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Brazil & China: Partners or Competitors? Designing Strategic Alliances in the Age of Uncertainty

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ABSTRACT

Brazil and China are rapidly developing a strategic alliance based on the two economies' short and long-term strategic goals. This paper assesses the impact of China on the Brazilian economy and discusses the challenges and opportunities permeating this strategic relationship. This case study suggests that Chinese and Brazilian relations represent a paradigm shift in our conventional understandings of political and economic behavior. More specifically, it suggests that the growing interdependence between big emerging economies no longer requires for large Western economies to mediate the economic exchanges that shape the global agenda. Furthermore, we suggest that in spite of very strongly perceived competitive behavior, the increased interaction between these two nations and the institutionalization of economic ventures is compelling these nations to imagine themselves increasingly as partners in a newly conceived, socially distinct, transnational dimension. To explore the significance of this behavior, we employ perspectives on international trade and globalization, including a brief CAGE analysis, to characterize Sino-Brazilian relations in the context of the 21st century global political economy.

Key Words: sino-brazilian relations, international trade, strategic alliances, BRIC, global economics

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INTRODUCTION

The economic global recession that started in 2008, created an inflection point in the global reallocation of economic power. Western economies accounted for more than 60% of Global economic output for the large majority of the 20th century. In 2009, they accounted for only 49.4% of the global economic output. Emerging economies, particularly among the BRIC nations, gained expressive ground, accounting for close to 22% of global GDP by 2008, and close to 25% by 2011 (World Bank 2011). Despite the relative income disparity in terms of the distribution of wealth, the nearly five billion people that occupy the bottom of income distribution constitute the greatest sector of growth in the global economy (Prahalad and Hart 2002; Hart 2005). Thus, emerging countries are no longer perceived as marginal players in the global economy and these economies are taking their place on center stage. In addition, these countries have become instrumental players in the global economic recovery efforts since 2009 (Acioly, Costa Pinto and Macedo 2011).

These economies are also rapidly becoming regional superpowers, challenging the global order, capable of affecting their region's economy, political, and defense scenarios. Countries like Brazil have also in the past ten years, followed a more autonomous; U.S. independent, foreign policy pursuing a "South-South" agenda (Andrade 2010). Consider for a moment that BRIC nations have achieved a level of solidarity that has left China and Russia, permanent members of the UN security council, in support of India and Brazil (and possibly South Africa) as permanent members as well (Fiori 2007). The mere suggestion that these nations be included as one of the primary interlocutors of military power is indicative a fundamental shift in the perceived political force germinating within these nations. These political agendas are driven largely by the perception among these nations that security is primarily economic (ICTSD 2009). It is becoming clear that the conventional models of power no longer apply. New partnerships, mediated by nations that occupy the center of income distribution in the world political economy are becoming a robust source of geo-political change (Bauman 2010; Jacques 2009; Pereira and Neves 2011).

Of all BRICs countries, China has been the one observing the highest rates of economic growth and development in the past decades. In 2011, China is presently the world's second largest economy, and has become a major force in shaping the current globalization process (*The Economist* 2011; Sala-I-Martin et al. 2011). Since the early 1990s, China has been taking steps to welcome foreign direct investment and to become more present in global markets. Since then, China has become a major site for foreign direct investment and has also become the offshoring capital of the global economy. Over the past decade, China has become one of world's top recipients of foreign direct investment, from close to US$ 3.5 billion in 1990 to about US$ 106 billion in 2011 (UNCTAD 2007; 2011; Chinability 2011). The successful attraction of manufacturing foreign direct investment has allowed China to rapidly become one of the world's largest exporter and importer. They went from being an earlier exporter of low-cost cheap manufactured products in the early 1990s, to an exporter of high value-added products in late 2000s. In 2010, China exported close to US$ 1,172 trillion and imported US$ 966 billion, with a trade to GDP ratio of 48.2%. One can conclude that China has established itself as a major global exporter and importer (UNCTAD 2009; DG Trade 2011).

This rapid expansion of the Chinese economy has allowed the country to create an inflection point in several regions around the globe. This can inflection point can be seen where massive investments and increasing trade flows are changing the global economic and trade paradigms, and where regions like Latin America and Africa have seen an increase in prices of commodities and mineral products in the past few years. China's increasing appetite for agricultural products and minerals is affecting the prices of several of these products on a global scale (Lora 2007).

During the 2008-2010 financial crisis, China contributed significantly to the growth of the global economy via its expansionary policies; which had a positive impact in adding to the global stability and growth. In 2010, China accounted for 16.2% of the global economy's output, compared to 18.2% for the U.S. economy, and 17.6% for the EU-15 nations. In addition, in 2010, China contributed substantially more to the growth of the global economy than the U.S., EU-15 and Japan (The Conference Board 2011).

It is against this backdrop of China's increasing global economic and political influence, that Brazil and China are sowing a strategic alliance (Trevisan 2010a; 2010b). China poses both an opportunity and a challenge to the Brazilian economy. This leaves us with some important questions about the evolution of the global political economy. First, we must evaluate what the implications are for the decreased interdependence on the United States and other Western Nations. In this regard, the study of Sino-Brazilian relations demonstrates a shift in the way we think about international relations, global political economy, and international business. The older model of core, periphery and semi-periphery, where emerging economies mediate their behavior in response to larger economic forces, may no longer apply (Wallerstein 1989; Walz 1979). This leads to some more interesting theoretical questions as well, including the role that nations play in organizing economic behavior. The conventional wisdom suggests that international relations and regional integration occurs as a result of clearly developed cultural connections and other forms of institutional similarity. For example, the argument behind the formation of Mercosur or the EU developed as a result of imagining their economy as having ties to being Latin American or European respectively. China, Brazil, and other Big Emerging Economies do not have a "BRIC-ness" in the way that European-ness, Western-ness or other cultural or ideological foundations occur. This poses important questions about the transnational, transcultural, and perhaps deterritorialized manner in which new economic relationships are defined. This paper will explore the way that China and Brazil have attempted to achieve institutional similarity, but it is possible that these relations represent a new paradigm shift in the possibilities of global cooperation and integration. The growing alliance between the largest developing country in the Western Hemisphere and the largest developing country in the Eastern Hemisphere raises a number of opportunities and challenges. The following sections will elaborate on the challenges and opportunities that permeate Brazil and China's increasing economic interdependence.

TRADE AND INVESTMENT OPPORTUNITIES AND CHALLENGES

China's interaction with Latin American markets go back many decades. However, its reach was a limited one, mostly trading with Cuba in the early 1980s (Erikson 2005). Trade and investment ties however, started to increase in the early 2000s. Since then, the Chinese economic impact has been felt in terms of higher demand levels for the region's commodities and minerals, as well as in terms of additional pressure and competition from Chinese products entering Latin American markets (Lall and Weiss 2004; Lall and Weiss 2007; Puga 2010).

Thus, China has been responsible for two distinct trends in Latin American markets. The first has been the creation of a new paradigm and cycle of economic development in South American countries, via increasing demand for the region's commodities and mineral products and consequently observing higher prices for these commodities. The second trend has been the creation of a new paradigm of competition in several Latin American markets. For the first time, Latin American companies and multinationals established in Latin American markets were dealing with a country endowed with cheap and skilled labor, access to the latest generation of machinery and factory equipment, and increasing development of indigenous R&D and innovation applied to manufacturing. This has allowed Chinese companies to compete in several segments of Latin American markets, thereby displacing less efficient Latin American producers and reshaping the extent and reach of the region's manufacturing industry (Acioly, Costa Pinto and Macedo 2011; Lall and Weiss 2007; Onaga and Bronzatto 2010).

Chinese competition has also highlighted the region's lack of attention to the fundamentals of economic competitiveness. This can be seen in areas such as a solid and efficient logistics and infrastructure industry, a solid educational system, and a solid R&D and innovation infrastructure. It is clear that Latin American countries have fallen behind other Asian nations, such as China, that has been investing heavily in laying the foundations in order to achieve higher levels of economic efficiency and competitiveness (Jenkins and Peters 2009; Lehman, Vollmer and Zarzoso 2007).

China has raised its diplomatic efforts throughout the Latin American region. In 2004, President Hu Jintao visited Latin American markets, establishing a number of trade and investment agreements. In the last three years, a number of these promises are coming to fruition. Brazil opened diplomatic negotiations with China in 1974. These early diplomatic efforts were reaffirmed in 1995 by then president Fernando Henrique Cardoso. In 2009, the President of Brazil, Luis Inacio da Silva, visited China along with 430 people including politicians, ministers and Brazilian companies initiating a new round of trade and investment negotiations with China (Martins 2011; Moreira 2009). In 2011, newly elected President Dilma Rousseff visited China trying to expand the range of products, mostly agricultural commodities and minerals, currently exported by Brazil to China. In addition, Dilma's trip also aimed at developing a closer coordination in terms of international alliances between the two countries (Conselho Empresarial Brasil-China 2011; Camara de Comercio Brasil-China 2011; Costa 2011; Cotta 2011). China and Brazil have been active players in global forums such as the G-20, WTO, IMF, and more recently in Global Climate discussions. However, both countries have developed some disagreements over the past few years including China's decline to support Brazil's bid for a permanent seat on the United Nations Permanent Security Council (Moreira 2011). In addition, China and Brazil have had conflicting views regarding global climate negotiations as it became clear during the 2009 United Nations Climate Change Conference and Copenhagen Summit (Monteiro 2011).

China currently has a population of 1.4 billion along with a GDP of US$ 3.2 trillion and foreign reserves at more than US$ 3 trillion. Taking this into consideration, China certainly has the capability of promoting additional cycles of economic growth and development in Latin American markets, causing them to become one of the region's main long-term investors and traders. China's increasing investments in farming, mining, and infrastructure also raises concerns about its "neo-colonialist strategies", resulting in the re-creation of "enclaves" in Latin American countries (Delfim Netto 2010; Evans 1971; Hirschman 1958; Rollins 1956). In addition, China is also increasingly reviving the "North-South" paradigm of economic interactions, not a "South-South" paradigm, as has been perpetuated by South American political leaders (Pereira and Neves 2011). Increasing exports of commodities and minerals to China, and imports of high-value added and knowledge-intensive products from China, does not constitute the traditional "South-South" trade paradigm. In addition, China is clearly pursuing a policy to secure sources of commodities and minerals, very much alike Western Powers did early in the 19th century. China has subordinated its global trade strategies to its long-term domestic economic and political strategies.

BRAZIL-CHINA TRADE

Brazil and China have gone through different phases of economic and political engagement. In 1974, Brazil's military government re-established diplomatic and economic relationships with China. Since then, both countries have expanded their trade and investment relationships. China and Brazil started developing closer ties after Brazil engaged in market-oriented reforms in the early 1990s, during the Fernando Collor de Mello administration (Amann and Baer 2011; Gouvea 2004). Since the early 1990s, both countries have gone through three distinctive cycles. In the early 1990s, Chinese companies were mostly targeting the selling of cheap, low quality products to the Brazilian market, ranging from toys to clothing and footwear. In the early 2000s, China started to sell more value-added products to the Brazilian market such as: motorcycles, televisions, computers, cell phones and heavy equipment. The third cycle started in the late 2000s with China not only considering Brazil as a market for its products, but also a strategic trade and investment partner (Monteiro 2011).

Increasingly, China has become over the past decade an important trade partner for Brazil, and becoming a major destination for Brazil exports of primary products, minerals, and natural resource based goods (NRBGs). China's rapid economic growth and development translates into an increasing demand for Brazilian commodities, minerals, and raw materials. Simultaneously, Brazilian companies have developed strong ties to Chinese companies pursuing cheaper sources of components and manufactured products in order to become more competitive in Brazil's domestic market and in global markets as well (Acioly, Alves and Leao 2009).

Bilateral trade between China and Brazil has expanded dramatically in the last 12 years; gaining momentum after 2000, increasing from US$ 2.3 billion in 2000 to close to US$ 55 billion in 2010. Brazilian exports to China during this period have expanded by a compound annual growth rate of almost 47%, and imports from China by an average of 38% (CEIC 2011). In 2010, China was Brazil's number one trading partner, accounting for close to 15.3% of the country's total trade flows, thereby surpassing Brazil's traditional trade partner, the U.S.A (SECEX 2011). It is clear that China's economic "miracle" is deeply affecting Brazil's foreign trade sector (Delfim Netto 2009).

It is also important to notice that in 2010, the structure of Brazilian exports to China was made up of 88% of primary products, 4% of manufactured products and 8% of semi-manufactured products. China on the other hand saw 96% of its exports to Brazil made up of manufactured products and 4% of primary products. This is in sharp contrast to Brazil's earlier trade interactions with China. For instance, in 1985, 64% of Brazil's exports to China were made up of manufactured products, and 6% of primary products (Gouvea and Kassicieh 2009; MDIC 2002).

In 2011, Brazil has increased its dependency on China's markets for its primary product exports. For the first four months of 2011, China accounted for 29.1% of all Brazilian exports of primary products. In 2010, China bought US$ 25.8 billion worth of primary products, or 28.6% of Brazil's total exports of primary products. Primary products have increased their share in Brazil's total exports from 22.8% in the year 2000 to about 44.6% in 2010. For instance, China in 2010 acquired 46% of all Brazil's iron ore exports, 64.6% of all Brazilian exports of soybeans, and 24.9%

of Brazil's exports of oil. In 2010, 83.9% of Chinese imports from Brazil were made up of primary products (Watanabe 2011; SECEX 2011).

Brazil has also become more dependent on exports of primary products. The country's low emphasis on innovation and technology has lowered the share of knowledge-intensive products in the country's total exports. In addition, Brazil's exchange rate policy has also affected the competitiveness of its manufacturing exports. For instance, in 2010, Brazil has shown an increase in its export concentration. In 2010, five commodities accounted for 43.4% of Brazilian exports. Products such as iron ore, petroleum, soy beans, sugar and meats were the leading products; well above the 27% share of these products in total Brazilian exports in 2004 (SECEX 2011; Pauli, Nakabashi and Sampaio 2011).

China has also become a major player in Brazil's domestic market. For instance, in 2010, China was the leading exporter of nine sectors of products imported by Brazil (textiles, leather and artifacts, clothing, non-metallic mineral products, metal products, office equipment, IT products, machinery, electric materials, electronics, furniture, and toys). China is also the second largest exporter in another six sectors of Brazil's imports. (Batista 2010; SECEX 2011). For instance, in 2000, Chinese machinery & equipment accounted for only 0.85% of all Brazilian imports. In 2008, this share had already increased to 9.3% of all Brazilian imports of machinery and equipment, increasing from US$ 60 million in 2000 to around US$ 2 billion in 2008 (Felicio and Boucas 2009). China's increasing quality and price competitiveness are displacing a number of traditional Brazilian suppliers.

China has however, turned into a major competitor for Brazilian products in global markets. For instance in regards to Mercosur, Chinese products have been displacing Brazilian ones despite China not being a formal member of Mercosur. For instance, in 2003, Chinese exports accounted for 3.2% of total Argentine imports. By 2009, China was already accounting for around 11.8% of total Argentine imports. On the other hand, Brazil accounted for 33% of total Argentine imports in 2003, and saw its share decline to 27.6% in 2009. China is competing with Brazil in the Argentine market in the following products: footwear, rubber, textiles, and machinery (Barros 2009). For instance, in the first five months of 2011, Chinese exports of footwear to Argentina have increased from 22% to 29% of total imports of footwear, while Brazilian exports of footwear to Argentina declined from 53% to 45% of Argentina's total imports of footwear (Camara Argentina de Comercio 2011).

In the U.S. market, China has also been an important competitor with

Brazilian products. The overvalued Brazilian currency is leading a number of Brazilian companies to lose market share to Chinese producers in the areas of furniture and footwear. For instance, in 2002, China sold US$ 9 billion worth of footwear to the U.S. market and in 2008 they sold close to US$ 14 billion worth of footwear. In 2002, Brazil sold US$ 1.25 billion worth of footwear to the U.S. market whereas in 2008, they sold close to US$ 515 million (Landim 2010).

The rapid penetration of Chinese made goods in the Brazilian and Mercosur markets is prompting segments of the Brazilian manufacturing industry to pressure the government for the implementation of protectionist measures. The Dilma government has been willing to support these proposals. For instance, in 2011, the Dilma Rousseff government wants to impose restrictions on the penetration of Chinese products in the Mercosur trading block in order to protect the Brazilian industry. Brazil is proposing that members abandon Mercosur's common external tariff temporarily in order for additional taxes to be levied on Chinese made products (Antunes 2011). Between 2000 and 2009, China has tripled its exports to Mercosur.

However, over the past few years, Brazil has been quite "timid" in applying trade sanctions against China in international forums. For instance, in the last 15 years, close to 2,433 antidumping measures were applied by WTO country members. 563 of those measures were against China whereas 30 were applied to Brazil. Almost triple Brazil's amount was applied to India (Thorstensen 2011).

Furthermore, Chinese companies have been accused of triangular trade operations aiming at bypassing Brazilian antidumping measures (Dantas 2011). China has been using countries like Vietnam, Singapore, and Malaysia as intermediaries to bypass these measures. In 2011, the Brazilian government will start to investigate and penalize these trade practices (Oliveira 2011).

It is clear, however, that building walls around the Brazilian markets will not address the lack of competitiveness by segments of the Brazilian industry. Poor infrastructure and logistics industry allied to an overvalued currency, low educational standards, and low investments by the Brazilian private sector on R&D, have contributed to Brazil's loss of competitiveness in regards to other countries around the world, deeply affecting Brazil's business environment (Amann and Baer 2011; World Bank 2011).

FOREIGN DIRECT INVESTMENT

In 2010, Brazil became the world's fifth largest recipient of foreign direct investment, US$ 48 billion, a substantial improvement over 2009 when it was ranked 15th in the world. Brazil was ranked after the U.S., China, Hong Kong and Belgium. For the first six months of 2011, Brazil received close to US$ 32.4 billion, projecting a total of US$ 65 billion for the year (Moreira and Martins 2011). The country absorbed 30% of all FDI heading towards Latin American countries. In 2010, Brazil's stock of FDI reached a total of US$ 472.5 billion. There is an expectation that Brazil will reach 4.4% of global FDI share in 2011, compared to 2.2% in 2009, and 3.9% in 2010 (Moreira and Martins 2011; Sobeet 2010).

Since 2005, China has become an active investor in global markets. In 2005, China had close to US$ 12.3 billion worth of global foreign direct investments (Heritage Foundation 2011). In 2010, China invested close to US$ 61.8 billion in global markets, or 5.6% of total global foreign direct investment; ranking fifth in global investments outflow (Scissors 2011; UNCTAD 2011). According to the Heritage Foundation, China has made outside bonds close to US$ 224 billion of global foreign direct investments. China is definitely becoming a major player in global foreign direct investments. The large majority of Chinese investments overseas are natural resources seeking related investments, or what China designates as "valuable strategic assets". China's main areas of foreign direct investments are related to energy and power, metals, and agriculture. In the last few years, most of Chinese overseas investments have been directed towards the U.S., Australian, Brazilian and Argentine markets (Scissors 2011).

Until the late 2000s, China was mainly a strategic trade partner for Brazil. China's role as a source of foreign direct investment was miniscule. For instance, in 2004, China invested only US$ 4.4 million. In 2009, China was still investing US$ 82.6 million (Banco Central do Brasil 2011; Rosa and Novo 2010). They went from ranking 29th in the early 2000s to the number one spot in 2010.

In 2010, China invested close to US$ 12 billion in the Brazilian economy (Trevisan 2010). Most of the investments were in energy, mining, agribusiness, steel manufacturing, and telecommunications. Three sectors, energy, mining, and steel manufacturing, accounted for 90% of China's foreign direct investment in 2010 (Frias 2011). Acquisitions accounted for close to 50% of all investments, followed by joint ventures with 25% and Greenfield investments for another 25%. A few years ago, China was ranked 29th amongst Brazil's main investors. In 2010, China has become Brazil's largest foreign direct investor, supplanting traditional investors such as the U.S., Spain, Germany, and Japan.

As one can see from the list of Chinese investments in Brazil, China is gradually moving into manufacturing while aiming at the expanding Brazilian domestic market. Chinese investments are still mostly natural-resource-based, but investments by companies such as Foxconn and Chery showcase the increasing importance of Brazil's domestic market to Chinese companies.

Examples of Chinese Investments in Brazil:

a) State Chinese Company "State Grid" acquired 7 Brazilian energy transmission companies, worth US$ 1.07 billion
b) "Sinochem" acquired a 40% participation in a Brazilian oil field, worth US$ 3.07 billion
c) "Wisco" acquired 70% of a steel mill with in partnership with the Brazilian group MMX, worth US$ 5 billion
d) Whon Iron & Steel acquired a 21% share of the mining company MMX
e) ECE acquired Itaminas and its iron mines for US$ 1.2 billion
f) "ECE-Biro" acquired Itaminas mining operations, worth US$ 1.2 billion
g) Hombridge invested US$ 400 million in a Iron Project with the Brazilian company Vototrantim
h) A consortium of Chinese Companies CMC-CNR-CNR will provide electric trains to the state of Rio de Janeiro, worth US$ 220.9 million
i) Chongqing Grain Group invested US$ 300 million in farmland in the northeast of Brazil.
j) The Chinese automaker Chery is investing US$ 400 in a car plant to manufacture 150,000 cars by 2015 (Silva 2011).
k) The Chinese Company Huawei will invest US$ 300 in developing a technological center and the state company ZTE will develop an industrial pole and a research center.
l) Bank of China has established a branch in Brazil to facilitate Chinese companies' operations in Brazil and to facilitate Brazilian companies operations in China.

FUTURE AGENDA BRAZIL–CHINA

Is Brazil ready to see a surge in China's interest in the Brazilian economy? Apparently not.

Brazil has not yet created a system and infrastructure that welcomes the new generation of Chinese immigrants, which results in a very steep learning curve for new immigrants (Camara de Comercio e Industria Brasil-China 2011). The lack of knowledge of the Chinese culture and Mandarin speakers in Brazil makes it more difficult, slowing additional investments into Brazil (Ribeiro, Setti, and D'Ercole 2010). While the U.S. offers many more resources in regards to Mandarin courses available (around 25,000), Brazil offers significantly fewer (around 3). Brazil should also promote student exchange programs between Brazil and China, which would add to the cultural literacy in both countries.

In 2010, the latest figures pointed to 250,000 Chinese living in Brazil. 34,751 of them legal while close to 215,000 are deemed illegal Chinese immigrants (Bedinelli and Veleda 2010). The largest majority of Chinese, close to 200,000, live in the state of São Paulo. Schools are being designed by local Chinese communities to reproduce traditional cultural value and keep the first generation of Chinese born in Brazil fluent in Mandarin. Schools such as "De Xin Hua Wen" are amongst the many. Even traditional schools in the city of São Paulo, such as the private school "São Bento", have 40% of their student body made up of Chinese students.

The first wave of Chinese immigrants mostly worked in the commerce industry. The second wave of immigrants is coming as a result of China's increasing investments in energy, oil, telecommunications, and steel industries. These professionals are highly trained and most are managers and executives (Ribeiro, Setti, and D'Ercole 2010). In 2010, China became Brazil's main investor generating increasing waves of Chinese professionals moving to Brazil. This in turn will result in their demand of Brazilians to have a further knowledge of their culture.

However, few things are slowly changing. Brazilian hotels are beginning to adapt their facilities in order to accommodate Chinese business travellers. More importantly, Brazilians need to understand the Chinese way of doing business where "Guanxi" will play a major role via the network of cooperation and cordiality that permeates relationships (Conselho Empresarial Brasil-China 2011; Bedinelli and Veleda 2010).

On both the Brazilian and Chinese government side, we should also have higher levels of bi-governmental coordination in order to establish long-term objectives, goals, and strategies to solidify Brazil-China relations.

Currently, such a strategy is not in place.

CHALLENGES AND OPPORTUNITIES: BRAZIL–CHINA

China has raised a number of issues over the recent years,

A) Foreign Direct Investment Restrictions: Chinese companies are increasingly investing in Brazil's booming agribusiness industry. However, recently Brazilian lawmakers have been proposing the establishment of controls on land acquisition by foreigners (Zanatta 2010a). The Lula administration proposed the prohibition of acquisition of farmland by foreigners. The Dilma Rousseff administration is still looking into it. Currently, Brazil has 3.2 million hectares owned by foreigners. A total of US$ 2.4 billion was invested between 2002 and 2008 for the acquisition of farmland in Brazil. This has become a major source of frustration for Chinese companies (Zanatta 2010b). For instance, the Chinese group "Pallas International", wants to acquire 250,000 hectares to produce in the state of Bahia and in the Mapito região to produce grains and bioenergy products (Inácio and Moreira 2010).

In September of 2011, the Brazilian government imposed an additional tax on cars imported from China, further stressing economic tensions between the two countries. Brazil's measure, affected the operations of two Chinese car companies, JAC and Chery, that together account for 1.3% of Brazil's domestic market. This protectionist measure has led JAC to postpone its investments in Brazil (Maisonnave 2011).

B) Perceive China not as a Political Competitor but as a Political Partner: Brazil and China should be approaching the relationship not from a competitive angle, but rather as a partnership. However, Brazil and China need to establish common grounds not only for their economic but political agendas as well. Recently, China has not supported Brazil's international initiatives; which can be seen from China's lack of support for Brazil to become a Permanent Member of UN's Security Council. In addition, Brazil has been reluctant to support China's initiatives as well. Brazil and China approach their global economic, political goals and objectives as interdependent objectives.

C) Exploring Green Technologies: Brazil has one of the world's greenest energy matrixes. China still depends heavily on coal to power most of its economy. Brazil launched an aggressive ethanol and hydropower program in the mid-1970s, that has revolutionize its energy matrix. Brazil, however, has been slow to invest in other green energy technologies such as solar and wind. On the other hand, China's green initiatives are maturing fast. The country has installed close to 12,000 MW of wind energy, the equivalent of Brazil's hydro power plant Itaipu, and has become the world's largest exporter of solar panels. And close to 10% of Chinese residences are using solar power to heat their water needs (Herzog 2009). Until 2020, China wants 15% of its energy needs to come from renewables. Brazil and China could cooperate in the green energy field, since both have developed complementary technologies. In addition, Chinese companies have invested heavily into electric cars, a technology that is still in its infancy in Brazil.

D) Biotechnology: Brazil and China have developed vibrant biotech industries. Brazilian biotech efforts have emphasized research on Brazil's agriculture industry, dramatically transforming Brazil's agribusiness industry. After three decades, Brazil has become a major exporter of food commodities. Biotechnology has been selected as one of the 12th Five-Year plan objectives to emphasize efforts in the areas of biopharmacy, bioengineering, and biomanufacturing. Apparently, there are some possibilities for China and Brazil to develop joint biotechnology programs. For instance, China is currently offering Brazilian ethanol producing companies to develop biotechnology projects aiming at producing cellulose to sell to China.

E) Business Environment Issues: Chinese companies have also complained about Brazil's high taxes, labor laws, corruption, and their promise to recognize China as market economy. Brazil's growing state will certainly imply high tax rates for the coming years. The Dilma Rousseff administration, like her predecessor "Lula", believes in an interventionist state. In addition, high levels of corruption have also dramatically impacted the quality of Brazil's infrastructure and services including but not limited to education, health care, and security.

F) Geo-political partnerships: China will likely encourage Brazil to participate in issues of global security, especially in relation to natural resource allocation. By generating a special relationship in the global forum, global security issues, particularly vis-à-vis the UN Security Council, will be seen as a signal for businesses and social groups to accommodate the social and political differences that currently make Chinese-Brazilian alliances difficult. These gestures will serve as a proving ground for other relationships among BRIC nations, and South Africa as well. Thus, geo-political gestures will become a place where the liability of foreignness is minimized for business leaders across transnational boundaries.

FINAL REMARKS

Among the most striking observations that can be made about the development of a new strategic relationship between Brazil and China is not necessarily mediated by their status as nation-states. The increase in productivity among their respective populations is indicative of the rise of a *global* middle class. China and Brazil's major challenge is to generate institutional similarity that is conducive to economic growth. However, as these social, cultural, and political values are negotiated, they may produce cultural and economic institutions mediated transnationally. Whether or not China and Brazil will become the particular beneficiaries of the attempt to build economies outside of conventional power, it is undeniable that the attempt to do so is producing a new and intriguing place where "flexible citizenship" and institutional power are being challenged (Ong 1999).

Several implications occur as a part of our present exploration of current Sino-Brazilian relations. To summarize, we may employ a brief CAGE framework to understand the implications of these interactions that are taking place (Ghemawat 2001). If Brazil and China are bridging the gap between one another, it is helpful to summarize how these "distances" are being determined (Cultural, Administrative, Geographic, and Economic) and what the implications are for this behavior.

Cultural – The significant expansion of Mandarin-language training with Brazil, notably the increased development of Mandarin immersion language programs in schools, illustrates the long-term cultural connect that Brazil and China will have on one another. Chinese universities are training students to study Portuguese with greater frequency as well. While the *lingua franca* of business remains English, the development of new non-English mediated partnerships will produce a new cultural paradigm, including those dealt with in the business world. As strategic alliances take place, new vocabularies to define how companies and economic strategists address new problems may no longer take place in an English-centric manner. Furthermore, these nations will continue to expose themselves to a global audience, and as a result, will not only produce cultural bi-cultural practices, but also practices that let them participate in a distinct and emerging global cultural landscape. To illustrate this point from another cultural perspective, consider a brief conjecture: the 2008 Beijing Olympics and the 2016 Rio de Janeiro Olympics have and will articulate Chinese and Brazilian culture in the context of global cultural practices. In this regard, the form of multiculturalism that will take place will continue to close the perceived cultural gaps between these two nations.

Administrative − While Brazil and China will continue to cultivate relationships with each other, their major administrative paradigms may be slower to acquiesce. China will not change its two-systems, one government approach unless there are new administrative needs that will require the mainland to change its structure. It is more likely that these changes will occur as Hong Kong connects with multinational enterprises based in Brazil. The relatively liberalized trade gateway that Hong Kong provides China to many parts of the world gives it the buffer to continue performing administrative policies in the mainland without the need to adjust. Brazil, on the other hand, will have to contend with several major policy-oriented issues. For example, in order to increase trade with China, it will have to address issues related to taxation, labor rights, and corruption issues with greater frequency than China. Brazil's policy stage is much more visible than China's and as a result, its administrative apparatus will likely have to be more accommodating. This provides insight into the implications of increased relations and economic integration. Should two nations remain administratively dissimilar, the strategic advantage may go to the institutions that have less visible administrative structures. If economic activity is one way that administrative agendas are articulated, having a system that buffers economic activity prevents the global public from witnessing the negotiations that could produce pressure to change policies that may need changing. This will produce tension between China and Brazil, as well as other countries that relate in a similar manner.

Geographic − While less significant than other factors, the minimization of geographic distance is taking place at a strong rate between China and Brazil. The increased infrastructure in Brazil's airline industry compounded by the increased maritime freight supported by China will continue to keep China and Brazil in increasing "proximity" to one another. What will be interesting to evaluate in future studies will be the impact of joint logistical ventures that will not only bridge China and Brazil to each other but may establish ways for the two nations (and perhaps other big emerging economies) in establishing new lines to transfer people, goods and services to places that normally have less direct lines between these two countries (i.e. South-Central Africa).

Economic − The increase in export performance between the two nations indicates the institutionalization of new trade policies (Adhikary and Maity 2011). Trade policies have a strong connection to political ideation, and as a result, we can suggest that as the flow of goods and services increases between Brazil and China, that these two nations will be compelled to work through any political differences it may currently have, including the current tension regarding Brazil's inclusion as a permanent member of the UN Security Council. Moreover, the increased foreign direct investment undertaken by both countries also produces a strong institutional presence for multinational corporations to set the economic and political agendas of these two large economies. As companies internalize labor policies, price structures, and production techniques, they will become an increasingly integral component of future economic decisions. In the end, these two countries, if they continue to cultivate economic behavior at the scale and breadth that they are currently doing, will compel them to cooperate in global political discussions.

China's ability to generate social policies that maintain a competitive advantage in industrial productivity combined with Brazil's ability to innovate across industries have produced a transnational dialogue derived from the center of the world's income distribution. There is little doubt that the most dramatic economic growth is taking place among nations located in the middle of global power. But there is now evidence to suggest that the global political economy has now shifted in such a manner as to produce its own political subdivisions, oriented to the planet's resources. Brazil and China cannot ignore the power structures of the wealthiest nations, nor can they avoid the growth of nations distributed across most of the world's population. Instead, they must mediate their economic and political power much like the middle class of any self-contained political economy. While consumption patterns could have been determined by nationally-organized objectives, which arose in the 20th century, these deterritorialized economic interactions of the 21st century are creating a moment where a new community of consumers, producers, and citizens imagine themselves to exist outside of the boundaries of nationality or other forms of established ethnic and ideological affiliations. The era of the 21st century may very well be the rise of the global-middle class, and this case study suggests that this begins when interaction between different economies outside of the core of economic and political influence develop new institutions to organize new forms of economic and political activity. Consequently, these transnational alliances have produced transnational political enclaves. As these negotiations improve, the conventional models of global power, where the periphery and semi-periphery relate to each other solely on their competitiveness toward one another will become increasingly irrelevant (Wallerstein 1974; Walz 1979; Meyer et al. 1980; Robertson 1992).

Future studies of the global political economy must take seriously the emergence of a new global population, derived from transnational alliances, capable of influencing political and economic power at a global level.

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