The Chinese ‘Jeitinho’: A Case Of Sino-Brazilian Trade Relations

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ABSTRACT
Brazil finally gasps for air, having barely kept its economy afloat amid its deepest recession yet. Fragile and still mired in political scandals, Brazil seems optimistic about the future of its economy. But should it? This paper critically assesses Sino-Brazilian relations and their influence upon Brazil’s current path towards deindustrialization. A recent surge in literature concerning deindustrialization advances the notion of premature deindustrialization being highly threatening to the Brazilian economy. Moreover, scholars and policymakers alike bring forth studies showcasing a disproportionate increase of primary exports in recent years, which they believe is caused by Brazil’s growing economic reliance on Chinese trade. The paper enters the discussion by conducting a theoretical analysis where concepts such as dependency, primarization, and soft power are explained and applied to the subject at hand. This is followed by an in-depth observation of Sino-Brazilian relations. The case is made that Brazil intentionally chooses the path of dependency and deindustrialization in hope of securing recognition as a global power.

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INTRODUCTION
Over the last few decades, the region of Latin America has become increasingly salient for commercial and intellectual exchange, as well as for economic development and growth. Brazil is one of the many recipients of growth and development in the region, contributed to in no small part by its trading relationship with China. The strong Sino-Brazilian bilateral trade took its present form in the mid-2000s. It is important to note here that trade between both nations, although feeble at the time, began as early as the 1980s. In recent years, this strong alliance with China accounted for 17% of total exports and over 16% of imports in Brazil (SECEX, 2013; Jenkins, 2015). Perhaps most impressive is the growth in the manufacturing sector, where imports of manufactured products from China to Brazil grew by more than US$32 billion – from US$ 1.1 billion in 2000 to US$ 33.4 billion in 2012. Trade initiatives throughout the Brazilian region, particularly by China, have had significant effects on its economy, some of which were negative. Consequently, a growing debate over this relationship has been gaining currency, paving the way for considerable controversy inside Brazil (Barbosa and Mendes, 2006; Maciel and Nadel, 2011; Jenkins, 2015).

This essay seeks to offer a critical approach to Sino-Brazilian trade relations, with an emphasis on the decline of the manufacturing sector and the rise of primary commodities. It will do so by introducing concepts such as ‘deindustrialization, ‘dependency’, and ‘soft power.’ Moreover, as a means of enriching the text, theoretical frameworks based on Marxism and Neoliberalism will be used. The overall aim is to analyze the trade imbalances between China and Brazil with reference to the aforementioned concepts. It seeks to answer the following central question: to what extent are Sino-Brazilian relations damaging Brazil’s economy, and is China truly to blame?

LITERATURE REVIEW
This initial section dissects the literature surrounding Sino-Brazilian relations by first
assessing Neoliberalism and Marxism, followed by deindustrialization, dependency, and soft power, respectively.

**NEOLIBERALISM VIS-À-VIS MARXISM**

What is understood by the dichotomy between Marxism and Neoliberalism mainly revolves around the role of free markets. On the one hand, neoliberals actively seek the separation between state and markets, championing laissez-faire principles. Under this assumption, the essay contextualizes the impact of the Washington Consensus and its prescription of neoliberal principles placed in Brazil during the 1980s. Through the Washington Consensus, a flow of foreign capital, known as foreign direct investment, or FDI, flooded the Brazilian economy. It formed and amplified Brazil’s industrial terrain. Via this influx of FDI, particularly during the 1990s with former president Fernando Henrique Cardoso’s Plano Real, the country experienced a significant shift towards privatization, resulting in high growth rates and the establishment of further neoliberal policies.

Marxists, on the other hand, oppose free markets, competition, and privatization, suggesting instead a greater reliance on socialist reforms through state intervention. Martinez-Diaz and BrRAINd (2009) regard Brazil’s interventionist and developmentalist policies as the foundation for Brazilian economic success, highlighting the importance of socialist principles in economic development. Following the trajectory of anti-neoliberal sentiment, some academics implement rather creative concepts to criticize neoliberal discourses, the Golden Straitjacket being one of them. The Golden Straitjacket was introduced by Thomas Friedman, who viewed the Washington Consensus and its neoliberal policies as tools for suffocation. The Golden Straitjacket narrows the political and economic policy choices of those in power to relatively tight parameters (2012, p. 103). This essay argues that Friedman’s metaphor aptly describes some of the characteristics seen today in Sino-Brazilian relations.

**DEINDUSTRIALIZATION**

The second theme, deindustrialization, is normally defined as a process of contraction in the manufacturing sector, leading to unemployment, widening inequality, and decline in the share of manufacturing value added to a country’s Gross Domestic Product (GDP). However, Jenkins argues that deindustrialization does not necessarily lead to negative effects on the economy (2015). Rather, deindustrialization is a natural step towards economic development, whereby economic activities change overtime. An example is the transition from manufacturing industries to services. Unfortunately, this is not the case in Brazil, where Gabriel Palma (2014) soberly notes that a ‘premature’ deindustrialization is taking place instead. Moreover, statements made by academics, such as Jenkins, who holds that “the growth of China is an important factor contributing to deindustrialization” are beginning to creep into political debates (2015, p. 43). It is under such a notion that this essay draws its research question on China’s involvement as perhaps being detrimental for the Brazilian economy. Jenkins furthers this argument by assessing direct and indirect impacts inflicted by China on the Brazilian economy, particularly its manufacturing sector (2015). An increase in imported manufactured goods from China is seen as a ‘direct’ effect, “which [has] in part displaced domestic production and [has] not been compensated for by a growth of Brazilian exports to China” (Ibid., p. 52). Additionally, indirect effects are felt by China’s growing appetite for Brazilian primary goods, thus reversing industrialization and restructuring Brazil’s exports in favor of primary commodities. This coincidentally compliments Palma’s previous observation on ‘premature’ deindustrialization (2014).

**DEPENDENCY**

Many of those who subscribe to Marxist ideas come across the concept of dependency, which is described as the fundamental cause of underdevelopment alongside other related approaches that stress imperialism and colonialism by academics, such as Wallerstein (2004). Although Brazil is not necessarily underdeveloped, dependency nonetheless inflicts harm on it. This model of ‘imperialism’ ultimately imposes new political and economic models of
exploitation under neoliberal principles. Dependency, in its purest form, depicts the exploitative relationship between developed and developing countries, in which developed nations extract as much from developing nations as possible. What is particular to the Brazilian case, however, is how dependency occurs between two developing countries: Brazil and China. Furthermore, some of the dependency literature suggests the existence of two subgroups: Product dependency and Nation dependency. Both are present within Sino-Brazilian relations. Extending from the theoretical application of both dependency and deindustrialization, this essay sees the use of ‘commodification’ as a viable contender for further Sino-Brazilian analysis. Commodification, much like primarization, refers to a country’s dependence on primary commodities. As such, some say Brazil currently finds itself commodified under the bilateral trade it has with China (Jenkins, 2015).

SOFT POWER

Lastly, the essay sheds light on the concept of soft power due to its relative novelty in the context of dependency and deindustrialization. Through soft power, the essay hopes to identify explanations behind the Brazilian logic in pursuing current trade negotiations with China. By adopting Joseph Nye’s (2009) distinction between ‘hard’ and ‘soft’, where hard power is presented as the use of coercion by either military or economic means to expand influence, while soft power relies mostly on passive forms of persuasion. Under the contextual premises of this essay, a larger emphasis is placed on the use of soft power by Brazil as it practices passive economic policies (with China) with the aim of raising its status as a central actor in global debates. Both Trinkunas (2014) and Weyland (2016) make the argument that Brazil consistently seeks worldwide recognition as a global power, thus exercising soft power in order to achieve this goal. This essay suggests that Brazil is purposefully trading at a cost of manufacturing deficit in order to satisfy the needs of the second largest economy, China, with the expectancy of being recognized and promoted as a true global power.

ANALYSIS

This section assesses the theoretical concepts brought forth in the previous section, and critically analyses them in relation to Sino-Brazilian relations. The aim is to answer the research question: To what extent are Sino-Brazilian relations damaging Brazil’s economy, and is China truly to blame? It begins the discussion by evaluating Brazilian economic policies prior to Chinese trading relations, focusing on the reforms enacted by the military dictatorship and Cardoso’s government of 1995 through 2002.

BRAZIL PRE-CHINA

The former military dictatorship in Brazil not only acts as an important reminder of the dangers of totalitarian regimes, but also as an example of the dangers of enacting protectionist policies to develop one’s economy. During the 1960s and 1970s, Brazil embarked on one of the most successful cases of Import Substitution Industrialization (ISI), and with it, one of the highest levels of industrialization the country has ever experienced. General Golbery do Couto e Silva, Brazil’s intellectual architect during the dictatorship, presented a pivotal rhetoric when he sought “a healthy and strengthened economic sector that is better protected from adverse foreign pressures and which provides a solid infrastructure” (Dávila, 2013; 20). It was during this time that Brazil experienced its ‘Economic Miracle’ (1968-73), a result of combined industrialization, technology acquisition and currency devaluation (Trinkunas, 2014). The ‘Economic Miracle’ highlighted Brazil’s potential for industrialization, with economic growth achieving rates of 11.3%.

Another pivotal time in Brazil’s economic history came during Cardoso’s presidency, during which a second miracle catapulted Brazil further toward being recognized as a major industrialized trading nation. Many attribute the ideological shift to Cardoso since, following the inauguration of the Plano Real, Brazil had largely conformed to the neoliberal policies prescribed by the Washington Consensus, signaling the transition towards neoliberalism. The neoliberal agenda

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2 Import Substitution Industrialization, or ISI, is an economic theory applied by developing countries to decrease dependence on developed countries (Prebisch, 1950).

3 By devaluing the currency, it facilitated long-term contracts for foreign trade, allowing businesses to adjust prices and payrolls. This is also known as indexation (Trinkunas, 2014).

4 During the years of the ‘Economic Miracle,’ Brazil grew at a rate of 11.3% per annum (Bresser-Pereira, 2017).
propelled financial liberalization and increased interest rates to attract foreign investors. In turn, this allowed Brazil to recuperate from the devastating recession known as the Lost Decade. By resuscitating Brazil’s economy, Cardoso jumpstarted an era of prosperity and growth, reminiscent of the times of the ‘Economic Miracle’ (Dávila, 2013). At the other end of the spectrum, some view Cardoso’s Midas touch through financialization and opening of the economy as self-destructive due to Brazil’s growing reliance on FDI and foreign trade, thus increasing its vulnerability to foreign manipulation. This essay makes the argument that such vulnerability ultimately led Brazil into wearing what Friedman termed the Golden Straitjacket. With the implementation of neoliberal policies, Brazil’s political and economic choices were reduced to “Pepsi or Coke – slight nuances of tastes, slight nuances of policy… some loosening here or there, but never any major deviation from the core golden rules” (Friedman, 2012, p. 103). In other words, Cardoso’s neoliberal policies arguably triggered many of the problems that Brazil faces today. However, Jenkins (2015) postulates new narratives to this discussion; neoliberalism, albeit partly to blame, is not the sole culprit. Rather, China is a viable cause. Such criticism brings forth the next topic of discussion: deindustrialization.

DEINDUSTRALIZATION

As observed earlier in this essay, academics, such as Cano (2012) and Mattos and Fevereiro (2014), view the process of deindustrialization, or as Palma calls it, ‘premature’ deindustrialization (2014), as being closely linked to Brazil’s experimentation with neoliberal policies. By contrast, Jenkins (2015) perceives China as a contributing cause for this process.

Economic growth was significant from 1952 to 1967, and again from 1967 until the 1980s (Economic Miracle), but Brazilian industry has since seen a clear downward trend. By the early 90s, Brazil faced an uncontrollable deficit in industry, and with the opening of the economy during the Plano Real years, it only accelerated the falling share of the sector in GDP (Mattos and Fevereiro, 2014). Those who criticize neoliberalism will agree that the opening and financialization of markets also prompted a process of denationalization, which “subordinated the Brazilian economy to the strategies and behavior of international capital” (Gonçalves 1999, p. 191). Such critics also condemn Cardoso’s opening of the economy and falling tariffs, as a direct cause for diminishing protectionist mechanisms, reducing drastically the degree of protection against international competition (Cano, 2012).

For Jenkins, however, the blame should be placed on Chinese influence (2015). The clear displacement of domestic manufacturing is a result of Chinese imports flooding the Brazilian market, with several underlying factors; a) Brazil remains a relatively closed economy, limiting its ability to expand trading relations with other countries, paving way for dependency; b) China actively places subsidies on its manufacturing goods, making Brazilian products uncompetitive; and c) China’s overwhelming population and economy have equally overwhelming demand for, in this case, primary goods. Consequently, Brazil places most of its efforts on the production to meet such demands at the expense of its manufacturing sector. An additional factor that might deindustrialize Brazil is China’s growing competitiveness, which threatens Brazil’s trading role in ‘familiar territories,’ such as Latin America. It should come as no surprise that China’s export agenda includes Latin America. What is unexpected is how successful it is, and how it is further displacing Brazil’s manufacturing sector. As noted earlier, Brazil has a relatively closed economy and thus a selected few trading partners. For many years, Latin America has been the cradle for much of Brazil’s economic and industrial growth. With the introduction of Chinese competition and an already fragile industrial sector, Brazil is finding it difficult to remain competitive, entering a ‘slippery slope’ where decreased manufacturing due to bilateral trade with China limits its ability to export to other regions of the world, and further hindering production.

Although Jenkins (2015) makes the strong argument of Chinese intervention as a cause for deindustrialization in Brazil, it is also important to consider other aspects. In an age of globalization, countries should implement safety nets to escape tantalizing neoliberal policies. China, ironically,

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5 The Lost Decade was the result of structural inefficiencies and corruption to name but a few reasons (Dávila, 2013).
serves as a case study where, although declaring itself as an open trading economy, it still retains government control and limits capital entry into the country. According to Cano, China, by exercising capital control, manages to sway the entry and exit of capital in the country, in turn having greater control over its investment funds (2012). Such control also allows for greater sovereignty and power over domestic politics and economic policies.

A question therefore arises: if such protectionist policies are available, why does Brazil not follow them? In order to answer, we must first tackle the concept of dependency, which in many ways explains the current situation in Brazil. Subsequently, the section about soft power addresses a different narrative, namely that of Brazil consciously following the path of deindustrialization and dependency to achieve a greater goal.

**DEPENDENCY**

The relevance of dependency theory in Sino-Brazilian relations rests with industrial production and the emphasis on primary commodities (Dean and Frank, 1968; Cardoso and Faletto, 1979). As suggested by Jenkins and Dos Santos, “[w]hen industrialization occurred in the periphery, this merely led to a ‘new dependence’ in which the disarticulated nature of accumulation meant a continued reliance on traditional exports of primary commodities” (Dos Santos, 1973, p. 16; Jenkins, 2015, p. 44). For instance, from 2000 to 2012, this dynamic manifests itself in how the increase in primary products exported to China is met by an ever-contracting Brazilian manufacturing sector (SECEX, 2013; Jenkins, 2015, p. 44). For instance, from 2000 to 2012, this dynamic manifests itself in how the increase in primary products exported to China is met by an ever-contracting Brazilian manufacturing sector (SECEX, 2013; Jenkins, 2015, p. 44). For instance, from 2000 to 2012, this dynamic manifests itself in how the increase in primary products exported to China is met by an ever-contracting Brazilian manufacturing sector (SECEX, 2013; Jenkins, 2015).

At first glance, a rather bleak picture of Brazilian export diversity emerges since primary and manufacturing export values are highly disproportionate. Such a disproportion is partly explained by a reference made earlier in the essay: Product dependency and Nation dependency. Product dependency describes the process in which a developing country (Brazil) actively increases its efforts on producing a single commodity for exports. It is important to remember, however, that such dependency is not exclusive to Brazil; in fact, a large section of Latin America follows the same footsteps, with countries such as Chile, which relies on minerals and Venezuela on oil (Hughes and Mijeski, 1984). Nation dependency, as the name suggests, considers a “dependency that occurs when a nation depends heavily upon one, or very few, other nations for most of its trade and foreign investment” (Ibid., pp. 10-50). Returning to the case of China, we observe that this disproportion is intensified by Chinese demand. Therefore, both Product and Nation dependency are at work within the Sino-Brazilian trade. However, this essay steers away from the underlying assumption that China is to blame. Although convincing, dependency and deindustrialization are not the most accurate explanations for Brazilian trade imbalances.

**SOFT POWER**

In order to make sense of Brazil’s use of soft power in its trade relations with China, one must first become familiar with the country’s ambitious and far-flung policy agenda (Sweig, 2010). Several reports have shown consistent attempts made by Brazil to increase its role in international affairs, such as Trinkunas’ ‘Brazil’s rise: Seeking influence on global governance’ (2014), in which he discusses Brazil’s presence in World Bank debates and talks of securing a seat in the United Nations Security Council. At any rate, Brazil is demonstrating a vision of being a key global player. Through this quest for increased international presence and recognition, Brazil has implemented measures of soft power to achieve this goal. As suggested by this essay, current Chinese trade relations act as an example of that ambitious goal.

By becoming China’s main destination for primary goods such as soy and iron, it achieves its desired level of recognition by being a competent provider to one of the world’s largest economies. From this assumption, the use of dependency and deindustrialization becomes less trivial and less assuming of Chinese destructive intentions. This would suggest that Brazil is making a somewhat conscious effort to deindustrialize. Brazil’s Agricultural Plan for 2017-2018 supports this statement. An estimated R$200 Billion will be directed to agricultural credit, a gift from the government’s plan of increasing agricultural output (Ministério da Agricultura, Pecuária e Abastecimento, 2017). The evidence of bias towards agricultural efforts becomes clear once the program for Technology and Sustainability is considered, where the total amount invested for 2018 is a mere R$ 2.8 Billion (Herton Escobar, 2017). The eclipsed Technology and Sustainability budget not only reflects Brazil’s
pursuit towards primary production, but also its continuing structural inefficiency, in which agricultural lobbyists pull the strings.

**CONCLUSION**

All in all, this essay critically analyzed Sino-Brazilian trade relations. Several cases were brought forward, such as the military dictatorship, which although detrimental, still created a fruitful economic path for Brazil. Cardoso’s government was equally successful in achieving economic progress, and with no societal repercussions as seen during the previous dictatorship in its use of violence and oppression. However, Cardoso arguably did open the door to exploitative measures. Such exploitations led to themes discussed in this essay: deindustrialization, dependency, and soft power. The current trade imbalances in Brazil are significant and China, to some degree, acts as a catalyst for the process of deindustrialization. It thereby intensifies Brazilian dependency on its (Chinese) economy via commodification. However, this essay also proposes the novel concept of soft power as an explanation. Through soft power, Brazil intentionally chooses the path of dependency and deindustrialization in hope of gaining global recognition. Therefore, Cano’s enlightening conclusion sheds light on Brazil’s problem, arguing that we should not address such issues purely on an economic and theoretical basis since, beneath it all, lie political motivations (2012). It comes down to a structural change in the system whereby democracy must act as a litmus test for economic and political stability.

**BIBLIOGRAPHY**


