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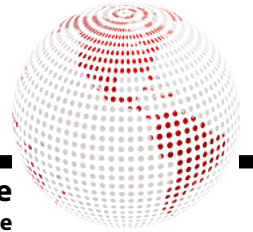
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Brazil's China Challenge



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In 2001, Goldman Sachs named Brazil one of the four most important emerging economies, with China, Russia and India.¹ The BRICs, a term coined by Jim O'Neill, are prophesized to become four of the top six economies in the world by 2050,² and, with the United States, form a new core of power. O'Neill argued that if Brazil could, "keep inflation low and engage with the rest of the world, Brazil could immediately become something else."³ In the past twenty years, Brazil has done that and more. It has established a vibrant democracy, controlled inflation and achieved solid growth.⁴

Introduction

Brazil has become something else: a rising power. It now plays an important role in international governance, through the G-20 and the Doha Round of the World Trade Organization.⁵ The international community has welcomed Brazil with open arms, naming it host for the 2014 FIFA World Cup and the 2016 Summer Olympics. It certainly seems possible that Brazil will be an established world power by 2050.

However, where will it be by 2025? Today, it appears that it will not rival the U.S. or China by that time since Brazil has a number of obstacles to overcome. It will surmount some, but it seems clear that China will keep Brazil below the rank of a power with wide-reaching influence. In essence, Brazil's growth is explained by demand from China for commodities and raw materials. This is not a sustainable model for a rise to world prominence. Furthermore, China's entry into Latin America challenges Brazil's drive towards regional primacy. Every global power first influences in its own continent, then neighboring regions, and then acquires a global role.⁶ China's increasingly important role in Latin America leaves Brazil without this natural progression.

Brazil's Claim to Power

What is Brazil's call to primacy in terms of economics, politics, and international affairs? Politically and socially, Brazil's transition to democracy in the mid-1980s is its first step towards global prominence. In the last two decades, Brazil has built solid democratic institutions and deepened democratic values throughout the citizenry. These democratic credentials have allowed it to play a larger role in Latin American affairs, with several countries viewing it as a political role-model.⁷

While Brazil's democracy signifies a calling card to power⁸, it is minor when compared to the stable growth that Brazil has experienced since the late 1990s.⁹ Thanks largely to an economic scheme in 1994 called the "Real Plan," Brazil made major adjustments that brought inflation under control and stabilized the economy.¹⁰ Introduced by Fernando Cardoso, then finance minister for President Itamar Franco, the plan stabilized the economy thanks to a new currency, austerity measures, better tax collection, and reorganized spending.¹¹ It lacked "anti-colonialist passions [and] the hostility to foreign links,"¹² of previous schemes and achieved widespread popular approval.

Cardoso's subsequent election to the presidency allowed him to further reform and

open up the Brazilian economy.¹³ Increased participation in international markets then produced the most significant part of Brazil's growth.¹⁴ His successor, Luiz Inácio Lula da Silva, a union leader known for his leftist views, carried on Cardoso's policies during his term in office between 2003 and 2011.¹⁵ This continuation resulted in Brazil growing an average of 3.3% annually between 2000 and 2009.¹⁶ The country's GDP in 2010 was around US\$1.6 trillion,¹⁷ making it one of two Latin American economies in above a trillion dollars.

Brazil's democracy and growth give the country's leaders the impetus to vie for a more visible international role. As described by Rubens Ricupero, Cardoso's successor as finance minister, Brazil's foreign policy revolves around three goals: attaining a permanent seat on the United Nations Security Council, concluding the World Trade Organization's Doha Round and achieving preponderance in South America.¹⁸

Enter the Dragon: China in Latin America

One of the most important developments in Latin America in the last ten years is the increased participation of China within the region. This is mainly seen by the rise in trade between China and Latin America. The Sino-Chilean relationship is illustrative. In 1990, China was Chile's 30th trading partner; today it is its largest export partner and second largest for imports.¹⁹ In 2009, China received 9.3% of Argentina's exports, 12.5% of Brazil's, 16% of Peru's, and 16.5% of Chile's.²⁰ For Brazil, China is now its largest export destination.²¹

Between 2000 and 2007, the export-import relationship between China and Latin America increased almost tenfold. In 2000, "China exported \$4.2 billion to, and imported \$5.1 billion from, Latin America," and by 2007, China was exporting "\$44.4 billion to, and imported \$46.7 billion from, Latin America."²² This level of trade is widely believed to rise and China could eventually surpass the U.S. as the region's largest trading partner.

This increase in trade volumes

between China and Latin America can be seen as a positive exogenous shock to the Latin American economies.²³ *The Economist* points out that Chinese (and Indian) demand for raw materials "ha[ve] played an important role in accelerating the region's rate of economic growth to an average of 5.5%"²⁴ in the mid 2000s.

China's foray into South America is driven by an unquenchable thirst for securing raw materials and commodities.²⁵ China needs massive amounts of oil, iron ore, agricultural products and other commodities, most in high supply in South America.²⁶ However, there are potential downfalls to this trade pattern, as suggests Patrice Franko, at Colby College. Most concerns are due to the relationship between China and Latin America being overwhelmingly driven by demand for commodities and raw materials.²⁷ As Latin American countries strive to meet China's demand, they risk becoming too reliant on this income. Given that commodities make up around 70% of Sino-Latin American trade, the region is dangerously exposed to the whims of commodity price fluctuations.²⁸

Specialization in producing commodities to meet China's demand has shifted investments into those markets

***China needs massive amounts of oil, iron ore, agricultural products and other commodities, most in high supply in South America.*²⁶**

and away from more capital-intensive segments. We have already seen how Mexico's manufacturing plants, the *maquiladoras*, losing out to Chinese companies that offer lower costs of production.²⁹ Brazil and other countries have been pushed out of producing value-added, manufactured goods and deeper into commodity production.³⁰

With China now Latin America's second largest trade partner, the economics of the region has greatly changed. China's importance is such that "the US has almost fallen off the map."³¹ Latin American

countries have begun to view this period of Chinese preponderance more positively when compared to U.S.-backed *Washington Consensus* era of the 1990s.³² Taking advantage of the relative decline in America's influence in Latin America, China has gained real power: the ability to get states to do what it wants it.³³ The case of Ecuador shows this clearly: When the Ecuadorian government in 2008 requested that a Chinese-backed infrastructure project have a local partner, the Chinese refused funding and the Ecuadoreans relented.³⁴

Leadership in South America: China, not Brazil

In essence, China has carved out a space for itself in through economic prowess and investment. It has also "noticeably intensified its diplomatic engagement with



Brazilian President Dilma Rousseff

the region."³⁵ A clear example of this Latin American-Chinese rapprochement is the strengthening of military ties with many countries in the region: China now sells weaponry to several Latin American militaries – traditional clients of American defense firms.³⁶ Military ties between Latin America

and China have been further bolstered by military education courses for Latin American officers given in China.³⁷ Latin American militaries have traditionally been close to the U.S. While these ties have not been severed – Colombia and Mexico have remained close to the U.S. – China's engagement with Latin American militaries remains an important change in the region.

Further deepening its participation in Latin America, China has become a player in the region's most important international organizations: the Organization of American States (OAS) and the Inter-American Development Bank (IDB). In 2004, China became a formal observer at the OAS,³⁸ and begun making sizeable contributions to missions, development programs, and purchases.³⁹ In 2009 it signed a renewed five-year, US\$1 million fund and pledged US\$300,000 annually to fund a five-year scholarship program.⁴⁰

In 2009, China became the third East Asian country to join the Inter-American Development Bank, joining Japan and South Korea.⁴¹ China will be contributing US\$350 million to "soft loans for the region's poorest nations and investment capital for small and medium-sized enterprises."⁴² For 2010, China's contribution quotas totaled US\$125 million.⁴³ Brazil contributed US\$544.4 million in 2010 and controls 11% of votes, to China's 0.004%.⁴⁴ Yet, China's engagement signals a determination to become a major player.

The China Effect

China's participation in Latin America challenges Brazil's position as the region's leader, but China also threatens Brazil's economic advantages. The evidence shows that the economic relationship between the two nations in the past ten years is not aligned with Brazil's global power ambitions. Rather, like its neighbors, Brazil runs the risk of becoming too reliant on income from exporting commodities to China.

Roberto Abdenur, a former Brazilian

ambassador to China, contrasts the relative power and economic situation. In the early 1990s, both had GDPs of around US\$450 billion.⁴⁵ Today, China is three times larger than Brazil, standing at US\$4.9 trillion.⁴⁶ Aside from increased competition in third markets, China has left Brazil behind economically. Over the past twenty years, Brazilians have seen, “a huge gap open between [their] international proportions and weight and the dimensions and influence of a ‘central country.’”⁴⁷ In essence, China has climbed to world prominence, while Brazil has lagged behind.⁴⁸

Silverio Zebral, an economist at the OAS, characterizes Brazil’s current growth as a bubble created largely by China.⁴⁹ Despite the Real’s (Brazil’s currency) recent overvaluation, Brazilian exports remained undisturbed thanks to Chinese consumption sustaining high international commodity prices.⁵⁰ However, Brazil’s China-backed expansion does not equate with solid fundamental growth. Instead of building strong bases, Brazil has simply designed good economic rules and taken advantage of unparalleled demand for its commodities.⁵¹ Thus, China’s role in Brazil’s rise is a double-edged sword: it creates short-term growth and conditions for long-run decline

This decline hinges on two developments: the Real’s appreciation and increased competition for exports from China itself. Today, Brazil operates under increased demand for its goods and an appreciated currency, while greater Chinese competition undermines its exports in third markets. Tomorrow, Brazil faces losing its competitiveness in manufactured goods and even in commodities – if it remains reliant on Chinese-demand to drive its export-led growth model.

Increased competition has already caused shifts in the Brazilian export structure.⁵² In 2001, around 50% of Brazil’s exports were manufactures, while commodities were 30%. By 2010, the situation reversed: commodities

totaled 52% of exports while 30% was manufactured goods.⁵³ The relationship then has the potential to not only impede Brazil’s ascent, but to push it backward, as it is not one between equal partners, but between colony and metropolis

In 2009, 70% of Brazil’s exports to China were commodities⁵⁴ and 90% of Chinese exports to Brazil were manufactured products.⁵⁵ Ricupero argues that this is “simply a colonial relationship.”⁵⁶ China also inhibits Brazilian added-value exports from entering the Chinese market.⁵⁷ While Brazil’s competitive advantage lies in commodities, it has a large added-value industry. It produces automobiles, airplanes, and high-tech products. Yet, few of these can enter the Chinese market, thus weakening Brazilian added-value industry.⁵⁸

Brazilian authorities have recognized this and taken action. Brazil has initiated anti-dumping cases against Chinese products⁵⁹ and in 2009, Ivan Ramalho, then trade vice

Brazil’s economy is now the most important in the region.

minister, declared that, “Brazil wants to export more value-added products to China,”⁶⁰ recognizing the unbalanced trade relation. While claiming that, “Brazil needs China as much as China needs Brazil,” Sergio Amaral, head of the China-Brazil Business Council, accepts that the relationship is indeed distorted in China’s favor.⁶¹

Most significantly, trade minister Fernando Pimentel announced that Brazil would make China’s overvaluation of the renminbi a priority.⁶² Following a meeting in Brasilia with Rousseff, U.S. Treasury Secretary Timothy Geithner said that the U.S. and Brazil would “work together on the global stage to build a more balanced and more stable, stronger multilateral economic system,” a signal they would lobby China to appreciate its currency.

The agreement with the U.S. shows that Rousseff understands the challenge that

China represents to Brazil’s long-term growth and economic stability. She has “identified the undervalued yuan as a major threat to Brazil’s economic boom,”⁶³ and agreed to act. In further response, Brazil has imposed tariffs on Chinese imports, including a new 4.10 U.S. dollar per kilo tariff on Chinese synthetic fibers – on top of the 26% import tax those goods are already charged.⁶⁴

However, should Brazilian diplomacy fail in changing China’s position on the renminbi or unbalanced trade, Brazil will be unable to foster the development of added-value industries necessary to be a global power economy. Under such conditions, Brazil will most certainly not become a world power by 2025. It will continue to experience growth as long as Asia continues to demand its products, but the foundations for achieving sustained development and gaining power will remain absent.

A South American Power Struggle

As outlined, China has become an important player in Latin America, mostly through increased trade. It makes investments and loans, participates in the region’s international institutions and bridges cultural gaps with Latin America. China funds scholarships and has opened several Confucius Institutes in Brazil, Mexico, Argentina and others throughout the region.⁶⁵ While these are still in the formation stage, the investment makes China’s intention clear: gaining power in Latin America.

As China’s experience in Latin America deepens, its influence only increases. Compared to Brazilian weight in the region, we have already seen important effects of China’s importance to the Latin American economies. In 1995, Brazil’s manufactured exports to Latin America totaled US\$ 5.7 billion as China exported US\$1.4 billion. By 2004, China was exporting US\$ 7.8 billion and Brazil around US\$ 6.5 billion.⁶⁶

Perhaps trying to reverse this pattern, during Lula’s government, Brazil

became more involved in regional affairs.⁶⁷ Long hesitant to act on the regional stage,⁶⁸ Brazil has now taken a high profile role in establishing organizations like the Union of South American Nations (UNASUR) or in organizing regional meetings such as the Latin American and Caribbean Summit for Integration and Development (CALC).⁶⁹ Brazil now hosts regional meetings and in 2008, all South American nations adopted its proposed South American Defense Council.⁷⁰

Along with increased political involvement, Brazil’s economy is now the most important in the region. Thanks to its recent growth, Brazil is around 60% of the regional GDP.⁷¹ Brazil is using some of this wealth to



A view of Brazil’s National Congress.

fund development projects, not only through international organizations, but also through the Agência Brasileira de Cooperação – the Brazilian Cooperation Agency. Though focused on African development, Brazil funds more than 100 projects throughout South America.⁷²

However, this pales in comparison to the level of spending and investing that China carries out in Latin America. Over the first half of 2010, China invested around US\$20 billion in Brazil alone.⁷³ It committed US\$8.5 billion in July 2010 to refurbish Argentina’s railway system, with the condition that Argentina buy Chinese trains. Indeed, “China has even begun to adopt a gringo swagger that stands in contrast to its old role as the cheerleader for the Third World.”⁷⁴ For all of Brazil’s newfound wealth, it is simply unable to compete with the

way China gains influence in Latin America and elsewhere. China can offer enormous loans at “tiny interest rates that can stretch beyond 20 years.”⁷⁵ It is impossible for Brazil to match China in this regard.⁷⁶

Further weakening Brazil’s position vis-à-vis China in the region is the probability that the country will take a different path under new president Dilma Rousseff. She is widely expected to take a more introspective approach than her larger-than-life predecessor.⁷⁷ Brazil will focus on resolving its many social ills, investing in infrastructure, including building Olympic and World Cup venues, reforming its revenue structure and reining in government spending.⁷⁸

With a president uninterested in international prestige and lacking an inclination to participate on the global stage, Brazil will take a more measured approach to its heretofore seemingly unstoppable drive to global prominence. In turn, this gives China more space in South America to gain power and thus keeping Brazil from becoming a global power by 2025.

Closing Thoughts

Brazil is viewed as a rising power thanks to its stability and growth. After decades of rampant inflation and chaos, innovative policymakers managed to control the currency and usher in an era of prosperity. It is undoubtedly true that Brazil has performed admirably, economically and politically. Yet, this age of stability and growth is not yet twenty years old. It was only in 2008

that Brazil received its first investment grade rating, from Standard and Poor’s.⁷⁹ In essence, Brazil’s claim to global power lies in relatively recent developments. Only twenty years ago, Brazil was experiencing hyperinflation and was considered an economic basket case.

However, China’s challenge to Brazil’s ascendancy depends upon continued Chinese performance. Yet, many have begun to question the fundamental strength of this development. Nouriel Roubini warns of China’s massive infrastructure spending possibly creating artificial growth.⁸⁰ Other problems remain, including socio-political concerns threatening overall stability. J.P Morgan has voiced worries regarding China’s social tension risking China’s performance.⁸¹ It must address a creeping inflation problem, which has begun to produce considerable unrest.⁸² Clearly, China’s ascent to power is not without serious challenges and obstacles.⁸³

To close, we note the warning that Alvaro Vargas-Llosa, a Peruvian politics and economics writer, issued regarding the hype surrounding Brazil’s takeoff: “Brazil, a bewitching country, needs to take a deep breath,”⁸⁴ and focus on reforming its political system and addressing other ills. Indeed, sustained growth and prosperity cannot be built upon “high revenue from commodities and some manufactured goods,” along with social welfare programs.⁸⁵ Brazilian authorities should be mindful of Argentinean experience of the early 20th century. Its neighbor reached developed status through commodity exports, only to regress in less than 20 years.⁸⁶

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Information Technology and Control in the DPRK



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In the Hermit Kingdom, information is a crucial resource. Its possession represents access to resource and weapons development techniques, but more importantly, information is what separates North Korean society from the rest of the world. Since the state's inception, meager rations of information combined with hearty doses of propaganda have kept the populace starved with respect to knowledge of the rest of the world's progress, which has quickly surpassed their own in the past two decades. Why, then, has the current regime dared implement 21st century communications systems such as internet technology if such a move would increase the possibility of an information risk?

I argue that Supreme Leader Kim Jong Il's regime encouraged the implementation of such systems because the technology had been adapted with restrictions judged sufficient to minimize their security risk. Through tracing their implementation in comparison with that of other technologies such as radios and weapons technology, it can be seen that communications systems were given the same treatment as these other potentially society-changing technologies: tailored so specifically to North Korean purposes in accordance with Juche doctrine that their use for any other was thought impossible. However, we can see from examining recent information leaks from within North Korea that these controls may not be as watertight as hoped by their implementors.

In the Western world, where information exchange is a profitable and fast-growing area of the economy, the idea of opposing connectivity is unthinkable. However, in North Korea's case, the question of whether or not to implement information technology, and how to do so, is an important one. To overlook this question is to miss a key opportunity to analyze the highly reclusive state's methods of operation, as well as its

current views toward an interconnected world of which it does not participate. Though most news sources have sparingly documented North Korea's recent quiet moves toward implementing internet access, academic analysis of why this technology is being implemented in the first place is limited.

One school of thought on North Korea's steps toward net access proposes that the regime uses extremely limited IT implementation to enforce its control of the



DPRK Guard peers out from behind a granite pillar.

population. A CIA study from 2007 entitled "Hermit Surfers of P'yongyang: North Korea and the Internet" argues that the internet actually "serves as a pillar supporting Asia's