauman, “Some Recent Features of Brazil-China Economic Relations,” (Paper presented to the Economic Commission For Latin America and the Caribbean in April 2009) 9–10.

34 Ibid.

35 Reiss, “Discovery of the Terra Incognita,” 31–53.

36 Ibid.

III. EVOLUTION OF BRAZILIAN ECONOMIC POLICY

A. BEGINNING OF BRAZILIAN ECONOMIC DEVELOPMENT

1. Brazilian Economic Development 1950 to 1964

In the 1950s, the Brazilian government adopted a policy of import substitution industrialization to support its manufacturing sector. This required a number of measures, including a regime of tariffs and exchange rate controls to protect its nascent industries and make the country less dependent on the international market. It also adopted special incentives to attract direct foreign investments to establish manufacturing industries within the territory of Brazil. The companies in the various industries were encouraged to assimilate their operations vertically. As a result, there were many domestic supply firms. Basic industries like steel manufacturing and public utilities were nationalized to promote the growth of other manufacturing industries.[37] The oil exploration industry was brought under government control with the founding of Petro bras. Other measures were taken to develop and finance the secondary sector of the country through the National Development Bank, initially meant to assist the public sector companies and gradually extend financial support to private sector industries. The Import Substitution strategy helped the development of the Brazilian industrial sector.[38] Table 5 illustrates the growth of the industrial sector of the country vis-à-vis the agricultural sector.

[37] Robert G. Wessen, Politics, Policies and Economic Development in Latin America. (Stanford: Hoover Press, 1984), 53–66.

[38] Hudson, "Brazil: A Country Study," 354-357.

YEAR	TOTAL	INDUSTRY	AGRICULTURE
1950	6.5	11.3	1.5
1951	5.9	6.4	0.7
1952	3.7	5.0	9.1
1953	2.5	8.7	0.2
1954	10.1	8.7	7.9
1955	6.9	10.6	7.7
1956	3.2	6.9	-2.4
1957	8.1	5.7	9.3
1958	7.7	16.2	2.0
1959	5.6	11.9	5.3
1960	9.7	9.6	4.9
1961	10.3	10.6	7.6
1962	5.3	7.8	5.5
1963	1.5	0.2	1.0
1964	2.0	5.1	1.3

Table 5. Real Growth Rate Industry and Agriculture in Percentages, 1950–1964. (From Wessen, 1984)

Table 5 shows that the growth of the industrial sector has been consistent and, except for 1957 and 1963, the industrial sector growth, at 9 percent, has exceeded that of the agricultural sector.[39] However, this emphasis on industrialization came at the expense of under-investment in the agricultural sector. In spite of the emphasis on industrial

39 Wessen, Politics, Policies, and Development, 53–66.

growth, there were no incentives to promote exports. The high exchange rate made the export sector less competitive in international markets. Also, there was no effort to diversify the basket of export goods in conjunction with the domestic economy. The large expenditures to develop the industrial sector and the subsidies paid to the price-controlled sector gave rise to inflation, made worse by high government expenditures to create capital in Brazil, and the government's inability to raise revenues. In 1963 and 1964, the Cost of Living Index Number was 80.2 overall and 86.6 in Rio de Janeiro. [40]

This strategy also led to the misallocation of resources in various price-controlled sectors, and to regional inequalities, as most of the new industries were located in the developed parts of the country. However, experts have commented that this regional imbalance was unavoidable as Brazil had to take advantage of economies of scale. Many public enterprises, already over-populated with employees, were expanded. A population growth provoked a rural-to-urban migration into the cities where new industries failed to generate enough employment opportunities. The main beneficiaries of these "reforms" were the state-owned banks that flourished with the import substitution industrialization policy.[41]

2. Consolidation of Previous Growth and the Second Round of Expansion (1964 to 1973)

Until1964, Brazil was in political and economic limbo because the import substitution policy produced economic stagnation that contributed to political unrest. The military government that assumed power on 13 March 1964 aimed to reverse the effects of the import substitution strategy and embark on a path of future growth. The goals of the policymakers were to control inflation, remove the market distortions introduced by price controls, restructure the capital market to promote savings, and promote private investment in the priority sector. Other agendas included attracting foreign investment for capital formation and diversifying the export product basket. There were also plans to develop infrastructure and heavy industry. The new government imposed strict fiscal and

40 Ibid.

41 Ibid.

monetary control, and raised ceilings on price-controlled products while reigning in wages. Savings were encouraged with the help of indexing. In this way, government deficits could be financed without increasing the inflation rate.

The regional imbalance problem was addressed with the help of tax and credit incentives for investments in the underdeveloped regions, the export sector, the capital market, and the tourism sector. A new Housing Bank was established. Workers were forced to deposit retirement savings in government banks. Public sector inefficiencies were addressed by allowing enterprises to set their own policies for prices, investment, and employment.[42] The currency was allowed to float. Various collaborative efforts were made with international organizations like the U.S. Agency for International Development, the World Bank and the Inter-American Development Bank to finance large public projects. [43]

The impact of these well-planned policies was felt within three years. Soon the real GDP rose at an average rate of 11.3 percent annually. The secondary sector grew at the rate of 12.6 percent. Inflation fell gradually as savings and exports grew substantially. Brazil began to export manufactured goods.

The most notable thing in the Table 6 is that the inflation rate decreased progressively after the change of regime, with minor variations, to almost 60 percent within four years.[44] The policies followed during this period successfully controlled inflation while maintaining a high growth rate, to include that in the industrial sector. However, during this period, the distribution of income also became highly inequitable. Some experts have tried to explain this inequality as the result of a restrictive wage policy along with promotion of the capital investment sector and tax incentives, all of which led to a high income concentration at the top.[45]

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[42] Hudson, "Brazil: A Country Study," 381-389.

[43] Ibid.

[44] Wessen, Politics, Policies, and Development, 53–66.

[45] Hudson, "Brazil: A Country Study," 381-389.

YEAR	Internal Prices	Cost of Living: Rio De Janeiro	Implicit GDP Deflator
1964	91.9	86.6	87.8
1965	34.5	45.5	55.4
1966	38.2	41.2	38.6
1967	25.0	24.1	28.8
1968	25.5	24.5	27.8
1969	20.1	24.5	20.3
1970	19.3	20.9	18.2
1971	19.5	20.2	17.3
1972	15.7	16.4	17.4
1973	15.5	13.7	20.5
1974	34.5	27.7	31.5

Table 6. Measures of Inflation, 1964–1974. (From Wessen, 1984)

The Table 7 shows that the country's income distribution worsened between 1960 and 1970. During this period, the emphasis was on market expansion, but the autonomy of the public sector enterprises, as well as the funds made available to them through the worker security fund, also boosted the growth of the state-owned enterprises. The tax base was also increased with the help of proactive government measures The authoritarian government could easily make certain changes, like offering tax incentives, that would have been difficult under a more democratic regime.[46]

[46] Wessen, Politics, Policies, and Development, 53–66.

GROUP	Income Holding in 1960	Income Holding in 1970
Lowest 40%	11.2	9.0
Next 40%	34.3	27.8
Next 15%	27.0	27.0
Top 5%	27.4	36.3
Total	100	100

Table 7. Comparison of the Income Distribution of Brazil between 1960 and 1970 in Percentages. (From Wessen, 1984)

3. Growth of Brazil (1974 to 1983)

The early 1970s were characterized by the oil crisis and fear that world had reached peak oil production. This, together with high income inequality, was the biggest challenge that the new president of Brazil, General Ernesto Geisel, faced after his accession to power in March 1974.[47] The president had to achieve these goals while maintaining the previous administration's high growth rate, in large part because the task of redistribution becomes easier when a country is experiencing growth.[48] Although the price of petroleum remained high in the international market during this period, the Brazilian government did not want to neglect the secondary sector or mining by focusing too much investment into petroleum extraction. Brazil had successfully accumulated large savings and also had a considerable foreign currency reserve as a result of its diversified exports. But they still could not meet the expenditures for large amounts of imports from the United States, which amounted to $6.2 billion in 1973 and $12.6 billion in 1974. As a result, the country had to borrow on the international market. The government was also committed to the growth of real wages and increasing the standard of living for the average citizen. Therefore, real wages rose steadily during this period. But rising wages and the rise in petroleum prices led to an increase in the cost of production, which forced firms to raise prices. [49]

[47] Bauman, Renato. "The Geography of Brazilian External Trade: Right Option for a BRIC?," Universidade de Brasilia, 2009. CEPAL LC/BR/R1.96

[48] Wessen, Politics, Policies, and Development, 53–72.

[49] Ibid., 53–66.

Brazil's growth rate during this period was quite high, although it fell short of former growth levels. One of the features of the growth rate during this period was that it was achieved without any transfer of real resources to the international market although petroleum prices rose, petroleum production was financed primarily through foreign loans. As a result, the burden of the price rise was transferred to future generations, rather than being faced by the current generation. In 1980, inflation reached a spectacular 110 percent. The large foreign debt and the high interest rates at that time made for a crushing debt-servicing burden. [50]

Year	GDP	Industry	Agriculture	General Price	Consumer Price
1972	11.7	13.4	4.0	16.8	14.0
1973	14.0	16.0	3.6	16.2	13.
1974	9.5	9.1	8.2	33.8	33.8
1975	5.6	5.6	5.2	30.1	31.2
1976	9.7	12.5	2.9	48.2	44.8
1977	5.4	3.9	11.8	38.6	43.1
1978	4.8	7.4	-2.6	40.5	38.7
1979	6.8	6.6	5.0	76.8	76.0
1980	7.9	7.9	6.3	110.2	86.3
1981	-1.9	-5.4	6.8	95.2	100.6
1982	1.0	1.0	-2.5	99.7	101.8

Table 8. Real Growth and Rate of Inflation in Percentages, 1972–1982. (From Wessen, 1984)

The burden of foreign debt and inflation became unsustainable for Brazil. Also, global pressures forced the government to remove the export and credit subsidies that underpinned the country's export industries. To maintain the volume of exports, Brazil devalued the real. Overvalued currency had not been a problem pre-1979 because of the tax and credit incentives provided to the exporters.[51] But the devaluation unfavorably affected firms with high foreign debt. The global recession during this period hampered the expansion of the export industry. As a result, the government was forced to

50 Ibid., 53–72.

51 Ibid., 53–66.

renegotiate its debt payments with the IMF and other creditors. As a condition of renegotiation, the government had to undertake several austerity measures, in particular, it had to reduce investment and take currency devaluation measures to repair the deficit in the balance of payment and the debt burden. They also enforced severe austerity on the citizens. Not surprisingly, after 1981, the growth rate gradually decreased and unemployment rose, which led to protests and demands for sociopolitical reform. [52]

B. BRAZIL AS AN EMERGING MARKET

Brazil boasts the largest economy in Latin America. The country has the highest gross domestic product per capita and extensive international trade relationships. Brazil's growth potential makes it one of the world's most dynamic emerging economies. Brazil is home to a number of multinational companies. The Brazilian economy has profited enormously from its trade with China, a market that has grown at the highest rate. For instance, between 2002 and 2003, the Brazil's exports to China have increased by almost 80 percent. In 2007, Brazilian exports to China accounted for 6.2 percent of total Brazilian exports. The major export items have been agricultural products like soybeans and soy oils, minerals like iron ore and steel, and forestry products like timber. Five of these products accounted for 75 percent of the country's exports to China in 2006. However, the upsurge in exports also exposed the domestic market to Chinese competition. Brazilian trade with China has increased its production specialization. However, chances that over-specialization will lead to dependency on other countries have raised concerns for Brazil's economy and growth. [53]

Experts and analysts have voiced concerns about the Brazilian economy catching the so-called "Dutch disease"—a syndrome by which the exports of a country are comprised of only one or a handful of goods, in which case, the manufacturing industry begins to lose their relevance in the export market. Brazil's success has been possible partly because of a rise in the volume of their exports, but mostly because of a rise in the

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52 Ibid.

53 Organization for Economic Development, *Latin American Economic Outlook 2008*, (OECD Publishing, (2007), 157–159.

price of exported goods. The sectors that have achieved maximum growth in the export market do not account for more than 20 percent of the export income share. Moreover, the major items of export are not commodities. The textile industries of the country have fared well in the face of stiff competition from their counterparts in India and China. The exports of raw materials from the primary sector as well as minerals and ores have increased along with the higher value-added sectors. The country has successfully developed its manufacturing industries. In 2006, the Brazilian aircraft manufacturing company, Embraer, captured a large contract to sell 100 jets to China. The major competition faced by Brazil is from China. The low technology industries of the country and perhaps the automobile industry of the future are especially threatened by this competition. [54]

Experts believe that the Brazilian demand and supply for the agricultural goods basket and the Chinese demand and supply for agricultural goods complement each other.[55] Therefore, the two countries can benefit from bilateral trade and mutual investment. One of the recurring problems for the Brazilian economy is to keep up the type of export with China and the rest of their export market, while at the same time avoiding becoming too specialized. Brazil needs to improve its infrastructure to tackle the problem of over-specialization. Currently, the economic system of the country is wrestling with inefficiency, the cure for which is innovation and technological progress. While Brazil's research and development is among the best in Latin America, it is far below that of the EU, for instance. The majority of R&D is performed in the public sector. The good news is that the Brazilian government understands that this must change, and that it needs to promote science and technology to increase competitiveness in trade. However, it also needs to address the shortage of skills in the labor pool to benefit from technological advancement. This will require investment in education, infrastructure and technological advancement to sustain economic growth. [56]

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54 Ibid.

55 Wessen, Politics, Policies, and Development, 53–66.

56 Organization for Economic Development, Economic Outlook, 157–159.

Brazil has become the largest economy in Latin America. The economy of the country has also exhibited considerable potential for growth and development. The territorial area of Brazil is huge and it also has a vast reserve of natural resources. A large portion of these resources are still unexploited, thus increasing the country's potential for long term growth in the future. Brazil has some geographical advantage for trade and many foreign companies and multinationals prefer to locate their Latin American operations in Brazil. General Motors and Mercedes-Benz have their bases in Brazil.[57] The country has a huge population, which also makes its domestic market an attractive target for foreign exports. Brazil's income distribution is highly skewed as the poorest 20 percent hold only 2 percent of the country's wealth. Most of the foreign investments in the country have been targeted on the higher and the middle income groups. This has resulted in the highest growth rate in Brazil's history in spite of periodic incompetent economic and monetary strategies and poor governance. The Brazilian population has also developed considerably during this period. Because a major proportion of the population has been unemployed or underemployed, the tax base has remained small, which has affected government revenues available for investment. The high demand for education and social services in the country has further burdened the revenue.[58] Brazil is perceived as a lead nation among Latin American countries. Although there have been suspicions regarding the imperialist motives of the country, the general outcome of the country in regional development has been positive. Brazil's inability to reach U.S. levels of regional dominance have been attributed to its dependency on outside exports and poor economic management, which have led to inflation.[59]

Brazil's current growth rate has been supported by a set of well-designed economic and social policies. The rate of unemployment on April 6, 2011 was 6.4 percent, one of the lowest in the history of the country. The problem of inequitable income distribution has decreased greatly. Brazil's different markets have exhibited a healthy performance, including the credit market. In the past decade, the country has

57 Ibid.

58 Ibid., 157–159.

59 Ibid., 12–14.

exhibited exemplary stability in its policies. Brazil has also faced the financial crisis and the problem of foreign capital inflow and managed to survive without much damage. However, the inflation rate of the country is moderately high at 6.5 percent. Inflation has been driven by fuel and material costs, but pressure for higher wages may further deepen the problem. Moreover, the demand for higher wages may introduce wage rigidities in the country and, thereby, make it a less attractive destination for foreign investors. According to an assessment by the House of Commons of Great Britain, Brazil has exhibited a leader's role among Latin American countries in regional integration and is one of the most important members of the Mercosur and well as the Rio Group.[60]

C. BRAZIL'S POSITION AS AN EMERGING WORLD ECONOMY

Different scholars employ different concepts and definitions to explain emerging markets. One description of an emerging market is one that has a huge potential to grow at a very fast rate, but also has certain political and economic risks attached. In recent years, the size of Brazil's market, combined with natural resources and stable governance, has attracted the interests of investors worldwide. However, the Brazilian market has a unique dynamic and companies need to formulate their marketing and investment strategy accordingly. [61] The Real Plan implemented in July 1993 achieved success fulfilling many of its goals. Inflation came down drastically between 1994 and 1996. The plan also tried to keep the currency stable through a regulated floating exchange rate. The country also reaped the benefits of the liberalization policy. The healthy macroeconomic policies, along with the liberal trade regime, created a transparent and healthy environment for global investors. Operations by international auditing firms in Brazilian territory have further facilitated the country's access to the global capital markets. The country's legal system has also helped the growth of Sao

60 Great Britain: Parliament: House of Commons: Trade and Industry Committee, *Trade with Brazil and Mercosur* (UK Stationary Office, 2007. Parliament Publications and Records (HC-208-I).

61 Ibid., 74–75.

Paulo as the regional financial center. Brazil ranked fourth among six emerging markets in terms of their GDP, as is illustrated by the Table 9.[62]

Rank	Country	GDP PPP [Billion Dollar]
1	**The People's Republic of China**	**7046**
2	**India**	**2965**
3	**The Russian Federation**	**2076**
4	**Brazil**	**1838**
5	**South Korea**	**1206**
6	**Spain**	**1362**
7	**Mexico**	**1353**
8	**Indonesia**	**845**

Table 9. Emerging Markets by GDP [in billions of dollars]. (From Kvint and L'vovichKvint, 2009)

On a global level, the country has become a significant player and is perceived as one of the most important emerging nations along with Russia, China, India and South Africa. The country has voiced its opinions about a number of global issues such as global warming and the environmental reforms of the United Nations. Brazil has also formed a political alliance with India and South Africa called the G3 or the IBSA. It is also a founding member and has an important role among the emerging countries of the G20. [63]

[62] Vladimir Kvint, Vladimir L'vovichKvint, *The Global Emerging Market: Strategic Management and Economics*, (UK: Taylor & Francis, 2009), 91.

[63] House of Commons: Trade with Brazil and Mercosur, 74–75.

IV. CHINESE TRADE STRATEGY IN BRAZIL

Economic relations between Brazil and China go back to 1812 when the emperor of Brazil brought laborers from China to work in the tea plantations. Since then, the migration of Chinese workers to Brazil has occurred at different periods of time, but in 1949, the wave of Chinese reforms and change of governance led to an interruption of ties between the two countries. Relations were renewed in 1974. China's high economic growth rate attracted investments from various parts of the world, including Brazil. The relationship between the two countries has developed on a number of fronts including economic and strategic partnerships. For Brazil, China's high growth rate and increasing economic and political clout has made Beijing an attractive partner. According to the director of the OECD Development Center, Javier Santiso, China is a powerful global player that contributes around one-third to the world's GDP. The spectacular expansion of the Chinese economy has also poised challenges for many developing and emerging nations.

When it comes to Latin America, China looks like a "trade angel" who has provided Latin America with an outlet for its products.[64] Similarly, the Latin American countries give China an opportunity to sustain its future growth rate. The markets of the United States are growing at a slow pace, especially after the series of recessions that began in 2001. In this situation, the untapped markets of the emerging Latin American countries present a vast opportunity for Chinese products and investments. Moreover, countries like Brazil, Argentina, and Venezuela are rich in natural resources including agricultural products and fuel. The importation of these resources could solve the problem of huge Chinese demand for raw materials. Moreover, countries like Brazil have become important members of the global platform through their role in the Mercosur and the G20. Joint cooperation in a number of fields was announced after President Lula's visit to China in 2004. [65] Mutual benefits have paved the way for Sino-Brazilian

64 Javier Santiso, The visible hands of China In Latin America, (France, OECD Publishing, 2007).

65 Alex E. Fernandez Jilberto & Barbara Hogenboom, *Latin America Facing China: South Relations Beyond the Washington Consensu*s, (Oxford: Berghahn Books, 2010), 50–52.

cooperation in a number of fields, including scientific and technological advancement. They have also cooperated to gain higher negotiation powers with the more advanced countries of the world.

A. STRATEGY AND FOCUS OF CHINESE INVESTMENT IN LATIN AMERICA

The fast growth of Chinese industries, demonstrated in Figure 4, has led to a rise in demand for raw materials in China. The country has the highest consumption of metals like copper, tin, zinc, platinum, steel and iron ore, as well as aluminum and lead. China has the third highest consumption of nickel in the world.[66] Energy is also in high demand in China, however, because China has few energy reserves, it has been a net importer of fuel since 1993. By 2004, China had the second highest consumption and import of oil, after the United States of America. The crude oil import of PRC was 2.6 million barrels per day in 2005. The projected growth of Chinese demand for crude oil over the next twenty years is huge—12.8 million barrels per day. The International Energy Agency has estimated that the People's Republic of China will need to import almost 85 percent of their crude oil and 50 percent of their natural gas by 2030. Apart from natural resources, the Chinese industrial expansion has also produced a huge demand for agricultural commodities. The president of the People's Republic of China, Hu Jintao has decided to pursue a more proactive foreign policy through diplomatic ties as well as trade and investment, especially with nations rich in resources. Latin America turned out to be one of the most logical choices for China to meet its demand for raw materials. [67]

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66 Joshua Eisenman, Eric Heginbotham , and Derek Mitchell, *China and the Developing World: Beijing's strategy for the twenty-first Century*, (M.E. Sharpe, 2007), 91.

67 Ibid.

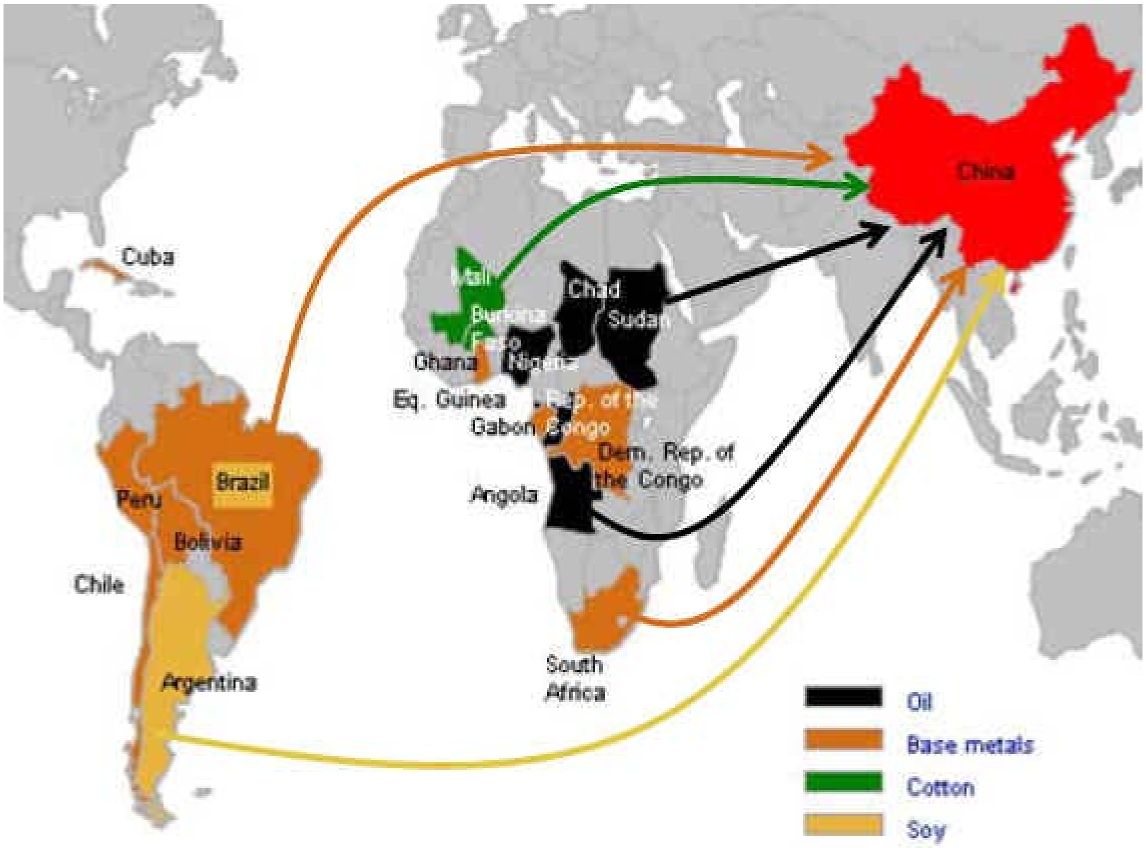

Figure 4. Trade Activity Between Latin America and China (After Eisemann, Heginbotham and Mitchell, 2007)

B. CHINESE LIBERALIZATION AND THE GROWTH OF CHINESE TRADE WITH THE BRIC COUNTRIES

China joined the World Trade Organization in December 2001 as a prelude to the liberalization of trade and the reduction of import barriers, about the time that the government of Brazil also started to focus on foreign trade as a revenue generator.[68] Gradually, the trade relationship between the two emerging market economies has developed until, today, it is significant. However, this is hardly exceptional, as trade between China and other BRIC countries has also increased during this time. [69] For this reason, some Brazilians wonder whether they are not too dependent on China.

68 Bauman, "Some Recent Features," 1–2.

69 Eisenman, Heginbotham and Mitchell, *China and the Developing World*, 91.

Table 10 offers some significant insights into the growth of trade between Brazil and China. In 2000, the percentage of Brazilian exports to China was only 0.4 percent, but it had grown to 6.7 percent by 2007. It also shows that, among the other BRIC countries, the bilateral relationship between Brazil and China is most developed. Moreover, the share of Brazil's export to China as a share of Brazilian exports has increased four-fold from 2 percent in 1988 to 8 percent in 2008. However, the proportion of Brazilian exports on the total Chinese import was a meager 2.6 percent in 2008.

Exports	**2000**					**2007**				
	Brazil	**Russia**	**India**	**China**	**South Africa**	**Brazil**	**Russia**	**India**	**China**	**South Africa**
Brazil	-	0.2	0.1	0.4	0.1	-	2.3	0.6	6.7	1.1
Russia	0.3	-	1.0	5.1	0.0	-0.3	-	0.9	4.3	0.0
India	0.5	2.0	-	3.4	0.7	1.3	0.6	-	6.5	1.5
China	0.5	0.9	0.6	-	0.4	0.9	2.3	2.0	-	0.6
South Africa	0.8	0.1	1.4	1.3	-	0.8	0.2	2.1	6.5	-

Table 10. A Comparison of the Percentage of other BRICs on total export of the respective Countries. (From Eisenman, Heginbotham, and Mitchell, 2007)

In Table 11, we see that the imports of the BRIC countries from China have increased substantially for all the countries. Among them, Brazil's import of Chinese products increased by almost 21 percent during the period. [70]

[70] Ibid.

Import	2000					2007				
	Brazil	Russia	India	China	South Africa	Brazil	Russia	India	China	South Africa
Brazil	-	0.3	0.1	0.5	0.1	-	1.4	1.8	10.5	0.4
Russia	1.1	-	1.6	2.8	0.2	2.1	-	0.7	12.2	0.1
India	0.5	1.0	-	2.6	2.0	0.4	1.2	-	11.2	1.5
China	0.7	2.6	0.6	-	0.5	1.9	2.1	2.5	-	0.7
South Africa	1.1	0.3	0.9	3.7	-	2.1	0.7	2.2	10.7	-

Table 11. A Comparison of the Percentage of Other BRICs on the Total Imports of the Respective Countries. (From Eisenman, Heginbotham, and Mitchell, 2007)

C. CHINESE TRADE WITH BRAZIL

The fast pace of Chinese industrialization has led to its huge demand for raw materials for the industries in the country. Apart from raw material, the country also has a demand for agricultural goods. The fast growth of industrial labor and its rise in wages, along with the lack of agricultural surplus in the country, has led to this increase in demand for agricultural goods. These agricultural goods are required for sustaining the country’s fast growth rate. The Chinese demand for agricultural goods can lead to a positive impact on Brazil’s agricultural exports, which constitute the most important part of the country’s exporting sectors. [71]

Brazil’s imports of Chinese goods vary considerably, but electronic goods, machine tools, and manufactured goods are prominent, as well as at least sixteen other types of goods. This shows that what the Chinese export to Brazil is more diversified than

[71] Ibid.

what Brazil exports to China. Chinese exports are mostly finished or processed goods. The Chinese trade policy with Brazil has been successful in penetrating the Brazilian market. We can also infer that while the exported Brazilian products have been mostly natural resources, of which Brazil has an abundant supply, the Chinese goods are value-added finished goods. This has led to the conclusion among many policymakers that advent of trade with China will be beneficial for the Brazilian primary sector. However, there is concern that it may lead to over-specialization and de-industrialization in Brazil.[72]

China has traditionally bought a few goods from Brazil that constitute about two-thirds of Brazil's total exports to China. These have been soybeans, soy oil, iron ore and "pellets and wood pulp." Gradually, the proportion of unprocessed goods in the share of exported goods has decreased. The share of semi-manufactured and manufactured goods has increased.[73]

Table 12 offers some significant insights into the composition Brazil's export basket to China. Though soybeans still remain the main item of exports from Brazil, its proportion in the total exported amount has decreased steadily. [74] This does not mean that the amount of soybeans exported is decreasing in absolute amounts. Part of this can be explained by the increase in the total volume of exports to China and the increase in the amount of other quantities exported to China. Similarly, the proportion of iron ore and iron ore pellets has decreased over the years. However, there has been a drastic rise in the amount of iron ore and steel products exported from the country. This is a result of the rise in demand for iron and steel products in China.

72 Ibid.

73 Marcelo de Paiva Abreu, "China's Emergence in the Global Economy and Brazil," Departmento De Economia, (January 2005), accessed on June 25, 2011, 1–31. http://www.econ.puc-rio.br/pdf/td491.pdf

74 Ibid.

Item of Export	2000	2001	2002	2003
Soybeans	**31.1**	**28.3**	**32.7**	**29.0**
Soybean Oil	**2.0**	**0.3**	**4.9**	**5.9**
Iron Ore	**16.2**	**17.9**	**16.5**	**11.5**
Iron Ore Pellets	**8.8**	**7.5**	**7.2**	**5.4**
Wood Pulp	**5.0**	**6.7**	**4.5**	**5.9**
Iron and Steel Products	**1.2**	**1.9**	**4.4**	**15.8**
Other Products	**35.7**	**37.4**	**29.8**	**26.5**

Table 12. Main Export as Share of Total Export Percentages to China. (From de Paiva Abr eu, 2005)

1. Trade in Soybeans

Soybean exports from Brazil increased significantly from 10 percent of the total exported goods to China in 1990, to almost 33 percent in 2002. This can be explained by the high quality of Brazilian soybeans as well as by the demand for food generated by China's high growth of industries. The growth of soybean imports to China has come at the expense of the United States of America. However, in 2003, the United States started regaining their market in China. According to estimates, Brazil's export of soybeans increased by 48 percent while United States' export of soybeans to China increased by 190 percent. This can be explained by the pressure exerted by United States on China to import more soy beans from their country in order to reduce its growing trade deficit with China. In 2003, Brazil supplied only 25 percent of the total soybeans imported by China.[75]

Brazilian exports of soy oil to China are less significant and more fluctuating than that of other countries. The Chinese demand for oil has increased nine-fold between 1992 and 2004. This can be attributed to the fact that per person consumption of soy oil has increased heavily in China. However, there is still a huge potential for the growth of Chinese consumption. China's consumption is only 40 percent of that of both South Korea, and Taiwan, however it has been reported that China wants to start domestic production of non-genetically modified soybeans in their Northeast provinces. [76]

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[75] Henry Wan, Jr, "Chinese Trade Expansion and Development and Growth in Today's World," (paper presented at presented at the DEGIT X Conference, Mexico City, Mexico, June 2005) accessed on June 20, 2011. http://www.degit.ifw-kiel.de/papers/degit_10/C010_004.pdf

[76] Ibid.

2. Trade in Oil

Brazil in recent times has discovered a vast amount of oil reserves. Some of the reserves of Brazil are the Tupi and Jupiter fields. New explorations have also revealed large amount of reserves in the Carioca region. The total production from this field will help the country to reach production capacity equivalent to some of the OPEC countries. Brazil has been a net exporter of oil since 2006. But the major item of petroleum export has been crude oil due to the lack of refining capabilities in Brazil. China has formed a bilateral agreement with Brazil in order to alleviate its energy problem of the future. One of the most renowned Brazilian petroleum companies is the state owned Petro bras.[77] Petrobras has one of the best deep water exploration technologies so that China has invested heavily in the company to upgrade the technology. The China Development Bank had lent $10 billion to the company in return for guaranteed imports of crude oil for the next 10 years. The terms of the contract are that the company will extract 200,000 barrels of crude oil each day with an increase of 31% each year. Brazil is the tenth most important petroleum importing country in China.[78]

As noted earlier, China's appetite for oil is growing exponentially, which makes Latin America, generally, and Venezuela and Brazil, in particular, attractive economic targets. According to estimates, Latin America has 9.7 percent of the world's oil reserves. The oil production in the region in 2005 was around 13.8 percent of the total output of the world. In the Tenth Chinese Five Year Plan, Venezuela was identified as one of the eight nations with whom further strategic ties will be fostered. As a result, an energy cooperation treaty has been signed and a joint search for oil has been in operation in the Venezuelan territories.

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77 "Brazil Oil Find May be World's 3rd Largest," CBS News, February 11, 2009, Retrieved on July 14, 2011, from: http://www.cbsnews.com/stories/2008/04/14/world/main4013564.shtml

78 "China, Brazil sign Oil Deal" , People's Daily Online, May 26, 2010, Retrieved on July 14, 2011. http://english.peopledaily.com.cn/90001/90778/90861/7000676.html

3. Trade in Textiles

Brazil's importation of cheap textiles and toys from China has threatened employment in these sectors. After 2005, Chinese textiles imported to Brazil started to grow significantly. Though a not a very large sector, the Brazilian textile industry is highly labor intensive and employs a large section of the population, who have now been displaced as a result of this rise in imports. Therefore, there has been a strong demand from the representatives of these sectors to impose protective measures on the cheap imported textiles from China. As a result, Brazil decided to impose higher tariff duties on textiles imported from China. Apart from this, the Mercosur countries also imposed a higher Common External Tariff on imported Chinese textiles.[79] As a result, the textile manufacturers demanded protection for as many as seventy items. This included imposing duties on silk, velvet, and polyester items from China. The Brazilian government took up the matter seriously and announced that they will impose protective measures to save their domestic industries. Finally, in 2006, the two countries reached an agreement where voluntary restrictions on the importation of seventy textile products were accepted by China.[80]

D. TRENDS IN SINO-BRAZIL TRADE AND THE EMERGING DEBATES

Brazil initially benefitted from its trade with China. From 1988 to 1995, and 2001 to 2006, the Brazilian balance of payment with China was in surplus. However, the situation has reversed significantly in recent years. The trade surplus China had with Brazil doubled from 2007 to 2008. There have also been some changes in the composition of the export basket from Brazil to China. Initially, in 1985, steel products and vegetable oils comprised almost 61 percent of the total exports from Brazil to China. Since 1994, the major item of export was vegetable oils. After 1998, the major items of export were mineral products, like iron ore, and farm products. In 2008, the major Brazilian exports to China were iron ore, soybeans and vegetable oils. Brazilian items

79 Jilberto & Hogenboom, *Latin America Facing China*, 50–52.

80 Gerald Willmann et al., "Substitutability and Protectionism: Latin America's Trade Policy and Imports from China and India." Policy Research Working Paper 4188, (Washington, DC:World Bank, 2007), 1.

like iron-niobium, orange juice, cast iron, granite and unprocessed tobacco accounted for a high proportion of Chinese imports. A close look at Brazil's exported items shows that most of these goods are natural resources and are increasingly concentrated on a few items. This gave rise to the fear of the "Dutch disease" in Brazil's export pattern. [81]

Scrutiny of the exported goods reveals a few facts about the specialization of the two countries and their comparative advantages. First of all, it shows that the overlap in the export basket of the two countries is very small. Over the years, the comparative advantage of the two countries has diverged, as Table 13 illustrates.[82]

Technology	2007	1994
Low Technology Product	**47.17**	**17.09**
High Technology Product	**16.64**	**-2.98**
Resource based Manufacturing	**-7.92**	**-0.79**
Medium Technology Product	**-8.42**	**-16.62**
Primary Product	**-37.49**	**0.94**

Table 13. China's Revealed Comparative Advantage as a Percentage per Technological Content. (From Enestor Dos Santos, 2011)

Table 14 shows that while China has progressively developed its capacity in both low and high technology manufacturing goods, Brazil's predominant exporting sector has been primary products. [83]

Technology	2007	1994
Primary Product	**14.25**	**1.20**
Resource based Manufacturing	**13.64**	**3.15**
Low Technology Product	**5.12**	**10.17**
High Technology Product	**-12.40**	**-4.55**
Medium Technology Product	**-12.84**	**-6.25**

Table 14. Brazil: Revealed Comparative Advantage as a Percentage per Technology. (From Enestor Dos Santos, 2011)

81 Enestor Dos Santos, "Brazil Economic Watch." BBVA Research (June 2011), accessed on June 25, 2011. http://www.bbvaresearch.com/KETD/fbin/mult/280611_Brazil_EWatch_i_tcm348-261376.pdf?ts=2592011

82 Ibid.

83 Ibid.

1. Chinese Investment in Brazil

China, in recent years, has become one of the top investors globally. China's total investment in 2006 was assessed at USD 90.6 billion. A large proportion of China's non-financial investments have been in Latin American countries, including Brazil. However, as a proportion of China's total FDI Brazil has been a mere one percent of the total Chinese investment. The major areas of investment have been the sectors that make extensive use of natural resources, as well as the manufacturing sector. The major manufacturing sectors that have selected these countries as a destination for their FDI are textile, paper, automobile, electronics, IT and telecommunication. One of the primary reasons for Chinese investment is to gain a foothold in the Latin American markets.[84]

In 2009, Chinese trade with Brazil surpassed that of the United States, Brazil's former top trading partner. The total trade between the two countries amounted to USD 36 billion. Brazil also experienced a surplus in its balance of payment, reversing the previous two-year trend. There have also been significant investment drives between the two countries. The East China Mineral Exploration and Development Bureau invested USD 1.2 billion in Brazil's iron ore mining firm, Itaminas Comercio de Minerios. Firms from China have also placed their bid for stakes in Brazil's offshore oil fields. China lent USD 10 billion to the Brazilian oil company, Petrobras. The debt will be repaid through a supply of oil to China. The intent of the loan seems to ensure a steady supply of oil in the future, rather than helping the country develop infrastructure. The investment trends exhibit that the major sectors of investment have been the fuel and mining sectors. Apart from that, the other sectors of investment have been in manufacturing.[85]

The China Jialing Industrial Corporation has established a motorcycle manufacturing unit and the Huawei Technologies of China have invested in the telecommunication sector. China's automakers have established their manufacturing units in Latin American countries. The primary reasons behind this decision are to exploit

84 Bauman, "Some Recent Features of Brazil-China," 11–15.

85 "FACTBOX–Brazil- China ties surge with trade and investment" Reuters, April 13, 2010, accessed June 20, 2011, http://www.reuters.com/article/2010/04/13/china-brazil-idUSN1321425620100413

the low production costs prevalent in these regions, as well as enter the untapped Latin American markets through these production units. The growth of demand in the Chinese markets for these manufacturing goods has been slow. Moreover, the large number of competitors has reduced the profits of the operating companies. Therefore, these companies have tried to venture out into the other parts of the globe and tap into new regional markets. [86]

The Latin American markets present a huge potential for these ventures as there has been a growth in middle income families in these countries, which will increase demand for manufacturing goods in the coming years. Another economic reason behind this decision is the cost benefits in these countries. As Chinese firms spread out and start their operations from different parts of the world, the cost of establishing and running manufacturing units in advanced countries is more than it is in the emerging countries of Latin America and Africa. These new manufacturing units also give companies the advantage of producing goods near the markets where they are to be sold. A third important reason for preferring these countries for establishing factories is to rebuild the reputations of the firms.

Allegations have often been made that these emerging countries are often used by firms for dumping the “white goods” or the goods meant for advanced countries. The establishment of manufacturing units will help Chinese firms build relationships with the locals of the regions as well as correct the people’s image of these firms.[87] There are also some other advantages, like avoiding local tariffs and taxes. Apart from that, easier access to regional markets and a constant interaction with the target customers has prompted some firms to establish their manufacturing units in these countries. Hon Hai Precision Industry, a company that manufactures for Apple, planned to invest USD 12 billion in Brazil.[88] There are also some other renowned Chinese companies that have

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86 Ibid.

87 Bauman, “Some Recent Features of Brazil-China,” 19.

88 Liu Chia-His & Cheng Shu-Fang, “Brazilian investment Part of Hon Hai’s GlobalStrategy,” Want China Times, April 4, 2011, accessed on June 20, 2011. http://www.wantchinatimes.com/news-subclass-cnt.aspx?cid=1502&MainCatID=&id=20110414000136.

started production in Brazilian territory. Lenovo has been producing computer screens in Brazil since 2005. Gree, a Chinese air-conditioning manufacturing firm established its manufacturing unit there in 2001.

2. Mergers and Acquisitions

Apart from investment in the manufacturing unit, the last decade also saw a number of merger and acquisition drives among the Chinese and Brazilian firms. Table 15 gives some such mergers.[89]

Firm	Origin of Capital	Buyer	Origin of Capital	Date
MhagServicos&Meinercao	**Brazil**	**Noble Group Ltd**	**Hong Kong**	**07/2007**
UsinaPetribuPaulista	**Brazil**	**Noble Group Ltd**	**Hong Kong**	**02/2007**
Bluestar Silicones Brasila Ltda	**Brazil**	**China National Bluestar Corp.**	**China**	**01/2007**
Yanghuang Group	**China**	**Cia. Vale do Rio Doce**	**Brazil**	**12/2006**
Guizhao Aviation Industries Corp.	**China**	**AerometAeronovese Motores**	**Brazil**	**07/2006**
Neusoft Inc.	**China**	**Politec**	**Brazil**	**07/2006**
BrascabosComponentes	**Brazil**	**Solartech Intl. Holding Ltd.**	**Hong Kong**	**04/2006**
Kasinski	**Brazil**	**Lifan group**	**China**	**03/2006**
CVRD-Aqua Limpa Iron Complex	**Brazil**	**Shanghai Baosteel Corp.**	**China**	**08/2001**

Table 15. Mergers and Acquisitions between Brazilian and Chinese Firms, 2001 – 2007. (After Bauman, 2011)

China also supplies machineries and machine parts to the Brazilian markets. Chinese machines have been used in many of Brazil’s steel and cement plants. The steel plants have substantially increased the amount of steel Brazil can export. [90]

89 Bauman, “Some Recent Features of Brazil-China,” 10–12.

90 Ibid., 3–6.

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V. CONCLUSION

China's invasion of Latin America has had both a positive and a less than positive impact on both economic and political levels. For the region in general, China's economic engagement, investments and aid projects in the past decade underline China's intention to increase its presence and influence in the Western Hemisphere. China's primary goals in Latin America are to gain access to potential markets as well as to ensure a sustained supply of reliable resources.[91] China's increased presence in the Latin American markets certainly has short-term economic benefits, but China also threatens the long-term economic competitiveness of these countries, including Latin America's new leviathan, Brazil. China's increasingly dominant economic role also threatens to alter the region's historic economic and political relationship with the United States, and brings into question the value of Western democracy and its economic models. The Latin American countries are important economic partners for China, especially in terms of food and energy, and as a buyer of finished Chinese goods, electronics and textiles in particular. However, as Table 16 illustrates, those who benefit most are the exporters of primary rather than finished goods.

Country	YEAR	TOTAL TRADE	Percent Change in Total Trade	EXPORTS (In Ten Thousand Dollar)	Percent Change in Export	IMPORT (In Ten Thousand Dollar)	Percent Change Import
Brazil	2004	1,235,898	54.8	367,485	71.5	868,413	48.6
	2005	1,481,729	20.0	382,755	31.4	998,974	15.2
Mexico	2004	711,270	43.9	497,287	52.2	213,982	27.6
	2005	776,428	9.2	553,827	11.4	222,602	4
Chile	2004	536,480	51.9	168,852	31.6	367,528	63.5
	2005	713,440	33.2	214,989	27.3	498,451	35.9
Argentina	2004	410,723	29.3	85,233	90.6	325,490	19.3
	2005	512,467	24.8	132,509	55.5	379,958	16.7

Table 16. China's Top Four Trading Partner in Latin America, 2004–2005. (From Eisenman, Heginbotham & Mitchell, 2007)

[91] Ibid.

A. THE IMPACT OF CHINA'S PENETRATION OF LATIN AMERICAN RELATIONS ON THE UNITED STATES

The CEO of Petrobras, Jose Sergio Gabrielli de Azevado, in an interview, gave some insights into future trends and the nature of global trade. He imagines that future trade will see a rise in the relevance of emerging nations in global trade, simultaneous with a decrease in the dominance of the advanced nations. [92] This is demonstrated in Figures 5 and 6.

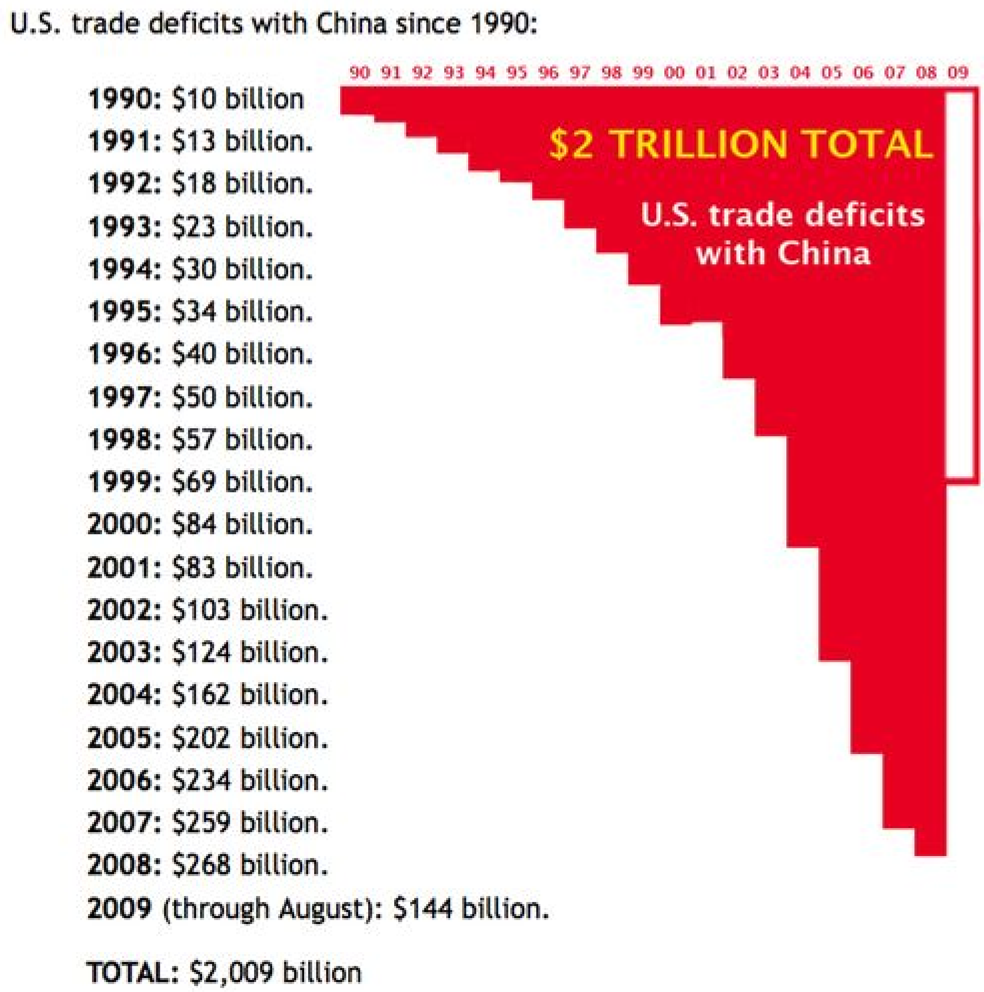

Figure 5. U.S. Trade Deficit with China Since 1990. (From Newsweek, 2009)

92 "Brazil turns East," Newsweek, June 11, 2009, accessed on June 20, 2011, http://www.newsweek.com/2009/06/10/brazil-turns-east.html.

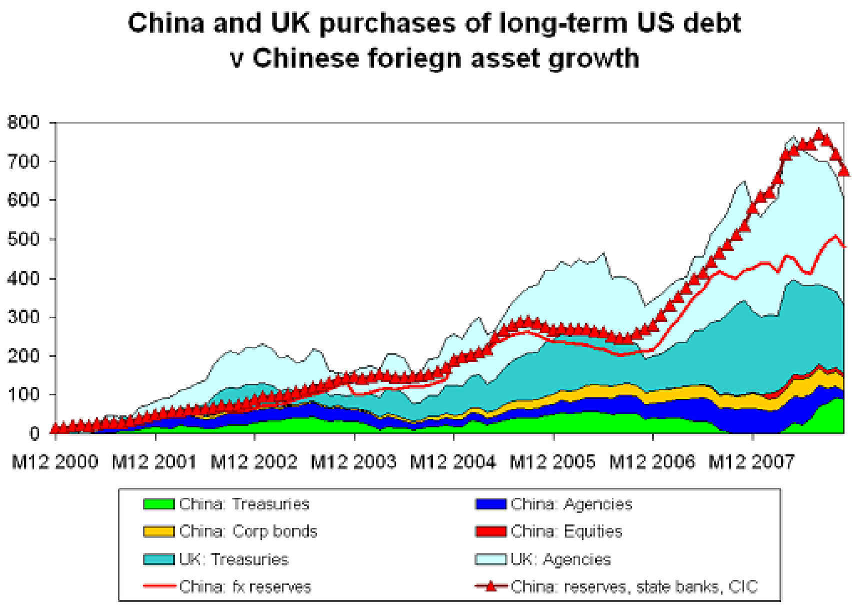

Figure 6. Chinese Foreign Asset Growth. (From Newsweek, 2009)

He also predicted that in the future, the group of G20 countries will achieve more prominence in shaping the future of the world than the G8 countries. An alteration of trade patterns will have consequences for global politics and hold serious consequences for United States' trades the world over, but especially in their hemispheric back yard. Figures 7 and Figure 8 affirm this claim.

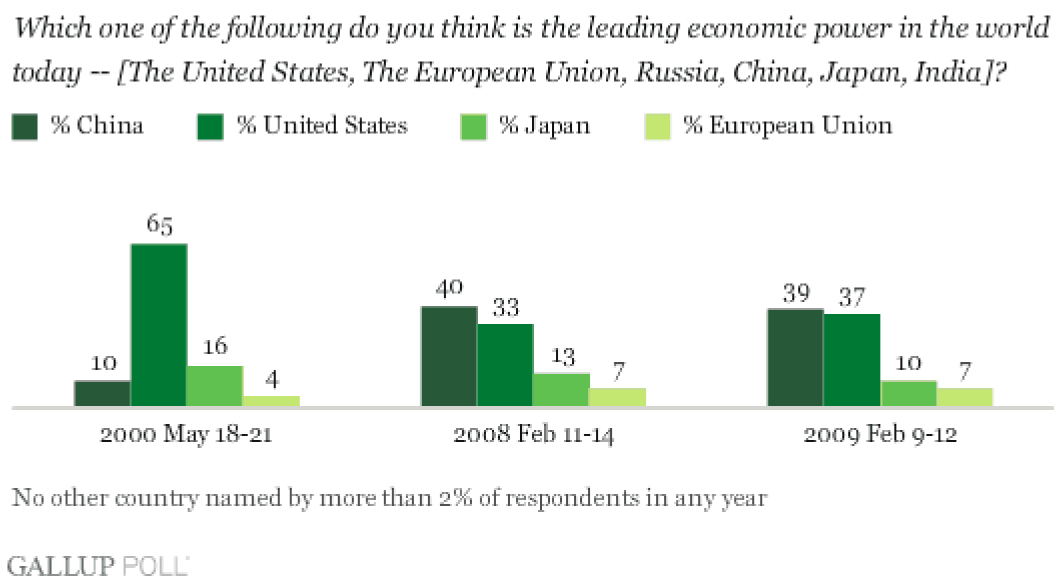

Figure 7. GALLUP POLL: Leading Economic Powers in the World Today. (From http://www.gallup.com/poll, 2010)

China's Influence More Positive than America's

	China's influence Good thing %	China's influence Bad thing %	America's influence Good thing %	America's influence Bad thing %	"Good" diff.
Africa					
Kenya	91	6	74	16	*+17*
Ivory Coast	90	6	80	12	*+10*
Ghana	90	5	79	13	*+11*
Senegal	86	6	56	23	*+30*
Mali	84	7	63	25	*+21*
Nigeria	79	12	58	27	*+21*
Tanzania	78	13	36	52	*+42*
Uganda	75	13	65	24	*+10*
Ethiopia	61	33	34	54	*+27*
South Africa	49	32	55	24	*-6*
Latin America					
Venezuela	58	28	36	47	*+22*
Chile	55	20	28	46	*+27*
Bolivia	42	34	14	64	*+28*
Peru	36	29	22	46	*+14*
Brazil	26	54	20	60	*+6*
Argentina	21	51	5	80	*+16*
Mexico	20	63	22	60	*-2*

Based on respondents who say China/U.S. has at least a fair amount of influence on the way things are going in their countries. Question asked only in Sub-Saharan Africa and Latin America.

Figure 8. China's Influence: More Positive than America's. (From http://pewglobal.org, 2011)

Experts are divided over the potential impact of Latin America's increasing diplomatic and economic ties with China. On one hand, some experts have argued that China's primary intentions in Latin America are purely economic. Other experts are of the opinion that Chinese presence may ultimately lead to a threat to the United States. Many of them are afraid of the Chinese military and espionage operations out of Cuba. Similarly, Brazil's cooperation with China for launching satellites, and China's interest in the Panama Canal have sparked concerns for the United States. However, others have pointed out that China's interest in the Panama Canal is an obvious one due to the fact that China is the second highest user of the canal. Beijing asserts that its increasing presence in Latin America will have a stabilizing effect as markets develop, which will actually help U.S. trade in the region.[93]

The United States government has refused to interpret Chinese penetration of Latin American countries as a threat. According to U.S. Ambassador to Brazil, Thomas Shannon, U.S. military presence in Latin America far exceeds that of China. He also agrees that Chinese interest in this region is purely economic. Chinese officials dismissed any suggestions of Beijing trying to introduce a Chinese political model in the region.[94] Nevertheless, Shannon is concerned that Chinese demand for raw materials will one day exhaust the supply of commodities from these countries, which will undoubtedly push prices up. In some cases, China has also used its high level of foreign reserves to purchase strategic resources and build infrastructure in Latin American countries. Moreover, the high volume of Chinese trade sometimes chokes the entry points for markets like ports and railways. This, too, has economic consequences for U.S. trade in the region.[95]

The reduction in the prominence of the USA in Latin American countries was highlighted in the suggestions of the CEO of Petrobras regarding the currency of exchange. He suggested that in the future, countries can consider trading in their domestic currency rather than in dollars. This highlights the diminishing relevance of the dollar as a currency of exchange in these countries as well as the growing influence of China. It also highlights the trust enjoyed by Chinese currency in the region. However, this can have serious ramifications for the dollar. It can also lead to a forced devaluation of the dollar on the global platform. Replacement of the dollar by China's domestic currency will also give China an advantage in its trade with Brazil, further distancing the USA from Latin American markets.[96]

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93 Barry Leonard, ed., Overview of US policy towards Latin America: Congressional Hearing (Darby: Diane Publishing, 2007), 73.

94 Zhu, China's New Diplomacy, 106–109.

95 Leonard, Overview of US Policy, 73.

96 Newsweek, "Brazil turns East," 27.

B. DIRECTION OF SINO-LATIN AMERICAN RELATIONS

1. Brazilian Perception of China

The growth in Sino-Brazilian trade is greeted with different reactions in Brazil, depending on the economic sector. Industries that have lost their market share, like the textile industry, [97] are unhappy, while the growth of China's demand for raw materials has heartened the primary goods exporting sectors. Brazil ran a high trade surplus with China until 2003, at a time when exports provided the sole cash flow for raising domestic demand. However, since 2004, the importation of manufactured goods from China began to increase such that over time, it reduced Brazil's trade surplus. The long-term economic trends are not good for Brazil who is running a significant trade deficit with China. For this reason, the fear is that the volume and low prices of China's finished goods will drive similar Brazilian products out of the market, resulting in Brazil's so-called "Dutch disease" infection—an over-specialization of production in a handful of commodities.

For this reason, the textile industry has demanded safeguards against cheap imported textiles from China. The leaders of the textile industry have aligned with other sectors like machineries, electronic goods and the pharmaceutical industry to demand restrictions on Chinese imports. On the other hand, the primary goods manufacturing industries have supported increased trade with Brazil. Apart from the domestic market, another issue of discontent for Sino-Latin relations has been the loss of third party markets in several regions by Brazilian companies. While imports from China account for 16 percent of the total United States' imports, Brazilian imports account for a mere 4 percent. In 2007 and 2008, 15 out of 19 Brazilian products lost their market share to Chinese products. [98]

In recent years, Sino-Brazilian trade has faced a number of problems, beginning with safeguard violations to protect consumers and industries imposed by Brazil against

[97] Alexandre De Freitas Barbosa, Ricardo Camargo Mendes, "Economic Relation between Brazil and China: A difficult Partnership," (Sao Paulo: Friedrich-Ebert-Stiftung, 2006), 2–10.

[98] Ibid.

Chinese imports. Between 1992 and 2009, Brazil has questioned the status of forty-three Chinese imports, one of the highest numbers for any country. The items cited for investigation range from bicycle parts to ironing boards, hair brushes and glasses. All these items have been subjected to extra taxes and duties. A number of antidumping investigations have also been conducted against China. Some barriers to free trade have also been imposed from the Chinese side. According to the Chinese, imposing restrictions, inspections, and duties on Chinese imports can affect the bilateral relationship between the two countries and thereby hamper Brazilian exports.

China has not taken this lying down: after an outbreak of hoof and mouth disease, imports of meat from Brazil were barred.[99] In 2002, the Chinese refused a shipment of Brazilian soybeans, claiming that it was genetically modified. Similar cases occurred in 2003 and 2004. In these latter cases, the inspection standards were much more rigid than the established international standards. According to some estimates, as a result of this Chinese policy, the total Brazilian loss could be as high as $1 billion.[100] The opening of economic relations has also impacted the political relationship between Brazil and China.[101] According to Brazil, China has failed to respect its commitments to invest huge amounts of money in Brazil. Also, they have not supported Brazil's demand for a permanent position in the United Nations' Security Council. However, China has reacted by saying that they have supported Brazilian membership and will do so though they have a set a higher priority for Japanese membership.

So, if relations are to progress between the two evolving giants, the problems in their bilateral relationship need to be addressed by both countries. Brazil needs to develop its export product basket further and promote products that are of higher technological content. They can also use some protective measures to diversify their exports. In the political field, Brazil can seek further cooperation from China in a number of multilateral

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[99] Hudson, "Brazil: A Country Study," 427.

[100] Mario Queiroz de Monteiro Jales et al., "Agriculture in Brazil and China: Challenges and Opportunities" (Buenos Aires: INTAL-ITD, 2006), 41.

[101] Hudson, "Brazil: A Country Study," 484.

organizations including the World Bank and the IMF. Therefore, looking at the past and present situations, it can be concluded that the Sino-Brazilian relationship will last for a long time. [102]

C. WAYS AHEAD: LONG TERM AND SHORT TERM

1. For Brazil

In the short run, Brazil has achieved considerable power as one of the most important emerging economies in the world. Brazil's strategic partnership with China, a result of the increased flow of trade, is a significant reason behind Brazil's ascent to power. Brazil needs China's help to enhance its global position as well as assume its role as a Latin American leader. China has provided a huge market for Brazilian raw materials, while Chinese investment in the country has helped Brazil to develop economically. As a fast-growing economy, China has also provided a lucrative destination for Brazilian foreign investment. The exchange of science and technology has also benefited Brazil. Therefore, in the short run, Brazil has gained economically and politically from its relationship with China. Though there have been some issues between the two countries, they seem to be manageable.

However, in the long run, there are certain structural issues that can pose problems for the Brazilian economy. First, Brazil may experience a period of high growth due to its huge natural resources. However, historically, high growth periods in Latin America have been followed by economic slowdowns owing to foreign competition or global shocks. A drop in the price of minerals can hamper Brazil's relationship with China. Moreover, though China has a huge demand for raw materials, it is also looking to African countries as well as other BRIC countries, like Russia, to satisfy them. Therefore, there is always a lurking competition present for Brazil.

Second, the Brazilian export basket is limited and the country has specialized in a small number of goods. Beyond that, many of the manufactured Brazilian goods have

[102] Carrie Liu Currier and Manochehr Dorraj, "China's Energy Relation with the Developing World," (New York: Continum International Publishing Group, 2011), 14.

faced competition from cheap Chinese products in the third markets, limiting both the growth prospects of this sector and the possibility of becoming competitive in the world market. Therefore, for a long term relationship, Brazil needs to take care of these issues.[103]

2. For China

China has benefited in its relationship with Brazil as shown in Figure 9. Brazil has been an emerging country and it is located in the backyard of the United States. Chinese foreign policy has been partially successful to gain the support of Brazilian government against the United States.

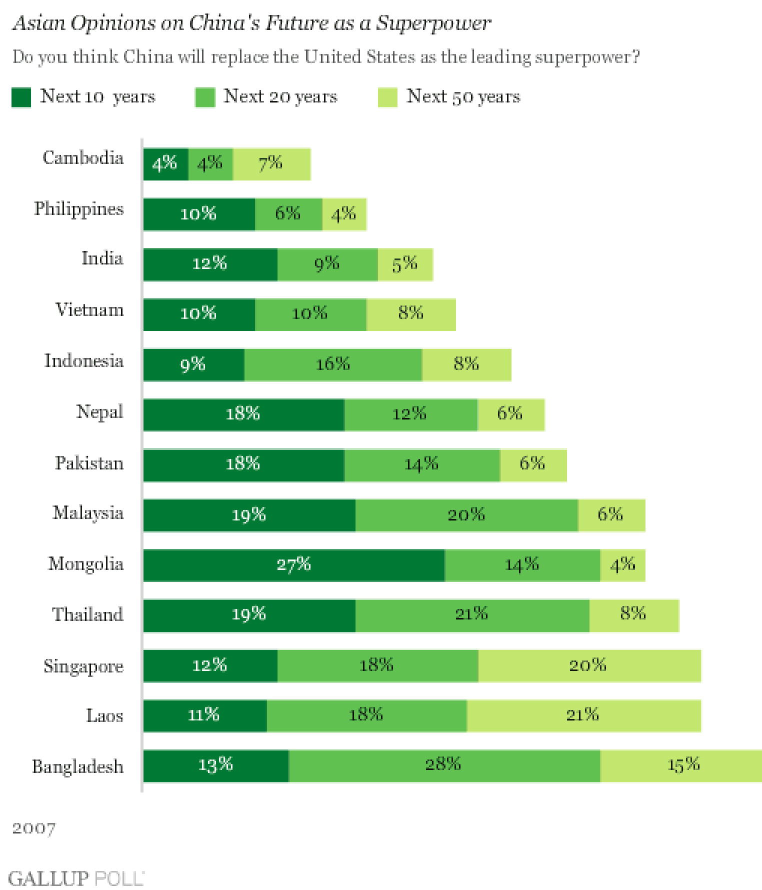

Figure 9. GALLUP POLL: Asian opinion on China's Future as Superpower. (From http://www.gallup.com/poll, 2010)

Apart from that, Brazil has also served as a huge reserve for natural resources that are required for the development of China's industrial economy. Moreover, soybeans and soy oils from Brazil have also helped China meet its growing demand for food as a result of its population growth. The most important feature of the Sino-Latin relationship has been that China has conducted the relationship under very favorable conditions. Except for some safeguarding measures, China has had a smooth relationship with Brazil. In the long run, the huge Chinese demand for raw materials will surely force China to look elsewhere other than Latin America and Brazil. However, given Brazil's vast amounts of natural resources and expertise in producing traditional goods, Brazil will continue to be an important economic partner for China. Moreover, China has a huge productive advantage given the country's cheap labor and vast foreign reserves that will help Beijing keep the value of their currency lower than the Brazilian currency. Therefore, it is unlikely that, even in the long run, China could lose its competitive advantage to Brazil in the third party markets. Therefore, China will likely continue to exploit its relationship with Brazil.

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