

BRAZIL AND CHINA: AN ASSESSMENT OF RECENT TRADE RELATIONS

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Summary

The aim of this paper is to analyze Brazil/China trade relations over the twenty-first century, highlighting the performance and composition of exports and imports, as well as developments in the relative importance of China for Brazil in this field. Assuming this trade relationship as an important part of a strategic partnership of these countries, the main conclusions are: (a) there was a significant increase in the Brazil/China trade in the period, which substantially raised China's relative share in the Brazilian foreign trade; (b) despite of this feature, the dynamics of the evolution of exports is fundamentally different from that presented by imports, which requires greater Brazilian assessment for managing the commercial policy of the country.

Key words: *Brazil, China, Foreign trade.*

JEL: *F140, F100; Q17.*

Introduction

Since the announcement in May 2004 (*This announcement was made in the context of the visit of President Luiz Inacio Lula da Silva to China*) of the strategic nature of the relations Brazil - China, a series of axioms have been launched to describe this relationship. One could observe some experts warning about the risks of the Brazilian exposure to competition of China and some others who feel it a great “window of opportunity” to Brazil’s development path. The big issue is the level of internal complexities of the two countries, as well as the complexity of the international situation after the crisis of 2008 (not properly placed in this calculation). Or are poorly calculated. In this sense to nominate the relations between the two countries as “strategic” is still the best way to quantify the importance of exchanges at all levels occurring between Brazil and China.

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Strategy should be analyzed as a category that permeates all branches of the social **sciences and particularly economics**. **There are strategic relationships when one** realizes the communion of similar visions of the world. In this case, from the opposition to the international financial order to the vision of the terms of trade imposed by major international organizations, as the World Trade Organization (WTO). These are visions of the world built over different historical processes by which the two countries passed at same historical time with their own geopolitical and economic importance. Brazil's national development experience certainly served as a parameter to the very implementation of China's economic reforms in 1978. The Chinese new process is almost an anchor of inspiration of Brazilian thinkers of the developmental field. In addition, China's rise is the fundamental unit of analysis to examine the future of international relations, Latin America and Brazil itself.

The study of trade relations must bear a necessary practical consequence of options in trade policy made by both countries in the 1990s. Orthodox evidence tend to emphasize "comparative advantages" properly harnessed for our country. Developmental visions run the risk of not understanding the background the ongoing transition in the world and the intense participation of Brazil in it, incurring the effect "structure" when it comes to de-industrialization resulting from this "relationship". The first analysis errs on the primarism of the belief in a development resulting from this vision. The second is correct in essence, but commits the same neoclassical mistake putting the economics in primary position comparing to the politics.

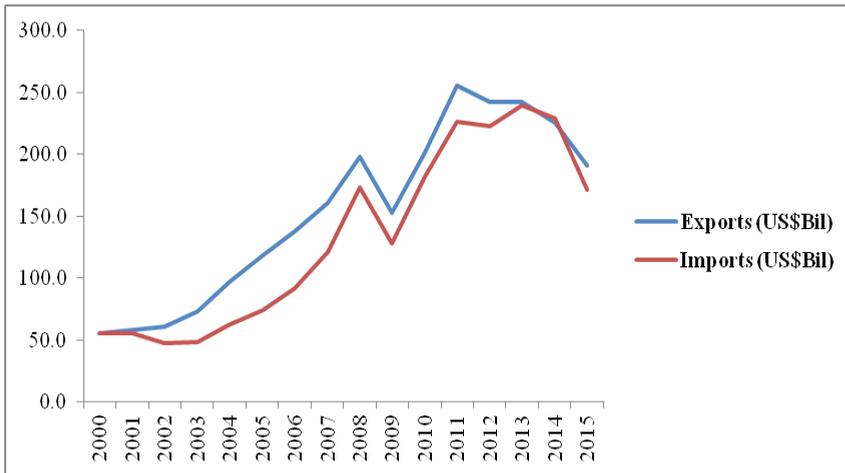
Moreover, the abstraction allows to reach the strategic element of the relationship. Both countries have increased the degree of mutual importance. The effect of Chinese "demand" allowed Brazil to implement a broad set of domestic social policies with success between 2004 and 2010. In addition, one must observe the formation of a large foreign exchange reserves which permitted the country to drop domestic interest rates and helped to deal better with the international economic instability. The increase in Chinese investments in Brazil indicates both an alternative for external financing as one preferential market to absorb part of its excess productive capacity. Clearly the contradictions are placed and are inevitable. Similarly it is unlikely the return of Brazil to external financing conditions applied under the IMF and World Bank. Just as the very chronic demand crisis in the North Atlantic countries will condition us to an ever closer relationship with the Asian giant, regardless of the fall in commodity prices.

How Brazil should behave facing the inexorability of this relationship? This question will not be the object of this article as a whole. The proposal of this paper is to describe the degree of importance of China to Brazil, based empirically on data from the trade relations. Thus, the next section analyzes Brazil/China trade relations with regard to the import and export flows of goods and services, the relative share of trade with China and the qualification of the trade in terms of traded products. Then, in the final section, we listed the main conclusions of the analysis.

Brazil/ China trade relations: recent evolution

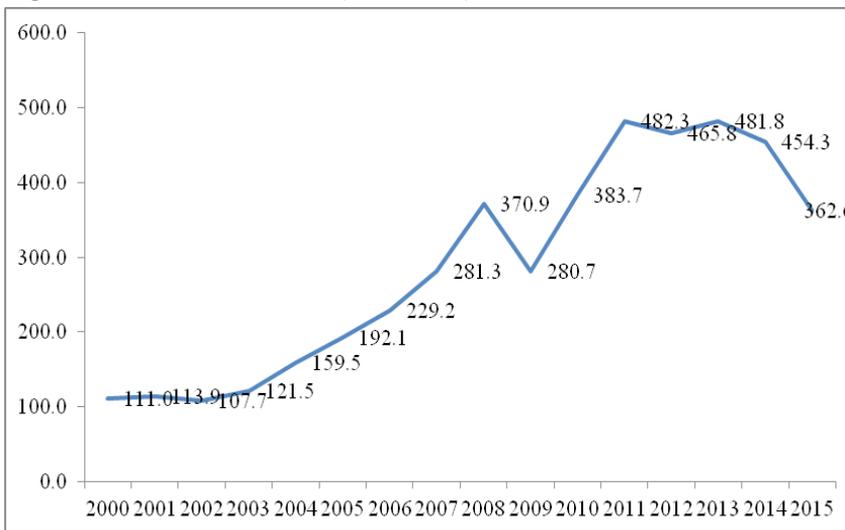
Brazilian foreign trade has presented a strong growth along the twenty-first century, particularly from 2002/3. As shown in Figure 1 and 2, in 2012 both exports and imports were about five times higher than at the beginning of the decade, when it began to lose steam, dropping to a lower level - but still much higher than in 2000. Thus, bilateral trade has grown significantly in the period. This performance is in large part the result of the evolution of international commodity prices, whose growth was significant until 2012/3, starting a reverse trajectory thereafter.

Figure 1. Brazil - Exports and Imports (2000-2015) - US\$Billions



Source: MDIC/Brazil

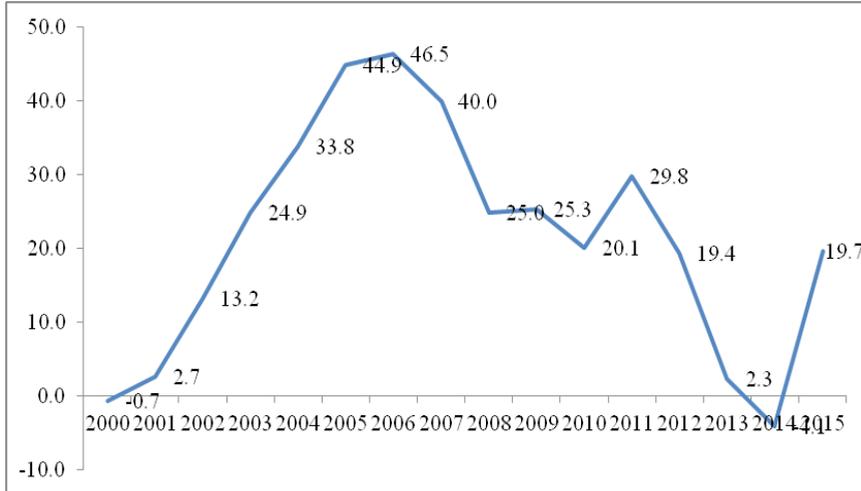
Figure 2. Brazil - Total Trade (2000-2015) - US\$Billions



Source: MDIC/Brazil

In spite of the simultaneous growth of exports and imports, exports from Brazil showed a faster pace than that of purchases, resulting in a significant increase in the trade surplus. Figure 3 clearly shows this. From a deficit in 2000 of 0.7 billion dollars, it turns into a trade surplus of 46.5 billion dollars in 2007, falling from then mainly due to the effects of the economic crisis the North Atlantic started in 2008.

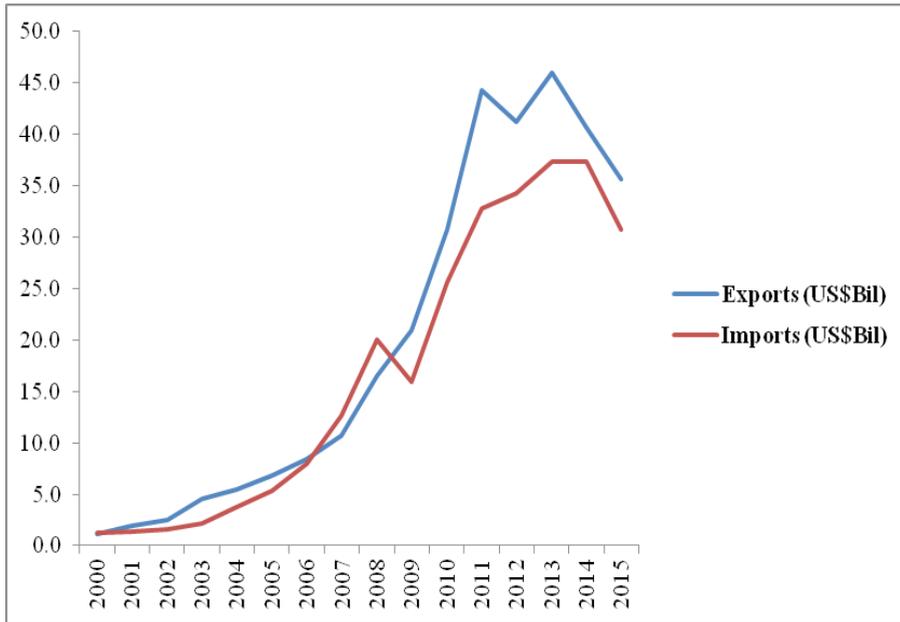
Figure 3. Brazil - Trade Balance (2000-2015) - US\$Billions



Source: MDIC/Brazil

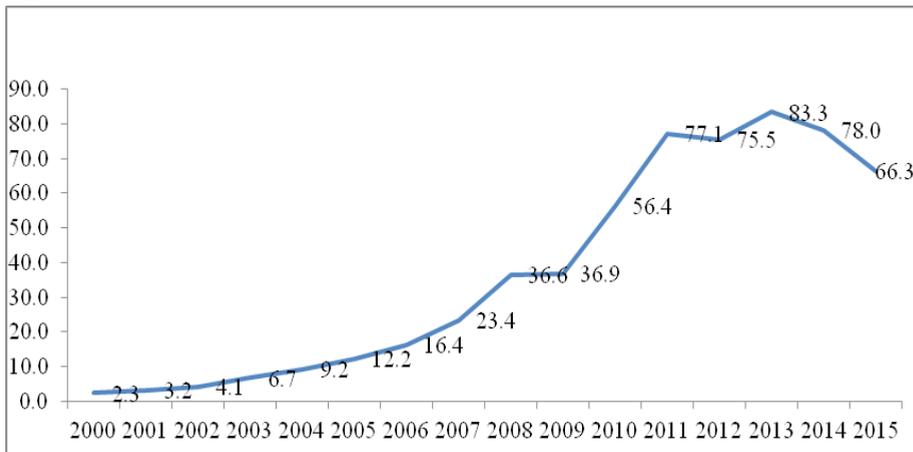
Trade relations between Brazil and China is a key element to understand the Brazilian foreign trade behavior in the twenty-first century. According to the figures 4 and 5, from a insignificant level of sales and foreign purchases of both countries in 2000, they reached around 40 billion dollars a year over the period 2011/13 (bilateral trade records 83.3 billion in 2013), highlighting mainly the increase in exports, which were worth about 45 billion dollars in 2011.

Figure 4. Brazil X China - Exports and Imports (2000-2015) - US\$Billions



Source: MDIC/Brazil

Figure 5 - Brazil X China - Total Trade (2000-2015) - US\$Billions

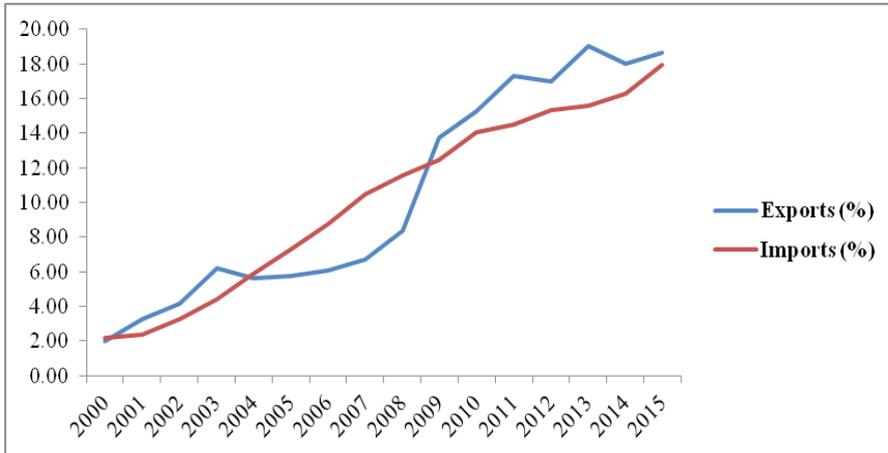


Source: MDIC/Brazil

As a result of this scenario, China’s relative share in Brazilian foreign trade, of only 2% in 2000 reaches close to 20% in 2015, making China the main Brazilian trade partner - see Figure 6. Important to note that the strengthening of trade relations of the two countries recorded a continuous path of increase since 2000. To a great extent, this behavior is determined, in addition of the continued and strong pace of growth of the Chinese economy since the 1980s, for the most strategic approach of China with emerging markets in Latin America and Africa.

In Brazil, not only trade relations were impacted significantly, but there was simultaneously a relevant increase of Chinese capital flows, especially FDI (Foreign Direct Investment).

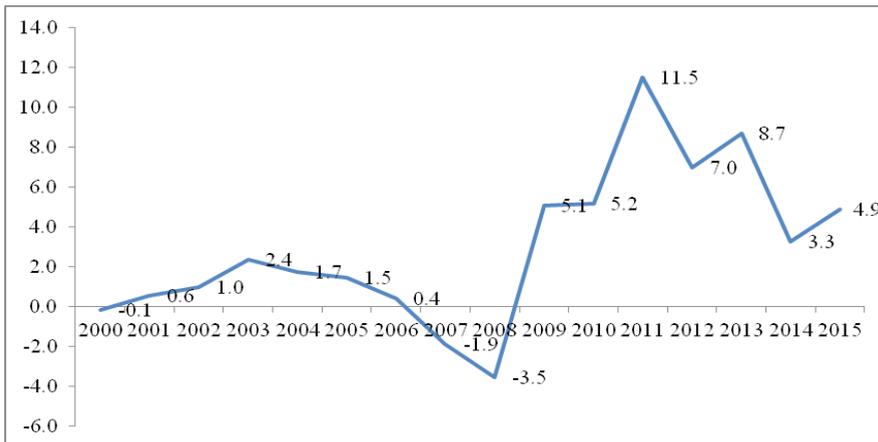
Figure 6. China’s Relative Share in Brazilian Trade Evolution (2000-2015) - Imports and Exports



Source: MDIC/Brazil

This change in the volume and share of China’s trade with Brazil determined important effects for its assessment - along with obviously positive aspects, some issues deserve a more refined analysis for the definition of Brazil’s trade policy objectives. First, it should be noted the maintenance, over the twenty-first century, of a positive trade balance between 2000 and 2015 - only on the sharpest years of the international financial crisis (2008/9) one could observe a deficit on record relationship with China - see Figure 7. the rapid and strong growth of exports exceeds the growth trend of imports, even with a similar rapid increase dynamics in the purchases of Chinese goods.

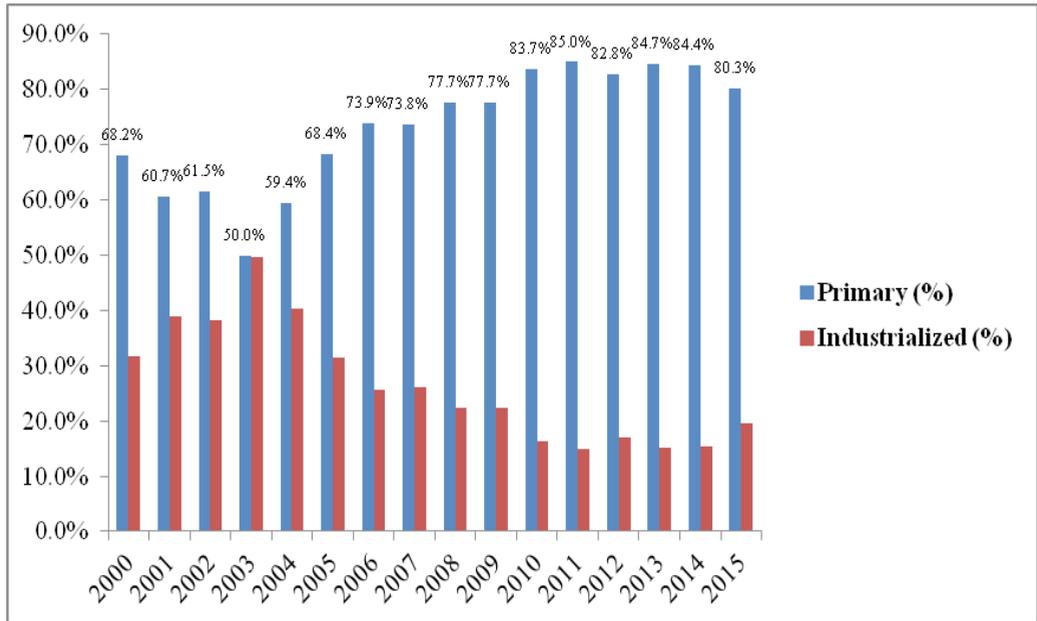
Figure 7. Brazil X China - Trade Balance (2000-2015) - US\$Billions



Source: MDIC/Brazil

Second, the composition of trade shows a major weakness of the Brazilian participation. As shown in Figure 8, Brazilian exports to China are clearly concentrated in primary products, which determines a strong dependence on the evolution of international commodity prices. Not surprisingly, therefore, the Brazilian trade surplus predominates and increased between 2003 and 2013 (except for 2008/9 as previously advised). In this period, commodity prices observed considerable rise, even for the maintenance of strong growth of the Chinese economy. From 2013/14, with a reduction of the annual rates of growth of China’s GDP and consequent reduction in demand for raw materials in the international market, prices began to fall and the effects were rapid and costly for the Brazilian economy.

Figure 8. Brazilian Exports to China - Primary and Industrialized



Source: MDIC/Brazil

Brazilian imports of Chinese products, in contrast, are practically composed by manufactured goods, which ensures a more stable trajectory and it appears less dependent on price developments. Thus, even with the recession of 2014/15, the external purchases of products from China was maintained without significant inflexion in the pace of growth - see Figures 9 and 6.

Figure 9. Brazilian Imports from China - Primary and Industrialized



Source: MDIC/Brazil

Third, and closely linked to the previous argument, the list of major products exported and imported shows quite distinct dynamics. With regard to exports, the one hundred main products account for almost all sales (about 98% of total exports to China). Only the top three products (soya, iron ore and oil) amounted to about 80% in 2014 and 70% in 2015 - see table 1. It appears, therefore, that there is a high concentration of sales in a very small number of goods, determining a clear and potentially dangerous dependence behavior (production and prices) of these goods.

At the same time, imports are much more diversified - the hundred main items include only about 40% of total imports. In addition, the top ten imported goods by Brazil (all manufactured, with medium/high intensity of technology, amounted to only 14.4% of the total in 2014 and 18% in 2015, mainly represented by parts of telephone, TVs and radios, ships, cell phones, trains, machinery and computer parts- see table 2.

Final remarks

Trade relations between Brazil and China shows strong growth in the twenty-first century, both with regard to imports and exports. Considering the increasingly strategic nature of this relationship, this development is an important part of a larger set of variables necessarily linked to the analysis. That includes foreign direct investment, trade and joint development strategies, particularly in the context of the BRICS, and the increasingly clear attempt at giving a new shape to the international economic order.

Thus, Brazil's trade policy should be aware to the increasing importance of China for Foreign Trade of Brazil. However, it should be put in the balance the need for possible stimulus for a future relationship more balanced and stable, taking into account the marked differences in the structure of exports and imports addressed in this article. The road is long, but glimpsed opportunities are plenty and rich in potential for both countries.

Table 1- Exports to China - Main Products

Products	2015			2014		
	Value	%	Wheight	Value	%	Wheight
Soya Bean	15.787.785.730	44,3%	40.925.506.994	16.615.105.360	40,9%	32.664.301.940
Iron	5.749.581.730	16,1%	175.738.915.274	11.744.118.112	28,9%	174.877.232.363
Oil	4.138.635.289	11,6%	13.156.458.926	3.472.942.587	8,6%	5.576.295.192
Wood	1.645.642.350	4,6%	3.471.477.810	1.424.041.355	3,5%	3.061.138.471
Sugar	754.512.638	2,1%	2.480.981.679	875.853.017	2,2%	2.271.547.258
Iron for pelleting process	702.692.840	2,0%	9.492.090.458	327.272.226	0,8%	3.309.715.898
Chiken parts	607.659.787	1,7%	307.042.267	518.794.388	1,3%	227.547.819
Copper cathodes	558.241.178	1,6%	102.190.711	252.023.199	0,6%	35.699.716
Meat	476.390.658	1,3%	97.477.920	455.577	0,0%	105.563
Oil plataforms	394.180.887	1,1%	53.701.770		0,0%	

Source: MDIC/Brazil

Table 2. Imports from China - Main Products

Products	2015			2014		
	Value	%	Wheight	Value	%	Wheight
Telephone parts	1.261.003.015	4,1%	5.972.282	1.460.822.946	3,9%	6.621.211
Tv and radio parts	1.185.835.691	3,9%	46.261.362	1.397.065.698	3,7%	55.764.164
Ships	947.736.499	3,1%	171.768.260	379.014.904	1,0%	113.680
Cell phones	370.370.454	1,2%	812.713	537.532.064	1,4%	1.780.552
Trains	360.406.496	1,2%	12.790.927	139.352.726	0,4%	4.538.891
Machinery	308.843.050	1,0%	22.372.235	200.784.214	0,5%	10.664.304
Computer parts	288.418.732	0,9%	288.224	194.394.815	0,5%	338.528
Air conditioner	284.617.910	0,9%	50.676.714	360.282.417	1,0%	69.041.778
Fertilizers	280.650.787	0,9%	733.220.286	298.188.864	0,8%	824.136.680
Computer monitors	248.295.602	0,8%	2.862.010	417.895.694	1,1%	5.068.816

Source: MDIC/Brazil

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