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Economic Relations between Brazil and China: A Difficult Partnership

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1 Introduction

In forging alliances with other countries of the South, President Lula's government aims to diversify Brazil's pattern of trade and enlarge the country's influence in the international arena. In the eyes of the Brazilian government, joint action by the leading powers of the South holds the potential of creating a "new geography in international trade" and establishing a multipolar international order. A key partner in this vision is China, who has repeatedly been heralded by the Lula Government – so by Brazilian media and think tanks – as Brazil's most promising business partner and a strategic ally. China's rapidly rising demand for raw materials and agricultural produce, which Brazil is well placed to supply, and China's promise to invest in Brazil's infrastructure, could indeed hold great potential. Yet in the last months, the general euphoria over a partnership with China has given way to increasing disappointment. The reason for this is that parts of the Brazilian economy have begun to face stronger Chinese competition. Moreover, China has taken a range of political decisions, for example with regard to a prolongation of the mandate of the Brazilian-led peacekeeping mission in Haiti or an enlargement of the UN Security Council, which have nourished skepticism in Brazil over whether the future superpower China is indeed willing to act as a political partner. It is against this background that we analyze the nature and potential of economic and political relations between Brazil and China.

Brazil and China's economic relationship may be divided into two phases. Between 1999 and 2003, a pattern of trade was built up which generated a substantial trade surplus for Brazil. This surplus resulted from market gains obtained by Brazilian commodities on the Chinese market, but also from rising commodity prices. In 2004, however, this pattern of trade began to change as a result both of significantly reduced trade balances and of the fact that Chinese products were gaining a market share in Brazil in new sectors without losing their edge on the more traditional sectors such as toys and clothing. Chinese products have gained a market share especially in more dynamic sectors such as electronic goods, machinery and equipment. At the same time, Chinese investments – though they still occur at a comparatively low level – are also growing more dynamically than the total foreign direct investment received by Brazil. To understand the development of the pattern of trade between Brazil and China it is necessary to analyze the existing contrast between Brazil's and China's development models and ways of entering foreign markets, as well as the specific way in which the economies of both countries interact.

Analyzing the political and diplomatic dimension of Chinese-Brazilian relations, our underlying assumption is that the Lula Administration, driven by trade gains, has decided to seek a new form of partnership with China. Brazil hoped that by attributing the statutes of a market economy to China and voting in the UN Human Rights Commission in favor of China, it would in exchange receive China's approval for a Brazilian Security Council seat, and would be able to negotiate an end to certain trade barriers in the food sector. However, this strategy failed in the sense that uncertain political advantages were negotiated while more substantial economic relations that might enhance productive partnerships and diversify trade flows between both countries have so far not been promoted.

With regard to internal pressure groups attempting to impact Brazil's relation with China, it can be noted that the Brazilian business community has responded to the change in the Brazilian-Chinese pattern of trade with rising pressure on the government. This pressure comes from different sectors within the business community which have diverging interests concerning China. The Government's foreign policy towards China is supported by those sectors of the business community which benefit from a pattern of trade focused on commodities. However, there are also many who feel that they suffered when the Chinese export agenda went through a qualitative transformation.

Despite the deficiencies which exist in Chinese-Brazilian relations from a Brazilian point of view, it would appear that unlike in the case of other Latin American countries, China looms not only as a threat to Brazil but also as the potential breeding ground for broader economic and political relations between both countries, owing both to the Brazilian economy's industrial base and to the international projection Brazil has acquired in trade negotiations.

2 Brazil and China: Distinctive Macroeconomic Developments in the 1990's

During the 1990's, Brazil's and China's respective macroeconomic development was very different. Although both economies increased their interaction with the international economy, it is fair to say that their policies on entering global markets were developed on the basis of a diverse if not opposing set of assumptions and premises.

Tabel 1 – Comparing Recent Macroeconomic Development – Brazil X China

Macroeconomic Variables	Brazil	China
Growth of per capita GDP (annual average 1990-2003, in %)	1.2%	8.5%
Average rate of investment in 1990-2000 (in % of the GDP)	20%	33%
Import growth rate in 1990-2003 (annual average, in %).	6.4%	17%
Export growth rate in 1990-2003 (annual average, in %).	6.7%	16.2%
Trade Chain GDP Participation in US$ (2001-2003)	28.7%	57.1%
Manufactured Exports Participation in Total Exports	52%	91%
High Tech Exports Participation in Total Exports	12%	27%
Participation in world total FDI (1997 to 2002)	2.9%	5.3%
Foreign Debt/Export Ratio (2000-2002)	3.16 vezes	0.52 vez
Per Capita Income in US$ PPP	7,790 (position 64)	5,003 (position 93)

Source: UNDP, WTO, World Bank, and UNCTAD; developed by the authors.

Chart 1 shows the performance of major macroeconomic variables in order to qualify the paths taken and the results achieved by both these countries in the recent period.

Firstly, the rates of expansion are remarkable when we compare both economies. In the 1990-2003 period, the Chinese economy expanded four times faster than the Brazilian economy if we use the criterion of per capita income (8.5% against 1.2% a year).

While the Brazilian economy in the 1990's experienced a stabilization process combined with a typical stop-and-go situation, remaining within a growth rate of 5% for two consecutive years, the Chinese economy has shown a remarkable GDP dynamism anchored on high investment rates, which can be explained by expanded exports, an active presence of the State, and domestic market expansion in the context of extreme caution about capital market liberalization. Capital market liberalization was initiated in Brazil even before the *Plano Real,* while in China this step was realized only progressively after the nation had joined the WTO in 2001.

Partly as a result of an exchange-rate peg between 1994 and 1998, Brazilian export expansion followed the same rates as the international economy average for 1990-2003, while Chinese exports grew at 2.5 times the global average, putting the country at 3rd largest exporter in the world with a total of 6.5% of world exports.

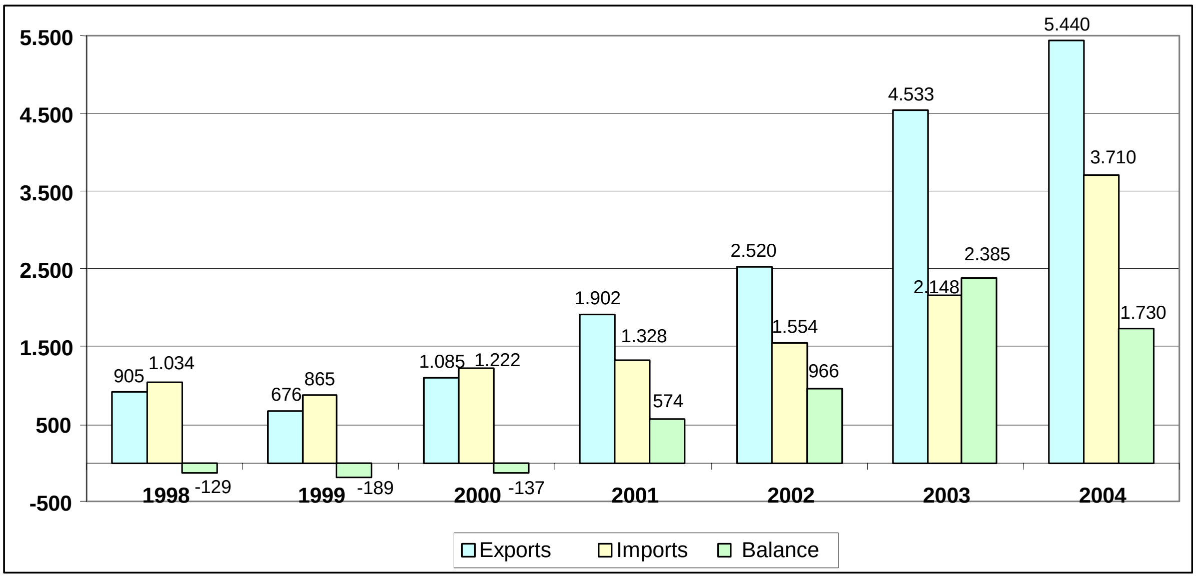
Furthermore, China was able to upgrade its exports, 91% of which are composed of manufactured goods and more than a fourth of which are technology-intensive goods, against 52% and 12% respectively for Brazil.

This means that Chinese external sales were followed by supply enhancements, while the Brazilian 2004 export boom was supported largely by a valorization of commodities. This year, Brazil merely returned to the level of 1.1% of total global external sales which had been achieved in 1989—the period before the national commercial deregulation.

Finally, unlike in Brazil, foreign direct investment (FDI) in China was not only more substantial but also did not suffer from the post-2000 worldwide reduction. In 2003, the flow of FDI to China represented 9.6% of the world's total, against a flow of 1.8% to Brazil, where a slowdown in FDI flows due to the end of the privatization program and to the country's low level of economic growth can be observed. Additionally, at least until 1999, Brazil experienced high deficits in current transactions as well as high levels of foreign debt, whereas China was able significantly to increase its international reserves.

The fundamental difference between both countries seems to reside in the nexus between exports and investment, which allowed China's productive capacity to increase while in Brazil and the other Latin American countries the volatility of exchange rates brought about sudden changes to growth and investment rates, inducing these countries to resort to strict monetary policies.

Chart 1 – Exports, Imports, and Brazilian-Chinese Trade Balance in 1998-2004 (in US$ million)



Source: Secex/Mdic: Prospective terms.

According to the categories outlined by UNCTAD[1], China could be classified as a rapidly industrializing country facing a structural transformation of its productive base. In Brazil however, deregulation did not bring about deindustrialization, but kept the country from diversifying its industrial base and from promoting a competitive leap forward in the most dynamic sectors of international trade.

Economic Relations between Brazil and China: Emergence of a New Pattern of Trade

Brazil's and China's distinct macroeconomic developments and options for foreign market entry have been interconnected over the past few years, and have led to changes in the relationship between the two economies.

The impacts of China's economic expansion upon Brazil's economic expansion may be divided into indirect and direct. Impacts of the first category are factors related to the vigor of the international economy between 2003 and 2005, but also to the fact that the Chinese economy was able to mitigate the effects of the international crisis in the three years immediately before this period. Insofar as they contribute to filling the US current account deficits, Chinese commercial surpluses favor capital transfers to emerging economies, while they also increase the demands by other countries importing Brazilian products.[2]

Direct impacts are those related to the expansion of the Chinese demand for agricultural and mineral commodities, leading to an increase of their prices on the international market. An analysis of Chinese imports shows that, in fact, 19% of agricultural produce imports and 7% of mineral produce imports come from Latin America, although in total Latin America accounted only for 3.6% of Chinese imports in 2003 (WTO).

Brazil plays a relevant role in the Chinese market, and accounted for approximately 42% of Latin American exports to China this year[3]. In contrast, in terms of the actual Chinese share of total national exports, Brazil ranks fifth in the region, "losing" to Chile, Peru, Argentina, and Cuba[4]. In 2004, China was responsible for 5.7% of the Brazilian trade chain, being preceded only by the European Union, United States and Argentina. The year 2003 represented the climax of a pattern of trade which, having initially proved to be a favorable conjuncture to Brazil, began to show different structural traits already in early 2004. Remarkably, the flow of trade between both countries in 1999-2003 increased by 3.4 times. At the same time, Brazil witnessed an impressive commercial balance increase from a negative result of little more than US$ 100 million to a trade surplus of US$ 2.4 billion (chart 1), which represented 10% of the total national balance. Brazilian exports to that country experienced a 400% increase in the same period.

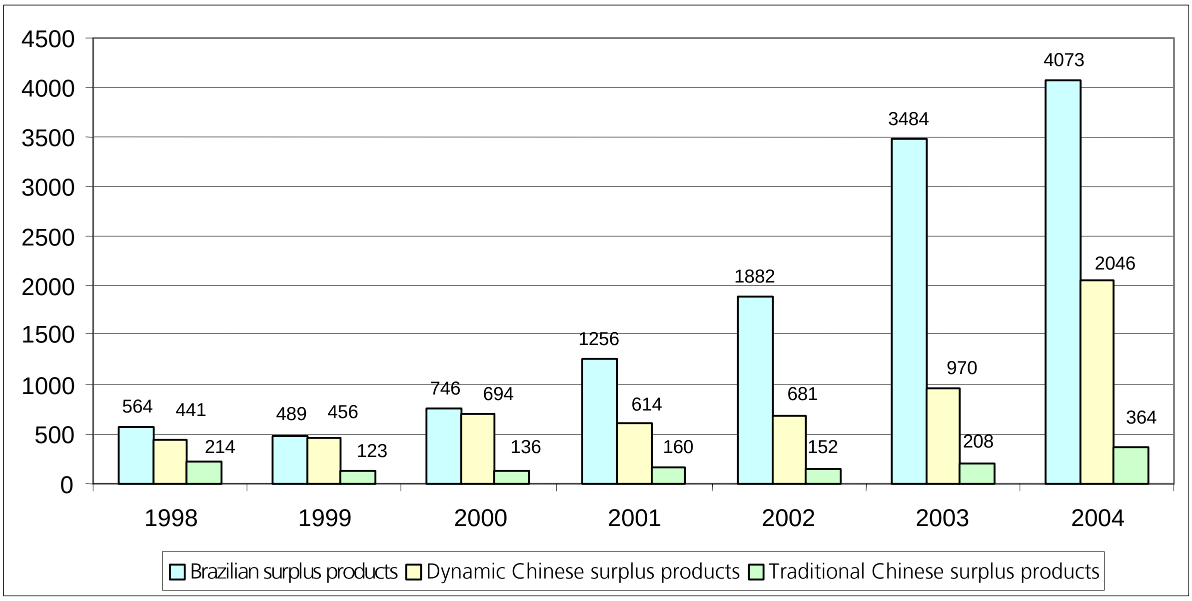
1 Capital Accumulation, Growth and Structural Change, in: *Trade and Development Report 2003*, Geneva: UNCTAD, 2003.

2 João Sayad, "Fantasma", in: *Folha de São Paulo*, August 29, 2005.

3 *Panorama de Inserción Internacional de América Latina y el Caribe – 2002-2003*, Santiago: ECLAC, 2004.

4 *Latin America and the Caribbean in the World Economy – 2005 Trends*, Santiago: ECLAC, 2004.

Chart 2 – Brazilian-Chinese Surplus According to Characteristics of the most Important Products in Both Countries' Agendas (in US$ million)



Source: Secex/Mdic: Prospective terms.

However in 2004, a new pattern of trade began to emerge. In a single year, the trade flow increased by nearly 40%, while the Brazilian trade surplus decreased by 27%. In one year alone, Chinese exports to Brazil grew by more than 70%. And the rate of Brazilian trade surplus decline continued in the first quarter of 2005, matching that of the previous year, from US$ 1.409 billion to US$ 436 million.

Chart 2 allows us to raise some important hypotheses about this transformation. The joint commercial balance of products where Brazil boasts considerable surplus – soy, soy oil, iron ore, wood, and pulp – rose by a factor of over 7 between 1999 and 2004, with notably slower post-2003 expansion rates.

According to Table 2 below, in that period Brazil benefited not only from its Chinese partner's demand but also from competitive gains in these sectors, so much as to obtain a market share in China's imports and to displace other important players worldwide. The country became an outstanding exporter of soy beans, soy oil, and iron ore, and consolidated its position in pulp and paper exports. As regards cotton, the country's position is still marginal despite the Brazilian competitiveness. This scenario could be changed, depending on reductions in domestic support, which might eventually impact exports by the USA, the top cotton supplier to the Chinese market. Brazil's primary exports boom therefore cannot be explained without mentioning Chinese demand, which accounts for 18% of Brazilian agricultural exports and 21% of the external sales of metallic ores[5].

On the other hand, the Chinese have assertively advanced into the Brazilian market, particularly in the more dynamic sectors. While the surplus from more traditional sectors – textile, clothing, shoes, and others – leapt from US$ 214 million in 1998 to US$364 million in 2004, in the case of those aggregate sectors in chapters 84, 85 and 90 (see table 2) – which correspond to organic chemical products, machine and equipment, electronic components, plus optical and photographic instruments – the leap reached 363%, surpassing US$ 2 billion in 2004. A good portion of this increment was concentrated in 2004, showing that the Brazilian trade surplus with China has tended to shrink, and may even shift in the mid-term if the current economic growth trend is maintained above 3.5%.

A review of Chart 3 leads to a more refined understanding of the new pattern of trade between both countries. If China has consolidated its position as a major supplier to Brazil of toys, clothing, and synthetic filaments, what deserves to be pointed out both in terms of exported value and gains of market share is the performance in the more dynamic sectors. As an exporter of electric machines and devices to Brazil, China has risen from seventh to first place, overtaking the US, Japan, Germany and South Korea.

[5] Fernanda de Negri, "Perfil dos Exportadores Industriais Brasileiros para a China", in: *Revista Brasileira de Comércio Exterior*, N. 84, August / September 2005.

Table 2 – Participation of Brazil's main export products in the Chinese Market

		1999			2004		
		Total Exports (US$)	Market-Share (in %)	Ranking	Total Exports (US$)	Market-Share (in %)	Ranking
Chapter 12	Oily fruits and seeds	171,963,034	10.5	4	2,077,123,163	28.2	2
Chapter 15	Oils and fats	61,331,044	4.5	5	543,420,230	12.9	4
Chapter 26	Ores, Scrap and Cinders	322,792,449	14.7	2	2,921,260,609	16.9	3
Chapter 44	Wood and Construction	13,986,019	0.5	23	157,276,175	3.0	9
Chapter 47	Pulp	71,628,865	4.3	6	393,048,273	7.4	5
Chapter 48	Paper	11,920,769	0.3	25	38,828,828	0.8	22
Chapter 52	Cotton	201,768	0.0	50	26,335,271	0.4	22
Chapter 72	Iron and Steel	33,871,994	0.5	15	657,928,072	2.8	7
Chapter 87	Automobile, Tractors and Parts	5,534,312	0.2	19	134,969,218	1.0	9

Source: Comtrade/UN: Prospective terms.

Table 2 – Participation of China's main export products in the Brazilian Market

		1999			2004		
		Total Exports (US$)	Market-Share (in %)	Ranking	Total Exports (US$)	Market-Share (em %)	Ranking
Chapter 84	Mechanical Machines and Devices	127,231,047	1.4	11	438,666,512	4.7	5
Chapter 85	Machines, Electrical Materials	254,380,582	3.3	7	1,496,239,913	16.6	1
Chapter 90	Optical and Photographic Instruments	41,866,498	2.4	7	244,382,149	10.3	3
Chapter 54	Synthetic Filaments	3,715,557	0.9	18	152,851,536	23.4	1
Chapter 61	Clothing and Accessory Knitted Goods	15,615,617	28.7	1	22,812,714	42.2	1
Chapter 62	Clothing and Accessories, excepting knitted goods	23,391,400	20.8	2	51,387,211	52.4	1
Chapter 95	Games and Toys	55,929,868	42.1	1	77,866,862	72.2	1

Source: Comtrade/UN: Prospective terms.

There are thus few high value-added products and sectors in which Brazil stands out as an exporter to the Chinese market. Manufactured products form around 17.7% of exports to China, as opposed to 54.9% of all Brazilian exports (Secex/Mdic). In sectors such as paper/pulp and steel/iron, Brazil tends to export products from the beginning of the value chain, with a reduced proportion of exports to China being finished products. In the car components sector, Brazil has increased its exports to the Chinese market, though these are irrelevant in Chinese total imports.

Why has Brazil become a significant exporter of manufactured goods – 94% expansion from 1999 to 2004 – but cannot access the Chinese market, where a growing primarization trend has been observed? A recent IPEA study revealed that between 1999 and 2003, the number of Brazilian companies exporting to China tripled, going from 400 to 1,400. These are higher productivity and more technology-intensive companies than the average Brazilian exporting companies[6]. The fact that these companies export low value-added products to China is basically due to the international strategy of Chinese companies – high production scale and a priority to add value internally – to which the country's macroeconomic development in the past twenty years has contributed. This hypothesis shows even more consistency when one considers the application of an average 11.3% Chinese tariff

6 Fernanda de Negri, op. cit., 2005.

for non-agricultural products, below that practiced by other developing countries. Therefore, it is exactly in the industry sectors – where the proportion of Brazilian exports to China is far below the participation of these sectors in the total national foreign sales – that tariffs seem to be less relevant, though there are some tariff peaks and non-tariff barriers for certain specific chapters and products, especially for durable consumer goods[7].

To shift this scenario, a definition of intra-sector productive partnerships between both countries appears necessary, as does a shift in Brazil's macroeconomic trend towards a diversified expansion of the productive structure, with gains of scale and gradual occupation of foreign markets.

With regard to capital flows, besides the joint ventures developed in China by Brazilian companies, such as Embraer, Embraco, Marcopolo, and others, the most relevant case has been China's increasing FDI in Brazil, although this may still be at low levels. Data from Brazil's Central Bank show a 100% expansion of Chinese FDI flows between 2001 and 2003, concerning the inventory of 2000, while the amount of incoming FDI in Brazil increased only by 40% in that same period.

3 Brazilian-Chinese Agreements under the Administrations of FHC and Lula

The Lula Administration is very keen on bringing Brazilian-Chinese relations to a new stage. This foreign trade policy is evident when one observes that, after less than three years in power, the current administration has signed more agreements with China than the administration of Fernando Henrique Cardoso did in both its mandates. Since January the 1st, 2003, the date when Lula was inaugurated as the President of Brazil, 18 memoranda of understanding have come into effect for science, technology, sports, transport, sanitary and phytosanitary standards, visas, industrial cooperation, and investment and trade[8]. Half of these memoranda were signed during the May 2004 presidential visit to China. By contrast, during FHC's eight year administration only 17 agreements were signed in nine different areas.

More recently, in multilateral forums such as the UN Human Rights Commission, Brazil has made a dramatic shift towards China, having voted for a non-action motion in 2004 that stopped voting for the resolution on China. The resolution encouraged China to permit rapporteur visits and to cooperate with the international community on Human Rights issues. Another movement in the same direction occurred when the Brazilian diplomacy acknowledged China as a market economy during Hun Jintao's visit to Brazil in November 2004.

More than 18 months after Lula's mission to China, the Brazilian foreign policies to China have been strongly criticized from a number of sectors in society, which go so far as to speak of a "diplomatic illusion"[9]. This criticism is based on the perceived lack of results from Brazil's new positioning. The government is being challenged mostly for having counted on China's support of one of the current administration's main foreign policy objectives, which is to become a permanent member of the UN Security Council. China's position against new entries to the UN Council is seen as major evidence of non-reciprocity in the relations between both countries, even though China's objective was to keep Japan from entering that body rather than to veto Brazilian aspirations. Brazil allegedly compromised on economic and political matters (hence the shift in the Human Rights Commission) in order to obtain political advantages, which have not been delivered.

Even in the WTO, the G-20 alliance between Brazil and China seems to revolve around the issue of agriculture, where both countries tend to take increasingly divergent positions, which can be explained by their different economic and productive paths. One example is China's adherence to the Information Technology Agreement which Brazil refuses to sign.

Finally, in the various G-8 meetings to which Brazil's and China's heads of state have been invited along with many other political leaders from developing countries, a converging South-South position that could impose policies and make demands from countries in the North has not emerged.

One must consider, however, the criticism leveled at Brazilian policymakers. Besides any political alliances, the strategy of improving the status of Brazilian-Chinese relations incorporates other interests. For some export companies, mostly

[7] Lia Valls Pereira and Galeno Tinoco Ferraz Filho, *O Acesso da China à OMC: Implicações para os Interesses Brasileiros*, Rio de Janeiro: Funcex, July 2005.

[8] Besides these areas, the country has cooperation agreements with the Chinese in areas such as communications, energy, and education, signed by previous administrations.

[9] The September 17, 2005, editorial of the "O Estado de São Paulo" newspaper classified the country's foreign policy for China as "diplomatic illusion".

those in the area of natural resources, there are few markets that present dynamism and growth opportunities that can match those in China. The investment potential of Chinese companies is also seen as strategic, whether by companies seeking opportunities for partnership or by governments at all levels of the federation looking at enhancing export infrastructures.

It is not by chance that President Lula's visit to China in 2004 involved a delegation of nearly 500 business-people and public authorities. Beyond agreements on political understanding in a number of areas, 14 agreements were signed between Brazilian and Chinese companies. Among these, the following cooperation agreements are particularly worth mentioning:

- An agreement between the Company Vale do Rio Doce (CVRD) and the Shanghai Baosteel Group Corporation looking at the creation of a joint venture to produce steel in Maranhão;
- An agreement between the CVRD and the Aluminum Corporation of China on the exploration of bauxite and the production of alumina in Brazil on the export to the Chinese market;
- An agreement between Petrobras and Sinopec for the exploration of oil in third-party countries;
- An agreement between the China National Machinery and Equipment Import and Export Corporation and the Central Termelétrica do Sul on the construction of a coal thermoelectric plant in Rio Grande do Sul;
- An agreement between the Banco Nacional de Desenvolvimento Econômico and the Citic Group on the development of export-focused finance and joint venture projects.

While political results from the diplomatic advances to the Chinese have not been perceived, the Chinese contribution to increasingly positive outcomes in Brazil's balance of payments has been evident, even if the commercial agenda restrictions above are taken into account. Judging from the development of business agreements, however, Brazil has very little to celebrate. None of the agreements signed in May 2004 has yet been realized. Increased Chinese investment has not been the result of Lula's diplomatic effort, but has largely consisted of investments made by industrial sector companies in the fields of telecommunication equipment and electro-electronic materials interested in expanding their presence in the Brazilian market.

In the fields of science and technology, cooperation with the Chinese has yielded good results. In 2003, the China-Brazil Earth Resources Satellite launched its second satellite. However, one must consider that the CBERS program was inaugurated by the Sarney Administration in 1988 and the first satellite was launched during the FHC Administration.

Thus the Lula Administration has not, despite all of its efforts to bring Brazilian-Chinese relations to the forefront of its international agenda, been able to establish a mechanism that could bring Brazil political support in multilateral forums, or create new productive partnerships. The latter seem to depend on the "good will" of business-people, in sectors where comparative advantages are natural and Chinese interests are evident.

In summary, initially positive economic results may be said to have stimulated the Lula Administration to "bet on China", relying on Chinese support and in the belief that there would be unrestricted economic gains for Brazil and that economic advantages could be offered to China in exchange for greater projection of Brazilian foreign policy in the international scene. As of 2004, as a result of a new pattern of trade configuration, the economic gains have diminished, generating internal conflicts with part of the national business community, as we shall see further ahead in this paper, and the political dividends have not been obtained.

In any case the initial foundations for a strategic partnership have been laid. And, if this strategic partnership is to be realised, both parties' objectives and interests must be reviewed in the political as well as in the economic arena.

4 The View of the Brazilian Business Community

China's rise as a major player in international trade has brought about some interesting movement amongst the Brazilian business community, leading to a polarization between those who see China as a threat and those who see it as a source of opportunities.

The first group is composed mostly of the industrial sectors, which have not only been losing market share in third-party markets but have also been threatened by Chinese imports. On the other side are basic product-exporting companies favored by the dynamism of Chinese demand. Among the sectors under Chinese threat is the textile industry which has – as a result of increased Chinese exports leveraged by the end of WTO's Textile and Garment Agreement – become the leading force in business alliances urging to impose safeguards against Chinese products. Besides the strong association representing the interests of Brazil's textile industry (and which influences positions adopted by Latin America's major business association), the FIESP (the Federation of Industries in the State of São Paulo), whose president Paulo Skaf is a key player in the textile sector, also belongs to this group. Interestingly, the president of ABIT (the Brazilian Textile and Garment Industry Association) is the son of the country's Vice-president José Alencar, which up to a certain point facilitates channeling sector interests to governmental spheres.

By allying with sectors that previously held opposing views about other commercial fronts, such as negotiations leading to the Free Trade Agreement of the Americas (FTAA) or to an agreement between Mercosur and the European Union, the textile industry has inaugurated a new logic of business networking to face the Chinese threat. Sectors that used to make serious restrictions to the FTAA, and are now aligned with the textile industry, include machines and equipment, electro-electronic, and chemicals. Besides these, other sectors demanding protection against Chinese imports are shoes, jewelry and ornaments, office materials, sanitary metals, leather products, paper, pharmaceutical products, optical industry, animal health products, metallurgic products, car components, and furniture. Thus all these sectors, from the more traditional up to the more technology-intensive, are united in the same "anti-China" front. The major demand of this group of companies was to impose safeguards against Chinese imports. Two specific safeguard mechanisms included in China's WTO Accession Protocol are applicable (one of which is textile sector specific), but for sectors to resort to these mechanisms, they must be regulated, as had already been carried out in the US, the EU, and Argentina. Only a while after announcing regulation of the specific safeguards, and also after a last attempt at negotiating voluntary mechanisms on the part of the Chinese, did the Brazilian government decide in October 2005 to internalize these mechanisms.

On the other hand, the Lula Administration has allies in their foreign policy towards China in the form of a number of companies with commercial interests in that market, mostly basic product-exporting sectors such as meat, vegetable oil, food, wood, coffee, and pulp, as well as banks operating in international trade, transport and trading companies. For this group of companies, the demand led by FIESP and the textile industry to regulate safeguards may overburden bilateral relations, eventually hampering their Chinese market operations. This group of companies has formed the Brazil-China Business Council, which not only advocates their interests to Brazilian and Chinese authorities but has also been promoting a positive agenda that tries to enhance the profile of economic relations between both parties.

Besides the issue of safeguards, recognizing China as a market economy in the terms of the WTO agreement has also helped to polarize further these two business groups. In practice, what has changed with the Brazilian authorities' statement is that the criteria to investigate dumping activities developed by Chinese companies has become stricter. Despite the pro-China movement, the government's position has been ambiguous, which reflects the power both groups hold in the Lula Administration. And finally it must be mentioned that, as with the specific safeguards against China, recognition of China as a market economy has not yet been regulated, meaning the rules to file dumping cases against that country remain unchanged.

5 China: neither Salvation, nor Threat.

This paper has tried to present two coinciding but not necessarily complementary processes which have underlain Brazilian-Chinese relations in the recent period.

On the one hand, an intensifying volume of trade between both countries resulted in impressive trade surpluses for Brazil, at least until 2003, at precisely the point when exports were the sole mechanism to activate internal demand. Having said this, a new pattern of trade emerged in 2004, which reduced the Brazilian commercial balance with China and saw the latter become an important supplier of industrial products to Brazil without losing its existing grip on traditional ones.

On the other hand, the Chinese economic rise and its impact on Brazil has allowed the Lula Administration to raise Brazil's status to that of a privileged partner, which was only a distant possibility during the FHC Administration, and far from certain. This strategic option for China has not yet brought about the expected political dividends, but rather certain internal tensions within sectors of the national business community, in particular after the shift in the pattern of trade, which seems to have been underestimated by Brazilian policymakers.

Despite some localized criticism, space for a strategic relationship between Brazil and China can still be perceived, especially if the Brazilian government pushes for greater diversification of Brazil's export agenda to that country, encouraging the development of new productive partnerships beyond traditional sectors and using the minimum protection is necessary to guard national producers.

In the political field, Brazilian-Chinese relationships could also surpass the realm of the UN and be consolidated in other multilateral forums, such as the WTO, the World Bank, and the IMF, despite both countries' increasing divergence concerning foreign market entry.

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