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China and Brazil:

Potential Allies or Just BRICs in the Wall?

Anthony Peter SPANAKOS*

Brazil is a increasingly important actor in global governance and for China specifically. Sino-Brazilian relations have deepened considerably but they remain concentrated in areas of trade and investment. There is also considerable overlap in interests between the two countries in other areas, such as diplomatic and political relations. At the same time, China must manage carefully important differences that exist over the enlargement of the UN and the potential challenge to the Brazilian industry.

THE YEAR 2009 was a good year for Brazil. In March, the People's Republic of China (PRC) surpassed the United States of America to become Brazil's largest export market. In June, president Luís Inácio Lula da Silva met with his counterparts from Russia, the PRC, and India in the first BRICs summit. In September, the G-20, in which Brazil plays an important role, declared that it was the primary site for international governance, not only for issues of global finance, but also global trade imbalances,

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poverty, hunger, and climate change. Finally, on 1 October 2009, the International Olympic Committee selected Rio de Janeiro, over Chicago, Madrid, and Tokyo as the host city for the 2016 Summer Olympics. This can be interpreted as the world's recognition of the increasing capacity and importance of Brazil.

Brazil has become increasingly important to China as a trade partner, a market for Chinese goods, and as a potential proponent of a more multipolar world in which the South is better represented in global governance.

The Rise of BRICs

The term "BRICs" (Brazil, Russia, China, and India) first appeared in a 2001 Goldman Sachs research team report that identified the most important emerging market countries for their clients. The BRIC countries were responsible for 42% of the world's population, 14.6% of its GDP, and 12.8% of global trade in 2008. They also hold US$2.5 trillion in reserves and US Treasury bonds. While quite diverse in terms of levels and areas of development, the four countries are large, important markets, which are critical to global commercial and investment markets (Table 1).

Although the emergence of BRICs has been discussed for roughly a decade, it was not until June 2009 that the four countries held a joint summit. The summit received considerable attention but it produced few concrete outcomes. The final document

TABLE 1 BRICS COMPARISON

	Brazil	Russia	India	China
Population	198,739,269	140,041,247 (July 2009 est.)	1,166,079,217 (July 2009 est.)	1,338,612,968 (July 2009 est.)
GDP (ppp)	$1.99 trillion (2008 est.)	$2.225 trillion (2008 est.)	$3.267 trillion (2008 est.)	$7.8 trillion (2008 est.)
GDP per capita	$8,197 (2008)	$11,807 (2008)	$1,016 (2008)	$3,315 (2008)
GDP per capita ppp	$10,100 (2008 est.)	$15,800 (2008 est.)	$2,800 (2008 est.)	$6,000 (2008 est.)
Inflation rate (consumer prices)	5.8% (2008 est.)	13.9% (2008 est.)	7.8% (2008 est.)	6% (2008 est.)
GDP real growth rate	5.50% (2008)	6% (2008 est.)	6.6% (2008 est.)	9.8% (2008 est.)
Stock of money	$131.1 billion (31 Dec 2007)	$252.5 billion (31 Dec 2008)	$250.9 billion (31 Dec 2007)	$2.434 trillion (31 Dec 2008)
Market size index	22 (rank: 4) (2008)	27 (rank: 3) (2008)	39 (rank: 2) (2008)	100 (rank: 1) (2008)
Adult literacy rate	89.6 (rank: 70/147) (2006)	99.4 (rank: 10/139) (2005)	61.0 (rank: 114/139) (2005)	90.9 (rank: 54/139) (2005)
HDI	0.807 (rank: 70/179) (2006)	0.802 (rank: 67/177) (2005)	0.619 (rank: 128/177) (2005)	0.777 (rank: 81/177) (2005)

spoke of common interests and a need to move towards a more multipolar world, but made only passing mention of moving away from the US dollar as a global currency.

All of the countries offer powerful opportunities for China, though Sino-Brazilians relations will be the most trouble-free. Russia's sporadically thorny relationships with the United States and Europe offer very real potential threats to Chinese efforts at a 'peaceful rise,' especially since Russia is a major supplier of arms to China. China is also suspicious of Russian energy diplomacy given recent threats to cut off energy shipment to Europe and the Ukraine. Finally, Russia and China are competing for influence, along with the US, in Central Asia, an issue that was highlighted by Xinjiang protests in July 2009. Russia has also been concerned about Chinese interest in energy acquisition through Central Asia. This has been especially important given weak credibility of property rights regimes within Russia and the problems in establishing the Siberian pipeline.

Despite improved diplomatic relations between India and China, territorial disputes remain, especially with many within the US, and elsewhere, who believe that a rising India can help balance the power of a rising China. Indian and Chinese geostrategic interests differ considerably and there is some competition between the two economies for positioning as a low-cost producer. Additionally, although India has a large and rapidly growing economy, GDP per capita is significantly lower than that of China and its internal market does not offer the same opportunities for consumption of Chinese goods as do the Russian and Brazilian markets.

Of the BRIC countries, only Brazil has neither territorial claims against nor geostrategic differences with China, and China has no territorial claims in the Western Hemisphere, let alone Brazil.

Of the BRIC countries, only Brazil has neither territorial claims against nor geostrategic differences with China, and China has no territorial claims in the Western Hemisphere, let alone Brazil. Moreover, while Russia might try to leverage China vis-à-vis the West, and the West might try to do the same with India against China, Brazil is comfortably located in the world's most peaceful region (in terms of inter-state war), has no territorial disputes with any of its neighbours, and maintains peaceful relations with all major powers.

Like China, Brazil favours a multipolar world, is active in multilateral and regional institutions, and opposes open confrontation with the US. While Brazilian diplomats often disagree with US positions, they do so within the context of multilateral institutions, most visibly the WTO or G-20, and they do so only in coalition with others, such as India and South Africa.

Brazil also offers considerable advantages over many of China's partners in its energy security foreign policy. The search for petroleum has often meant entering into negotiations with pariah regimes, placing China in the awkward position of having to choose between non-intervention and its responsibility as a 'stakeholder' in the international system. Such situations are very unlikely with Brazil.

Brazil also seems to have been one of the last countries affected by the global financial crisis and the first to emerge. Its growth in 2009 was among the most robust within the G-20 and whereas foreign direct investment (FDI) in the world in 2008 declined by 14%, it increased by 30% in Brazil. Tellingly, in 2008, Moody's rating agency elevated Brazilian debt to investment grade status.

Sino-Brazilian Relations: Commonality of Interests

Brazil is the largest country in Latin America and boasts the region's largest economy. It is the world's fifth largest country in terms of size and population, fourth largest democracy, and tenth largest economy. It is one of Latin America's few diversified markets; its domestic consumer market is large and its financial sector is highly sophisticated and dominated by Brazilian public and private banks (Table 2).

Brazilian foreign policy has, like its Chinese counterpart, been largely determined by domestic economic development. For much of the twentieth century, economic development was seen as a product of internal development, and so Brazilian foreign policy and trade was limited. With the return to democracy in 1985, Brazilian foreign policy became more vocal, but still could not credibly justify its long term interest in a permanent seat at the Security Council of the United Nations.

President Fernando Henrique Cardoso (1995-2002) maintained close relations with the US during the Clinton and Bush administrations (1993-2001, 2001-2009) and aimed to diversify the country's trade profile by trying to maintain an equal amount of trade among the world's three largest markets/regions (the US, EU and Asia), while also encouraging growth within South America through the Southern Common Market (Mercosur). Cardoso also expended political capital on the need to include more countries

TABLE 2 BRAZIL: SOME BASIC FACTS

Population	198,739,269
GDP (ppp)	$1.99 trillion (2008 est.)
GDP per capita	$8,197 (2008)
GDP per capita ppp	$10,100 (2008 est.)
Inflation Rate (consumer prices)	5.8% (2008 est.)
Growth	5.50% (2008)
Stock	$131.1 billion (31 December 2007)
Market Size Index	22 (rank: 4) (2008)
Literacy	89.6 (rank: 70/147) (2006)
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Sources CIA world factbook, IMF, UNDP, and ://globaledge.msu.edu/ResourceDesk/mpi/

in global governance, particularly following the Asian financial crisis in 1997, and he gave symbolic attention to Brazil's relations with Sub-Saharan Africa, particularly fellow Portuguese-speaking countries.

The foreign policy of Luís Inácio Lula da Silva (2003-2010) built on that of Cardoso and took advantage of economic stabilisation in Brazil and the propitious international environment to launch a more active, yet pragmatic, foreign policy. Lula continued to favour balancing commercial interests between the US, Europe and Asia, while maintaining priority on developing regional blocs, especially Mercosur. Lula also, more than his predecessors, emphasised the importance of building South-South relations as a way of gaining leverage against trade barriers in developed markets.

Bilateral Trade

The Federal Republic of Brazil and the People's Republic of China have had formal relations since 1974, but Sino-Brazilian relations only became important in the 21st century when Chinese demand for raw material imports necessitated increasing imports from resource-rich states like Brazil (Table 3). In this way, the Brazilian economy offers significant complementarity to the Chinese economy. The two countries are also among the few developing countries with companies large enough to offer meaningful foreign direct investment. Finally, Sino-Brazilian relations are potentially fertile ground for relations that go beyond energy needs and commercial relations. They offer the opportunity for both countries to elevate their South-South agendas and serve as a highly visible platform at efforts towards constructing a multipolar world.

Although Chinese interest and trade in Latin America has boomed in the last decade, the Chinese government chose Hu Jintao's 2004 address before the Brazilian Congress

TABLE 3 CHINESE TRADE WITH BRAZIL (IN $100 MILLION)

	Total Trade	Growth Rate of Trade	Chinese Exports to Brazil	Chinese Imports from Brazil	Trade Balance
2001	37.0	…	13.5	23.4	-9.9
2002	44.7	20.8	14.7	30.0	-15.3
2003	79.8	78.5	21.4	58.4	-37.0
2004	123.6	54.8	36.7	86.8	-50.1
2005	148.2	20.0	48.3	99.9	-51.6
2006	203.0	37.0	73.8	129.2	55.4
2007	297.0	46.4	113.7	183.3	-69.6
2008	425.4	81.0	166.4	259.1	-92.7

Source: Jiang, Shixue. "The Panda Hugs the Tucano: China's Relations with Brazil." China Brief *9, 91. May 15, 2009. pp. 7-10.*

as the site from which he would set the goal of increasing Sino-Latin American trade to US$100 billion by 2010. This goal was reached in 2007 and trade has continued to expand very rapidly since. Not only has this goal been exceeded, Sino-Brazilian trade has also become increasingly important, particularly to Brazil for whom China is now the largest export market.

Between 2004 and 2008, Brazil grew at 4.7% (nearly double its average growth during the previous two decades) and Sino-Brazilian trade has grown far more robustly. Most significantly, in March 2009, Brazilian exports to China exceeded those to the United States, making China the largest export market to Brazil.

Recent economic growth has increased Brazilian demand for Chinese products, leading to increasing trade deficits with China. But the greater concern, on the part of many in Brazil, is the composition of this trade. Brazilian petroleum, iron and soy are the three largest components of Brazilian exports to China and commodities as a percentage of Brazilian exports to China were over 68% in 2005 and 74.5% in 2006. The number is now closer to 82%. Table 4 shows the composition of Sino-Chinese trade between 2004 and 2008. Importantly, while Brazilian exports to China are concentrated in commodities, China's exports to Brazil are diversified.

Brazilian FDI in China and Chinese FDI in Brazil were some US$270 million and

TABLE 4 COMPOSITION OF SINO-BRAZILIAN TRADE

	2004		2005		2006		2007		2008	
	HS	Millions of Dollars	HS	Millions of Dollars	HS	Millions of Dollars	HS	Millions of Dollars	HS	Millions of Dollars
China's Principal Imports from Brazil	12	1621.8	26	1891.8	26	2686.5	26	3808	12	5324
	26	1169	12	1717.1	12	2431.7	12	2832	26	5171
	15	496.5	27	558.1	27	835.9	27	840	27	1703
China's Principal Exports to Brazil	85	1387.2	85	2137.2	85	3157.9	85	4319	85	6308
	84	410.2	84	760.8	84	1379.8	84	2347	84	3713
	27	365.3	29	396	29	471.4	90	700	29	1195

12 Oil Seeds/Misc. grains/Med. Plants/Straw
15 Animal or Vegetable Fats, Oils and Waxes
26 Ores Slag and Asah
27 Mineral Fuels, Oils, Waxes and Bituminous Sub
84 Nuclear Reactors, Boilers, Machinery & Mechanical Appliances, Computers
85 Electrical Machinery, Equip. and Parts, Telecommunications Equip, Sound Recorders, Television Recorders
87 Vehicles other than Railway or Tramway Rolling Stock
90 Optical, Photographic, Cinematographic, Measuring, Checking, Precision, Medical or Surgical Instruments and Accessories

US$210 million by October 2008, respectively. Most of the Chinese investment was in the area of steel production, an arrangement between Chinese Baosteel and the Brazilian Compania Vale do Rio Doce, while the largest Brazilian investment in China was done by the Brazilian airplane manufacturer Embraer. Most recently, the Chinese government invested US$10 billion in the Brazilian state-owned PETROBRAS to secure a future flow of 200,000 barrels of petroleum per day. There is considerable room for more investment, especially for Chinese companies given the great level of privatisation and more institutionalised regulatory environment in Brazil.

Perhaps the most important element of Sino-Brazilian relations is the possibility of trade between the two countries taking place in local currencies. While visiting China, Lula and Hu announced that they were considering the possibility of abandoning their use of the dollar for bilateral trade. Conducting bilateral trade in local currency means that the country running a surplus (China) will not increase its US dollar reserves and it would respond to a Chinese concern about the long-term value of the US dollar, particularly important given that Chinese US dollar reserves and Treasuries account for some 30% of Chinese GDP.

China's goals of growing its status/soft power as well as making Shanghai a financial capital like London and New York by 2020 suggest a need to make its currency more convertible and easily used. Certainly as the world's second biggest trader, potential demand for Chinese currency is high and the Chinese authorities seem to be accelerating the move towards convertibility. Wang Zhaoxing, vice-head of the Shanghai branch of the China Banking Regulatory Commission, spoke of the possibility of the *renminbi* becoming a reserve currency by 2020, while others have spoken of making many transactions in *reminbi* convertible by that date.

The problem is that while China is seeking to reduce its exposure to US dollar assets, holding *reals* is neither a better alternative nor an optimal strategy. *Reals* have little value and would, either need to be converted into a hard currency, or re-invested back into Brazil. Indeed, trade in local currency would encourage Chinese businesses to recycle surpluses in *reals* into direct investment, but it is unreasonable to expect the entire Chinese surplus to return to Brazil in investment. Although the Chinese Central Bank could buy excess *reals*, there would be little value in doing so and China's move towards diversifying currency assets away from the US dollar will lead it to hard currencies like the Euro or Yen, not the *real.*

Similarly, Brazilian companies will hold and need to acquire *renminbi*, something that is complicated because it is not fully convertible and there is no liquid market into which they can tap. The Brazilians can potentially sell their excess *renminbi* to the Brazilian Central Bank which may eventually consider the *renminbi* a global reserve currency. But, realistically speaking, this will not happen for some time, and, this limits the utility of Brazilian companies trading in *renminbi.*

Ironically, despite shared long-term interests, in the short term, the most likely thing to be done with *reals* is to sell them and get USD, an option that is not available for *renminbis*. This is why the talk of local currency trade between China and Brazil is more about strategy and politics than immediate economic impact.

Economic Competition

Although the Brazilian economy complements that of China, the reverse is less true. Brazil obviously benefits from improved trade with a producer of cheap industrial and consumer goods. But Brazilian industry faces serious competition from Chinese peers and this has affected relations. Brazilian diplomats also differ from the Chinese on the issue of expanding the number of permanent members of the United Nations Security Council.

Brazilian firms have lost space to Chinese competitors in third markets, including the US and South American markets where Brazilian products have been gaining space. A recent study shows that Chinese competition is responsible for 30% of Brazilian losses in the United States and Chilean markets, and 11% and 14% losses in Argentine and Mexican markets respectively. These losses are especially acute in certain industrial sectors, such as the shoe market where Chinese competition is blamed for 90% of Brazilian losses in the US shoe market.

This has led to critiques, particularly from São Paulo's conservative industrial base, about Chinese 'neo-colonialism'. The composition of Chinese trade and the competitive advantage gained by higher Chinese productivity and a more favourable exchange rate, has encouraged critiques of China from Brazil's powerful FIESP (Federation of Industries of the State of São Paulo). This has encouraged demands for protectionism and an increasing resort to anti-dumping measures. Since 1989, 20 percent of Brazil's antidumping measures have been against Chinese manufacturers.

There is also a longer-term threat for Brazil as it may face a 'middle income trap' in that its production costs are too high to compete with low wage producers like China and Vietnam but its production quality is too weak to compete with those of South Korea and Germany. There are, of course, areas in which Brazilian industrial and service industries are quite competitive and Brazil is probably the most shielded from this trap within Latin America. Nevertheless, aggregate production does face this challenge. If the Brazilian and Chinese governments do not give enough attention to increasing investment within Brazil, this could be a long-term source of resentment of China and a threat to deepening relations.

In addition to commercial and long-term structural challenges, Sino-Brazilian relations have disappointed in a core area of shared interest: 'democratising' global governance. While both governments have spoken of the need to make global governance more democratic and open to developing countries, they have differed on the matter of expanding the number of permanent members of the UN Security Council. For Brazil, such an expansion means not only a more inclusive UN, but it specifically means including Brazil within the privileged club of permanent members of the UNSC.

Brazil has secured the support of France, Russia and India, among others, all of whom claim similar goals and recognise that including Brazil would be critical for improving the legitimacy and representativeness of the UNSC.

China, alone among the BRICs, resists supporting an expansion of the Security Council as such an expansion would probably mean the inclusion of Japan. As a result, Chinese diplomats are caught in a perceived inconsistency of wanting to 'democratise' and be ‘inclusive’ but rejecting the possibility of inclusion in one of the most important global fora. If, as has been rumoured, the US selects a Brazilian, possibly Lula, as the next head of the World Bank, breaking with the tradition of nominating US citizens, this would increase pressure upon Beijing on the issue of the UNSC.

While the issue of UN Security Council enlargement may limit foreign policy coordination of China and Brazil, there is potential for the two countries to share concerns on environmental issues. At the December 2009 Copenhagen meeting, world leaders discussed climate change and the possibility of consensual emissions targets to replace the Kyoto Protocol. On 25 November 2009, the US government issued a statement promising to reduce its emissions by 17% by 2020 and 83% by 2050. The day after, the Chinese government promised to reduce carbon dioxide intensity by some 45% by 2020. The Chinese government was disappointed with the US figures, and Western observers noted that Chinese emissions will continue to grow and China is more concerned with energy efficiency than reduction of emissions.

Both the Chinese and Brazilian governments have chafed at the idea of environmental constraints on economic growth, particularly when they have not perceived enough to be done on the part of developed nations. But they have had, until this point, very different strategies. China, as the larger power and emitter, has favoured direct negotiations with the US. Brazil, for its part, wants the developed world to subsidise its environmental policies. French president Nicholas Sarkozy has supported the idea of a financial services tax which would help support environmental issues in Brazil and other developing countries.

The potential for cooperation between Brazil and China is considerable leading up to the Copenhagen meeting in December of 2009, but for all of China’s discussion about BRICs and inclusion, China has preferred to handle this issue unilaterally with the US and, to a lesser extent, directly with the EU. The opportunity for a coalition of large developing countries with interests balancing emissions constraints against economic growth is present but China seems uninterested in leading such a group. Moreover, Brazil’s interest is not so much to continue growing with emissions, as it is to have financial support for environmental policies.

Warming Relations

Despite these differences, Brazil has the potential to be an important long-term market and global ally as China pursues a ‘peaceful rise’ and to increase its status across the globe. Brazil is already an important source of commodities for China as well as an important market for Chinese products, and it figures in China’s long-term planning for expanded use of the *renminbi.* Brazil is also a stable, non-confrontational supporter of a shift towards a more multilateral form of global governance and its support will be important to facilitating China’s peaceful rise and ‘harmonious world.’

An overlap of interests and preferences should not be taken for granted though. China must be especially sensitive to the need to invest in Brazil’s nontraditional commodity-based sectors and it will need to come up with a more nuanced, if not altogether different, stand on the place of Brazil within the United Nations.