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## “Brazil and China: An Uneasy Partnership”

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### Introduction

In 2005 Air China started weekly flights between Beijing and São Paulo, inaugurating the first direct air route between China and Latin America operated by a Chinese carrier. The event symbolizes the astonishing growth of China’s economy and its seemingly insatiable hunger for commodities that has pushed it to forge new ties with countries in Latin America.

Brazil occupies a special place in the region in its relations with China. It was labeled a strategic partner in 1994, the first South American country to receive the designation, and it is China’s largest trade partner in Latin America.<sup>1</sup> Although Brazil traded with China before 1949, diplomatic relations were established only in 1974 and blossomed after Chinese President Jiang Zemin’s tour of the continent in April 2001. Bilateral relations were further strengthened by President Lula’s visit to China in 2004, followed by the visits of President Hu Jintao and Vice President Zeng Qinghong in 2004 and 2005, respectively.

China's booming market has helped Brazil to greatly expand exports and to balance its trade accounts. Brazil's exports to China jumped from \$676 million in 1999 to \$10.7 billion in 2007, producing sizeable surpluses. During President Hu Jintao's November 2004 visit, Brazil and China signed a bilateral trade partnership, hoping to propel the development of both nations, and Brazil conceded market economy status to China.

Geopolitical ambitions have also been important in the establishment of closer relations between the two countries. Brazilian diplomacy under President Lula has viewed China's rise to global power as a means to counterbalance United States influence. Brazil also courted Chinese backing in its bid for a permanent seat on the United Nations Security Council.

Recently, Brazil's eagerness to promote closer relations with China has been moderated by the realization that it is a double-edged sword. China's spectacular growth rates have produced a booming demand for Brazilian commodities. But the ensuing surge in imports of Chinese goods has shown that China is also a formidable competitor to Brazilian manufacturers. Also, Chinese investments in Brazil's infrastructure have been slow to materialize.

Likewise, diplomatic dreams of a strategic alliance with China to provide some balance to United States power or to advance trade negotiations at the Doha Round of the World Trade Organization (WTO) have been downscaled and are likely to be replaced by a more realistic foreign policy stance.

The bottom line is that China represents as much a threat to, as an opportunity for, Brazil. Increased competition from China is likely to adversely affect Brazilian exports in third markets and to displace inefficient producers at home. By the same token, China's pursuit of its national interests will hardly be diverted by occasional efforts to join forces with Brazil in multilateral fora or by rhetorical adherence to a South-South strategic alliance. China's success poses a challenge that Brazil can only hope to meet by increasing its own competitiveness.

### **Trade Relations**

Trade relations are likely to remain the Brazil-China agenda's major issue in the foreseeable future. However, in assessing bilateral trade flows, the distance between China's worldwide exports of \$969.6 billion against Brazil's \$137.4 billion in 2006 must be kept in mind. While China accounts for a sizeable share of worldwide trade, Brazil represents only 1% of China's imports. These figures underscore the importance of China for Brazil.

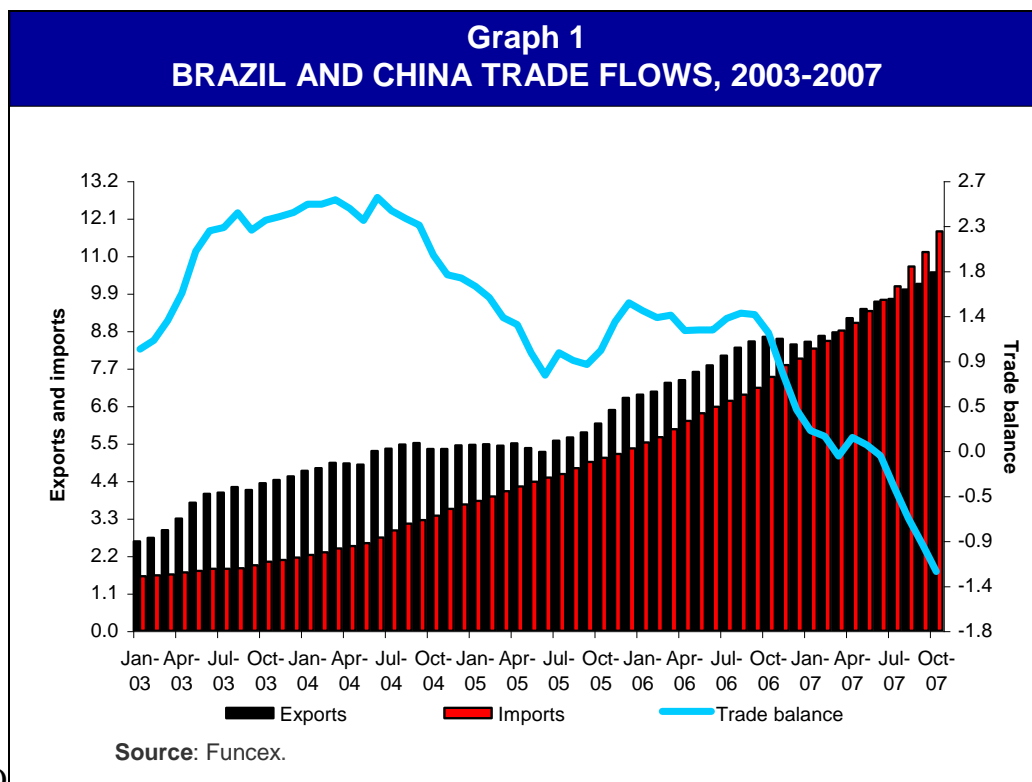
Brazil has been outpaced by China in the development race. In the early 1980s, Brazil held 1.2% of worldwide exports against China's 1.1%. Today, the two countries have reversed roles. The Chinese share of worldwide exports jumped to 7% whereas the Brazilian share dropped to 1.1%. Therefore, China's successful growth story is a valuable source of ideas for Brazil's policy making as well as a stern warning that the Chinese growth strategy is driven by continuous diversification and increasing competitiveness in international trade.<sup>2</sup>

Brazilian exports to China are concentrated in a few commodities such as soybeans, soybean oil, iron ore, iron ore pellets and wood pulp, while imports from China include a large share of technologically-sophisticated products. Although Brazil is not threatened by Dutch disease (i.e. de-industrialization caused by an excessive specialization in natural resource-based industries), it is vulnerable to potential volatility in the demand for imports of raw materials should China's economic dynamism falter.

Trade between the two countries picked up from 2001, with a marked increase in Brazilian exports to China. To 2003, the value of these exports grew to \$4.53 billion from \$1.08 billion, a 319% increase in a little over two years. This trend shows no signs of cooling. Over the past five years, bilateral trade has grown over 107%.

Terms of trade have been very favorable to Brazil. In the long haul, however, they are likely to favor China. The domestic market has been flooded by Chinese imports made cheaper by lower production costs and a strong Brazilian currency (the Real has been overvalued relative to the U.S. dollar). To expand exports and to defend their own turf, local producers have also stepped up imports of Chinese capital goods and industrial inputs.

As a result, Brazil's bilateral trade surplus has been declining dramatically since mid-2004, becoming a deficit in 2006 (see graph 1).



In 2001, Brazil's imports from China increased only 8.1% in relation to 1999. But from then on, Chinese imports grew at breakneck speed: 17% in 2002; 38.2% in 2003; 72.8% in 2004;

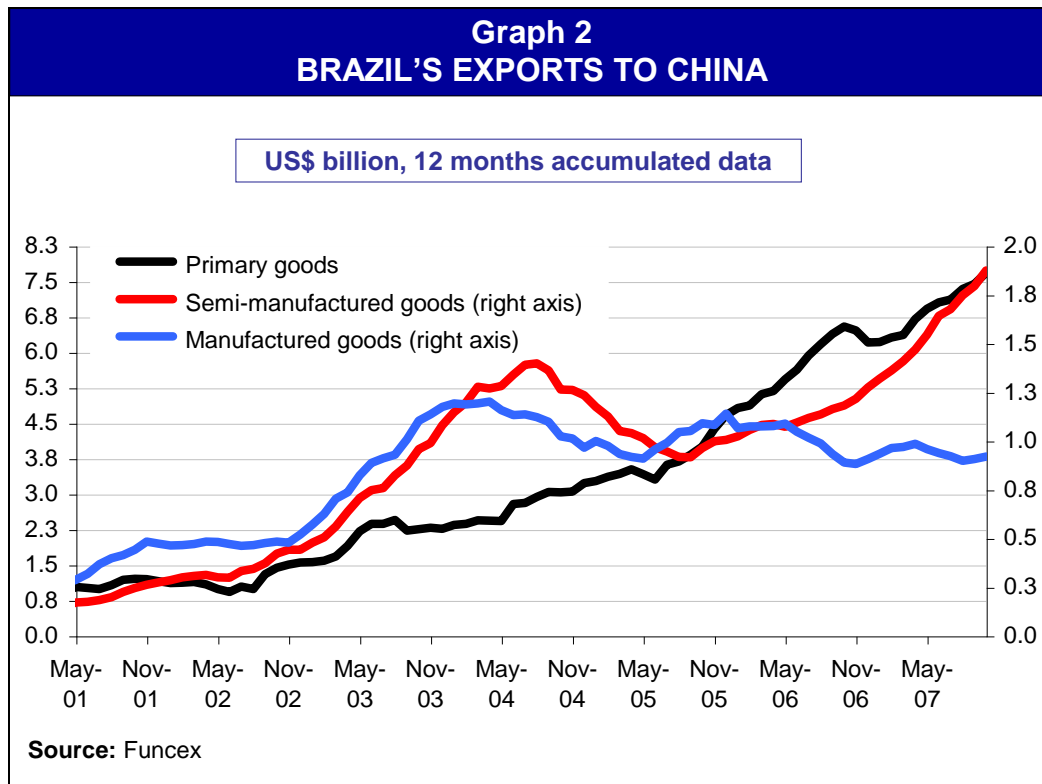
44.3% in 2005 and 49.2% in 2006. In 2005, Brazil had a \$1.5 billion trade surplus with China, but in 2006 this had fallen to \$400 million. It is only a matter of time before a sizeable deficit emerges in Brazil's trade with China. Since October 2006, monthly trade results have been favorable to China. In January 2007, Brazil registered a deficit of \$243 million.

China is presently Brazil's second largest supplier, second only to the United States. The purchase of Chinese products has largely taken market from North American goods. In 2006 the United States continued to be Brazil's main supplier, but its total share fell to 16.07% at \$14.7 billion from 21.78% in 2002.

### Exports

Nearly 60% of Brazil's exports to China are raw materials and agricultural products, largely soy beans and iron ore and pellets. Overdependence on China could make certain Brazilian industries, such as pulp and paper, susceptible to swings in Chinese demand.<sup>3</sup>

A related concern is that Brazilian exports of primary goods to China have grown faster than exports of industrial goods, hence worsening the terms of trade by increasing the share of commodities and low-value-added goods (see graph 2).

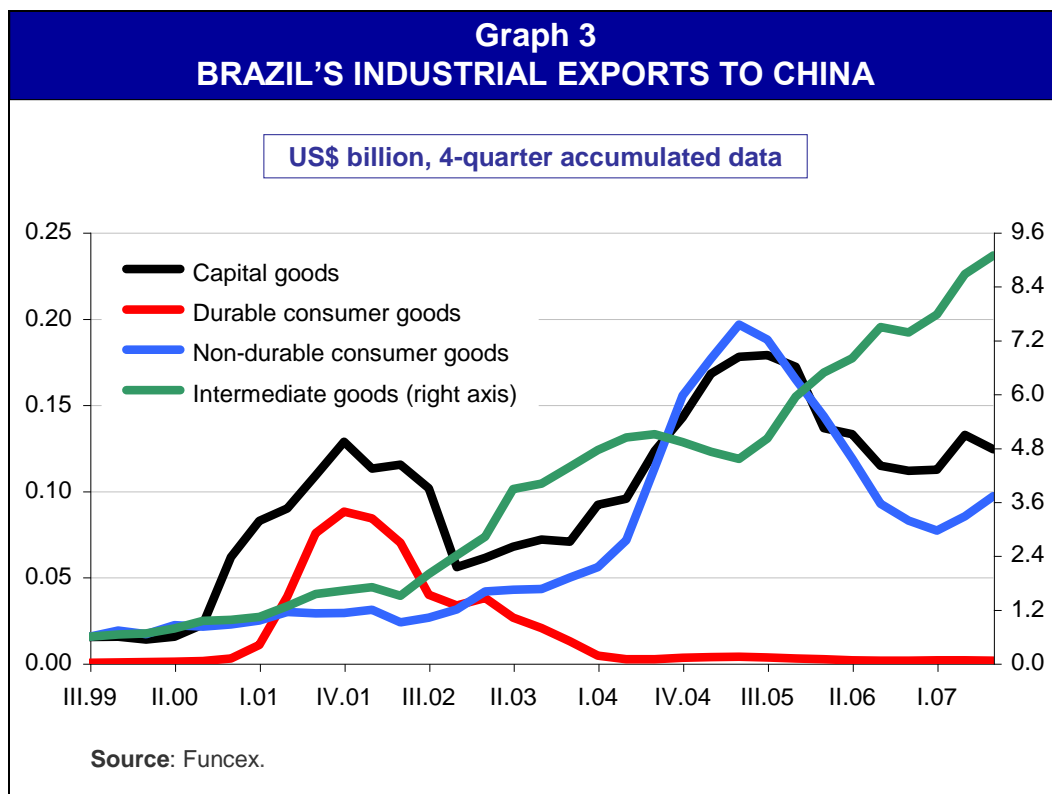


Agricultural products and iron ore give Brazil some leverage in its trade with China. Brazil is a net exporter of agricultural products, whereas China is a net importer, and the two countries' agricultural profiles are complementary. In 2004, Brazil supplied 30% of China's

total soybean imports and became China's third most important supplier of agricultural products, behind the United States and Argentina.<sup>4</sup> Brazil is also bound to benefit from the rapid pace of trade liberalization brought about by China's accession to the World Trade Organization.<sup>5</sup>

Likewise, Brazil supplies 16% of China's total imports of iron ore and pellets. In addition to that, Brazil is the major supplier of high grade iron ore to world markets and it is unlikely that its exports will be affected by an increased supply response in China.<sup>6</sup>

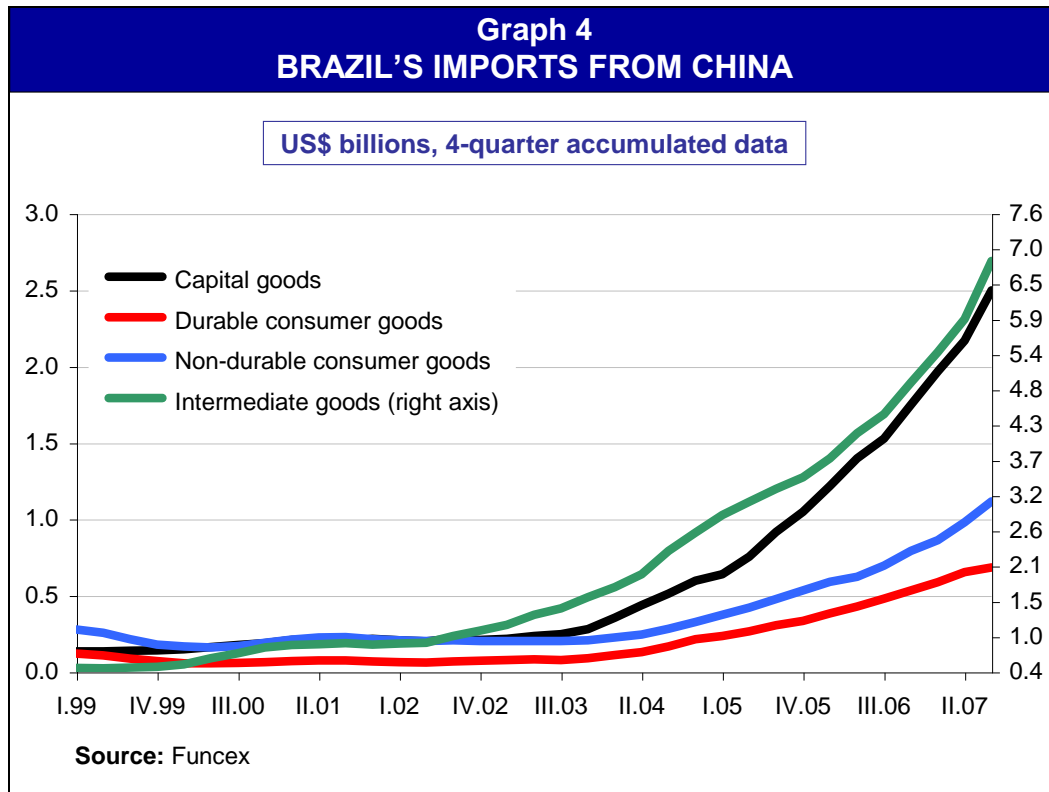
Manufactures are also an important item in Brazil's exports, including Embraer's mid-range jet planes, machinery for hydroelectric power generation (for the Three Gorges power plant) and intermediate industrial goods. However, it is intermediate goods (industrial inputs such as steel plates and electronic components) that have been leading Brazilian industrial exports to China, whereas other classes of manufactured goods have shown an erratic pattern (see graph 3).



Brazil and China share high-potential areas of the economy that complement each other.<sup>7</sup> Brazilian exports of iron and steel products to China have greatly increased since 2003 and could expand further. China is today the world's largest steel producer and the second largest steel importer. This situation could change dramatically by 2010, when China is expected to become a major steel exporter. Among Brazilian products with potential on the Chinese market are automobiles, auto parts and transportation equipment, especially aircraft.<sup>8</sup>

## Imports

Imports from China tend to be more varied and technology intensive. China's exports to Brazil are mostly manufactures. This trend has become more visible since 2004, with intermediate goods (notably electronic components), machinery and chemicals in the lead (see graph 4).



All other categories of imports have grown at the margin, including raw materials (coal and coke) and durable and nondurable consumer goods (such as household electronic and telecommunications products). A more menacing trend has made itself perceptible since 2005, as imports of labor-intensive goods such as textiles, shoes and toys began to grow.

What has made front-page news and upset domestic manufacturers has been the growth of consumer goods imports from China. Considerably less attention, however, has been paid to the impact of imports of Chinese capital goods and industrial inputs on the modernization of Brazilian industry. In this sense, Brazil has been making good use of the commodity windfall to upgrade and diversify manufacturing, with a view to generate sustained growth in the years ahead.

## Trade Disputes

Trade imbalances inevitably lead to defensive measures. In addition, sluggish GDP growth and appreciated exchange rates are known to exert a strong influence on antidumping

initiatives and both conditions have affected Brazil in recent years. Predictably, Brazil, Argentina and Mexico have spearheaded an impressive increase in the number of antidumping actions initiated by Latin American countries, doubling the region's share in world antidumping initiations from 11% in 1987-89 to 22% in 1995-2003.<sup>9</sup>

However, recognition of China as a market economy has brought some knotty problems for Brazil. For one thing, the decision makes it harder to impose antidumping penalties to slow the influx of inexpensive Chinese imports.<sup>10</sup> Between 1995 and 2004, Brazil initiated 15 anti-dumping actions against China under WTO rules. Domestic business interests have put pressure on Brazil's government to achieve a voluntary restriction of Chinese exports or to adopt protectionist measures. Neither is likely to succeed and Brazil is likely to continue to take discretionary defensive actions against China, especially in sectors such as chemicals and basic metals.

Although Brazil gave China market-economy status, China in reality is not a market economy. By giving it such a status, Brazil has put itself at a competitive disadvantage. China's economy, for example, is still under the direct influence of the government. It neglects traditional accounting rules that ease trade investigations. Its institutions protecting property and intellectual rights are fragile. Its banking system is somewhat oblivious to market rule. It lacks free trade unions and enforceable labor standards and it implements multilateral trade rules selectively. It lacks transparency in terms of competition and provides a plethora of implicit subsidies to its private sector that make its price system behave erratically.

China has been able to produce goods at extremely low cost by combining such market imperfections with an abundant supply of unskilled labor and the absence of welfare obligations towards the workforce. Meanwhile, production costs in Brazil are inflated by elaborate labor and welfare legislation, a heavy tax load, expensive credit and adherence to international trade rules.

Brazil recently decided to establish safeguards to reduce trade imbalances with China, one for textiles and clothing and the other for general products. The safeguards allow some sectors to request limitations on the import of Chinese products via quotas or higher tariffs. The affected sector must demonstrate that Chinese imports are a threat to domestic industry, reducing Brazilian share on the domestic market, or that higher rates of imports could be prejudicial in the future, even if there are no losses at present. The Chinese have threatened to retaliate against trade restrictions by adopting similar safeguards against Brazil's exports to China.

While China has been the main target of Brazilian anti-dumping initiatives, Brazil has avoided clashes with Beijing at the WTO. Brazil considers China a strategic partner and refuses to join charges by the United States and the European Union against Chinese barriers to their exports. This special treatment reflects the Brazilian government's decision not to let multilateral and bilateral issues become entangled despite persistent complaints from

Brazilian industry concerning the threat posed to domestic jobs and production by Chinese dumping.

### **Competition in Third Markets and at Home**

The challenge posed by China's cheap labor, scale of production, rapid productivity growth and government intervention, especially in the provision of abundant credit, are a potential threat to the export performance of Brazilian industry. Trade linkages are also likely to be affected as China moves up the value chain, with both its imports and exports becoming more technologically sophisticated than in the past. This could have a bigger impact on Brazil's trade balance and the domestic economy than is commonly believed.

Overall, Brazil's industrial exports to third markets face stiff competition from China. Although the two countries are competitors in diverse sectors, there is a coincidence between many of the products China and Brazil export, especially low technology products such as shoes and apparel.<sup>11</sup> In the long run, Brazil also stands to lose share in third markets in regard to products such as iron and steel and transport equipment.<sup>12</sup>

Sectors of Brazilian industry have lost market share to China in neighboring countries and even among the Mercosur partners. China recently surpassed Brazil in industrial exports to Latin American countries. In 1995, Brazil exported US\$ 5.7 billion in industrial goods to Latin America, while China exported US\$ 1.4 billion. In 2004, the situation reversed, with China exporting US\$ 7.8 billion against Brazil's US\$ 6.5 billion.<sup>13</sup> Brazilian products have been displaced by imports from China, notably of machinery, electronic and pharmaceutical products, plastic manufactures, shoes and toys.

In Argentina, Chinese imports have also replaced products traditionally brought in from Brazil. Over the past six years, Argentina's total imports grew 35%, to \$34.16 billion in 2006. China's sales to Argentina have grown 159%, almost double the 82% growth rate registered by Brazil. In 2003, Argentina's television imports were 88% Brazilian and 1% Chinese. Three years later the two countries were tied at 35% apiece.<sup>14</sup>

Brazil remains top-ranked among Argentina's suppliers, at a 34.3% share in 2006. China comes in third, behind the United States, at 9.23%. But the reverse is not true on Brazil's side. The purchase of Chinese products has unseated Argentina from its traditional position as Brazil's second-largest supplier. Over the twelve-month period ending January 2006, imports from China totaled \$8.3 billion and those from Argentina, \$8.13 billion.

Competition from Chinese imports in the domestic market has been a cause for concern. This growth, which has been largely motivated by the weak dollar against the Real, has raised fears of Dutch disease.<sup>15</sup> Coined in Holland after the discovery of North Sea gas, the term designates a situation in which a high demand for natural resources results in a sustained exchange rate appreciation, reducing the competitiveness of manufactured goods and raising imports and, at the limit, de-industrializing the nation's economy.

Available evidence suggests that Brazil does not face a market failure. Over a ten-year period, from 1996 to 2006, imports have represented a small share of the domestic demand for goods and services. On average, there is a concomitant increase in imports and domestic production in most sectors of industry. Rather than domestic production substitution, rising imports seem to be driven by rising domestic demand and by exports.<sup>16</sup>

This is not to say that China's imports have not thrived at the expense of domestic interests, particularly where the Chinese are competing in important manufacturing sectors. A striking case is the Brazilian auto industry. Seeking to cut costs, many vehicle assemblers have begun to outsource to Chinese manufacturers. In 2006, the import of Chinese autoparts grew 55.5% against Brazil's 13.3% export growth rate. There was US\$ 215 million in auto parts bought, while Brazil sold \$197.3 million. It was the first time since 2000 that Brazil posted a deficit in this area. Even taking into consideration tariffs, freight and port expenses, Chinese parts arrive in Brazil on average 20%-30% cheaper than the domestically-manufactured product.<sup>17</sup>

China has also become a major player in the manufacture and export of vehicles. In 2006, China overtook Germany at 7 million units annually and became the third-largest vehicle manufacturer in the world, after the United States and Japan. In that same year, Brazil produced 2.7 million vehicles. Without gaining scale, reducing costs and consolidating its markets, the \$21.9 billion Brazil gets annually from vehicle and auto part exports will begin to shrink.

It is also true, however, that Brazil can greatly benefit from China's industrial expansion. The advantages of deeper trade integration with China can be assessed by the share of intra-industrial trade, that is, the simultaneous import and export of products in order to take advantage of economies of scale within the same industry. There exists the possibility for Brazil-China intra-industrial trade in at least 32 sectors. Among the sectors that could benefit most are electronic equipment, ferrous metal products and manufactures, chemical products, plastics and rubber, textiles and fuels.<sup>18</sup>

### **Investment and Cooperation**

Chinese outward direct investment has been driven by concerns over energy security and the need to secure access to foodstuffs and natural resources needed to sustain its phenomenal rate of economic growth. In November 2004, President Hu announced, in a speech to the Brazilian Congress, China's plans to invest \$100 billion in Latin America over the next ten years. The targets for this investment were infrastructure projects, such as railways and ports; mineral ore and oil exploration projects; and manufacturing joint ventures, such as the construction of a steel mill in Northern Brazil. The announced investment, which has yet to materialize, was designed to ensure the stable flow of commodities to China.

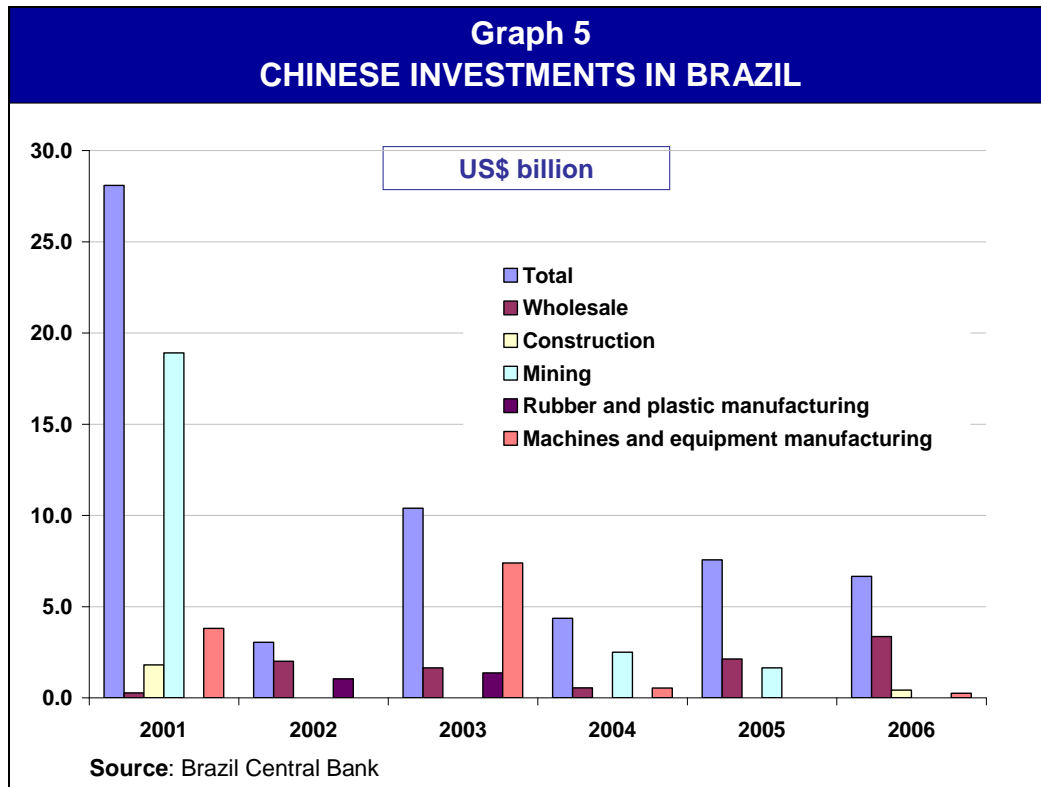
At the same time, the Brazilian and Chinese governments signed a memorandum of intent to promote cooperation in the industrial sector and thus stimulate investment and trade. Sectors considered strategic, and which have received priority attention, include mining, ethanol, agribusiness, construction, information technology, biotechnology and aerospace. The trade

and investment cooperation agreement created the expectation of investments of around \$10 billion.

The area of longest Sino-Brazilian scientific cooperation has been the satellite industry. The two countries have jointly produced two communication and remote sensor satellites for tracking land-based resources and to monitor Brazil's continental-size territory. The first two of these China-Brazil Earth Resources Satellites were launched in 1999 and 2003 on Chinese rockets from the Taiyuan space launch center in China.

There are some joint ventures at work, such as the agreement between Companhia Vale do Rio Doce (Vale) and Shanghai Baosteel, China's largest individual importer of Vale's iron ore, to build a large steel mill in Brazil. Chinese Huawei Technologies and ZTE are also invested in Brazil to manufacture telecommunications equipment and consumer electronic products. Another promising initiative is the partnership between Brazil's Embraer and China's AVIC II, which gave birth to Harbin Embraer Aircraft Industry, to manufacture jet planes in China. Brazilian direct investment in China has grown. Embraco, Brasmotor, Voith Siemens and Coteminas, among others, are presently invested in China. Such investments are modest but are likely to increase in coming years.

Chinese investment in Brazil is also far from impressive. It tends to be export-oriented and has been mostly channeled into mining and manufacturing (see graph 5).



Chinese investment levels have been trending downwards since 2001. However, this picture may change. The recent creation by the Chinese government of a sovereign fund to spend overseas some of its massive holdings of foreign reserves is likely to put Brazil back among China's top investment targets.

Chinese investment may prove a mixed blessing. Low inflation and access to credit have fueled an auto industry boom of sorts in Brazil. Chinese competitors are taking advantage of this opportunity by setting up production sites in smaller Mercosur countries with favored access to the Brazilian and Argentine markets. China's Chery will assemble cars in Uruguay and sell them in Brazil beginning in 2008. To counter this competition, firms like General Motors are studying the import of models made by their subsidiaries in China.

### **Trade and Geopolitics**

Multilateralism and global trading have been the hallmark of Brazil's foreign policy as the country has sought to diversify trade linkages and to increase its bargaining power in international trade negotiations. Notwithstanding the priority that Brazil has traditionally assigned to its relations with the United States, another foreign policy tenet has been to keep a measure of independence from its northern neighbor.

To designate bilateral relations between Brazil and China as a strategic partnership implies that both countries seek not only the growth of trade, but a more influential place in international affairs. The problem is that the mix of trade and geopolitics has nurtured romantic visions in Brazil that do not sit well with China's pragmatic foreign policy or with its aspirations to become a world economic and strategic power.

From the outset, President Lula has sought to construct an alliance with China to usher in a multipolar world capable of counterbalancing U.S. power. China, on the other hand, made it clear that it expected from Brazil support for the "one China policy" and the formal recognition of the country as a "market economy." It could hardly be otherwise since China cannot hope to balance American influence in the region without jeopardizing its own bilateral relations with the United States.<sup>19</sup>

The beginning of Brazil's disillusionment was China's retreat regarding Brazil's claim for a permanent seat on the United Nations Security Council. China announced that it would veto any change, due to its opposition to the concomitant admission of Japan.

Brazil could also be harboring illusions with regard to China's support in multilateral trade negotiations. In 2003, in Cancún's Doha Round of WTO trade negotiations, Brazil and China joined forces to form the G-20 group and to demand greater concessions from the United States and the European Union. The G20, which also includes India and South Africa, aspires to dismantle agricultural subsidies in the developed world.<sup>20</sup>

China, however, is a major importer of agricultural products and raw materials, and not an exporter. Getting rid of the wealthy nations' farm subsidies is less of a priority for China than for Brazil. What interests China is the long-term supply of foodstuffs and raw materials at

fixed prices. But it also stands to gain if negotiations to open the agricultural markets of the United States, European Union and Japan demand in return that developing countries open up their markets for services and industrial goods – in other words, to Chinese exports.

The fact is that China represents a new paradigm that combines large investment in latest technology at a low capital cost and the capacity to generate devastating comparative advantages. Safeguards and anti-dumping initiatives are no more than emergency measures to contain the onslaught of Chinese exports. Without significant gains in innovation and competitiveness, there will be no safeguards that can protect Brazilian industry.

### **The Way Forward**

In 2004, buoyed up by the promise of investments in infrastructure and of a strategic alliance to counterbalance American influence, President Lula boasted that “if the Chinese believe in China and the Brazilians in Brazil, this could be the two countries’ century.” So far, it appears to be China’s alone.

By confusing trade interests with geopolitical aspirations, Brazil may follow a path paved with disappointment. What is required is a new realism in bilateral relations with China, including tougher diplomacy on both sides. The eightfold increase in exports to China during the past five years has been vital for Brazil to stabilize its economy. Sustaining closer relations with China as it continues to grow faster than the world’s average will be vital for Brazil’s future.

While China represents an opportunity for farming and mining, for industry it is a great challenge. The backdrop to this drama is the slow rate of productivity growth of Brazilian industry, caught between a heavy burden of taxes and high interest rates, on the one hand, and infrastructure and logistics shortfalls, on the other, as well as a lagging labor and welfare legislation.

Brazil, however, is far from settling down into a helpless lethargy. For almost a decade and a half, different administrations have been committed to macroeconomic stability anchored on fiscally responsible policies and institutions. A stable economy, booming exports, low inflation and a large and rapidly growing domestic market have attracted large volumes of foreign direct investment.<sup>21</sup> There is a renewed awareness that building up and repairing infrastructure is a critical factor for competitiveness and growth.<sup>22</sup> Also, Congress has passed a judicial reform and legislation designed to reduce microeconomic deficiencies and to increase the government’s ability to invest more in human capital through education.

Moreover, there is no insurmountable competitiveness gap between the two countries. According to the World Economic Forum’s Global Competitiveness Report, in 2007 China’s ranking was 54th overall and Brazil’s was 66th. Thanks to its extremely high GDP growth rates, China shows a very high rank in the macroeconomy pillar of the Global Competitiveness Index, 6th overall in the world. In addition to a dazzling growth performance, China ranks above Brazil in infrastructure, quality of institutions, and health and primary education. However, Brazil outranks China in higher education and training,

technological readiness, business sophistication, and innovation. And the two countries nearly tie in market efficiency.<sup>23</sup>

Brazil has a long way to go before other impediments to global competitiveness, such as tax and labor law reform, are effectively addressed. But there exists a firm intention to move to a higher and sustainable growth platform. Despite emerging problems, a long-term trade partnership with China may still shake out in Brazil's favor. China should be viewed as a welcome challenge that must be met by removing barriers to increased productivity and fostering a new generation of Brazilian firms able to innovate their way to global success.

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### **Endnotes**

<sup>1</sup> See Riordan Roett, *Relations Between China and Latin America/The Western Hemisphere*, Statement before the Subcommittee on the Western Hemisphere, U.S. Congress, April 6, 2005; and Jorge I. Domínguez, "China's Relations with Latin America: Shared Gains, Asymmetric Hopes," *Inter-American Dialogue, China Working Paper*, June 2006. The designation "strategic partner" was granted to Venezuela in 2001, and to Argentina and Mexico in 2004.

<sup>2</sup> See Inter-American Development Bank. *The Emergence of China: Opportunities and Challenges for Latin America and the Caribbean*. Mass.: Harvard University Press, 2004, especially Chapter 2.

<sup>3</sup> Deutsche Bank Research, "China's Commodity Hunger: Implications for Africa and Latin America," *Current Issues*, June 13, 2006. The report notes that "China's tendency to keep the downstream and processing activities at home and only import raw materials has turned it into a net exporter of aluminium and some steel products".

<sup>4</sup> Jorge I. Domínguez, *op.cit.*, p. 19; and Mário Queiroz de Monteiro Jales, Marcos Sawaya Jank, Shunli Yao, and Colin A. Carter. "Agriculture in Brazil and China: Challenges and Opportunities", *IDB-INTAL Occasional Paper No. 44*, October 2006.

<sup>5</sup> The transition from tariff-rate quotas to a tariff-only system should benefit Brazilian exports of soybean oil, corn, sugar, and cotton. New export opportunities are also expected for beef, poultry, pork, and orange juice. See Inter-American Development Bank. *The Emergence of China, op.cit.*, pp. 238-239.

<sup>6</sup> Marcelo de Paiva Abreu, "China's Emergence in the Global Economy and Brazil," *Integration & Trade*, No. 24, January-June 2006.

<sup>7</sup> Jorge Blazquez-Lidoy, Javier Rodriguez and Javier Santiso. "Angel or Devil? Chinese Trade Impact on Latin American Emerging Markets," *OECD Development Centre Working Paper No. 252*, June 2006.

<sup>8</sup> Fernando Pimentel Puga, Lavínia Barros de Castro, Francisco Marcelo Rocha Ferreira and Marcelo Machado Nascimento, "O Comércio Brasil-China: Situação Atual e Potencialidades de Crescimento," Rio de Janeiro: *BNDES Textos para Discussão 104*, April 2004.

- <sup>9</sup> Pablo Sanguinetti and Eduardo Bianchi, “Trade Liberalization, Macroeconomic Fluctuations, and Contingent Protection in Latin America” in Eduardo Engel, Roberto Rigobon and Francisco Ferreira, eds., *Economia*, Brookings Institution Press, Spring 2006
- <sup>10</sup> Matt Moffett and Geraldo Samor. “Brazil Regrets its China Affair,” *The Wall Street Journal*, 12 October 2005
- <sup>11</sup> Mauricio Mesquita Moreira, “Fear of China: Is There a Future for Manufacturing in Latin America?,” *Inter-American Development Bank*, October 2004.
- <sup>12</sup> Marcelo de Paiva Abreu, *op.cit.*
- <sup>13</sup> Rubens Barbosa, “A China e o Brasil na América do Sul,” *O Estado de São Paulo*, November 28, 2006.
- <sup>14</sup> “China Supera Argentina e Passa a Ser o Segundo Maior Fornecedor do País,” *Valor Econômico*, February 6, 2007.
- <sup>15</sup> See Luiz Carlos Bresser-Pereira, “Desindustrialização e Doença Holandesa,” *Folha de São Paulo*, April 4, 2007. Also, Denise Neumann, “Economistas Divergem sobre Desindustrialização do País,” *Valor Econômico*, September 19, 2007.
- <sup>16</sup> Fernando Pimentel Puga, “Aumento das Importações não Gerou Desindustrialização,” *Visão do Desenvolvimento BNDES*, Nº 26, March 29, 2007.
- <sup>17</sup> “Fabricantes de Autopeças se Rendem às Importações da China,” *Estado de São Paulo*, February 6, 2007. Maurício Mesquita equates the impact of China on the Brazilian industry with the opening of Brazil’s economy to international competition in the early 1990s, when domestic producers had to streamline business in order to face a flood of imports. See Cláudia Trevisan, “China Gera Choque Igual ao da Abertura, Diz Economista,” *Folha de São Paulo*, April 16, 2006).
- <sup>18</sup> João Augusto Baptista, “O Comércio Intra-Industrial entre Brasil e China: Análise Setorial dos Ganhos de Produtividade e Eficiência” in Fernando de Magalhães Furlan and Thomas Benes Felsberg (editors), *Brasil - China: Comércio, Direito e Economia*, São Paulo: Lex Editora, 2005
- <sup>19</sup> Jorge Domínguez, *op.cit.*, p. 26.
- <sup>20</sup> Mário Queiroz de Monteiro Jales, Marcos Sawaya Jank, Shunli Yao and Colin A. Carter. “Agriculture in Brazil and China: Challenges and Opportunities,” IDB-INTAL *Occasional Paper No. 44*, October 2006.
- <sup>21</sup> FDI in Brazil doubled from \$18.8 billion in 2006 to \$37.4 billion in 2007. See UNCTAD, “Foreign Direct Investment Reached New Record in 2007,” January 8, 2008.
- <sup>22</sup> The Lula administration’s Growth Acceleration Program (PAC) seeks to invest \$240 billion in infrastructure improvement through combined public and private direct investment and public-private partnerships through 2010.
- <sup>23</sup> See World Economic Forum, *Global Competitiveness Report 2007-2008*, Geneva: Switzerland, 2008.

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