

Analyzing the Chinese development and its impacts on the Brazilian economy

Lisboa Sohn Ana Paula¹

Abstract: Considering the growing strategic importance of China for the Brazilian economy, this article seeks to expand the knowledge about the Chinese remarkable development and assess its impacts on the Brazilian economy. We chose to carry out an exploratory and bibliographical approach highlighting the process of China's economic opening as from 1978, and the most evident effects in the commercial relationship with Brazil. It appears that China will maintain a high growth rate of the GDP. It is inferred that there will be two categories of impact in Brazil: one with a positive outlook in relation to the favorable performance of the exports of commodities and the attraction of Chinese investments in the country, and one that will challenge even more the competitiveness of important segments of the Brazilian industrial sector.

Keywords: China, Brazil, competitiveness.

1. Introduction

China is the world's second biggest economy after the USA. It is the fourth biggest country in terms of size and the biggest in population rate. China's increasing importance for the world economy is highlighted by Cunha (2010) who states that despite the financial and economical crises, which emerged in 2008 and is still in recovery, it is observed a trend over the changes in the axis of development from the western to the eastern countries which are under China's leadership.

The model of liberal capitalism and its unsteady control proved to be unable to deal with the crises it has generated. Competition in global market is to suffer non-

¹ Ana Paula Lisboa Sohn (✉)
Universidade Federal de Santa Catarina. Campus Universitário. Trindade.
88040-900 - Florianópolis, SC - Brazil –
e-mail: anasohn@hotmail.com

trivial adjustments. Facing the accelerated economic and social development in China Tse (2010) and Cunha (2010) highlighted the necessity for knowing and evaluating the potential and challenges of this country in global economy. Thus, the main objective of this article is to amplify the knowledge of the extraordinary trajectory of development of China since 1978 and point out the main impacts it has in Brazilian economy.

The reflexion of this phenomenon, the resurgence of China as a great global power is appropriate and necessary because since the Industrial Revolution the world has not faced such threatening experience towards the western prominence and its model of capitalism.

Regarding the knowledge Brazil has about China, authors such as Cunha (2010) and Masiero (2007) evidence that the recent experience of Chinese development and the perspective of this country to become the largest world economy have not been carefully observed by the Latin-American subcontinent whose growth rate have remained below its potential in the two last decades.

This article is divided into five sections. The first is related to the introduction of the theme, to its objective and to the justification for this research. In the second section we present the methodology applied to the development of the article. The third section is about the development of policies and Chinese economic and entrepreneurial structure. The impacts of Chinese development for the Brazilian economy are presented in the fourth section. The fifth section brings the final considerations and suggestions for future researches.

2. Methodology

This article involves theoretical and introductory work which aims to encompass a bibliography research as its main method. At first a selection of indexed scientific articles was made. Book access and statistic data, available in national and international data bank, were also assessed to make part of this research.

After the gathering of all theoretical material, the problem was fixed and the conceptual and the empirical basis of the article were built. Following the conceptual analysis, final considerations were taken in order to amplify the academic knowledge about the theme presented in this article.

3. China: considerations about development policies and economic and entrepreneurial structure

China is the largest country in Eastern Asia and the most populous in the world with 1.34 billion inhabitants, approximately one seventh of the world's population. It is a socialist republic governed by China Democratic Socialist Party under

a sole party system. Its jurisdiction ranges from 22 provinces: five of them are autonomic (Xinjiang, Inner Mongolia, Tibet, Ningxia and Guangxi), four township (Beijing, Tianjin, Shanghai and Chongqing) and two special administrative regions with great autonomy (Hong Kong and Macau) (WIKIPEDIA, 2011).

In order to properly understand the phenomenon of the Chinese accelerated growth it is necessary to acknowledge the process of modernization and starting point initiated by Deng Xiaoping in 1978. Deng's political reforms impelled China to create a market economy with special characteristics. In the seventies, China reviewed its Sinocentric position until then exacerbated by the adoption of a socialist view focused on a centrally planned economy. Until 1978 the theoretical hypothesis of a transition from the communist organization and business operation to the capitalism did not bring about important considerations.

In the modern era, there were no experiences in the world scenario which could lead central planned policies to the opening and liberalization of the economy (CUNHA, 2008).

For the traditional theoreticians, the market economy is characterized by the presence of three components: 1) a price system determined by the market 2) private property and, 3) generation and appropriation of profits by private agents. As highlighted by Cunha (2008), there is no rigid default to classify the economy as a market or non-market economy. Countries differ from one another regarding the type and content of their market economy. In China, in 1978, there was a strong dominance of state-owned enterprises (SOEs) and collectively-owned enterprises (COEs), which contributed with 70% and 22% in industrial production, respectively (CUNHA, 2008).

In this context in 1978, China had to decide to remain as a poor and isolated country or join the part of the world which was progressing. Opting for the second strategy, the country accepted the increasing the world integration and interdependency not only in politics but also in economy. This way, the Chinese government leaded by Deng Xiaoping defined guidelines to lead China to the economic and social development. Among these guidelines, Nonnenberg (2010) points out: 1) the process of liberalization of the price system which allows prices to be determined in free markets; 2) the liberalization of the international trade; 3) the great availability of rural labor force with very low productivity, fact that enabled the migration to cities, maintaining low salaries even with the increase of labor demand; 4) the lack of intellectual property protection; 5) the gigantic size of the Chinese population which enabled the creation of economies of scale in most industries; 6) the implementation of policies and incentives for promoting innovation and, 7) the great increase of Foreign Direct Investment, from US\$ 1,4 billion in 2004 to US\$ 109 billion, in 2010.

The Chinese model of capitalism implemented by Deng Xiaoping associates the dynamism of private activities with the government planning and public intervention. The success of the capitalism in China and its program of commercial opening is evidenced by the reduction of 265 million people in absolute poverty in only 17 years, from 1990 to 2007 (CUNHA, 2010).

According to Masiero (2007) the creation of TVEs (Township and Village Enterprises) was fundamental to the development of the modern Chinese economy. For this author Township is an administrative structure to govern towns – an urban agglomeration which is bigger than villages but smaller than cities. They are administratively subordinated to counties. Masiero (2007) observes that the definition of urban and rural area vary a lot and this fact may be a source of difficulties for foreign researchers. In the end of 2002, TVEs represented nearly 18% of the employment rate in the country and for approximately 40% of the industrial production in China. Masiero (2007) considered TVEs the main factor for the economic growth of the country. TVEs have innovated organizational structures, are able to maintain a great number of workers and contribute to the rapid industrialization of the Chinese rural area (MASIERO, 2007).

Cunha (2008) highlights that one of the signs of the economic reform was the insertion of the foreign capital to stimulate the industrial development, measurement which allowed Special Economic Zones (SEZs) to progress enabling it to become the main reason of the Chinese development, especially from 1990 on. In the beginning of the opening process, China Deng created five Economic Zones directed to the foreign market, where, besides the adequate infrastructure to the production and goods outflow, necessary to the exportation process, foreign investments were duty-free for a five-year period.

It is important to point out that the acceptance and valorization of the private sector in China had its beginning in 1982. Up to this year there were no guarantees for the private sector and from this year on a constitutional amendment was approved. It considered the private economy supplemental to the ballast-economy in the state-owned enterprises. The process of valorization and guarantees of private enterprises, including the foreign capital, followed the gradualism idea because only after 2004 there was complete guarantee of property right (CUNHA, 2008).

The characteristics of the main types of Chinese companies, responsible for the generation of new Jobs are presented in table 01. The analyses of the table highlights that some of the enterprises are hybrid, which means they belong to a particular economic system and political regimen which are suffering transitions; other are more similar to the western way of organization. Very complex structured companies can also be seen.

Table 01 - The characteristics of the main types of Chinese companies.

Typology	Characteristics
State, State-owned Enterprises (SOEs)	Frequently controlled by relevant ministries such as the communication ministry. They have priority of access to loans and other subsidies from the government.
Urban Collective Enterprises (UCE)	Localized in big cities, enterprises are owned by communities and self-employed entrepreneurs. They are frequently enrolled in activities involving service rather than manufacturing. They are greatly influenced by regional and local control and property.

Township and village enterprises	The property totally belongs to the government of the township or the village; it also may belong either to the government or its stakeholders. They do not enjoy credit facilities or the support of the central government and are administered similarly as private enterprises.
Private Enterprises	Small enterprises with limited access to capital; they belong to individuals or private entities. Some from the technology sector when receiving foreign investments change into FIEs.
Foreign-invested enterprises (FIEs)	Joint ventures with differential participations. Joint ventures from co-operative societies and foreign enterprises are legal entities from mixed property. Multinational companies generally establish FIEs after a short-term period of experience as a representative office. They cannot be characterized as private without carefully analysis due to the relation they may establish with SOEs. They have a different legislation when compared to other Chinese companies.
Companies listed on Stock Exchange	Companies which belong to Chinese and foreign shareholders. Their stocks are negotiated in stock Exchanges. The control is carried out and the profits are shared according to the possession of stocks. The government generally own more than 50% of the stocks or is regarded as the majority shareholder.

Source: Adapted from Masiero, 2007 and Cunha, 2007

4. Impacts of the development of China in Brazilian Economy

In the beginning of the process of the Chinese economic development, still during the 80s decade, important entrepreneurial partnership were set with Brazil. From 2009 on, China has become the first trading partner of Brazil and the main destination of Brazilian exports to the Asian continent. Masiero (2007) cites important trading partnership between Brazilian and Chinese companies such as Companhia Vale do Rio Doce and Baogang Steel; Sinochem, companies such as WEG and EMBRACO all localized in Chinese territory.

From the twenty-first century on, the bilateral commerce between Brazil and China has presented considerable development. The bilateral trade relation between Brazil-China ended the year of 2010 with a record of trade flow, approximately US\$ 56.3 billion. This amount was 56% higher than the observed in the year of 2009. This remarkable growth was mostly due to the imports which increased 61% in 2010 when compared with 2009. The exports also increased approximately 47% in 2010. Even with the increasing export rates, the Brazilian trade balance with China has remained positive, a little higher than US\$ 5 billion (CNI, 2011). Table 02 presents the evolution of the Brazilian exports and imports to China.

Table 02 – Trade relation between Brazil-China (in US\$ billion)

Specification	1997 China	2000 China	2006 China	2010 China
Exports to Brazil	1.1	1.1	8.4	25,5
Imports from Brazil	1.2	1.2	8.0	30,8

Source: elaborated by author, based on Joint Statistical Publication (2011).

The Chinese export high added-value products to Brazil while the Brazilian profile of exports to China is predominantly constituted of low added-value items mainly iron ore and soybeans in granular form, respectively.

Observing Brazilian imports from China it has become clear that there is evident prevalence of high added-value products. The Chinese imported products consist mainly of machines, telephony hardware, liquid crystal display, etc.

Nowadays, China is the world's second economy and the biggest exporter of goods. From 2008 on, even with the occurrence of a global economic crisis, China's investments escalated and surpassed, for the first time, 50 billion dollars. In 2009, the country held the fifth position of the rank being considered one of the biggest stakeholders in the world (Economic Commission for Latin America - ECLA, 2010).

The growing trend of FDI Chinese is motivated by the following reasons: a) opening door policies from the current government since 2000; b) facilitated loans of Chinese state-banks which covers the projects of investments in foreign countries. ECLA (2010) observes that most Chinese transnational companies are, with a few exceptions, state-owned.

Nevertheless, even in the case of state-owned companies, the direct investments of China in foreign countries cannot be explained only as a consequence of the government guidelines. While the State impels international expansion, the Chinese companies are also investing in foreign trade due to its strategy of diversification and technological development. The strong growth of Chinese economy with very high savings rates, the great exporter performance and the advancements in science, technology and innovation created great capacity in plenty of companies which have been explored through external investments. In a lot of cases, Chinese companies acquired foreign companies with the objective of creating strategic measures in advanced economy and guarantee the access to sources of natural resources, especially in developing countries.

ECLA (2010) points out that the Chinese investments reveal profound changes towards some countries: Brazil which represented 3.5% of the Chinese investments in Latin America from 1990 to 2009, in 2010 received almost two thirds.

According to China-Brazil Business Council (2011) the amount of money invested by Chinese companies in business operations in Brazil was US\$ 12.7 billion in 2010. This sum reveals the great interest of Chinese but does not represent the increase in Brazilian production capacity, once most of IDEs were allocated to

the acquisition of foreign capital controls of companies already established in Brazil. With disregard of foreign exchange controls, the Chinese sum invested in Brazil is US\$ 1.510 billion. CEBC highlights that the amount of money which best represents the relation between China-Brazil, with all the possible implications it may have from now on, is 12.669 billion of dollars – once it establishes the consolidation of the Chinese presence in Brazil through foreign direct investments.

5. Final Considerations

The Chinese model of capitalism implemented by Deng Xiaoping associates the dynamism of private activities with the government planning and public intervention. The success of the capitalism in China and its program of commercial opening is evidenced by the reduction of 265 million people in absolute poverty in only 17 years, from 1990 to 2007 (CUNHA, 2010).

It is convenient for countries such as Brazil to take the economic policies adopted by China as an example. It is highlighted though that Brazilian economy is at risk of being captured in the specialization of commodities, renouncing the achievement of new manufacturing segments especially in the high technological field.

The greatest challenge for Brazil is not related to conjuncture policies nor their aspects, but to define long-term outlines and strategies of development of modern infrastructure, prioritizing good quality education, science and research and adopting tax policies to stimulate industrialization and innovation of the three economic sectors, therefore modernizing the government structure.

The Beijing model has a lot to teach to the Brazilian academy, governors and entrepreneurs. As China's Gross Domestic Product (GDP) approximates the capitalist production of the USA, Brazil is to consider China a great challenge for the next 40 years and become aware that no country is protected against the inexorable Chinese capacity to conquer space in the world market as well as compete in their own national territory, prior protected against tax barriers of transportation, communication and taxes of other nature.

The Chinese market has potential to deserve continuous and growing attention. The general overview of the development process which has been happening in China since 1978 and its impact on the Brazilian economy in the near future points out to two categories of impacts: one presenting positive perspectives related to the favorable performance of the exports of commodities and to the attraction of Chinese investments in the country; and the other which will doubt the competitiveness of important segments of the industrial sector in Brazil. A research from Brazilian and Chinese Observatory (2011) points out the Chinese ascension as the world's factory, it emphasizes a reduction in Brazilian exports and advancement

of China in American and worldwide markets in special in the USA, Argentina e Mexico.

This article is an introductory work which aims to stimulate other researchers about the impacts of the Chinese development in Brazilian economy. Thus, it is suggested that more theoretical and empirical studies ought to be developed in order to deepen the knowledge about the facts that underlie the success of the Chinese development.

References

- CAMARA DE COMERCIO E INDUSTRIA BRASIL-CHINA (2010). http://www.ccibc.com.br/camara-brasil-china/bin/site.php?id_pag=2324. Acessado em 16 de jan. 2012.
- CONFEDERAÇÃO NACIONAL DA INDUSTRIA (CNI) (2011). Observatório China Brasil. year 4, n. 1, march 2011.
- CHINA BRAZIL BUSINESS COUNCIL (2011). Investimentos chineses no Brasil: uma nova fase da relação China Brasil.
- CUNHA, Idaulo José (2008). China passado e futuro de um gigante. Florianópolis: Visual Books.
- CUNHA, Idaulo José (2009). Clusters na China: uma visão geral sobre tipologia, características, gênese, estágio de desenvolvimento e tendências. In: Revista Iberoamericana de Engenharia Industrial. vol. 01, n. 2, Florianópolis.
- CUNHA, Idaulo José (2010). China passado e futuro de um gigante: notas complementares e de atualização. Florianópolis.
- ECONOMIC COMMISSION FOR LATIN AMERICA (ECLA) (2010). O investimento estrangeiro direto na América Latina e Caribe.
- DJANKOV, Simeon; QIAN, Yingyi; ROLAND, Gérard; ZHURAVSKAYA, Ekaterina (2006). Who Are China's Entrepreneurs? In: The American Economic Review, vol. 96, n.2, may 2006.
- JOINT STATISTICAL PUBLICATION (2011). BRICS 2011. Chapter Fifteen: External Economic Relations.
- MASIERO, Gilmar (2007). Negócios com Japão, Coréia do Sul e China: economia, gestão e relações com o Brasil. São Paulo: Saraiva.
- MING, Celso (2011). Amarração com a China. In: O Estado de São Paulo.
- NONNEMBERG, Marcelo José Braga (2010). China: Estabilidade e crescimento econômico. In: Revista de Economia Política, vol. 30, n. 2, april-june, 2010.
- OBSERVATORIO BRASIL CHINA. (2010) Year 4, n. 2, july.
- OLIVEIRA JUNIOR, Alcides Mário Amaral de (2011) Estratégias de desenvolvimento do Brasil e da China. Dissertação (mestrado). Universidade Federal do Paraná, Programa de Pós Graduação em Desenvolvimento Econômico. Curitiba, 2011.
- WIKIPEDIA. China. <http://en.wikipedia.org/wiki/China>.