

Brazil's development pattern in a Sino-Centred World: an International Political Economy perspective

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Abstract: This paper aims at analysing the impacts of China's rise on Latin American countries, with special reference to the Brazilian situation and using an International Political Economic approach. The literature on the topic has stressed the emergence of an asymmetric pattern of relation, where the region would be trapped in a less dynamic status of producer and exporter of raw materials, and also on the possibility of export displacement due to the competition of the manufactured goods' exports originated in Asia. Ours results suggest that countries with more mature and diversified productive structures, such as Brazil, may face a regressive pattern of production and trade specialisation.

Key Words: development; regressive specialisation; Brazil; China; international political economy

JEL: O1; F5; F6

Resumo: Este trabalho tem como objetivo analisar os impactos da ascensão chinesa sobre a América Latina através de uma perspectiva da Economia Política Internacional e depositando especial atenção para o caso brasileiro. O foco deste trabalho é analisar a evolução recente das relações sino-latino americanas e sino-brasileiras, nos marcos do quadro da grande recessão. Sugere-se que a despeito das intenções de reorientação do seu modelo de crescimento, a resposta chinesa à crise reforçou a dependência das exportações e dos investimentos. Assim, para além do papel de fornecedora de recursos naturais, as economias latino-americanas passam a ter uma importância renovada como destino das exportações de manufaturas e capitais chineses. Países com estruturas produtivas mais maduras e diversificadas, como o Brasil, podem se deparar com o risco crescente de um processo de regressão em seus padrões de especialização e, com isso, comprometer suas trajetórias de desenvolvimento.

Palavras-chave: desenvolvimento; especialização regressiva; Brasil; China; economia política internacional.

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Introduction

This paper seeks to analyse China's rise to the status of global power and how this process has affected Latin American economies, drawing special attention to the Brazilian situation and to the latest trends of the relation. Most previous analyses have mainly focused on the commercial dimension of the relation and have seldom explored the Chinese literature's perspective. Therefore, the current article seeks to contribute, bridging commercial and political aspects, using the International Political Economy perspective to fulfil this gap. It also tries to incorporate the Chinese perspective regarding the impacts of the deepening Sino-Latin American relation. Many commentators have argued that the global economy will be increasingly Asian-centred and Sino-centred in the decades to come (World Bank, 2013), which has stimulated a growing literature about the impacts of such a transformation on the world economy and on Latin American countries. The emergence of an asymmetrical pattern of relationship, where the region would be trapped in a less dynamic status of producer and exporter of raw materials, has received particular attention (Bittencourt, 2012; Rosales and Kuwayama, 2012; Ferchen, 2012; Su and Zhang, 2011). The growing competition from Asian, particularly Chinese, exports of manufactured goods and the evidences of export displacements are also increasing subjects of research (Lélis, Cunha and Lima, 2012), Jenkins and Barbosa (2012), Bittencourt (2012), Zhao (2011b). Accordingly, China's interaction with the region could reinforce long-term problems such as the "natural resource curse" (Sinnot, Nash and De La Torre, 2010; Zhao, 2010), the "Dutch Disease" and the deindustrialisation. As a consequence the region's development perspectives could be undermined.

While bilateral trade and financial cooperation have surged, China has engaged in a new wave of diplomacy towards Latin America (Dadush and Shimelse, 2012; Ferchen, 2012; Jiabao, 2012). We suggest that China's increased economic and political interest in the region represents a crucial challenge to Brazil. When other major partners, such as the United States and the European Union, tried to promote free trade agreements with Brazil, throughout Mercosur, the country rejected their attempts, because Brazilian negotiators realized that the policy space to stimulate the country's economy would be reduced, its manufacturing sector would be threatened, and agricultural exports would be restricted by protectionism. Now, China has created new pressures which potentially reinforce regional divergences. The re-emerging power offers a huge market for raw materials and financial support as well (Jinbao, 2012), which seduce many sectors within Brazil and its regional partners. On the other hand, China's exports of manufactured products and capital threaten local producers. In this context, we show evidence that the Brazilian economy's competitive gaps with China have increased.

This paper focuses on the Brazilian situation because while small and open economies in the region are more prone to explore their comparative advantages and complementarities with Asian emerging countries, particularly with China, Brazil tends to prioritize its manufacturing sector, domestic market and regional partnerships (Eclac, 2012; Rosales and Kuwayama, 2012; Bittencourt, 2012; Estevadeordal, 2012). Our emphasis in Sino-Brazilian relationship is also important because China and Brazil are, respectively, the world's second and sixth largest economies, and the largest developing economies of the East and the West, respectively. Nevertheless, since the early 1980s both countries have experienced markedly different trajectories. While the Brazilian economy has had a weak economic performance, particularly in terms of capital accumulation, productivity gains and physical and social infrastructure, the Chinese economy has experienced one of the most remarkable structural transformations in the modern era (Palma, 2011; McMillan and Rodrik, 2011; World Bank, 2013).

Our main hypothesis is that despite the intentions of a growth model re-orientation, Chinese policymakers' response to the great recession reinforced, at least in the short and medium terms, the previous reliance on exports and investments. Considering the sluggish recovery in advanced economies, this strategy will amplify Chinese pressures to access dynamic domestic markets in emerging countries. In this context, Latin America will represent not only a source of natural resources but an increasingly

important market for manufactured products. Accordingly, countries with more diverse productive and export structures might experience a regressive pattern of specialisation and increasing pressures on its manufacturing sector at home and abroad. That is, a reversal of the modernisation trends experienced during the developmentalism period (1930s to 1980s) which resulted in the emergence of productive and foreign trade structures characterised, among other things, by: (i) diversification – at sector and product levels; (ii) an increase in manufacturing sector's share in the total value added; (iii) an increase in manufacturing products' share in total merchandise exports; and (iv) a significant increase in productivity associated with those structural changes (McMillan and Rodrik, 2011; Thirlwall, 2011; Palma, 2011). Therefore, a regressive specialisation should be expected when productivity is stagnated, manufacturing sector value added grows below the GDP average, and exports are increasingly natural resources-oriented. Using different production and trade performance indicators we have identified a reinforcement trend towards such direction.

The organization of this paper is as follows: firstly there is an introduction to the International Political Economy approach that is used in the research process. Afterwards, a broader picture of the arguments of the Western and Chinese literature concerning the impacts of China's rise on Latin America is presented; furthermore, the article examines the main features of the Chinese internationalisation process and its impacts on Latin America, with special attention to the Brazilian situation. Finally, we conclude by exploring the main potential implications of this article's results.

2. Rationale of the International Political Economic approach

The International Political Economy (IPE) is an interdisciplinary field, with flexible academic boundaries, which draws mainly on economics and political sciences to provide a deeper and broader understanding of the international relations (Cohen, 2014; Ravenhill, 2014). Cohen (2008) argues that traditionally economics and political sciences were treated, by most of the literature, as entirely different academic fields without connections or dialogue, each with its own view of the international affairs. Relatively little efforts were made to bridge the gap that set apart the two fields. Naturally, there were exceptions to this rule, but the broader movement to integrating both the academic fields is very recent. Therefore, the main achievement of the IPE is to converge and bridge together these inter-related traditional disciplines which previously were kept apart, thus bringing new insights and perspectives to the study of international relations. Most of the previous studies on the impacts of China's rise on Latin America are mainly focused on the commercial dimension, so this article proposes to use the IPE approach to bridge together the commercial and political dimensions, offering a broader perspective of the Sino-Latin American relation.

The construction of the IPE was the product of the commitment of a generation of pioneer researchers which were able to explore the traditional economic and political science fields beyond their horizons, acting as "intellectual entrepreneurs" to develop a new academic field¹ (Cohen, 2008). The birth of the IPE is usually considered to be in 1970, when Susan Strange published her seminal paper "International Economics and International Relations: A Case of Mutual Neglect", in which she criticized the gap that set apart the academic life of economics and political sciences using the following words: "The economists do not even try to deal with the political aspects of international economic relations and international economic problems; and few political scientists even try to explore the economic dimension of international politics or diplomacy." (Strange, 1970, p.313). Since then, such vision has been an inspiration to successive generations of academics to provide, through the construction of bridges between older and established academic fields, a fresh and broader perspective of the international reality.

Martin Heidegger argues that the construction of an academic field and its development requires a minimal consensus on its ontology and epistemology. The International Political Economy is united by the common objective of fulfilling the gap that sets apart economic, political sciences and other correlated

¹ Even though most of the literature argues that the IPE discipline has around four decades, they recognize that it was influenced by previous works of authors such as John Maynard Keynes, Adam Smith, Friedrich List, among others.

disciplines. This is the common denominator. However, the IPE academic field is hardly a monolith². The bridges that connect the fields are many and they have deeply varied architectures. In this context, Payne (2005) characterizes IPE today as a “notoriously diverse field of study” (Payne, 2005, p. 69). Nevertheless, it is possible to detach two dominant scholarships in the current IPE academic field.

In the United States, which perhaps holds the dominant version or the orthodoxy of the scholarship, the field tends to acquire a more conventional character hewed close to the social sciences, with significant relevance given to the scientific method. The analysis of the American IPE is based on the principles of rationality, positivism and empiricism (Dickins, 2006). According to Stephen Krasner (1996, p. 108-9), one of the exponents of the American scholarship, “International Political Economy is deeply embedded in the standard methodology of the social sciences which, stripped to its bare bones, simply means stating a proposition and testing it against external evidence”.

The British scholarship, which also holds spots in other countries, such as Canada and Australia, seems to be more receptive to explore the relation with other disciplines, beyond the mainstream economy or political science. This version of the IPE is less worried about the rigid scientific methodology and is more ambitious in its agenda. Amanda Dickins (2006) suggests that the scholarship has an important role of broadening the scope of the IPE analysis, bringing to the discipline’s agenda topics such as bioeconomy, climate change, property rights, sociology, and gender debates, among others. Cohen (2008) also suggests that the British scholarship evinces a deeper interest in ethical and normative issues.

However, the British and American schools are hardly the only versants of the IPE, nor the only available epistemological sources of the discipline. The range of different approaches is very broad – unfortunately too broad to be explored with details in this paper³. Each scholarship has its strengths, but also its weaknesses – therefore, Cohen (2008) suggests that in order to achieve a solid development of the IPE scholarship, it becomes necessary to build bridges between economy and political science, but also among the different schools within the discipline itself. This is what our analysis humbly intends to do regarding the impacts of China’s rise on Latin America, to try to bridge the commercial and political dimensions and the western and Chinese academies.

Within this framework, the current paper judges the IPE approach to be a valid alternative to better understand the complex factors involved in the deepening of the Sino-Brazilian relations and its consequent impacts. The Chinese presence in Latin America, even though having its commercial dimension mostly emphasized by the literature, is also intimately rooted in political concerns, which, at first sight, often do not seem to have a significant role. Jiang Shixue, researcher of the Chinese Academy of Social Sciences (CASS), has emphasized this point of view: “It is increasingly recognized that, in the age of globalization, politics tend to be economic in nature, and economic issues are often linked to politics [...] this point is certainly relevant for Sino-Latin-American relations in this new century.” (Jiang, 2005, p. 8).

3. China and Latin America: back to the past?

Between the 1820s and 1930s, Latin American countries followed an outward development model, based on production and trade specialisation in agriculture and mining (Prebisch, 1984; Furtado, 2003; Unctad, 2003). The export-led model based on agriculture and mining did not deliver stability, self-sustained growth and the modernization of the institutions and the economy. During this period the region experienced fiscal and external imbalances, which had to be financed by volatile capital flows, thanks to the fact that the export sector, mainly dependent on commodities, was incapable of generating enough hard currency to finance the merchandise imports demand and other financial commitments. Capital flow reversals were frequent, and government used to be pressured by creditors to promote deflationary

² See, among others: Cohen (2008); Dickins (2006).

³ For further information on the other approaches within the scholarship, see Cohen (2008) and Dickins (2006), among others.

adjustments in domestic income and absorption. Moreover, business cycles of Latin American peripheral countries were tightly correlated with the core countries' business cycles, led by Great Britain, the then hegemonic power. Industrialisation and urbanisation at the core increased the demand for natural resources at the periphery, which helped to improve the terms of trade. The interwar crisis opened room for a radical change. The breakdown of the global trading system, the collapse of the gold standard, the outbreak of the World War II, and the hegemonic transition from Great Britain to the United States brought to an end the export-oriented model. Latin American countries started to manufacture goods previously imported from the 'centre', in a process lately named 'import substitution'. The 'development from within', led by the State, generated reasonable results until its crisis in 1980s (Unctad, 2003).

This historical summary is important to our argument because some structural features of the outward oriented model pursued by Latin American countries, particularly the overdependence on production and export of natural resources, has returned, particularly in the early twenty-first century. Differently from the previous period, countries such as Brazil are not fighting to industrialise their economies, but, instead, they are trying to avoid re-primarisation⁴ of their exports and deindustrialisation. From theoretical and political perspectives, many development economists and other scholars and policymakers have assumed that development implies economic and social structural transformations within countries in order to achieve higher living standards (Thirlwall, 2011).

Based on the pioneers of development economics and their contemporary followers it should be argued that: investment is a key determinant of income expansion; the economic growth process is not sector-indifferent or linear and stable; manufacturing leads economic growth thanks to its backward and forward linkages to other sectors; technological progress has, at least in a certain extent, an endogenous dynamics associated with the capital accumulation led by the manufacturing sector; and income-elasticity differences in manufacturing products and natural resource-intensive products to balance of payments constraints to economic growth. The latter is in a context where primary-product prices tend to decline in relation to manufacture product prices in the long run. In this context, Zhao (2011a), regarding Prebisch-Singer's deterioration of terms of trade hypothesis, argues that the increasing prices of primary goods in recent years, as a product of the growing demand from emerging countries, is a temporary and short-term phenomenon and the manufacturing sector remains the main path for sustainable growth. In short, manufacturing matters and governments should have an active role to support structural transformations. Emphasizing this point, the higher the growth of the manufacturing sector and its productivity, the higher will be the growth of the whole economy and the productivity of other economic sectors. Therefore, in order to achieve growth-cum-stability, governments should prioritise the industrialisation process or avoid deindustrialisation (Thirlwall, 2011; McMillan and Rodrik, 2011).

Considering this broader picture, it is noteworthy that since the late 1970s, under the umbrella of Deng Xiaoping's strategy of reforms and economic opening⁵, China has been re-emerging as a global power. Its rapid economic growth and internationalisation process resulted in the fact that in 2013 China was responsible for more than 10% of global trade, 10% of the world's GDP measured at market prices, and 14% of the world's GDP measured using purchasing-power-parity (IMF, 2014). The Asian superpower has also become an important player in global financial markets, holding USD 4 trillion in foreign exchange reserves and USD 614 billion in foreign direct investment (FDI) abroad. As argued by Jacques (2012) China might still be a middle income economy, but it is no longer a weak country. Even if Chinese economic and technological capabilities cannot match the most advanced countries' ones, as Nolan (2012) points out, China's rise can markedly affect other low and middle income countries.

China's re-emergence as a global power is part of a broader process, which is the consolidation of Asia as the most dynamic growth pole of the globalized economy (Yang, 2006; Palma, 2011; World

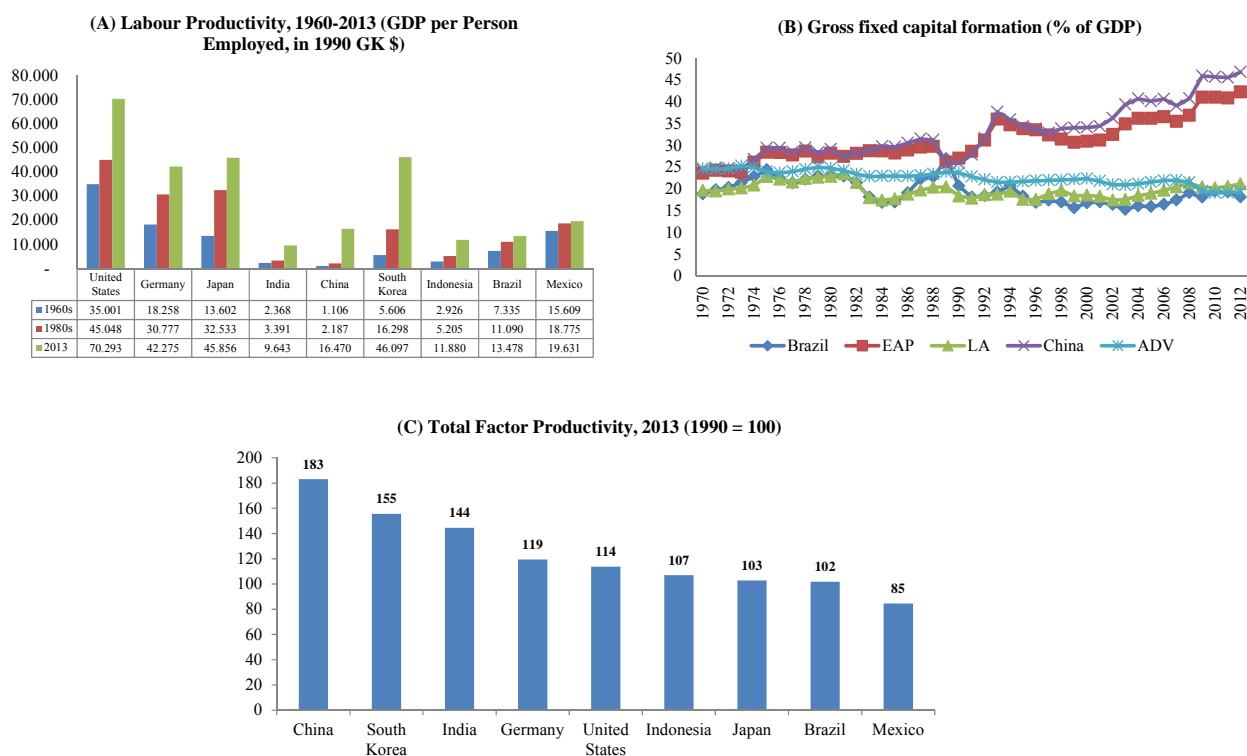
⁴ It refers to the composition of exports, where raw materials share on total exports surpass manufacturing products share, particularly technology-intensive products.

⁵ See, among others: Zheng Bijian (2005); Kang (2007); Naughton, (2007); Kurlantzick (2007.); Hao, Wei and Ditter (2009); Halper (2010); Kissinger (2011).

Bank, 2013). In 2012, Asia's shares in world population, income and exports were, respectively, 55%, 34% and 30%. To put in perspective, in 1980 Latin America accounted for 11% of the world GDP (measured in purchasing power parity), while Asia's share (excluding Japan) was 9%. Three decades later, Latin America had 8.5% and Asia, 28%. During this period, Asian countries averaged a GDP growth of 7% per year, while Latin American and African countries experienced lower rates, between 2% to 3% (IMF, 2014). Considering the manufacturing sector value added (United Nations, 2014), Asian countries' contribution to the world total increased from 4.6% to 27.4%, and Latin America's share decreased from 6.7% to 5.5%. Advanced countries and the rest of the world also experienced a relative reduction in their shares. Similar figures can be found for merchandise trade⁸.

Considering production and technological capabilities, it should be stressed that China's rapid modernization markedly contrasts with the Latin American and the Brazilian semi-stagnation. Figure 1 shows that Brazil used to be a catch-up country until the late 1970s. Nevertheless, since the early 1980s Asian economies in general, and China, in particular, have experienced impressive records in capital accumulation (panel B) and in efficiency improvements measured both by labour productivity (panel A) and total factor productivity (panel C).

Figure 1. *Capital Accumulation and Productivity in Selected Economies, 1960-2013*



Source: author's calculation based on (i) The Conference Board Total Economy Database™, January 2014. Available at: <http://www.conference-board.org/data/economydatabase/>; and (ii) World Bank (2014).

To put in perspective, China has invested, on average, more than 40% of its GDP since the early 2000s. In the same period Latin American economies have invested 20% of their GDP (World Bank, 2014). In 2010, China's gross fixed capital formation amounted USD 1,394 billion, while all Latin American economies invested only USD 628 billion. The Brazilian cumulative investment from 2001 to

⁶ China, Hong Kong SAR, Indonesia, India, Korea, Malaysia, Philippines, Singapore, Thailand and Vietnam.

⁷ Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Peru and Venezuela.

⁸ In 1980, Asia's share of the world exports was 4.4%. In 2012, it was 25%. In the same timeframe. LA's share decreased from 6.7% to 5%.

2010 was USD 1,262 billion, which is less than Chinese investment in 2010 only⁹. China's investment per worker evolved from USD 178 in 1990 to USD 1,747 in 2010, while Brazilian figures were, respectively, USD 1,347 and USD 1,699.

As a consequence of its investments, massive pool of workers, and development strategy, China has become the world's factory. Chinese manufacturing sector produced USD 1,654 billion in 2010, more than three times the production of USD 531 billion observed in all Latin American (United Nations, 2014). China has surpassed Latin America in research and development expenditures as a share of GDP. Between 2001 and 2009, Chinese technology outlays averaged 1.2% of its GDP, while Latin American averaged 0.6% and high income countries 2.4% (World Bank, 2014).

However, it is important to stress that most of the global value chains, trade, research and development, and finance are under the control of transnational corporations (Nolan, 2012). Some emerging countries, particularly in Asia, have hosted them and, as a consequence, important shares of exports from emerging countries are, essentially, exports from advanced countries' corporations located in emerging economies. In this context, there is a huge difference between "Made in" and "Designed, Marketed or Financed in". This explains why policymakers in countries such as China have been emphasizing development policies aimed to consolidate "national champions" and to up-grade technological capabilities (Nolan, 2012; World Bank, 2013; Unctad, 2014).

Therefore, the development strategies pursued in both regions may be partial but significant factors to explain the success in Asia and the relative stagnation in Latin America. Kohli (2012) compares development model pursued by Asian countries with that of Latin-American countries. According to him, a comparison of the Asian and Latin-American models suggests the advantage of the nationalist capitalist model of development pursued in Asia, through autonomous strategies and a selective integration with global economy, over the a dependent capitalism, more complicit with neo-liberal principles practiced in Latin American economies. Salama (2012) agrees that the development model adopted with the commercial liberalization practices did not produce the desirable growth rates in Latin-American economies; on the contrary, the growth rates were inferior to those in the previous decades. According to the author, the incapacity of Latin American countries to export high technology goods may undermine their future development.

The recent financial crisis and the failure of the neoliberal model to bring steady growth, economic balance, and improve social conditions in Latin American countries, at the same time as the Asian economies experienced the largest economic growth of the past decades, intensified the academic debates about the emerging idea of a Chinese model or a Beijing consensus¹⁰. Williamson (2012, p. 3), creator of the Washington Consensus term, wrote: "A major impact of the crisis has been to discredit Western views of development – what I once tried to summarize under the somewhat unhappy term of the Washington consensus – and to fortify what has sometimes been referred to as the Beijing consensus". According to this view, not only the economic and political power would be gravitating towards the East, but there could be a transition in the development doctrines with the emergence of a Chinese model.

The idea of a Chinese model of development, alternative to the liberal American path, was born in the observations of Western scholars; however, it soon migrated to the Chinese academy. Initially, a significant part of the Western literature on the topic explored model's ideas and practices that could rebuild the power relations in East Asia and Africa¹¹, jeopardizing the American position in the regions and its political (liberal democratic) and economic (neo-liberal) principles. The first attempt to characterize the Chinese model was that of Joshua Ramo (2004). According to his view, the Beijing consensus is based in three main characteristics that determine how China and other developing countries may find their way towards development in the global economy. The first characteristic is innovation and

⁹ In 2000 constant US\$. Source: World Bank (2014).

¹⁰ See, among others, Williamson (2012), Ramo (2004), Pan Wei (2009), Zhang Weiwei (2009), Halper (2009).

¹¹ See, among others, Windybank (2005) for East Asia and Thompson (2004) for Africa.

constant experimentation. The second is the emphasis given to broader social issues while pursuing development, instead of focusing only on economic indexes such as *per capita* GDP. The third characteristic is the focus on self-determination when promoting political and economic policies, leaving aside the impositions from international institutions and third countries.

The Western debates about the Chinese model also reached China, especially after the financial crisis and the publication of Pan Wei's (2009) book on the China model, for the commemoration of the 60th anniversary of the CCP. To most Chinese academics, gradualism (*jianjinxing*), autonomy (*zizhuxing*), experimentalism (*jingyanzhuyi*) and a strong government (*qiangzhengfu*) are the main points that characterize the Chinese model¹². The Chinese gradualism and experimentalism contrasts with the "shock therapy" that constituted the *modus operandi* in the adoption of neoliberal principles in Latin American countries, shrinking the State's autonomy. Zhang Weiwei (2011) deposits special attention to stability as a fundamental characteristic of the Chinese model. He points out that stability is the initial step from where the further development strategies should depart, and it should be the first priority of any government seeking development.

In this context, China's increasing presence in the international reality, not only through trade and financial channels, but also through political means, has become a major source of dynamism, whose impacts have deeply affected both advanced and emerging economies. This reality also implies that China's rise has not been perceived as neutral in a geopolitical sense. The recent literature on the topic increasingly explores sensitive issues such as whether China will eventually overtake the United States as the major global power¹³, whether its rise will be peaceful or not, whether there is a Chinese model alternative to the Western liberal model, and so forth.

For the purpose of this paper it is also important to emphasize that since 2008 Chinese policy makers have tried to strength at least three crucial features of the country's internationalisation process (Aoki and Wu Jinglian, 2013), that are: (i) markets and products diversification; (ii) national companies' internationalisation; and (iii) a pro-active diplomacy¹⁴ to spread its influence among developing countries and in the global governance structures. We can see the market diversification through the concentration rate of exports (CR)^{15,16}. In 1995 the CR(10) of Chinese exports was 54%, while in 2011 it was 47%. Western advanced countries still rank as important markets for Chinese exports; nevertheless, regional partners and emerging countries, such as Brazil, have been representing an increasing share of Chinese trade¹⁷. In order to access the product dimension of Chinese exports diversification, considering their final destination, we calculate the Herfindhal-Hirschman Index (HHI)¹⁸. Chinese exports can be considered

¹² See, among others: Pan Wei (2009), Zhang Weiwei (2011).

¹³ Ramo (2004) advanced the term "Beijing Consensus" to illustrate the Chinese pattern of development as an alternative to the Washington Consensus. In a Chinese perspective, Kang (2007), Zheng Bijian (2005), Wu Jinglian (2005) and Hu Angang (2010) believe that China's rise represents both a positive element to the global order and a stimulus to the own process of Chinese modernization. Nye Jr (2011), Kissinger (2011) and Ikenberry (2011) argue that the United States and China can cooperate and mutually be benefited in the consolidation of a liberal and multilateral new world order in the 21st century. According to then it would be possible to envisage that rise in a global "peaceful and harmonious" landscape. Mearsheimer (2006; 2010) is skeptical about the so-called "peaceful rise". Halper (2010) and Subramanian (2011) argue that China will overtake the Western powers, while Shirk (2007), Babones (2011), Clark (2011) and Nolan (2012) assume the opposite reasoning. They consider that Chinese power has been overstated and its fragilities have been underestimated.

¹⁴ See, among others, Kurlantzick (2007), Hao Yufan, Wei and Ditter (2009), Halper (2010), Aladi (2011) and Wen (2012).

¹⁵ We calculate the concentration rate using GTIS (2014). CR(1) is the share of the major trade partner in total exports; CR(2) is the share of the two largest trade partners, and so on.

¹⁶ For this and the following trade performance indicators (Herfindhal-Hirschman Index, trade intensity, trade complementarity etc.) data were disaggregated according to the CNAE 1.0 (Classificação Nacional das Atividades Econômicas – IBGE) which corresponds to the three-digit level of the Standard International Trade Classification (SITC rev 3), except from the H-H Index that was calculated at the two digit level.

¹⁷ In 2002, high-income countries absorbed 85% of China's exports, while developing countries responded for 15%; in 2010, these figures were, respectively, 74% and 26% (World Bank, 2012).

$$HHI = \frac{(\sum_{i=1}^n p_i^2 - \frac{1}{n})}{1 - \frac{1}{n}}$$

¹⁸ We calculated the Exports Concentrations Index using the formula:
$$HHI = \frac{(\sum_{i=1}^n p_i^2 - \frac{1}{n})}{1 - \frac{1}{n}}$$
; where: (i) pi represents sector "i's" share in total exports of the country "j", normalized by the number of observations, "n". See: Hoekman, Mattoo and English (2002).

diversified in all final destinies, particularly in Latin America, Asia and Africa. Moreover, since 2003 exports have become even more diversified¹⁹.

We also estimate the trade intensity index of Chinese exports²⁰. For the 2008-2011 period, the average figures ranged from 1.02 (Africa) to 1.73 (United States). Euro zone index was 0.66, which means that trade between China and the Euro Zone is less intense than it would be expected considering the importance of the region as a destination of the world's exports. We also noticed a slight reduction of trade intensity between China and the United States after 2008; and that trade intensity between China and its partners in Africa and Latin America increased rapidly in the last few years.

China's trade pattern has also deeply changed. In 1995, primary products and manufactured products that are labour, natural resource and scale intensive represented 81% of total exports, while high-technology, high-value added and other products accounted for 19%. In 2011, these figures were, respectively, 60% and 40%²¹. In the imports side there was a major increase in both natural resource and science based products. It has been argued that important bulks of these exports represent labour-intense activities of each industry value chain, which, ultimately, is controlled by advanced countries' transnational corporations (Nolan, 2012; Pérez Ludeña and Chen, 2014). Nevertheless, in a dynamic analysis, and considering the perspective of low and middle income countries, that upgrade has intensified competitive pressures upon local producers. If, in the next years, Chinese companies succeed in their effort to catch-up with advanced economies leading companies, that pressure might be even greater. The rapid internationalisation of Chinese companies, particularly the state-owned ones, has been a major trend in the post-2008 period.

Trying to estimate the amount of FDI originated in China can be a tricky exercise (Salidjanova, 2011; Pérez Ludeña and Chen, 2014). Official figures reported by the Ministry of Commerce and mainly reproduced by the Unctad (2014) usually diverge significantly from official data of host countries and, moreover, from the investments announced by the Chinese companies themselves. One major methodological problem is that official data ignores companies' strategies to use Hong Kong and tax havens as transit points (hubs) for their investments. Non-official sources, such as the Heritage Foundation (2014) or FDI Markets (2014) have tried to track what Chinese companies have actually been doing. They report important differences for the same trend. Nevertheless, all sources converge in a fundamental point: since 2008 Chinese outward investments have boomed, despite the great recession. In 2013, Chinese FDI stock reached US\$ 614 billion (2.3% of the world's total). To put in perspective, this amount was US\$ 118 billion in 2007. Emerging regions, such as Latin America, Africa and Middle East, which are abundant in natural resources, have been receiving more attention from Chinese companies (Pérez Ludeña and Chen, 2014; Unctad, 2014). Evidence suggests that the great recession has been perceived as an opportunity to China's companies, where FDI has been a major driver to access markets, new technologies and strategic natural resources (Nolan, 2011, 2012; World Bank, 2013).

In the next section we explore how these trends have affected Latin American countries, with special reference to the Brazilian situation.

3. China and Latin America with a special reference to Brazil

Since 2002, the Latin American and Caribbean region has been reducing its income gap relative to industrialised countries. Inflation is no longer a dramatic problem in most of the countries. Improvements in the terms of trade marked the post-2002 period, as a reflection of commodities' price boom. External

¹⁹ The 2008-2011 averages in each market were: 939.9 (USA); 905.0 (Euro zone); 712.3 (Africa); 713.2 (Asia, exc. China, Macau, Taiwan and Hong Kong); 703.1 (Latin America). *Source*: authors' estimations based on GTIS (2014).

²⁰ Authors' estimations based GTIS (2012) data. We use the formula: $T_{ij} = (x_{ij}/X_{it})/(x_{wj}/X_{wt})$, where: (i) x_{ij} and x_{wj} are the values of country i 's exports and of world exports to country j ; and (ii) X_{it} and X_{wt} are country i 's total exports and total world exports, respectively. An index of more (less) than unity suggests that their bilateral trade flow is larger (smaller) than expected, given the partner country's share in world trade. See Hoekman, Mattoo and English (2002).

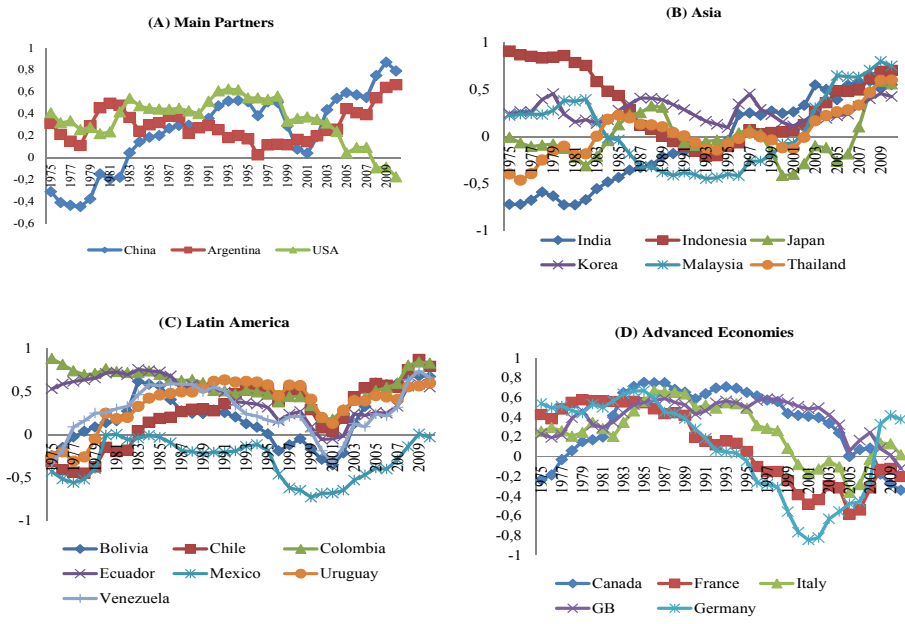
²¹ Author's estimation using Pavitt (1984) taxonomy and data from GTIS (2014).

debt as a share of the GDP or exports revenues was reduced. Governments produced fiscal primary surpluses and public debt/GDP ratio decreased (Rosales and Kuwayama, 2012). This landscape was a result of the international buoyant markets of the 2003 to 2008 period, combined with the implementation of national policies aimed to redistribute income and to overcome decades of low levels of investment, both by public and private sectors. Notwithstanding, many Latin American countries experienced a re-primarisation of its exports²², undermining the manufacturing sector expansion achieved during the developmentalism period that practiced import-substitution strategies, as previously exposed, and recalling certain structural features of the commodities export-led model of the early 1900s. Accordingly, trade with Asia increasingly becomes characterized by a North-South pattern, where Latin American countries export natural resource-intensive products and import manufactured products. Considering the Latin America's export structure to its main destinations it is remarkable that, except for intra-regional trade and the Mexico-United States trade, the North-South pattern is dominant (ECLAC, 2012; Rosales and Kuwayama, 2012).

Echoing Prebisch (1984) and the Latin American structuralism (Unctad, 2003), Figure 2 shows business cycles synchronization between Brazil and its main trade partners between 1975 and 2010, measured through the 15 year-window rolling correlations of real output fluctuations using Hodrick-Prescott filter (Baster and King, 1999). It suggests that the country's business cycles have been much more correlated with Asian economies, particularly China, and with its Latin American neighbours, than with the United States, Brazil's former main trade partner, or the other advanced countries. Calderón (2008) found similar results considering Latin American countries in their relation to China and India. Cesa-Bianchi *et al.* (2011) also showed that because of trade channels the long-term impact of a China GDP shock on the typical Latin American economy has tripled since the mid-1990s, while the long-term impact of a US GDP shock has halved. In a recent report, the Inter-American Development Bank (IADB, 2012) assumes that the evolution of Chinese economy has increasingly become important to the region. Duval *et al.* (2014), using value-added trade, also find a strong connection between trade and business cycles.

Figure 2. *Business Cycles Synchronization between Brazil and Its Main Trade Partners, 1975-2010*

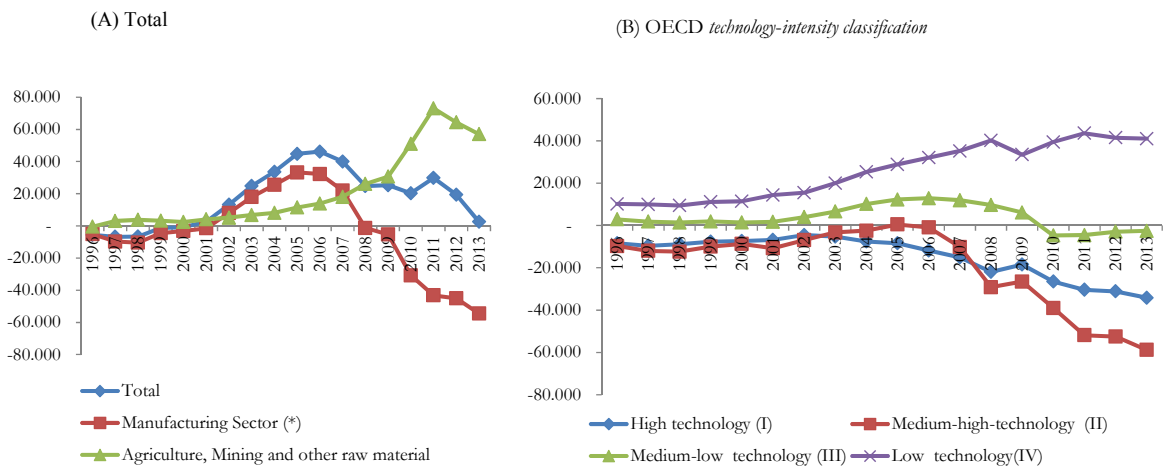
²² Most of South American countries already had a highly specialized production and trade structure. Countries such as Argentina, Chile, Colombia and Venezuela, among others, have had 60% to 95% of their exports concentrated in primary products. Brazil and Mexico, who have the largest manufacturing sectors in the region, experienced a structural change in their trade profile after 1970, characterized by an increase in the manufactured products' share in total exports. Nevertheless, since 2002 primary exports share has increased, particularly in Brazil.



Source: author's elaboration from World Bank (2014).

Figure 3 reveals that the manufacturing sector had an increasing external deficit between 2008 and 2013, while primary products performed a massive surplus. Using OECD sector classification it is possible to envisage that, except from low-technology manufactures, all other technology levels experienced trade deficits. Therefore, Figure 3 displays the contradictions of the Chinese-effect on the Brazilian economy, in which Chinese demand stimulates overall trade surplus through the natural resources trade surplus, while Chinese competition both at home and abroad, in a context of buoyant internal markets and currency overvaluation in Brazil, has been pointed out as a source of the manufacturing sector trade deficit. It also expresses the debate about the risks of further deindustrialisation²³.

Figure 3. Brazil – Trade Balance in Selected Sectors, 1996-2013 (USD billions)



Source: MDIC (2014)

²³ In 1980 Brazil had the largest manufacturing sector among developing countries, ranked in the eighth position with a 2.6% percent of the world total production. To put in perspective, China ranked twelfth, with 1.7%, and South Korea ranked twentieth-eighth with 0.6%. In 2011, Brazil ranked eleventh, behind China, South Korea, India and Mexico (Palma, 2011; Unctad, 2014)

Since its apex in the early 1980's, right before the debt external crisis, the manufacturing sector has reduced its relative share on Brazilian GDP²⁴ (from 33% in 1980 to 16% in 2010-2013) and on total employment. The exports structure also changed. Between 1997 and 2011, primary products and natural resource intensive manufactures increased their share in total exports from 52% to 68%, while labour and scale-intensive manufactures experienced a share reduction from 33% to 19%²⁵. These sectors have been subject to intense competitive pressures from China and other Asian economies, both at home and abroad, particularly in Latin American markets. Moreover, according to the exports concentration index²⁶, Brazilian exports have concentrated, particularly in markets located in Africa and Asia.

Considering the relevance of intra-regional trade to Brazil it must be asked if China has been displacing Brazil in Latin American and other markets for manufactured products. Recent research suggests that this might be the case (Bittencourt, 2012; Lélis, Cunha and Lima, 2012; Jenkins and Barbosa, 2012; Zhao, 2011b; Cunha *et al.*, 2013). According to this literature both Brazilian and Chinese exports of manufactured products to Latin America have boomed, particularly in the post-2003 period. The region economic recovery after 2002 has opened space for that expansion. Nevertheless, since 2007 Chinese manufactured-products exports trend has been growing faster than the Brazilian manufactured-products exports trend.

The Chinese exports to Latin America are less concentrated than Brazilian exports to the same region²⁷, while Chinese exports matched Latin American imports more than Brazilian exports. In 1999, trade complementary index²⁸ for Chinese exports to Latin America (excluding Brazil) was 50.9, while in 2011 it was 55.9. In the same period, the trade complementary index for Brazilian exports was, respectively, 48.9 and 42.6. Lélis, Cunha and Lima (2012) report evidence which strongly suggests that the Chinese exports have been dislocating the Brazilian exports in the region, because of their volume-effect and diversification.

Su and Zhang (2011) also point out to the transition of the Brazilian production structure to commodities export oriented was the result of the absence of solid national policies to promote development added by the China-effect. Zhao Lihong (2011 and 2010) draws on the principle of comparative advantage and on the resource curse hypothesis to explain that Latin American countries got caught into what she calls a "primary products comparative advantage trap" (初级产品比较利益陷阱), in which the combination of China's growing demand for primary goods with the competition it imposes on the manufacturing sector induced the region to concentrate its production on natural resource-intensive goods.

We have also analyzed Brazilian and Chinese export performance using the Constant Market Share (CMS) methodology and the market-share analysis (Figure 4).

Figure 4 – Export Performance of Brazil and China, 2000-2011

²⁴ At current US dollars prices. Source: United Nations Statistics Division - National Accounts.

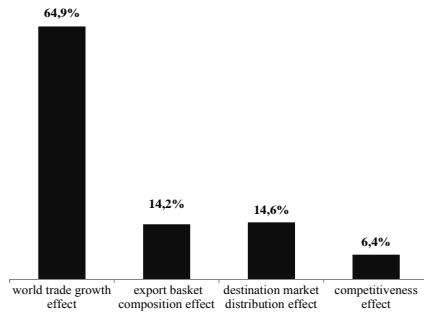
²⁵ Author's estimation using Pavitt (1984) taxonomy and data from GTIS (2014).

²⁶ The 2008-2011 averages in each market were: 879.0 (USA); 1,099.7 (Euro zone); 2,705.2 (Africa); 1,831.1 (Asia); 1,016.3 (Latin America, excl. Brazil), 2,594.4 (China) Source: authors' estimations based on the Global Trade Information Services (GTIS) data.

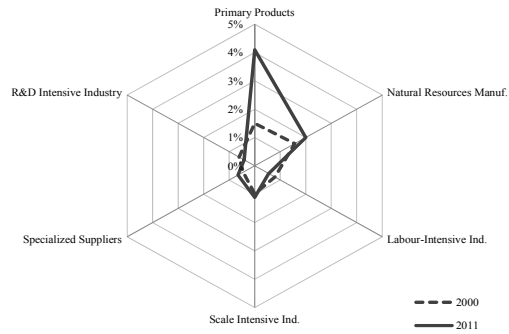
²⁷ Exports Concentration Index (HHI) of Brazilian exports fluctuated around 1,000, between 1996 and 2008, and reached 1007 in 2008, while the same Index for Chinese exports had evolved from 895 in 1996 to 685 in 2008 (Lélis, Cunha and Lima, 2012).

²⁸ $TC_{ij} = 100 - \sum (|m_{ik} - x_{ij}| / 2)$, where: (i) x_{ij} is the share of good "i" in the global exports of country "j"; and (ii) " m_{ik} " is the share of good "i" in all imports of country k. When the index is zero, no goods are exported by one country or imported by the other. When the index is 100 the export and import shares exactly match.

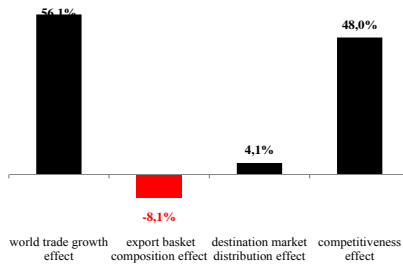
(A) Brazil - Sources fo Export Growth - 2001-2011



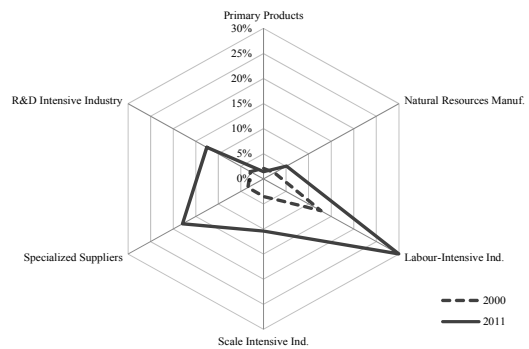
(B) Brazilian Exports Market-Share, 2000 and 2011 (% of world total)



(C) China- Sources fo Export Growth - 2001-2011



(D) Chinese Exports Market Share (% of world total)



Source: Lima, Lélis and Cunha (2013).

The CMS method is based in the premise that the market-share of a country in world exports is constant along time if its exports grow in the same speed and direction (in terms of composition of the basket and geographical direction) as the world exports. Therefore, the difference between the expected growth and the effective growth is attributed to changes in competitiveness (Leamer and Stern, 1970). This methodology decomposes the exports growth in four effects: (i) world trade growth effect; (ii) export basket composition effect; (iii) destination market distribution effect; and (iv) competitiveness effect. The growth of world exports is the benchmark to the evaluation of the performance of the exports of a given country. Therefore, it seeks to verify to what extent the three remaining effects are responsible for the difference between the expected growth according to the constant market-share norm and the actual growth of the exports of the country under analysis. Regarding the export performance in the 2000 to 2011 period, Brazil and China shared two main characteristics: both countries outperformed the world's average growth rate of exports (9.9% per year) and experienced significant changes in their export basket composition.

Brazil was one of the countries which had an export growth rate above world's average between 2000 and 2011, with a growth rate of 15% per year. In 2000, the sector which shared the largest participation of Brazilian exports was that of scale intensive goods, accounting for 26.1% of the total, followed by the natural resource intensive and primary products, accounting for 20.9% and 19.6% respectively. The R&D intensive products and labor intensive products also had a significant participation in the year, of 11.4% and 10.7%. The largest change that took place in the Brazilian export basket was the gradual increase in the relevance of primary goods in whole of the country's exports – the sector shared 45.2% of the total amount of Brazilian exports in 2011. The share of natural resource intensive goods remained nearly stable, while the other sectors reduced their share in the total participation. In the last year, the share of the scale intensive goods was still rather high, accounting for 18.6% of the total. But most important fact to be highlighted was the sectoral concentration movement towards the exports of primary goods. There

were also deep modifications regarding the final destinations of Brazilian exports. Between 2000 and 2011, the traditional Brazilian trade partners lost relative importance – North America accounted for only 12.9% of Brazilian exports in 2011, while the European Union and South America accounted for 20.7% and 17.7%, respectively. African and Middle Eastern economies increased their relative relevance for Brazilian exports, both regions having absorbed 2.8% of the country's external sales in 2011.

The application of the CMS model to decompose the yearly variation of Brazilian exports indicates the reasons for such changes (Figure 4, panel A). The growth of world trade, as expected, was the main element for the variation of Brazilian exports. The other effects were also positive and had an important participation in the growth of Brazilian exports, although in a fewer extent. The positive export basket composition effect reflects the larger concentration of the exports in primary goods, which were the products that had the largest dynamism in world trade in the 2000-2011 period. The destination market distribution effect is explained by the change in regional orientation of the country's exports. Between 2000 and 2011, the share of Brazilian exports directed to Asia significantly increased, just as it did to other markets whose dynamicity was above world's average, such as Africa and Middle East. Concomitantly, the share of exports destined to the less dynamic markets, such as North America and Europe, was reduced.

Regarding the evolution of the market-share (panel B), Brazil achieved a significant increase only in the sectors less technologically intensive, having had a 2.6 percentage point increase in the world exports of primary goods and 0.4 percentage point increase in the natural resource intensive goods. In the other sectors, the country's market share remained nearly stable – variations did not surpass 0.1 or 0.2 percentage points. Regarding Brazilian's market share in importing markets, the largest gains were registered in the Central America and Caribbean markets (1.6 percentage points), Africa (1.2 percentage points), Asia (1.1 percentage points), and Middle East (1.1 percentage points). The Brazilian participation on other markets had a more discrete variation.

China had also an impressive exports performance from 2000 to 2011, with an average yearly growth rate of 20.3%, compared with the world's average of 9.9% for the same period. Moreover, there were deep changes in the composition of China's export basket, which increasingly became more intensive in technology. The share of primary products, natural resource intensive goods, and labor intensive goods' share decreased from 51.5% to 35.3% of the country's total exports. At the same time, the scale intensive goods, specialized suppliers and R&D intensive goods markedly increased their relevance, whose share was 48.3% in 2000 and rose to 64.6% in 2011. However, the labor intensive goods still occupied the first position among China's exports during the whole period, accounting for 26.3% in the last analyzed year.

Regarding the country's main export destinations, Asia kept on the first place, nevertheless the region lost relative participation, since it absorbed 50.4% of China's exports in 2000 and 42.4% in 2011. North America also lost relative relevance: in the year 2000, 22.7% of China's exports were destined to the region, but in 2011 the share decreased to 19.7%. However, the North America still is the second most important destination for China's exports. The 11.1 percentage points share reduction of both regions was divided among other markets, especially among South American and European Union countries (2.5 and 2.3 percentage points increase, respectively), with the former occupying the third place among the destinies of China's exports. Between 2000 and 2011 the relevance of the other markets was also increased, which experienced a rise from 8.4% to 15.2%.

Therefore, on what regards the distribution of China's exports by destination markets, despite the increase of the European Union's relevance, there was a general movement towards the fragmentation of China's export destinies. The analysis of Figure 4 (panel C) confirms the predominance of the growth of world's exports as the main source of China's exports growth. Simultaneously, it highlights the noteworthy contribution of the competitiveness effect, which was the source for almost half of the increase in the country's exports between 2000 and 2011. The export basket composition effect was negative, fact that may be explained by the reduction of the country's export share of primary goods and natural resource intensive goods (whose imports increased far above world's average), besides the

preponderance of the labor intensive goods (the less dynamic sector among the analyzed ones, which had a 7.5% yearly growth, compared with the 9.9% world's average growth). Regarding the export market distribution effect, the positive result denotes success of the country's strategy to decentralize its market destinations; simultaneously, its discrete positive result may be explained by the increase in the exports to the European Union and by the large share still concentrated by North America – however, it is noteworthy that these were the only two markets to where the exports had a growth below the average growth of the exports to the world.

A complementary approach to the results achieved using the CMS method is that of the evolution of China's exports market share of the world market (Figure 4, panel D). The graphic indicates an increase in China's share of the world exports of the four sectors that hold the largest technological intensity. Based on the premise that the market share is a sign of the competitiveness of a country's exports, it is possible to argue that the China's performance was far above the average. The market share increase was of 17.2 percentage points in the labor intensive goods, 6.9 percentage points in the scale intensive goods, 14.5 percentage points in the specialized supplier's goods, and 9.7 percentage points in the R&D intensive goods.

To sum up, the robust Chinese growth in recent years has created some externalities for Latin American countries. The Chinese demand for agricultural and mineral commodities has contributed to the trade surpluses observed in countries rich in natural resources. Therefore, it has supported the virtuous cycle of growth with less external and fiscal vulnerabilities. Countries already characterised by a high degree of specialisation in commodities production and exports, such as Argentina, Chile, Venezuela, to name but a few, have reinforced their pattern of international integration. However, countries with a larger manufacturing sector, such as Brazil, have concentrated their exports on commodities and experience large trade deficits in the manufacturing sector. Therefore, a renewed stimulus to the previous process of deindustrialisation might be emerging.

Moreover, Latin American economies became strongly dependent on China, so any major slowdown in the Chinese economy might cause a crisis in these countries. China has also become a source of capital to the region, particularly FDI. Therefore, we can suggest that there is no “one size fits all” pattern of relationship between China and Latin American countries. The ultimate results of this interaction will depend, mostly, on how Latin American countries will respond to the Chinese presence in the region. Small and open economies that are highly specialized as producers and exports of raw materials would probably try to deepen its trade ties with Asian countries, exploring their comparative advantages and complementarities. Not surprisingly Chinese leaders have emphasised this pattern of relationship (Dadush and Shimelse, 2012; Ferchen, 2012; Jiabao, 2012), offering financial and technical cooperation and demanding more market access.

Considering the Brazilian case, and allowing for the fact that further research will be necessary to clarify the connections between trade and deindustrialisation, we cannot cast aside the possibility that a closer relationship with China would result in a regressive pattern of specialisation²⁹. Previous studies showed evidence that China's exports have been displacing other countries' exports and, therefore, stimulated deindustrialisation among developing and advanced countries³⁰.

5. Cooperative and competitive dimensions

The recent political movements such as the IBSA, BRICS, and G-20 constitute initiatives from countries of the South to promote changes in the structure of the international liberal order, based on the perception that their own interests, demands and objectives have not been represented in the agenda steered by the developed countries. Ikenberry (2011) argues that this is not an opposition movement against the developed countries, but a contribution to the construction of a multipolar order without hegemonies and governed by multilateral organizations. This perspective corresponds to the Chinese and

²⁹ See, among others, Gallagher and Porzecanski (2010), Dadush and Shimelse (2012) and Ferchen (2012).

³⁰ See, among others, Greenway, Mahabir, Milner (2008); Giovannetti and Sanfilippo (2009); Wood and Mayer (2010), Gallagher and Porzecanski (2010), Giovannetti, Sanfilippo and Velucchi (2011); Lélis, Cunha and Lima (2012); Jenkins and Barbosa (2012).

Brazilian strategy of demanding their space and voice to be heard in the international institutions and is based on the principle that, despite asymmetries and differences, the emerging countries share a converging point of facing an international order which privileges the interests of developed countries, insofar making a joint action from the developing countries needed in order to broaden the possibilities of achieving their goal. Such cooperative joint action is one of the fundamental drivers of the Sino-Brazilian partnership, frequently characterized by the International Relations literature as an example of South-South cooperation or strategic partnership³¹, diverging with the asymmetric pattern of the commercial dimension.

Since the establishment of the diplomatic relations in 1974, the Sino-Brazilian relations revealed to be promising due to complementarities in the economic dimension and to several similarities in the political agenda³², which allowed the establishment of cooperative ties in the bilateral and multilateral ground (Oliveira, 2010). However, after the remarkable Chinese economic growth and its consequent political empowering, the literature increasingly debates whether the current Sino-Brazilian relation may still be characterized within the perspective of South-South cooperation or if the new Chinese position drives the relation towards a more competitive than cooperative bias. Within this context, the divergences in the commercial dimension previously explored, besides other particular disagreements in multilateral institutions, motivate discussions whether the relation may have other cooperative dimensions undermined.

Zuo Xiaoyuan (2012) suggests that China and Brazil have a strategic partnership that goes beyond the scope of the economic cooperation, reaching political cooperation in the bilateral and multilateral dimensions. Jin Biao (2012) argues that Brazil and China, in face of the growing challenges of the international order, will have their cooperation further strengthened, especially within the framework of multilateral institutions. Visentini (2012) argues that the Sino-Brazilian relation reproduces the South-South pattern and is not restricted to the political cooperation and commercial ties, having a broad heterogeneity of fields. Oliveira (2012) also suggests that the relation constitutes a strategic partnership and reproduces the South-South pattern of relationship. According to them, the partnership has in the scientific-technological cooperation an emblematic point. The joint effort to develop remote sensing satellites (China-Brazil Earth Resources Satellite – CBERS) constitute one of the most important technological cooperation project between two developing countries. The Chinese cooperation with EMBRAPA (Empresa Brasileira de Pesquisa Agropecuária), is also noteworthy, which involves joint genetic research and also seeks to deepen the Brazilian knowledge on Asian countries' sanitary and phytosanitary systems, in order to adapt Brazilian products to the Asian markets exigencies.

The recent financial crisis in addition to the consequences brought to the international liberal order, and the roles performed by the emerging countries in the process of recovering economic performance, are also significant opportunity for Brazil and China to deepen their cooperative ties and find common ground in multilateral institutions, such as the United Nations, G-20 and BRICS (Oliveira, 2012). Moreover, seeking to achieve a more cooperative environment and to reduce the constraints coming from the asymmetry in commercial relations, both countries promoted public initiatives such as the China-Brazil Financial Dialogue and the Joint-Action Plan, which seek to grant an institutional character to the relation, establishing common goals and consultation and mechanisms.

However, despite the common interests shared regarding the international order, the complementarities in trade relations, and the cooperation pursued in the various dimensions of the relation, there are still particular divergences that remain within the Sino-Brazilian ground (Vizentini, 2012; Oliveira, 2012). The case of the Brazilian candidacy to a permanent seat in the UN's Security

³¹ See, among others, Oliveira (2010 and 2012); Vizentini (2012); Bécard (2009); Zuo Xiaoyuan (2012); Zhao, Lecchini, and Giaccaglia (2011).

³² Both countries shared the proposition to defend international self-determination, deposited emphasis in national sovereignty and territorial integrity, opposed themselves to the commercial protectionism of advanced countries, and share similar views in the human rights committee of the United Nations (Bécard, 2009).

Council is a symbolic example. Seeking to achieve China's support in the candidature, the Brazilian government recognized China as a market economy and changed its posture in relation to China in the UN's Human Rights Commission; however, so far, China still did not offer an explicit support to Brazil's aspiration. Further divergences also exist in the commercial realm, especially in WTO and Doha's negotiations.

Therefore, the future of the Sino-Brazilian relation will constitute a challenge both to academics and to policy makers. Even though both countries share the quality of emerging countries and regional leaders with global ambitions, this common ground is not enough to capture the nuances of the relation. A closer look to the commercial relations identifies the countries as partners and competitors, while a closer look to the political realm identifies emerging countries with divergent goals. Therefore, if currently the relation, in its political dimension, can be characterized by a significant part of the literature as a representative picture of South-South cooperation, the possibility that the relationship may pursue a trajectory where the competitive dimension becomes more intense than the cooperative realm is not a hypothesis to be disregarded.

6. Summary and Conclusions

In this paper we have used an International Political Economic approach to analyse China's rise as a global power and how it has affected Latin American economies, drawing special attention to the Brazilian situation. Most previous analyses have focused mainly on the commercial dimension and have seldom analysed the Chinese literature's perspective. Therefore, we have tried to contribute in a potentially original means bridging economic and political aspects to fulfil this gap in the academy and also tried to explore the Chinese perspective of the deepening Sino-Latin American relation and its impacts. Furthermore, considering that the relationship has evolved rapidly, we have tried to contribute providing updated evidences and exploring what could potentially be considered as new trends. Despite intentions of a growth model re-orientation, Chinese policymakers responded to the 2007/2008 financial crisis and to the subsequent "great recession" landscape with massive fiscal and monetary stimulus that reinforced, at least in the short and medium terms, the previous investment-intensive and export-led growth pattern. As a consequence, Chinese pressures to access dynamic domestic markets in emerging countries were amplified. In this context, Latin American countries represented not only a source of natural resources but also an increasingly important market for manufactured products.

The interpretation of the results of the economic data presented in this paper and the analysis of the literature on the topic allows us to conclude that, particularly to the Brazilian case: (i) China's influence might amplify a regressive pattern of production and trade specialisation; (ii) there is a strong connection between business cycles and trade intensity which seems to be associated with that specialisation pattern; (iii) there are strong evidences that manufactured goods exports originated in Asia constitute a threat to the Brazilian manufacturing sector and may have a role in displacing Brazilian exports to its main trade partners; and (iv) the new Chinese position, product of its economic and political empowering, and the emergence of points of divergence, sheds light on the future possibility that the relation's current cooperative dimensions may be less intense than the competitive.

Thus, it must be expected that policymakers will react to avoid what would probably be perceived as a major threat. Nevertheless, further research will be necessary to clarify: (i) the role played by Chinese (or other emerging economies) exports of manufactured products in dislocating the Brazilian and the other Latin American countries exports; and, as a consequence (ii) the connections between trade and deindustrialisation. Notwithstanding, our results have explored new trends and have reinforced the conclusions of correlated studies, such as Moreira (2007), Paus (2007), Greenway, Mahabir and Milner (2008), Jenkins (2010), Giovannetti and Sanfilippo (2009), Wood and Mayer (2010), Leão, Pinto and Acioly (2011), Cesa-Bianchi *et al.* (2011), Lélis, Cunha and Lima (2012), Jenkins and Barbosa (2012), Bittencourt (2012), Cunha *et al.* (2013), among others.

We have assumed that China's rise might be a major challenge to Brazil, which is a major producer and exporter of natural resources and has a large manufacturing sector as well. As a consequence, the

country has experienced both positive stimulus from Chinese demand for raw materials and the competitive pressures from its exports. The balance between opportunity and threat will depend on the evolution of the Sino-Brazilian relationship. It is an open question whether China will treat Brazil and other Latin American countries as partners in a South-South pattern, or as markets in a North-South style.

In order to overcome old and new structural problems and to avoid the negative trends potentially associated with the well-known “natural resource curse” the country and its neighbours must recover their capacity to implement robust development strategies. In the Brazilian case, this means that government must: (i) re-orient its macroeconomic policy to preserve growth and employment; (ii) manage exchange rate and capital flows in order to reduce the impacts of external turbulences; (iii) improve income distribution, invest in human capital and reduce social gaps; (iv) implement robust and sustainable development policies aimed to reduce the infrastructure bottlenecks, to increase competitive capabilities of local enterprises, to attract FDI and, moreover, to preserve the environment and the country’s biodiversity. This is an ambitious, complex and still open agenda.

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