Braga, Carlos Alberto Primo; Lehmann, Jean-Pierre

Book

Brazil and China : complementarity and competition

WORKING PAPER

The Evian Group@IMD Working Paper Series

Brazil and China: Complementarity and Competition

C.A. Primo Braga, IMD Professor of International Political Economy, and
Director of The Evian Group@IMD

Jean-Pierre Lehmann, IMD Emeritus Professor and Founder of The Evian Group@IMD
Visiting Professor, Faculty of Economics and Business, Hong Kong University

IMD 2014-02

Introduction[1]

It is impossible to tell how historians fifty years from now will judge this first decade-and-a-half of the 21st century. Three things, however, are reasonably certain. They will note it was a period of profound transformations in the global economy. A rapid shift in the balance of power between the established “old” economic powers of the North and the emerging “new” ones of the South marked this period. They will say that this shift resulted in a search for a global system of governance more in tune with the “new” realities than the “old” arrangement that had emerged in the wake of World War II, which had the Bretton Woods institutions, the GATT, and the Security Council of the UN at its core. And they will reflect on how this search, in turn, spawned a truly massive proliferation of acronyms. The BRICS is one of those myriad acronyms, but one that also reflects the three other major forces: the shift in the balance of power, the rapid rise of South-South economic relations (trade, investment, aid, tourism, etc.), and the search for a new global governance architecture. [2]

In this paper, the focus is on the evolving interdependence between two of the main emerging economies and key members of the BRICS: Brazil and China. In particular, the paper discusses to what extent the growing economic bilateral relations are here to stay and if they will provide a new impetus to foreign policy alliances between these countries. In a nutshell, we argue that the answer to both questions is yes, although this foreign policy alliance will be marked by many tensions and it is unlikely to be implemented in the context of a broader BRICS platform.

A little bit of history

Imagine a survey carried out in the beginning of the 15th century asking the following question: Which of the following two countries is more likely to emerge as a global maritime superpower – China or Portugal? This would have been seen at the time as the proverbial “no brainer.”

Portugal had been carrying out a number of forays in the Atlantic down the coast of Africa, but this would have been seen as of limited relevance compared to the truly awesome voyages (involving large fleets) undertaken in the early decades of the 15th century by Chinese admiral Zheng He. The admiral had sailed down the South China Sea, into the Java Sea, up the Bay of Bengal, down across the Indian Ocean, up the Arabian Sea, then into the Red Sea, and across to the Horn of Africa. Some historians even suggest that he might have “discovered” the Americas, although there is, as yet, no firm evidence backing this theory.

The expectation that China would emerge as the global maritime superpower, indeed hegemon, would have been based on extrapolations drawn from Zheng’s early exploits. Extrapolations are often wrong as they fail to take into account extraneous factors (and especially the appearance of so-called “black swans”), as well as the reaction of affected parties (in particular other countries). In the case of China, the black swan was the Ming Emperor Xuande, who decided in 1433 there would be no more voyages. The fleets were

[1] Comments and suggestions from S. Bertasi, C. Boonekamp, J. Freymond, S. Harbinson, S. Jackson, A. Karami-Ruiz, K. Lallerstedt, A. Hoe Lim, D. Lippoldt, X. Lu, M. Oshikawa, M. Perez-Esteve, V. do Prado, W. Reinsch, P. Robinson, and A. Spear who are gratefully acknowledged. Errors and omissions are ours.

[2] The term is a Western construct. It was coined by Jim O'Neill, at the time chief economist of Goldman Sachs, to provide a convenient tag to this new phenomenon of emerging large economies. Initially the acronym BRICs encompassed Brazil, Russia, India and China with the small “s” at the end to serve as a plural. The BRICs began to engage in formal meetings in 2006 and in 2010, South Africa joined the group, hence the elevation of the “s” from small to capital. It is worth noting that in 2012 O'Neill observed: “In economic terms, South Africa joining the BRIC economies makes little sense.” See Jim O'Neill, 2012, “Building BRICS: From conceptual category to rising reality,” in BRICS: New Delhi Summit 2012, University of Toronto.

destroyed and China subsequently focused inward rather than outward. This lasted until the start of Deng Xiaoping's reforms in the late 1970s. In both cases, after 1433 and 1979, the rest, as the saying goes, is history.

In the meantime, remote, distant, isolated Portugal emerged as perhaps the most extraordinary seaborne empire in the history of humanity. Unlike Zheng, who is hardly known outside China, Portuguese policymakers such as Henry the Navigator and explorers such as Vasco da Gama are international household names. The late economic historian Angus Maddison pointed out that in the 16th century only 770 ships made transoceanic trips sailing from Europe to the rest of the world. Of these, roughly 90% sailed under the Portuguese flag.

The Portuguese seaborne empire extended to the west (reaching Brazil in 1500), to the south in Africa, and to the east across India and Malaysia. In 1557, just over a century after the Ming Emperor's ban on Chinese naval voyages, Portugal established a trading post in Macau in southeastern China – Macau was returned to Chinese sovereignty in 1999, two years after Hong Kong.

Things have changed over the last 500 years, but a common thread links these narratives. Both China (the erstwhile "Middle Kingdom") and Brazil (a Portuguese colony for the first three centuries of its modern history) are now major global economic and geopolitical players. Chinese GDP has reached US$8.3 trillion, making China the world's second largest economy, while Brazil at roughly $2.4 trillion competes with the UK for sixth place. Both countries have become major global economic actors, magnets for foreign direct investment (FDI), and increasingly they are playing an influential role in global governance.

Their bilateral relations, however, have only recently gained momentum. For the first 500 years of Brazil's existence, from 1500 to 2000, the two countries had very little economic and cultural interaction. It is interesting to note that although there is a significant Japanese ethnic minority in Brazil – roughly 1.5 million – the Chinese community is comparatively very small. Between China and Brazil, there were hardly any attachments of any kind until recently.

In the last decade or so, however, Brazil and China have had a quite dynamic and increasingly sophisticated relationship. They are both allies and rivals with a growing degree of interdependence, though Brazil is significantly more dependent on China than vice versa. Before analyzing these economic relations in greater detail, a brief summary of the political and economic history of both countries is provided.

China and Brazil: A study in contrasts

No country has experienced an economic decline as precipitate as China did in the 110 years from the first Opium War in 1839 to Liberation in 1949. China's share of global GDP plummeted in those years from 33% to less than 4%. China's decline was much more than "just" economic.[3] It was humiliated as a people and a civilization through the imperialist activities of the West and subsequently Japan. Though it was never colonized outright like India, the Chinese revolutionary leader Sun Yat-sen described China as a "poly-colony" in that it was exploited by a collection of states and not just one state. When China was at its weakest following the war it lost against Japan in 1894/95, the dismantling of the country into multiple "spheres of influence" was referred to by the imperialist powers as "slicing the melon."

Brazil, in turn, had a conventional colonial experience from 1500 to 1822. During this period, the Brazilian economy became well known for its boom-and-bust characteristics associated with commodity cycles (driven mainly by sugar then gold). Saddled with the tragic

[3] See Angus Maddison, 2003, The World Economy: Historical Statistics. Paris: OECD.

inheritance of slavery (Brazil received roughly 4.9 million slaves from Africa between the 16th and 19th centuries, compared to 389,000 sent to North America)[4] and unequal income distribution, the country was often characterized as the poster-child of an economy well-endowed with natural resources, but with scarce human capital and a political regime driven by the needs of its elites. Its performance continued to be driven by commodity cycles (e.g. coffee and rubber) well into the 20th century. When Austrian-born writer Stefan Zweig penned his book, *Brazil, Land of the Future*, which addressed the prospects of his adopted home in 1941, Brazilians quickly expanded on the title by adding the quip "and it always will be." Few countries have gone through such dramatic swings between hope and pessimism vis-à-vis their economic prospects.

The "Liberation" in 1949, following several decades of civil and foreign wars, was meant to represent the overthrow of the oppressive Chinese feudal classes (mainly landlords) and the foreign imperialists. In his first speech in Tiananmen Square in October of that year, Mao proclaimed: "The Chinese people have stood up! Never will China be humiliated again." Mao largely held true to his word. Sovereignty was regained and China became a powerful , even occasionally feared, member of the international community. While Mao succeeded in restoring China to a dignified place in the world, the record on the economic front was an unmitigated disaster. For one thing, Mao restored the policy of isolation. Throughout his reign, foreign economic ties were kept to an absolute minimum, while autarky was stressed. Mao also carried out catastrophic policies with the Great Leap Forward (1958 to 1961) and the Great Proletarian Cultural Revolution (1966 to1976). By the time Mao died in 1976, China's share of global GDP continued to stand where it was when he took power: at less than 4%. China's population on the other hand stood at 23% of world population.

The leading Chinese intellectual and reformer Zheng Bijian has written: "The most important strategic choice the Chinese made [in 1979] was to embrace economic globalization rather than detach themselves from it."[5] British author Jonathan Fenby in his latest book has brilliantly encapsulated the momentousness of the event: "In 1949 Mao changed China, in 1979 Deng changed the world." [6]

In fact, this "embrace" of globalization can be divided into two phases: a first experimental phase (1979 to roughly 1992) and a second "exuberant" phase (1993 to the present). Both phases can be encapsulated in quotations from Deng Xiaoping. In the experimental phase, Deng urged: "We should cross the river by feeling the stones." In other words, if something worked, fine; if it did not, then take a step back. The second phase can be dated from Deng Xiaoping's famous "southern tour" in 1992 during which he is alleged to have said: "To be rich is glorious." Whether he actually said it does not matter too much for our purposes, as in fact this is what proceeded to take place. The hesitations and restraints of the first phase were removed, as the Chinese economy headed not only for sustained double-digit growth, but also to amazing expansion in terms of wealth and global clout.

In the first phase, the experiment included the opening of special economic zones (SEZs) in which global activities (trade and FDI) were to be concentrated. Initial investors were primarily from Hong Kong, Taiwan and Chinese overseas enterprises in Southeast Asia. As the experimental period continued, Western, Japanese and Korean multinationals also began to flood in. China's opening up occurred also at a time of great transformations in information, communication and production technologies, with notably the development of

[4] For further details see S. Romero, 2014, "Rio's Race to Future Intersects Slave Past," The New York Times, March (8).

[5] Zheng Bijian, 2005, "China's peaceful rise to great power status," Foreign Affairs, (September/October).

[6] Jonathan Fenby, 2012, Tiger Head Snake Tails: China Today, How It Got There and Where It Is Heading. London: Simon & Schuster.

global supply chains. Thus, China's growth model encompassed state-driven high rates of investment, strategic search of partners via foreign direct investments, emphasis on global supply chains (assembling) and outward-orientation. In 1986, China formally applied for accession to the GATT (later to become the WTO); it would take fifteen years before it was able to become a member (in Doha in December 2001). If anything, this could be characterized as the main achievement of the multilateral trade system in the 21st century so far, while the stringent accession negotiations spurred positive domestic reforms in China.

The opening up of the economy presented the Chinese government with several challenges. For one thing, throughout much of the experimental period, China experienced rampant inflation, something not seen since the 1930s and 1940s, reaching over 18% in 1989, the year of the Tiananmen crisis. More conservative members of the Party also expressed concern that the economic opening up was resulting in what they referred to as "foreign spiritual pollution," namely poisonously dangerous ideas emanating from outside. As the country experimented with economics, emboldened youth experimented with foreign cultural and political imports.

With the events in Tiananmen in June 1989, it seemed that China might end the experimental phase and retreat back into isolation. There was a period of uncertainty. This, however, was ended with the legendary southern tour of Deng Xiaoping in 1992, which powerfully rebooted the momentum of economic reform. In the course of the 1990s and early 2000s, it became clear that the experimental phase was over and that China had now entered a phase of full engagement with globalization. In a nutshell, the dynamism of the Chinese economy became even more aligned with an export-led model.

In the case of Brazil, the internationalization of the economy occurred in a different context. [7] Brazil, as well as China, was one of the "exclusive group" of 13 economies that had achieved sustained high growth (an average growth rate of 7% or more for 25 years or longer) in the decades after World War II.[8] The period 1950 to 1980 coincided with major structural changes (import-substitution industrialization, the construction of Brasilia, accelerated urbanization) and political disruptions (the 1964 military coup). This period of rapid development, however, was driven mainly by an inward-oriented model of development combined with incentives for FDI. It led to growing distortions in the economy (e.g. by "taxing" the agricultural sector in which Brazil displayed comparative advantages), high inflation, rapid urbanization and rising income inequality. In the 1980s, a sovereign debt crisis added to the macroeconomic disequilibrium and policy mistakes led to bouts of hyperinflation amid mediocre growth.

In the 1990s, efforts to correct these distortions were adopted and a program of gradual trade liberalization was implemented. After the Real Plan in 1994 and macro stabilization in the Cardoso administration, the Brazilian economy began to regain its strength. Although it never reached Chinese-style performance, it began to merit increased attention in view of its potential as a commodity exporter and magnet for FDI. Moreover, Brazil accomplished a unique feat in promoting income redistribution. It is the only economy among the BRICS that witnessed a significant decline in its Gini coefficient (a measure of income inequality) in the last 15 years. While the top decile of the income distribution saw its income grow at OECD-style growth rates, the bottom decile had its income growing at much faster Chinese-style rates.

---

[7] For further details on recent Brazilian economic trends, see C.A. Primo Braga, 2012, "Brazil, the country of the future? An old debate rekindled," IMD Tomorrow's Challenges (December). http://www.imd.org/research/challenges/brazil-growth-future-carlos-primo-braga.cfm.

[8] The other economies in this group are: Botswana; China; Hong Kong, China; Indonesia; Japan; Korea; Malaysia; Malta; Oman; Singapore; Taiwan, China; and Thailand. See Commission on growth and development, 2008, The Growth Report. Washington, D.C.: The World Bank.

This recent experience with inclusive growth, the resilience that the Brazilian economy showed during the global financial crisis, the discovery of major oil reserves offshore, and the confluence of good news on the world sporting stage (with Brazil being chosen to host the World Cup in 2014 and the Summer Olympics in 2016) all contributed to a new phase of Brazilian “exuberance,” with the economy reaching a record growth rate of 7.5% in 2010 (the highest since 1986). As it briefly overtook the UK economy to become the sixth largest in the world (in part as a reflection of the over-valuation of the real), the proposition that the “future had arrived” became a popular refrain.

In the best Brazilian tradition, however, 2012 punctured the latest phase of “exuberance.” With a growth rate of only 0.9%, there has been an overshoot in negative expectations among both domestic and international observers. There is a growing sense that the government is muddling through some of the key developmental challenges and focusing on credit expansion to foster economic growth, raising concerns about the sustainability of such policies and the risk of inflationary pressures. These concerns are further magnified by the growing dependence of Brazilian exports on China and the fear that a potential slowdown of the Chinese economy could generate a significant terms-of-trade shock.

In what follows, the modern structure of the two economies is briefly analyzed and the question of complementarities and tensions further discussed.

Brazil and China: Economic “frenemies”?[9]

Both economies have significantly increased their weight in the global economy over the last three decades; though it was particularly the Chinese performance that dramatically changed the balance of economic power around the world. Between 1978 and 1990, the Chinese economy expanded 26 times, albeit from a very low base. In 1990 it stood as the 10th biggest world economy; by 2001, it was in 6th place and in 2010 it overtook Japan to become the world’s second biggest economy. It is on course to becoming the world’s biggest economy in aggregate GDP in PPP terms, overtaking the US, with some estimates that it is already there. While economic forecasts are notoriously risky, it seems reasonably safe to predict that the Chinese economy will overtake the US in aggregate GDP in the coming decade or so.[10] Figure 1 provides a snapshot of the changing economic weight of the BRICS and the G7 countries between 1990 and 2012.

Furthermore, from having been a negligible dot on the global trade horizon, China is now a “mega-trading nation.” In 1990 China’s share of global trade stood at 4%; by 2010 it had risen to 20%, while global trade itself had expanded from $3.5 trillion to $15.5 trillion, with China’s total trade (exports + imports) growing from $138 billion to $3,122 billion. As recently as 2000, China was the first-or-second-largest trading partner of only 13 countries, accounting for 15% of global GDP, whereas by 2010 it was the first-or second-largest trading partner of 78 countries, accounting for 55% of global GDP.[11] Moreover, since 2009, Chinese financial institutions have also disbursed more loans to Africa than the World Bank, and Chinese companies have been hyperactive in investments especially in infrastructure, mining and land.

[9] For a detailed analysis of Brazil and China’s growth strategies in the post-WW II period see V. Chandra, I. Osorio-Rodarte, and C.A. Primo Braga, 2009, “Korea and the BICs (Brazil, India, China): Catching up experiences” in Innovation and Growth: Chasing a Moving Frontier, (edited by V. Chandra, D. Erocal, C.A. Primo Braga and P.C. Padoan. Paris: OECD.

[10] See *Financial Times*, October 8, 2014, “Datawatch: A new G7”, http://blogs.ft.com/ftdata/2014/10/08/datawatch-a-new-g7/

[11] “China beyond the conveyor belt,” Financial Times, October 14, 2012.

The Brazil–China bilateral trade relationship provides a good example of the growing importance of South-South trade, with China having become the main trading partner for Brazil (as long as one does not consider the EU as a bloc) over the last two decades. Still, the relationship has a definite North-South flavor with Brazil exporting commodities (mainly iron ore and soya beans) and importing manufactured products. This is creating significant tensions within the Brazilian corporate sector, which is increasingly polarized in terms of the benefits and costs of the bilateral trade flows. While recognizing the positive terms-of-trade impact associated with the growing demand from China for raw materials, Brazilian companies are mindful of the competitive pressures brought by Chinese imports and are worried about the possible prospects of de-industrialization. Furthermore, the expansion of Brazilian and Chinese companies in Africa has led to some tensions as different modes of ownership (Chinese state-owned enterprises versus Brazilian private-sector firms) influence entry strategies and relations with local governments.

As bilateral trade increased, FDI flows also expanded. Chinese investments in Brazil remained relatively modest in the 2000s (they amounted to less than $600 million over the 2007 to 2009 period), but they have increased significantly since 2010. In 2010, China was the largest source of FDI ($7.3 billion, roughly 15% of total inflows, according to ECLAC) into Brazil.[12] Although these figures are open to debate, since China often routes its investments through third countries (e.g. Luxembourg and Cayman Islands), which makes precise estimates difficult, it is clear that the relationship has entered a new phase. The focus of these investments has been mainly on oil, steel, mining, infrastructure and agriculture. In this context, they could be characterized as an effort to further deepen the integration of both economies in areas in which Brazil's natural resources complement the growing demand for commodities from China. In other words, securing long-term supplies of commodities seems to be the driving force behind China's FDI in Brazil. Investments in the manufacturing and services sector, however, are also expanding significantly, reflecting not only the expansion of the Brazilian market, but also the Brazilian policy bias in favor of FDI rather than imports.

From the perspective of Brazilian companies, the Chinese market remains a secondary target for direct investments. Although some companies – such as Embraer (airplanes), WEG (electric motors), Embraco (compressors for refrigerators) – have invested in local facilities to contest the Chinese market, the majority of Brazilian investments remains focused on services, sales support and sourcing. Moreover, in macro terms, Brazilian FDI flows to China are marginal, typically representing less than 0.1% of FDI inflows into China (or of total Brazilian FDI outflows).

In broad terms, however, one could expect that both trade and investment bilateral relations are bound to become even more intense, although they will continue to be asymmetrical. The logic of such a forecast relies on the strong complementarity of both economies and the main challenges they face.

Nevertheless, with China's remarkable trajectory in the course of the last few years, it has become increasingly clear that there was a need to shift course in terms of its development strategy. This shift and the new goals are laid out in China's 12th five-year plan.[13] In essence the plan seeks to tackle what former Premier Wen Jiabao categorized as the Chinese economy's "Four Un's": *unstable* – due to rapidly rising inequality and social tensions;

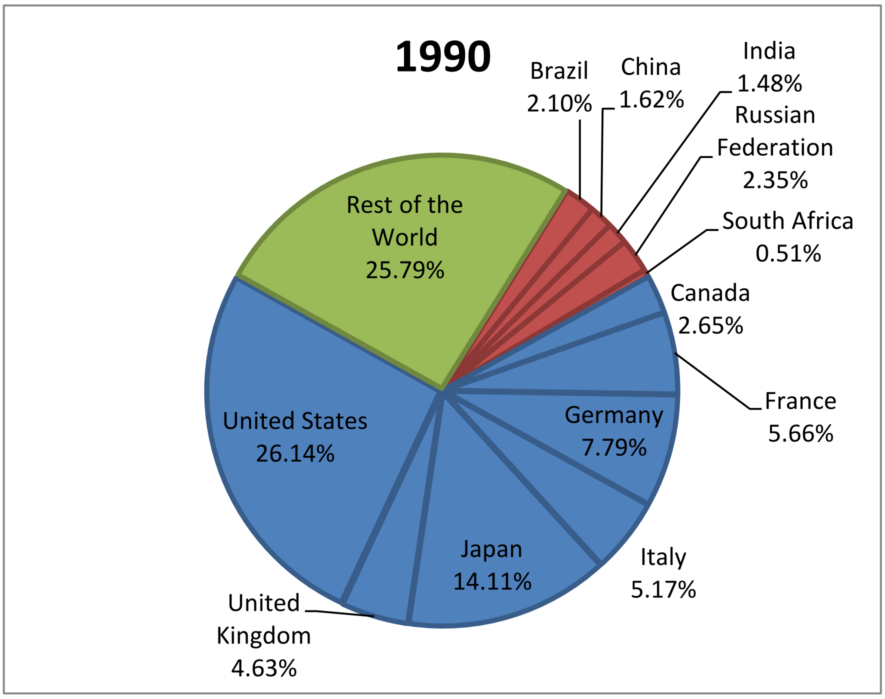
---

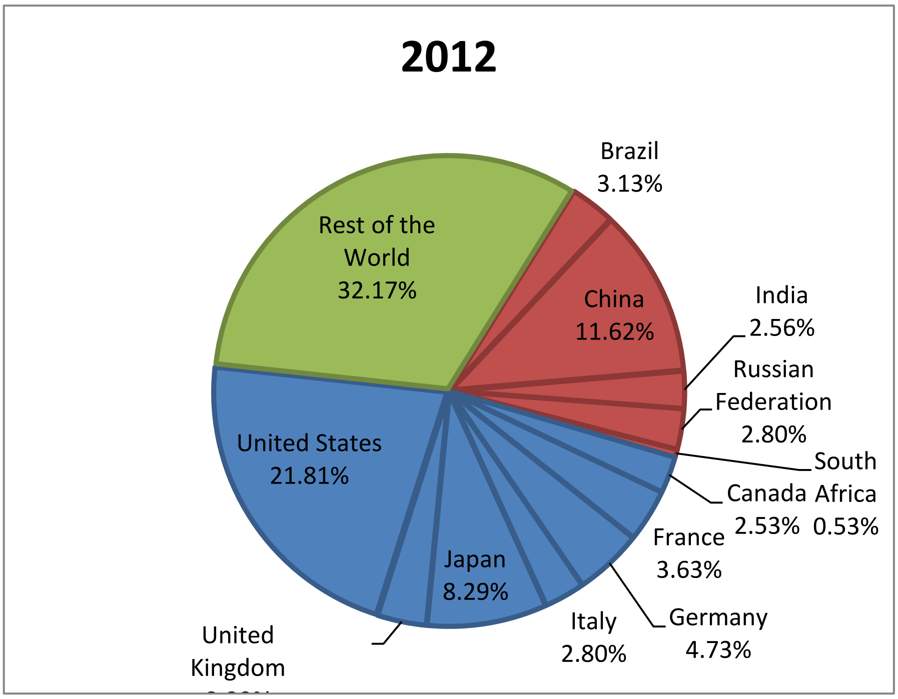
[12] See Justino De La Cruz et al., 2012, "Brazil's surging foreign investment: A blessing or a curse," USITC Executive Briefings on Trade (October).

[13] For a full English translation of China's 12th five-year plan, see: http://cbi.typepad.com/china_direct/2011/05/chinas-twelfth-five-new-plan-the-full-english-version.html.

unbalanced – between the coastal regions and inland and between urban and rural areas; *uncoordinated* – because of far excessive capital investment and export at the expense of consumption, welfare and services; *unsustainable* – because of the detrimental environmental effects of China's high speed industrialization and weak enforcement of the rule of law.

Figure 1





Source: World Bank's World Development Indicators

Although China's rebalancing is not going to be easy, it is clear that it will have to encompass both an increase in domestic consumption and a decline in its stratospheric investment rates. The decline in investment rates may affect the demand for some Brazilian commodities (e.g. iron ore), but even this may be counteracted over the long term by a substitution effect to the extent that Brazilian iron ore is higher grade and will be preferred over other sources in view of environmental considerations. More importantly, as the Chinese middle class continues to expand, its food habits will further drive the demand for Brazilian agricultural products such as soybeans and meat.

In the case of Brazil, if the country is to escape its "middling" economic performance since 2011, it will have to address major supply constraints. With the lowest investment rate among the BRICS – typically below 20% of GDP – and low domestic savings, infrastructure bottlenecks will continue to be binding and financing will be highly dependent on the availability of international liquidity. The heavy bureaucratic apparatus that inflates the cost of doing business in Brazil and leads to poor rankings in terms of global competitiveness (51st out of the 60 economies covered in IMD's World Competitiveness scoreboard for 2013) requires complex structural reforms that are difficult to implement in the current political environment.

Still, the dramatic gap in Brazil's infrastructure provides an obvious opportunity for mutually rewarding partnerships between local firms and Chinese companies. A good example of these opportunities is reflected in the activities of Sinopec Corp. (China Petroleum & Chemical Company) in Brazil.[14] Sinopec was contracted by Petrobrás to develop some segments of its GASENE natural gas pipeline. The project was concluded in 2010 and the segments in question were estimated to cost $1.9 billion. More recently, Sinopec made a $7.1 billion investment (2010) in acquiring a 40% stake in the Brazilian affiliate of Repsol (a Spanish energy company) and it has acquired exploration rights in Brazil's pre-salt oil fields. As these examples illustrate, the rationale for further bilateral economic integration is strong.

The foreign policy dimension

Brazil and China are members of a plethora of global institutions (UN, IMF, World Bank, WTO, etc.), including the G20 coalition that focuses mainly on financial themes. The two countries often align themselves in multilateral trade negotiations and in efforts to promote "voice" reform in the Bretton Woods institutions – i.e. a shareholding realignment in favor of emerging economies. Efforts to build a broader common economic and political bloc (the BRICS) have received significant media attention, although the results so far are more evident in terms of the carbon emissions associated with holding these summits and the publication of ambitious communiqués than concrete actions. Moreover, China has not supported Brazil's efforts (together with India, Germany and Japan) to reform the UN Security Council.[15] And on issues such as human rights and nuclear proliferation, the views of Brazil and China significantly diverge. .

[14] For details about Sinopec operations in Brazil see CBBC, 2013, "Chinese Investments in Brazil from 2007 to 2012: A review of recent trends," report prepared by C. Frischtak, A. Soares, and T. O'Connor with support from IDB.

[15] Both Brazil and China fought alongside the allies in World War II. As pointed out by Mitter (2013), "China was the first Allied Power to fight the Axis" in the context of its war with Japan (1937–1945). It is estimated that some 14 million Chinese were killed over the course of this war. Brazil, in turn, joined the war in 1942 after a series of U-boat attacks on Brazilian ships in the Atlantic, and it sent an expeditionary force to Italy in 1944 (one army division). Needless to say, the level of military effort and casualties in the Brazilian case were much more limited than the Chinese experience. In the case of China, there was recognition of the war effort in the form of a permanent seat on the Security Council of the United Nations. For further details, see Rana Mitter, 2013, Forgotten Ally: China's World War II. New York: Houghton Mifflin Harcourt Publishing.

In 2003, China, Brazil and India allied in forming the Group of Twenty coalition at the WTO that challenged the US and the EU on their agricultural trade negotiating positions. At the Copenhagen United Nations Climate Change Conference in 2009, four of the five BRICS formed an alliance known as BASIC (Brazil, South Africa, India and China) to resist what was perceived as Western collusion to impose standards detrimental to the interests of the countries concerned. Indeed the BRICS are often portrayed as a coalition that stands as an alternative to the Western power dominance of the planet. The idea of establishing a common BRICS development bank, for example, is seen as providing an alternative option for development financing to the Western-dominated international financial institutions, including the World Bank.

There are, however, major hurdles to establishing the BRICS as an effective coalition. After all, on many issues they have divergent rather than convergent interests. Not to mention that China has a history of geopolitical tensions with its two neighbors, India and Russia. The “mortar” holding the BRICS together is weak owing to asymmetries in their worldviews, divergences in goals, and the disproportionate global economic power of China. A group riddled with all these tensions is highly unlikely to serve as the foundation for new global and influential institutions, let alone as the driver of the evolving new global economic order.

But there is no doubt that these five nations are individually very important actors in the 21st century global environment on all critical counts: trade, investment, migration, demographics, environment and security. Hence, it is important that they should know each other and engage in confidence building. Therefore, the fact that ultimately the BRICS summit may remain no more than a talking shop is in itself not a bad thing. Talk can be valuable and the standards set by other coalitions (e.g. the G20) in terms of concrete results are not that high.

As Günter Grass once noted, institutional progress evolves at the pace of a snail. Hence, one should not expect dramatic developments and impact with respect to the institutions being nurtured by the BRICS. Moreover, if the new institutions are going to be relevant and strong, it is unlikely that they will be truly independent from their masters. Accordingly, unless the BRICS are able to address their trust deficit and invest significantly in confidence building, their efforts will not make much of a difference in the near future. As for global governance in this period of intense transformational turbulence, the best thing the BRICS countries could do individually and collectively is to support reforms to strengthen the existing rules-based multilateral global system. A common approach on how to complete the stalled Doha Development Agenda negotiations, for example, could make a significant contribution to global welfare. Recent events, however, with India having vetoed the proposed Bali Package on trade facilitation at the end of July 2014, do not leave much room for optimism on this front, at least in the short term.[16]

Concluding remarks

The significant economic bilateral relations between Brazil and China are here to stay. Needless to say, the road ahead may be “bumpy,” reflecting domestic political reactions (e.g. fears of de-industrialization in Brazil or the action of domestic lobbies, as illustrated by the problems faced by Vale in using its Valemax – giant iron-ore vessels – to export to China), financial stresses (e.g. the vulnerability of the Brazilian real in view of the tapering of unconventional monetary policies in G7 economies, and growing concerns about the sustainability of the Chinese “shadow” financial system), and the slow-down of both economies as they recalibrate their development strategies. But if one believes that China

[16] For further details see C.A. Primo Braga, 2014, “A crisis is a terrible thing to waste,” http://www.imd.org/news/WTO-Trade-Facilitation-Agreement-imbroglio.cfm.

will be able to manage the transition to a better-balanced economy smoothly and without a dramatic growth slowdown, while Brazil is able to implement needed structural reforms to significantly increase its investment rate, then the complementarities between these economies are bound to further drive economic integration.

If one were to summarize in one word the prospects for Brazil and China to jointly influence a new global governance architecture, the word that would come to mind is “good,” reflecting the dynamic economic relations between these two countries. If, however, one were to use two words, the answer probably would be “not good,” given the many differences and potential tensions in their geopolitical journeys. Ultimately, as is often the case, the “truth” may lie in the middle!