

Naïve Decision or Calculated Maneuver:  
Exploring Brazil's Choice of China as an Economic Partner

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University Honors in International Relations

Fall 2012

## Abstract

Over the past decade Brazil has worked towards deeper economic integration with China in hopes of benefiting from the relationship, but recent studies claim that the partnership is more competitive than complementary. The purpose of this research paper is to investigate the decision making process of Brazil in choosing China as a strategic economic partner. This question can be explored using a framework constructed around expected utility theory. Scholars postulate that the initial terms and conditions under which Brazil made the decision to integrate with China changed so that the partnership no longer benefits Brazil's best interests. Terms and conditions are conceptualized in this paper as constraints present in the decision making process that either pushed Brazil towards economic integration with China or pull it away. Analysis of various bilateral agreements, trade documents, statements from government officials, newspaper articles and trade data are used to examine existing constraints in the decision making process. The study finds that stress of the decision maker, competing interests between the countries and uncertainty and complexity surrounding the relationship all play a role in constraining the terms under which Brazil decided to integrate its economy with China. Constraints in the early period of the partnership made the Sino-Brazilian relationship more beneficial to Brazil, while constraints in the late period lowered possible Brazilian satisfaction with the alliance.

## Introduction

The south-south relationship between China and Brazil as known today was initiated when the strategic partnership between China and Brazil was announced in 1993.<sup>1</sup> The basis of this partnership was to "develop longstanding, stable and strategic mutual cooperation" between China and Brazil in an effort to support the two countries' desire to play a larger role in development and peace promotion.<sup>2</sup> China played into Brazil's strategic plan because of the potential for cooperation on technology and science and the access to the Chinese market for both imports and exports.<sup>3</sup> The strengthening of Sino-Brazilian bonds may appear to be mutually supportive, but there exists evidence to suggest that the relationship might not be as cooperative as previously thought. Brazil's President, Dilma Vana Rousseff, has defined the country's relationship with China as "one of the major strategic challenges" because of Brazil-China asymmetries that continue to exist.<sup>4</sup> Bilateral

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<sup>1</sup> H. A. de Oliveira, "Brazil and China: A New Unwritten Alliance?," *REVISTA BRASILEIRA DE POLITICA INTERNACIONAL* 53, no. 2 (2010); Niu Haibin, "Emerging Global Partnership: Brazil and China," *Revista Brasileira de Politica Internacional* 53, no. spe (2010); Rhys Jenkins, "China and Brazil: Economic Impacts of a Growing Relationship," *Journal of Current Chinese Affairs* 41, no. 1 (2012).

<sup>2</sup> Haibin: 185.

<sup>3</sup> de Oliveira.

<sup>4</sup> Samuel W. Bodman, James D. Wolfensohn, and Julia E. Sweig, *Global Brazil and U.S.-Brazil Relations: Independent Task Force Report No. 66* (New York Council on Foreign Relations 2011), 17.

trade has been strong between China and Brazil, but the unequal proportion of Brazilian commodity exports to Brazilian imports of Chinese manufactured goods suggests unequal exchange.<sup>5</sup> Researchers fear that this dependent relationship is leading to deindustrialization of Brazil and a dangerous dependence on primary commodities.<sup>6</sup> Additionally, the quick upgrade to more sophisticated products like electronics and machinery in China could put Brazil at a disadvantage, since its focus is on commodities, and may trap the country in "less dynamic industrial sectors".<sup>7</sup>

When comparing the complementary effects to the competitive effects of the Sino-Brazilian relations it appears as though the relationship is in fact highly competitive to Brazil's disadvantage. China may be buying commodities at relatively high prices, but this has led to loss in other value-adding economic sectors of Brazil.<sup>8</sup> While Brazil has greatly benefited from the higher commodity prices spurred by Chinese demand, it has also lost ground to China in manufacturing markets both in the United States and the European Union.<sup>9</sup> The investments China continues to make have the potential to help strengthen Brazilian infrastructure, but they also create a better network for China to use for its own economic gain. Through foreign direct investment (FDI) China is setting up regional headquarters in Brazil that will increase competition for local and regional markets even more in the future.<sup>10</sup> The level of competition between these two rising powers is very high. Some have even ventured to criticize the relationship labeling it Chinese neo-colonialism with China using Brazil for resources and then dominating Brazilian consumer markets with its cheap value added exports.<sup>11</sup>

The blatant competitive deficit that Brazil has against China, more specifically in the realms of manufacturing and trade, makes it hard to comprehend why Brazil has made strengthening economic relations with China one of its main economic goals. As economic integration with China deepens, Brazil is positioned to

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<sup>5</sup> Kevin P. Gallagher and Roberto Porzecanski, "China Matters: China's Economic Impact in Latin America," *Latin American Research Review* 43, no. 1 (2008).

<sup>6</sup> A. Fleury and M. T. L. Fleury, "China and Brazil in the Global Economy," *IDS BULLETIN-INSTITUTE OF DEVELOPMENT STUDIES* 37, no. 1 (2006).

<sup>7</sup> R. Jenkins and A. D. Barbosa, "Fear for Manufacturing? China and the Future of Industry in Brazil and Latin America," *CHINA QUARTERLY* 209, no. 209 (2012): 62.

<sup>8</sup> *ibid.*; Rhys Jenkins, "China's Global Expansion and Latin America," *Journal of Latin American Studies* 42, no. 4 (2010).

<sup>9</sup> Whalley John and Medianu Dana, "The Deepening China Brazil Economic Relationship," *SSRN Working Paper Series U6 - ctx\_ver=Z39.88-2004&ctx\_enc=info%3Aofi%2Fenc%3AUTF-8&rft\_id=info:sid/summon.serialssolutions.com&rft\_val\_fmt=info:ofi/fmt:kev:mtx:journal&rft.genre=article&rft.atitle=The+Deepening+China+Brazil+Economic+Relationship&rft.jtitle=SSRN+Working+Paper+Series&rft.au=Dana+Medianu&rft.au=John+Whalley&rft.date=2011-01-01&rft.externalDocID=2255410191 U7 - Journal Article U8 - FETCH-proquest\_dll\_22554101911*, no. Journal Article (2011): 13.

<sup>10</sup> Gallagher and Porzecanski.

<sup>11</sup> *Brazil and China: South-South Partnership or North-South Competition?*, (Washington, D.C. : Brookings Institution March 2011).

decrease its own economic capacity and self-sustainable economic growth in the long run. The decision to work with a rival in both the political and economic spheres seems to be against the self-interest of Brazil. Evidence illustrating a highly competitive Sino-Brazilian relationship leads one to ask the question: Why does Brazil act not in its economic self-interest in relation to China?

### Literature Review

In order to evaluate the question posed, Brazil's rationality in making the decision to increase its economic integration with China must be analyzed. The "why" question forces the probing of the conditions, events and interaction patterns that state action relies upon, which cannot be answered without an analysis of the decision making process.<sup>12</sup> In the 21<sup>st</sup> century states face many challenges to decision making including uncertainty in responding to international threats, confronting trade-offs across competing goals and operating in a decision structure where political authority can be quite dispersed and fragmented.<sup>13</sup> Behavior of state actors can be understood using a cost-benefit analysis of their actions as they relate to their overarching national goals and, but this is a simplification of the decision making process.<sup>14</sup> International relations is complicated; this fact has forced scholars in the field to produce their own unique decision making schematics based on those utilized by subjects not traditionally linked to the realm of foreign policy making. For the purpose of this research, the same method of applying theories will be used. The literature reviewed focuses on three models of decision-making: poliheuristic theory, prospect theory, and expected utility theory. All three models provide a rationale for the decision making process of state actors but each has its own specific advantages and disadvantages in regards to the proposed question.

Poliheuristic theory is an extension of the more basic theory of rational choice. The theory focuses on what is referred to as the backend of decision-making: developing options and choice.<sup>15</sup> Similar to rational choice, poliheuristic theory requires a stable and transitive order of preference and the ability to select from other available alternatives.<sup>16</sup> The goal of the decision is to use the set of preferences and alternatives available to reach a maximum level of satisfaction. The origin of preference comes from various places. Much like the leaders and state

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<sup>12</sup> *Memorandum of Understanding between the Ministry of Development, Industry and Foreign Trade Federal Republic of Brazil and the State Commission for Economic Planning People's Republic of China on Industrial Cooperation* 2002. 33; Charles R. Schwenk, "Strategic Decision Making," *Journal of Management* 21, no. 3 (1995): 471.

<sup>13</sup> Joe D. Hagan, "Does Decision Making Matter? Systemic Assumptions Vs. Historical Reality in International Relations Theory," *International Studies Review* 3, no. 2 (2001): 6.

<sup>14</sup> Graham T. Allison and Morton H. Halperin, "Bureaucratic Politics: A Paradigm and Some Policy Implications," *World Politics* 24, no. S1 (1972): 41.

<sup>15</sup> Eric Stern, "Contextualizing and Critiquing the Poliheuristic Theory," *Journal of Conflict Resolution* 48, no. 1 (2004): 108.

<sup>16</sup> Jack S. Levy, "Prospect Theory, Rational Choice, and International Relations," *International Studies Quarterly* 41, no. 1 (1997): 89.

actors who rely upon them, preferences are the products of numerous variables including culture, political system, state objectives, economic goals, etc.<sup>17</sup> All variables must be taken into account when creating the set of preferences and possible alternatives.

Poliheuristic theory takes the foundation of rational choice and applies it to a two-step process. The first step is to go through the list of choices and eliminate alternatives that are deemed unacceptable by the key dimensions set by the preferences.<sup>18</sup> This initial stage takes the framework provided by rational choice and puts it into action in a real world setting. A potential option must satisfy the end goal of the decision maker based off the set preferences or else it is eliminated.<sup>19</sup> Stage one forces the decision maker's ability to keep the end goal in mind when looking at the alternatives. The second stage of the process is where decisions makers work to optimize their strategies.<sup>20</sup> It is in this step that constraints come into play in the decision making process. The world is an imperfect place; consequently, the decision makers must take into account challenges and limitations that their options may face. A proposed choice may look perfect in theory, but fail once it is applied to the actual situation. The second stage of poliheuristic theory is important to avoid such failures before the decision is made.

Problems arise with poliheuristic theory when it comes to accounting for the various goals often present in the decision making process. Decision makers are likely to have a variety of goals that may even conflict with one another.<sup>21</sup> The theory does its best to model the goals and how they will interact with one another, but it does not take into account a ranking of goals. In the real world some goals are less important than others and are often thrown out if a higher goal can be achieved. In the circumstances of this paper, poliheuristic theory has a few characteristics that make it difficult to use as a framework. Creating a set of preferences is complicated because of the various aspects that influence them. The uncertainty involved with the formation of preferences could lead to ambiguous outcomes.

Prospect theory is the next decision-making framework explored to answer the presented question involving Brazil's decision making. This theory, created by Kahneman and Tversky in response to expected utility theory, looks at decision making in regards to loss aversion. One of the major characteristics of prospect theory is that it evaluates choices in respect to a reference point.<sup>22</sup> The reference point is vital to the decision-making process because if it changes, then the

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<sup>17</sup> Margaret G. Hermann and Joe D. Hagan, "International Decision Making: Leadership Matters," *Foreign Policy*, no. 110 (1998): 131.

<sup>18</sup> Gary Goertz, "Constraints, Compromises, and Decision Making," *Journal of Conflict Resolution* 48, no. 1 (2004): 140.

<sup>19</sup> *Ibid.*, 22-23.

<sup>20</sup> *Ibid.*, 15.

<sup>21</sup> *Ibid.*

<sup>22</sup> Jack S. Levy, "Loss Aversion, Framing, and Bargaining: The Implications of Prospect Theory for International Conflict," *International Political Science Review / Revue internationale de science politique* 17, no. 2 (1996): 179; Levy, "Prospect Theory, Rational Choice, and International Relations," 87.

framework of decision-making does as well.<sup>23</sup> The situation in which the decision is being made is a predetermining factor to the reference point.<sup>24</sup> This means that there are more variations in determining the reference points when the situation is more dynamic.<sup>25</sup> The status quo can often be used as a reference point in prospect theory.

Risk-averse behavior in regards to the gains and losses of decision-making is also a central characteristic of prospect theory.<sup>26</sup> In prospect theory there is a distinction between the gains and losses that are determined of the chosen reference point.<sup>27</sup> The decision maker treats losses and gains differently; there is a "risk distinct orientation".<sup>28</sup> Actors tend to be risk-averse when it comes to the gains of a decision and risk acceptant when it comes to losses. The aversion to loss creates an environment where loss is overweighed relative to the comparable gains available.<sup>29</sup> The reference point frames the asymmetry created by the risk-aversion. Mathematically prospect theory is represented by a value function. The difference between losses and gains is depicted in the value function because the function has a deeper curve on the loss side than on the gain side.<sup>30</sup>

Although prospect theory has rapidly gained support in the academic world, it has its own set of challenges. For a theory that so heavily places importance on a point of reference, the theory does not provide guidelines on how a point of reference is chosen. Due to this, prospect theory is often seen as a theory about reference points without a theory for points of reference. The framing of a decision and the point of reference used is a subjective process that remains highly unexplored.<sup>31</sup> Another criticism of prospect theory is that it does not account for the "collective decision making of state actors or strategic interaction between states".<sup>32</sup> This poses major problems in an analysis of Brazil's decision as a state actor to heighten its economic integration and strategic partnership with China. In this instance, the inherent flaw in prospect theory makes it an inappropriate choice as a decision-making model in this study because there is no determined reference point and the question looks at the relationship between two states.

Utility theory is one of the quintessential decision making theories still in use today. The theory outlines that an actor makes a decision by determining which

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<sup>23</sup> Amos Tversky and Daniel Kahneman, "The Framing of Decisions and the Psychology of Choice," *Science* 211, no. 4481 (1981): 453.

<sup>24</sup> Levy, "Prospect Theory, Rational Choice, and International Relations," 90.

<sup>25</sup> *ibid.*, 91; Tversky and Kahneman: 455.

<sup>26</sup> Tversky and Kahneman: 454.

<sup>27</sup> Goertz: 20; Levy, "Prospect Theory, Rational Choice, and International Relations," 89.

<sup>28</sup> Levy, "Prospect Theory, Rational Choice, and International Relations," 89-90.

<sup>29</sup> Levy, "Loss Aversion, Framing, and Bargaining: The Implications of Prospect Theory for International Conflict," 179; Levy, "Prospect Theory, Rational Choice, and International Relations," 87.

<sup>30</sup> Levy, "Prospect Theory, Rational Choice, and International Relations," 89.

<sup>31</sup> *Ibid.*, 91.

<sup>32</sup> *Ibid.*, 90.

option maximizes their utilities under a provided set of constraints.<sup>33</sup> The decision maker must make a choice between risky and uncertain prospect by comparing their “expected utility value”, which is why the theory is also referred to as expected utility theory or EUT.<sup>34</sup> The constraints referenced in utility theory are conceptualized as the goals of the decision maker. The goals can reference a variety of subjects including international, domestic, political or organizational matters.<sup>35</sup> The expected utility of values is defined as the weight sums calculated by adding the value of the utility outcomes and multiplying them by their respective probabilities.<sup>36</sup>

While the technical details of the mathematics used in the theory can be complicated, the ideas behind them are quite simple compared to the complexities of other decision-making theories. The foundation of the theory is that the subject will make a decision with the desire to gain the most possible utility, or satisfaction.<sup>37</sup> Decision makers will pick the option that has the best possible opportunity to increase desired gains and minimize probable losses. The decision maker can determine how to reach this preferred outcome by using a rational calculation of utility. This calculation requires two important components to compare the predicted outcomes of various choices of action: the substantial information regarding the situation and a fundamental understanding of the relationship between cause and effect. With this information, the decision maker is able to apply values in an effort to determine which choice is the best option or which action will have the least negative consequences.<sup>38</sup> Before making a choice, the decision maker has to evaluate the climate in which the decision is being made, the effects that different decisions could possibly have and then choose which will produce an outcome with least amount of loss and the most gain. The complexity of the mathematics tend to make it seem like this theory is complicated, but the logic behind it is relatively easy to follow when it is put into these terms.

Expected utility theory, like both poliheuristic and prospect theory, also has its challenges. EUT faces two main constraints as a decision-making theory, “value-complexity” and “uncertainty”.<sup>39</sup> These constraints stem from the inability of the decision maker to give values to the possible choices because there can be competing interests within a single subject and the potential for psychological stress upon the decision maker.<sup>40</sup> Despite the challenges, expected utility theory still

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<sup>33</sup> Goertz: 14.

<sup>34</sup> Philippe Mongin, "Expected Utility Thoery " in *Handbook of Economic Methodology* ed. J. Davis, W. Hands, and U. Maki (E. Elgar 1997), 342.

<sup>35</sup> Goertz: 18.

<sup>36</sup> Mongin, 342.

<sup>37</sup> John Von Neumann and Morgenstern Oskar, *Theory of Games and Economic Behavior*. (New York Wiley, 1964), 8.

<sup>38</sup> Alexander L. George, "Adapting to Constraints on Rational Decisionmaking," in *International Politics: Anarchy, Force, Political Economy, and Decision-Making*, ed. Robert J. Art and Robert Jervis (Boston Little, Brown and Company 1985), 491.

<sup>39</sup> Ibid., 493.

<sup>40</sup> Ibid., 492.

remains an overwhelming dominant framework that is commonly utilized by those who wish to analyze situations that examine decision-making processes under conditions of uncertainty.<sup>41</sup>

Each theory has its distinct advantages and disadvantages that lead scholars to choose one over the other and the purpose of this research lends itself to one of the three theories described above. Expected utility theory will be used within the confines of this research over poliheuristic and prospect theory. What makes expected utility theory a better choice is its simplicity. As previously stated, complications with poliheuristic theory arise in the creation of the set of preferences and prospect theory is flawed when it comes to interstate interactions and the lack of a well-defined reference point. The requirements of determining utility are achievable within the constraints of this paper: information regarding the situation between Brazil and China can be gathered, cause and effect can be determined through the examination of key points, and can then be applied to look at the possible consequences from the potential choice of action. Furthermore, Brazil's publicly stated national interests allow for the configuration of Brazil's potential satisfaction level within its decision-making by determining how many of the stated goals are achieved and to what extent. The credibility of expected utility theory in tandem with its feasibility given the conditions of the research make it the clear choice to use as a framework in examining Brazil's decision to deepen its economic integration with China.

### **Thesis and Method:**

When revisiting the question at hand, "Why does Brazil act not its is economic self interest in relation to China? ", an answer can be proposed using the characteristics of expected utility theory. The framework of this decision-making model leads to the argument that the terms and conditions in which Brazil initially increased its economic integration with China were positive and optimistic, but evolved into a threat to Brazil's economic self-interest. Terms and conditions are conceptualized as constraints present in the decision-making process. For the purpose of this paper the Sino-Brazilian relationship is broken up into two periods: early period (2001-2004) and late period (2010-2011). In the early period the constraint of stress upon the decision maker pulls Brazil towards economic integration with China as evidenced by poor economic conditions, high poverty rates, and promised policy objectives. There are two constraints present in the late period that make the decision to make China an economic partner less desirable: competing interests between the two countries and uncertainty and complexity surrounding the relationship. Competing interests are evidenced by conflicting actions in trade measures enacted by each country and Brazilian demand for economic diversification through manufacturing. Uncertainty and complexity is evidenced by the need for more regulation of the relationship, Chinese actions in international organizations and the impact of negative economic forecasts.

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<sup>41</sup> M. J. Machina, "Decision-Making in the Presence of Risk," *Science* 236, no. 4801 (1987): 537.



In order to evaluate the proposed thesis this paper will closely analyze bilateral trade agreements signed by Brazil and China between 2002 and 2011. These agreements will be used to examine possible changes and trends that occurred over the course of the Sino-Brazilian relationship. In addition to these documents, other data will be used to provide evidence to illustrate key areas that impact Brazil's self interest. The data includes trade statistics, interviews with government officials and trade experts, trade measures enacted by both countries and newspaper articles. These additional pieces of information provide the details needed to tell the story of Brazilian-Chinese economic integration and how it has evolved over the past 9 years to become a possible threat to Brazil. This paper will use this evidence to argue how the three constraints have caused Brazil's integration strategy to shift from a positive and optimistic action to a possibly detrimental choice.

Five strategically chosen bilateral trade agreements between Brazil and China will be used to provide the structure and timeline of the research. The agreements in the early period represent the beginning of the economic integration between the two countries. It is important to note that economic integration did not start until after China joined the WTO in 2001. The three documents used in the early period were chosen because they represent the initiation of the economic partnership, these agreements address broad themes of the relationship to provide a general context for the terms and conditions of the integration. The remaining two documents are grouped into the late period and were selected because their content provides information on the status of the relationship after having been in action for a number of years. These documents will be primarily used for evaluating possible changes and constraints in the partnership that have arisen over the years.

Trade measures that occurred between 2009 and 2012 will be used in the competing interests portion of the analysis. This time period was selected because of constraints on data availability and it encompasses the late period in which competing interests between China and Brazil are being evaluated. The data for the comparison was gathered from the Global Trade Alert, a project that is coordinated by the Centre for Economic Policy Research in London. This source was chosen because it provided a comprehensive collection of trade measures made by China and Brazil and it is independently produced so bias is extremely limited. The content of the trade measures is used to examine Brazilian and Chinese interests that compete.

The final pieces of information are gathered from various speeches, newspaper articles and publications that refer to the terms and conditions of the Sino-Brazilian strategic partnership. Two issues of the "China-Brazil Update", published by the Chinese-Brazil Business Council are used as supportive evidence for the degree of uncertainty and complexity that surrounds that relationship. Presidential speeches and policy documents provide further context and details regarding the relationship from both the Lula and Rousseff administrations. Along with this, several newspaper articles from the Financial Times are used within the analysis. Statistical data will also be utilized to provide quantitative support to points being examined. The sources of this data are the World databank and academic extrapolations made from the UN Comtrade database.

## Analysis and Discussion:

### Early Period: Stress on the decision maker

Presidents Fernando Henrique Cardoso and President Luiz Inácio Lula de Silva both had immense pressure placed upon them to create change for Brazil. In the years leading up to Brazil's decision to integrate its economy with China, the country was suffering and this placed extreme stress on the leaders of the country. Before entering into an economic partnership with China, Brazil's economy was at a near standstill. The annual percent growth of GDP in Brazil was extremely poor, growing only 0.038% in 1998 and 0.2508% in 1999.<sup>42</sup> At the same time that the economy was experiencing stagnation, poverty rates were catastrophic. In 1998 20.52% of the population was living on less than \$2 a day, increasing to 21.32% of the population in 1999.<sup>43</sup> As expected utility theory dictates, the situation in which the decision is made is a crucial component of the calculation of utility. The situation in Brazil around the time of economic integration with China was bleak and required drastic action to counteract the downward turn the country had taken.

Still facing unpopularity from his first term as president struggling to fight economic hardships, the pressure was on President Cardoso to make a change to save his second term.<sup>44</sup> The administration decided to advocate a new approach to its domestic issues. President Cardoso initiated a foreign policy that strived to handle internal issues more effectively by assuming greater control over Brazil's future. Brazil would do so by making active contributions to the global order through increased international integration.<sup>45</sup> Cardoso thought that this would allow Brazil to establish an environment favorable to economic growth, which he saw as the main goal of Brazilian external action. <sup>46</sup> President Cardoso's first step in applying this new approach to foreign policy would be to decide where to begin Brazil's integration. The United States was a worrisome option because economic slowdown had decreased GDP growth from 4.5% in 1997 to 1.09% in 2001.<sup>47</sup> Meanwhile, China's strong economic growth, ranging from 7-9% GDP growth per year between 1997 and 2001 made it a strong choice for the proposed Brazilian economic integration.<sup>48</sup> China's economic strengthen gave Cardoso with the platform he needed to launch his new policy strategy.

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<sup>42</sup> "World Databank: Brazil ", World Bank

<http://databank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=2> (accessed Decemeber 13, 2012 ).

<sup>43</sup> Ibid.

<sup>44</sup> "Cardoso's Reform Puzzle ", *The Economist* July 22, 1999 1999.

<sup>45</sup> Tullo Vigevani, Marcelo Fernandes de Oliveira, and Timothy Thompson, "Brazilian Foreign Policy in the Cardoso Era: The Search for Autonomy through Integration " *Latin American Perspectives* 34, no. 5 (2007): 58.

<sup>46</sup> Ibid., 59.

<sup>47</sup> "World Databank: United States ", World Bank (accessed December 17, 2012 ).

<sup>48</sup> "World Databank: China ", World Bank

<http://databank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=2> (accessed December 13, 2012).

Feeling the pressure and seeing the potential in China, President Cardoso saw China as a solution through the administration's new policy approach to some of the major problems afflicting the country. Under these conditions, President Cardoso initiated Sino-Brazilian economic relations by signing the first bilateral economic agreement between the two countries following China's ascension into the World Trade Organization. The "Memorandum of Understanding between the Ministry of Development, Industry and Foreign Trade of the Federal Republic of Brazil and the State Commission for Economic Planning of the People's Republic of China" set up the first terms and conditions of Brazil's economic integration with China. This document, while focusing on industrial cooperation, also outlined the desire to deepen the traditional friendship between the two countries. It proposed to do so through promoting expansion and strengthening of bilateral trade and business partnerships with the consideration of the mutual interests of both parties. As the stepping-stone to further economic integration to come under the Lula administration, the agreement also set into place a Bilateral Consultation Mechanism; this provided a forum for future coordination between the two countries and outlined 8 sectors determined to be of strategic interests to both countries.

Although the beginning of the Sino-Brazilian partnership provided some relief to the ills Brazil was facing, President Lula still faced immense political pressure and stress. Despite changes set in place by Cardoso, the Brazilian economy was still experiencing low GDP growth of around 1-2% and consistently high poverty rates of 20% when President Lula took his place as leader of the country.<sup>49</sup> Lula decided to use the policy prescription laid out by Cardoso, and continued to use a partnership with China to address domestic issues of poverty and slow economic growth in Brazil. In fact, President Lula took Cardoso's initial actions a step further as a part of his multiyear plan (PPA) for 2003-2007.<sup>50</sup>

A large component of the plan focused on a shift in the main priorities of Brazil's foreign and economic policy. President Lula proposed the creation of a new "southern coalition" that would reach out to regional partners and other developing countries around the world. His mission was to alter the traditional global power relations in hopes of fostering a "new world trade geography" that would emphasize south-south exchanges and limit unequal trade and dependence on the north. Southern ties were to be a policy priority; strategic alliances with other south countries would take the place of previously important northern partnerships.

The southern coalition, although a foreign policy is objective, had its roots in domestic politics. South-south cooperation was and continues to be an important development tool; it helps to decrease the dependence on foreign funding and technical assistance. This development strategy differs from others because it is

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<sup>49</sup> "World databank: Brazil", World Bank

<http://databank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=2> (accessed December 13, 2012).

<sup>50</sup> Federal Government of Brazil, *Multiyear Plan (Ppa) 2003-2007* 2003.

driven by mutual economic and commercial linkages rather than charity.<sup>51</sup> Lula wanted to start a new chapter in Brazil's history where the country was in control of its own prosperity and destiny, and south-south relationships were key to accomplish these objectives. The features of China's foreign aid policy, such as helping recipient countries build their self-development capacity and not imposing political conditions, in addition to its economic strength made it the ideal candidate as a southern partner.<sup>52</sup> President Lula not only embraced the policy of Chinese economic integration initiated by the previous administration, but decided to make it among his top priorities as a leader. Desperate times often call for extreme measures. Lula faced immense stress to decrease northern dependency while still fostering economic development. This forced him to make the decision to completely alter Brazilian foreign policy to focus on southern relationships in attempt to address domestic issues.

The next two bilateral trade documents were signed in response to the new policy objectives President Lula found himself compelled to make under the stressful conditions of a failing Brazil. The announcement of the new foreign policy agenda of creating southern alliances added even more pressure for Lula to foster economic integration between China and Brazil. In 2004 alone, President Lula signed two very important bilateral trades agreements with China. The first agreement, the "Memorandum of Understanding Between the Federal Republic of Brazil and the People's Republic of China on the Establishment of the Sino-Brazilian High-Level Commission of Consultation and Cooperation", went into force on July 7, 2004. This agreement explicitly states four principles that guide the blossoming relationship:

- 1) strengthen political mutual trust, based on a dialogue on an equal footing,
- 2) increasing economic and commercial exchanges with a view to mutual benefit;
- 3) promotion of international cooperation, with emphasis on coordination of negotiations;
- 4) promoting exchanges between their respective civil societies in order to deepen mutual understanding.<sup>53</sup>

The memorandum was also extremely important to Brazilian economic integration with China because it established the "High Level Commission" as a new and more intensive channel to guide and coordinate the relationship between the two countries. President Lula signed another bilateral trade agreement on November 11<sup>th</sup> of that same year, the "Memorandum of Understanding Between the Federal Republic of Brazil and the People's Republic of China on Cooperation in Trade and Investment." This document outlined cooperation in trade and investment between the two countries based on mutual satisfaction and balanced implementation. The new world geography was being created, and Lula was relying upon a southern

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<sup>51</sup> *South-South Cooperation: The Same Old Game or a New Paradigm?*, (International Policy Centre for Inclusive Growth ).

<sup>52</sup> Wang Guanqun, "China's Foreign Aid Serves for South-South Cooperation: White Paper " *China English News* 2011.

<sup>53</sup> *Memorandum of Understanding between the Federal Republic of Brazil and People's Republic of China on the Establishment of the Sino-Brazilian High-Level Commission of Consultation and Cooperation* 2004. 1.

coalition of mutual support and benefit to help solve some of Brazil's problems. Lula's decision to aggressively increase economic integration with China through these two documents was done to lessen the stress upon him by helping to achieve his proposed policy objectives to increase economic growth and shift to southern cooperation.

There is an inherent political rationality to all leaders' decision-making processes. Leaders must make decisions keeping in mind which options are most likely to achieve their policy objectives at a tolerable cost level.<sup>54</sup> Stress induced by dire situations in the country, like the dismal economic growth and the staggering poverty rate, make leaders particularly sensitive to the constraints on their decisions. Time, resources and need for political support are decision-making constraints that are amplified by high stress levels. Both presidents' actions support the two main goals of the decision-making process outline by Goertz; the first is to please the public, and the second is to address foreign policy aims.<sup>55</sup> The decision to integrate Brazil's economy with China was heavily influenced by the domestic pressures and stress placed upon both presidents. Forming a Sino-Brazilian economic alliance firstly addressed economic issues within Brazil and secondly played into Brazil's foreign policy objectives. Stress produced domestically impacted the decision; foreign pressures had very little influence. The constraint present during this period pulled Brazilian policy makers towards economic integration with China because it made the relationship look more desirable. Cardoso and Lula both wanted to make big changes in Brazil, and China provided them the opportunity to do so as an economic partner.

### **Late Period: Competing Interests**

The next two dimensions of the analysis occur during the late period of the time frame. The first bilateral trade agreement in this period is the "Joint Action Plan between the Government of the Federal Republic of Brazil and the Government of the People's Republic of China, 2010-2014," put in force on April 16, 2010. This document is of particular importance because it is the first joint action plan between the two countries. The plan, which defined the goals for the strategic partnership from 2010-2014, created guidelines for bilateral cooperation.<sup>56</sup> For the first time the complementary economies of the two countries are officially recognized in article 5 of this document. The article, while acknowledging the potential greatness for bilateral trade and investment, also states that the two countries will remain dedicated to the diversification and promotion of trade growth and investment. Economic diversification is a topic of high value within this action plan; it is mentioned yet again in section 6 of article 5. Brazil and China state they will both

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<sup>54</sup> Alexander L. George, "The 'Operational Code': A Neglected Approach to the Study of Political Leaders and Decision-Making," *International Studies Quarterly* 13, no. 2 (1969); Stanley A. Renshon and Jonathan Renshon, "The Theory and Practice of Foreign Policy Decision Making," *Political Psychology* 29, no. 4 (2008).

<sup>55</sup> Goertz: 15.

<sup>56</sup> *Joint Action Plan between the Government of the Federal Republic of Brazil and the Government of the People's Republic of China, 2010-2014*, 2010. 1.

strive to intensify the facilitation of trade and investment, but the section also specifically stresses the diversification of exports with a focus on the innovation intensive sectors.

Despite the many statements from both countries supporting diversification and intensification of trade and investment, actions by China and Brazil contradict this point. Trade measures enacted by both countries are evidence that while the desired outcome is openness and deepening of trade, the reality of competing interests in the situation has led to protectionist actions. Trade measures become insightful upon examining the details of what they actually decree.<sup>57</sup> In regards to the content of the Brazilian measures there were three trends seen throughout the 107 measures implemented. The first trend was the strong presence of anti-dumping trade measures set in place to protect the Brazilian market from Chinese goods. Nearly 30% of the measures from 2009 to 2012 involved either the adoption of anti-dumping duties, the initiation or the conclusion of anti-dumping investigations against China.<sup>58</sup>

The second, and also protectionist, trend present was the increasing of import tariffs. All of the tariffs target Chinese value-added product exports flooding the Brazilian markets. The import tariffs are focused on sectors such as ceramic tiles, leather, textiles, toys, cars, tools and machines, engine parts, and electrical machinery, equipment and parts. The last recurring theme found within the trade measures was tariff reductions. The tariff reductions exclusively focus on telecommunications tools, IT equipment and capital goods. The overarching theme of the Brazilian trade measures is that Brazil has been taking action to stop Chinese domination of Brazilian markets and to facilitate access to capital goods that are of interest to Brazilian economic growth.<sup>59</sup>

Similar to Brazil, upon investigation the Chinese trade measures also had repeated trends.<sup>60</sup> One of the common topics found was increasing Value Added Tax (VAT) rebates. These rebates impacted around 31 different exporting sectors in China. Value added goods exporters benefited greatly from these trade measures that made it easier for them to export their goods to Brazil because rebates allow exporters to recuperate large portions of export taxes. A topic of particular importance was also seen; the elimination of export duties. The details of these measures included the explicit decree that their purpose was to boost domestic manufacturing. Increasing the VAT rebates and eliminating export tariffs gives an advantage to the domestic market and discriminates against foreign imports. Another measure that appeared multiple times was the reduction of import tariffs on commodities imported from Brazil. Domestic markets are protected by trade measures that focus on restructuring the manufacturing industry and prioritizing local content in government contracts. The conclusion that is reached from examining the details of the trade measures is that China emphasizes actions that favor the domestic market, Chinese exports, and the importation of basic

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<sup>57</sup> Appendix A

<sup>58</sup> Appendix A

<sup>59</sup> Appendix A

<sup>60</sup> Appendix B

commodities from Brazil. What is especially important to recognize is that the measures do not outwardly attack Brazilian imports, but rather make it easier for domestic markets to be successful.

The trends found in these trade measures demonstrate that there is competition between the interests of each country. China's main goal is to take advantage of Brazilian commodities and market access.<sup>61</sup> All of its measures either help Chinese producers to access Brazilian markets, or make it easier for Brazilian commodities to be imported. China wants to foster a dependent relationship with Brazil to ensure access to commodities and the consumer markets it needs to keep its economy strong. Brazil on the other hand wants to increase access to capital goods domestically and block Chinese policies that take advantage of the Brazilian market, such as currency devaluation and dumping goods. Blocking unfair imports and increasing access to capital goods are signs that Brazil is not interested in being dependent on China; it wants to be more self-sufficient and become more than just a resource to China.

The interests of the countries fundamentally conflict. Statements of mutual interests and satisfaction between the countries present in bilateral trade agreements are merely just claims that are unsupported by the actions of the countries. If the countries have competing interests, it changes the dynamics of the decision to become trading partners. In the beginning, as shown earlier, Brazil went into the agreement with the hope that a Chinese partnership would help the country. China cannot possibly help Brazil achieve high satisfaction with its decision to integrate its economy with China if its interests compete with those of Brazil. When interests compete, it changes important factors used in calculating expected utility theory and make it so that the decision initially made to obtain the greatest possible outcome for Brazil, now produces a lower level of utility.

Current Brazilian President, Dilma Rousseff, further enforces the point that Brazil and China have competing interests in the last bilateral agreement. In the "Joint Statement between the Federal Republic of Brazil and the People's Republic of China", signed in April 12, 2011, both countries recognize the positive results that the Sino-Brazilian relationship has achieved over the years, but there is more to be desired from the partnership. The document officially recognizes Brazil's demand to be more than a complementary economy to China and reaffirms Brazil's goal to expand and diversify economically. President Rousseff's speech made during the seminar, at which this treaty was signed, elaborates on how Brazil's interests have changed. She explicitly comments on the topic saying, "Brazilian exports to China are still excessively concentrated in products such as soybeans, iron ore, oil and pulp. That's good, but not good enough".<sup>62</sup> President Rousseff emphasizes that Brazil is no longer interested in being merely a complement to China. Brazil wants

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<sup>61</sup> Claudio Frischtak, "Brazilian Companies in China: Presence and Experience" in *Relations with China from the Perspectives of Brazil and U.S. Global Business* (Washington, D.C. : Woodrow Wilson International Center for Scholars 2012).

<sup>62</sup> Dilma Rousseff, "Speech by President of the Republic, Dilma Rousseff, at the Closing Ceremony" in *China-Brazil Business Seminar: Beyond Complementary* (Beijing, China 2011), 2.

economic diversification, higher added value products and a more balanced relationship with China.

Brazil's worries about commodity dependence forced upon it by its relationship with China are not without justification. The proof is found within the trade data between the two countries illustrated in table#1 and table#2 below:<sup>63</sup>

Table#1

Imports: From China to Brazil (%)				
	1996	2001	2006	2009
Primary commodities	3.4	4.3	1.4	1.6
Resource-based manufactures	10.9	17	9.5	10.7
Low technology	39.6	20.6	16.1	20.8
Medium technology	20.2	19.2	26.2	25.2
High technology	25	38.4	46.5	41.1

Table#2

Exports: From Brazil to China (%)				
	1996	2001	2006	2009
Primary commodities	26.2	36.6	42.9	42.8
Resource-based manufactures	44.5	35.7	39.7	45.3
Low technology	14.1	8.9	8.1	1.7
Medium technology	13.8	12.1	7.2	7.8
High technology	1.5	6.7	1.9	2.4

These tables show that despite constant agreement between the two countries to engage in mutually beneficial and satisfactory relations, Brazil's interest of diversification have been overshadowed by China's demand for commodities. From 1996 to 2009 Brazilian primary commodities exports to China climb steadily from 26.2% to 42.8%, but low and medium technology has experienced drastic decreases falling from 14.1% to 1.7% and 13.8% and 7.8% respectively. In contrast, imports from China to Brazil are heavily concentrated in value added products. High technology imports from China have skyrocketed, going from 25% in 1996 to over 41% in 2009. It is important to take note that China never voices grievances in the bilateral agreements because China is satisfied with the current status of the relationship. China benefits from using Brazil as a commodity resource and a consumer market. If Brazil diversifies, it will directly compete with many Chinese industries and Chinese economic interests.

Newspaper articles from the Financial Times provide more evidence to support how China's economic activity is in direct competition with Brazil's interest of increasing value added product exports. The title of the Financial Times article from May 2, 2012, "Brazilian industry hit as China imports grow", is in itself a commentary on the competing interests. The article describes how the influx of Chinese imports has devastated the Brazilian manufacturing sector. As also highlighted in the aforementioned trade measures, Brazil is trying to "rescue its stumbling manufacturing sector" by protecting it from Chinese competition through

<sup>63</sup> Jenkins, "China and Brazil: Economic Impacts of a Growing Relationship," 27, 30.



the use of higher taxes on Chinese imports.<sup>64</sup> In another *Financial Times* article from March 2012, Brazil's finance minister, Guido Mantega, is quoted saying, "We are not going to just sit by and watch while other countries devalue their currencies to give them a competitive advantage", referring to China, which Mantega has called one of the worst currency manipulation offenders in the world.<sup>65</sup> Brazil, once willing to capitalize on its strong commodities market in order to gain the economic growth needed to address dire domestic issues, is no longer willing to be a commodity resource. Mr. Mantega goes on in the article to declare, "We don't want to lose our manufacturing sector. Brazil is not merely an exporter of commodities".<sup>66</sup> As demonstrated by the trade measures, Brazil is on the defensive against China. Mantega elaborates on this point stating, "We are in favor of free competition...but we cannot keep our borders completely free while other are using non-competitive mechanisms".<sup>67</sup>

Although aspects of the two countries are complementary, it appears as though the competitive nature of the relationship is positioned to intensify. At the time of the original decision to join in a strategic partnership with China, the constraints present made Brazil willing to rely on commodities for economic growth. Now with a steadily growing economy and a poverty rate that has been cut in half in 10 years, Brazil is in a position where it no longer needs to depend on commodities to survive.<sup>68</sup> Brazil's demand for diversification and focus on increasing access to capital goods is evidence that the country and its leaders have realized that Brazil's future will be negatively impacted if it continues down its current path of commodity dependence. Sergio Amaral, a former Brazilian trade minister and current head of the Brazil-China Business Council, reinforces this argument saying, "We [Brazil] need a more sophisticated relationship with the Chinese. The relationship can't just be about commodities".<sup>69</sup> The statements of Brazilian government officials, demands within trade agreements and trade data all illustrate how Brazil's current interests directly compete with many Chinese interests. The constraint of competing interests impacts the outcomes of expected utility theory. As interests of the actors involved in the decision change, the value applied to the different courses of action change as well. In terms of the framework, the expected utility from the relationship is much lower because it prevents the achievement of Brazilian interests.

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<sup>64</sup> Joe Leahy, "Brazilian Industry Hit as China Imports Grow " *Financial Times* May 2, 2012 2012, 1.

<sup>65</sup> Joe Leahy, "Brazil Vows to Protect Manufacturing " *Financial Times* March 16, 2012 2012, 1.

<sup>66</sup> Ibid.

<sup>67</sup> Ibid., 2.

<sup>68</sup> "World databank: Brazil", World Bank

<http://databank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=2> (accessed December 13, 2012).

<sup>69</sup> Paulo Prada, "Brazilian President to Visit China on a Trade Mission " *The Wall Street Journal* April 11, 2011 2011, 2.

### **Late Period: Uncertainty and Complexity**

What may have began as a simple economic partnership has grown into a vastly more dynamic relationship, causing the constraint of complexity to appear. A testimony to the mounting complexity involved in Chinese-Brazilian relations can be seen during the late period in the “Joint Action Plan” in the bolstering of regulatory mechanisms. The previous meeting schedule of the High Level Commission was not satisfactory to govern relations between the two countries. Article 3 attempts to devise a plan to cope with raising complexities by mandating that the High Level Commission is required to meet every two years and that subcommittees dedicated to specific areas of bilateral involvement are to meet every year and produce annual reports for each party and biannual reports for the High Level Commission.<sup>70</sup> Sino-Brazilian bilateral relations have expanded into more areas than when first initiated. The relationship has gotten so complex that it requires constant regulation on both sides and more focused regulatory bodies to govern the many facets involved in the partnership.

Despite the call for more regulation in this “Joint Action Plan” from 2010, the Brazilian Embassy in China still thinks that this will not be enough to handle the level of complexity in the relationship. In an article it wrote for the *China-Brazil Update* the Brazilian Embassy states that current efforts to increase dialogue and cooperation are simply not enough. The relationship will not be successful if improvements stop at better coordination between the two governments. The Embassy asserts that there is need for “more formal involvement by universities, business and civil society in promoting understating and providing guidance for the development of this important partnership, bearing in mind Brazil’s interests and concerns”.<sup>71</sup> Sino-Brazilian relations have evolved to a point where traditional means of cooperation and regulation are insufficient. These calls for high levels of cooperation across more diverse areas demonstrate the enormous complexity involved in the partnership. Higher complexity in Brazilian-Chinese relations is of high concern to Brazil and is a problem that must be addressed is the relationship is to be beneficial to Brazil.<sup>72</sup> The ability to tackle this issue places a constraint upon Brazilian decision-making as uncertainty and complexity can lower the potential utility gained from its relations with China.

The constraint of uncertainty arises again between the two countries. Every bilateral trade agreement signed by Brazil and China is filled with assurance that both countries are dedicated to mutual benefit, satisfaction and cooperation. This theme expands beyond economics and into the international political arena. Article 4, section 1 of the “Joint Action Plan” states that both countries agree to bolster coordination and communication efforts in international organizations including the

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<sup>70</sup> *Joint Action Plan between the Government of the Federal Republic of Brazil and the Government of the People's Republic of China, 2010-2014*, 2.

<sup>71</sup> Brazilian Embassy in China, “The Complexity of the China-Brazil Agenda Calls for Improved Coordination and Implementation of the Joint Action Plan ” in *China/Brazil Update* ed. China-Brazil Business Council (2012), 2.

<sup>72</sup> Ibid.

World Trade Organization and the United Nations.<sup>73</sup> Although China explicitly made the promise to work with Brazil in matters regarding the United Nations, it has not done so. China voted against Brazil joining the UN Security Council (UNSC), despite the fact that their bilateral agreement specifically stated that they would act in cooperation in international institutions.<sup>74</sup> The Chinese government lobbied African countries to vote against that measure proposed by Brazil to expand the UNSC, essentially keeping Brazil out of the running to become a permanent member.<sup>75</sup> If China's actions do not follow the agreements they made with Brazil, then how can Brazil trust China as a strategic partner? China's veto explicitly violated a portion of the bilateral agreement, creating an atmosphere of uncertainty surrounding the Brazilian-Chinese relationship.

This has raised general questions of uncertainty regarding the Sino-Brazilian partnership. With the given information, the values applied to Brazilian choices of action determined by expected utility theory could be deemed invalid because the strength of the relationship is in question. China's opposition to Brazil in the UN, although not an economic matter, has substantial backlashes on the status of Brazil's decision to integrate its economy with China. China's willingness to go against the bilateral agreement when it comes to cooperation in international organizations could very well mean that China would be willing to compromise other areas of the relationship in the future for its own personal benefit. The produced uncertainty places a constraint of the decision-making process.

Another area of uncertainty and complexity lies within the economic forecast for the next few years. In 2010 China replaced the United States as Brazil's biggest trade partner. Brazil has enjoyed an average GDP percent growth of 3.78% annually thanks in great part to this strengthened relationship. China's seemingly relentless demand for commodities has allowed the partnership to foster mutual economic growth. However, the economic outlook is projected to change drastically. Claudio Frischtak, consultant at the China-Brazil Business Council, warns that looming economic slowdown will be detrimental to the Sino-Brazilian relationship.<sup>76</sup> China's GDP growth per year is predicted to drop from 10% to 7% within the next year. The *China-Brazil Update* from February of 2012 echoes this projection expressing that China is likely to continue to show moderate economic deceleration.<sup>77</sup> A significant downturn in Chinese economic growth is bad for the global economy in general, but it will have a particularly harmful impact on Brazil. A decrease as predicted in China

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<sup>73</sup> *Joint Action Plan between the Government of the Federal Republic of Brazil and the Government of the People's Republic of China, 2010-2014*, 3.

<sup>74</sup> Ryan Berger, "Brazil Makes the Case for Un Reform", Americas Society and Council of the Americas <http://www.americasquarterly.org/node/2902> (accessed December 13, 2012).

<sup>75</sup> Bodman, Wolfensohn, and Sweig, 1.

<sup>76</sup> Frischtak.

<sup>77</sup> "China Will Likely Continue to Show Moderate and Gradual Economic Deceleration This Year", in *China-Brazil Update* ed. China-Brazil Business Council (2012), 5.

would cause a .5% decrease Brazilian GDP growth, and at its current rate of 3-4% per year this is postulated to be a large issue for Brazil.

Predictions of a rocky economic future for Brazil's economic integration with China create an atmosphere of uncertainty for the future of Chinese-Brazilian relations. Despite challenges, the benefit of economic growth has been the consistent threat holding the relationship together. Economic projections call to question if this benefit will be present in the near future; there is now uncertainty as to whether this positive aspect of the partnership will continue. In the past Brazil might have been more prepared to concede some of its own interests in return for economic growth. As growth is predicted to soon stop it becomes unknown as to whether Brazil will be as likely to accept loss in certain areas without guaranteed gains in economic growth.

### **Conclusion:**

During the early period of this research, it can be argued that Brazil's decision to form an economic partnership with China was not against its economic self-interests. When the initial decision was made to integrate the Brazilian economy with China, the partnership appeared to bring the most possible utility to Brazil given the circumstances. Hard times in Brazil and the immense amount of stress it placed upon state leaders forced Brazil to make a major policy decision that provided the greatest amount of benefit at the time. Cardoso and Lula both reached out to China as an economic partner as a means to handle internal issues. The constraint of stress upon the decision maker present in the early period pushed Brazilian leaders towards the decision to form an economic partnership with China. Given these conditions, it can also be speculated that because Brazil was in a dire economic and social state, it rushed into its economic integration strategy based on all the potential benefits that a relationship with China held. A possibility that could be further explored beyond the limitations of this paper is that even though the integration held many short-term benefits, Brazil did not fully investigate possible longer-term conflicts, consequences and constraints.

Major issues arise during the late period of this examination of the Sino-Brazilian relationship. Actions by both sides demonstrate that the current state of conflicting interests impact the calculation of expected utility. Brazil faces major areas of conflict with China as evidenced through the trade measures and the new focus on boosting manufacturing. This research explored the dilemma Brazil faces: how to apply its policy objectives while simultaneously maintaining a strategic economic partnership with China now that the terms and conditions of the original partnership have changed. After all, the possible level of satisfaction gained from the partnership greatly diminishes when interests are in conflict. Under the framework of expected utility theory, Brazil has struggled to assign values to different courses of action because of the growth of competing interests with China.

Constraints of uncertainty and complexity significantly impact Brazil's decision-making process. Under the terms of expected utility theory these two factors greatly inhibit an accurate calculation of utility and make it difficult to determine the course of action with the least possible loss. When complexity and uncertainty are present it is hard to understand the situation in which the decision

is being made and to analyze the relation between cause and effect, two vital components of expected utility theory as a decision-making framework. Areas of complexity appeared in the regulation of the relationship and uncertainty in the partnership has arisen due to China's actions in the United Nations and forecasts of poor economic conditions. Constraints on vital parts of the expected utility calculation, such as complexity and uncertainty, could lead to a decision being made that may not necessarily be in the best interest of the decision maker. Constraints present in the late period seem to call to question Brazil's choice of China as an economic partner

There are two major limitations to this study. The first is that it only examines Brazil's decision-making process from the perspective of choosing China. Further research on this topic would benefit from broadening the perspective and exploring other possible countries as candidates for economic integration. Under the framework of expected utility theory this would aid in determining the least negative alternative. The second limitation of this research is that it only looks at three constraints to Brazil's decision making. While these were found to be the most important constraints involved in decision-making based on the evidence found, it is possible that other smaller constraints exist.

With this in mind the initial question proposed, "Why does Brazil act not in its economic self-interest in relation to China?" can in fact be answered by the proposed thesis. The evidence provided by this research paper supports the postulation that the terms and conditions in which Brazil initially increased its economic integration with China were positive and optimistic but changed to become a threat to Brazil's economic self-interest. The constraint of stressful conditions in the early period of the China-Brazil relationship provided incentive for leaders to initiate economic integration with the rising power China as a means of solving economic stagnation and extreme poverty.

Over time, these constraints changed. Since the inception of Brazil's economic relationship with China, it has experienced a vast period of economic growth and has been able to make a major reduction in the percentage of people in the country living in poverty. During the late period, new constraints to the use of expected utility appear in the partnership. Competing interests and uncertainty and complexity alter the calculation of utility. These new dimensions of the economic relationship make it now appear as though the decision of Brazilian-Chinese economic integration is against Brazil's self-interest.

As evidenced in this paper, the decision-making framework of expected utility theory does hold true when applied to the case of Brazil. When Brazil first decided to integrate its economy with China, the conditions made it so the choice was the best possible option at that time. As constraints changed the outcome of expected utility theory did as well. Although expected utility theory was able to account for the changing conditions, the problem lies within its inability to determine what, when and how the changes will appear. If Brazil were to have to make the decision to integrate its economy with China today, the outcome could be very different due to the current constraining conditions.

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**Appendix A:**

<b>Brazil Trade Measures Against China</b>	
<b>Measure Name</b>	<b>Inception Date</b>
Brazil: Adoption of antidumping duties against imports of certain amino-resins from China and the U.S.	31-Oct-12
Brazil: Initiation of an antidumping investigation on indigo blue vat dye from China and Singapore.	5-Nov-12
Brazil: Initiation of an antidumping investigation on synthetic silica gel from China and India.	5-Nov-12
<a href="#">Brazil: Initiation of antidumping investigation on line pipe for oil and gas pipelines of seamless iron or steel from China</a>	8-Oct-12
<a href="#">Brazil Initiation of antidumping investigation on cold-rolled stainless steel sheets from China, Finland, Germany, Korea, Chinese Taipei and Viet Nam</a>	8-Oct-12
<a href="#">Brazil: Initiation of antidumping investigation on certain seamed tubes of austenitic stainless steel from China and Chinese Taipei</a>	3-Oct-12
<a href="#">Brazil: Tariff increases applicable to 100 goods, including: iron, steel, machinery, plastics, chemicals, and paper, among others.</a>	1-Oct-12
<a href="#">Brazil: Initiation of an antidumping investigation on certain type of tires for bicycles from China, India and Vietnam.</a>	14-Sep-12
<a href="#">Brazil: Adoption of antidumping duties against citric acid, its salts and esters from China.</a>	27-Jul-12
<a href="#">Brazil: Initiation of an antidumping investigation on nylon synthetic filament yarn from China, South Korea, Thailand and Taiwan.</a>	9-Jul-12
<a href="#">Brazil: Initiation of antidumping investigation on certain type of motorcycles tires from China, Thailand, Taiwan and Vietnam.</a>	27-Jul-12
<a href="#">Brazil: Initiation of antidumping investigation on certain type of motorcycles tires from China, Thailand, Taiwan and Vietnam.</a>	30-May-12
<a href="#">Brazil: Initiation of antidumping investigation on heavy plates from Australia, China, South Africa, South Korea, Ukraine and Russia.</a>	4-May-12
<a href="#">Brazil: Initiation of antidumping investigation on heavy plates from Australia, China, South Africa, South Korea, Ukraine and Russia.</a>	25-Apr-12
<a href="#">Brazil: Increased import tariff on ceramic tiles</a>	15-Sep-11
<a href="#">Mercosur: Creation of new tariff lines with an import tariff of 14% on caterpillars / crawlers</a>	27-Jun-11

<a href="#">Mercosur: Creation of new tariff lines with import tariff of 18% on air-conditioning machines</a>	1-Oct-11
<a href="#">Mercosur: Temporary increase of Common Tariff applied rates</a>	1-Apr-11
<a href="#">Brazil: Adoption of antidumping duties against blankets and traveling rugs, of synthetic fibers from Uruguay and Paraguay, and "long pile" fabrics of manmade fibers from China.</a>	14-Feb-12
<a href="#">Brazil: Initiation of antidumping investigation on refined copper tubes and pipes from China.</a>	14-Nov-11
<a href="#">Brazil: Temporary increase of internal taxes applicable to imported vehicles</a>	16-Sep-11
<a href="#">Brazil: Initiation of antidumping investigation on certain types of cutlery from China.</a>	16-Jun-11
<a href="#">Brazil: Imposition of antidumping investigation on polymeric MDI from Belgium, China and the U.S.</a>	11-May-12
<a href="#">Brazil: Initiation of antidumping investigation on certain type of flat-rolled products of iron or non-alloy steel from Australia, China, India, Mexico and South Korea.</a>	18-Apr-11
<a href="#">Brazil: Adoption of antidumping duties against lycra from China.</a>	12-Apr-11
<a href="#">Brazil: Definitive antidumping duties on citric acid and its salts from China.</a>	11-Apr-11
<a href="#">Brazil: Amendment of MFN import duties applicable to certain types of fruit preparations.</a>	1-Apr-11
<a href="#">Brazil: Adoption of anti-dumping duties against certain glassware used for tables from Argentina, China and Indonesia.</a>	1-Mar-11
<a href="#">Brazil: Temporary amendment of MFN import duties on certain amino-resins, articles of apparel and molds.</a>	18-Feb-11
<a href="#">Brazil: tariff increase for pigments &amp; preparations based on titanium dioxide, containing 80%/more by weight of titanium dioxide calc. on the dry matter</a>	28-Dec-10
<a href="#">Brazil: temporary tariff increase for some toys</a>	28-Dec-10
<a href="#">Brazil: Initiation and subsequent termination of antidumping investigation on imports of certain types of certain stainless steel recipients from China and India</a>	28-Dec-10
<a href="#">Brazil: Initiation of Antidumping investigation on imports of line pipe of up to 5 inches from China</a>	9-Sep-11
<a href="#">Brazil: temporary tariff increase for tools for pressing, stamping or punching and for mould for metal (injection or compression types)</a>	14-Dec-10

<a href="#">Brazil: tariff increase for parts suitable for use with the engines of spark-ignition reciprocating or rotary internal combustion piston engines and compression-ignition internal combustion piston engines (diesel or semi-diesel)</a>	1-Jan-11
Brazil: temporary tariff reduction and quota establishment for vinyl acetate, poly (vinyl chloride) and vinyl chloride-vinyl acetate copoly	7-Oct-10
<a href="#">Brazil: Termination without duties of an anti-dumping investigation on imports of hand tools, incl. glaziers" diamonds, of base metal, n.e.s. from China</a>	22-Oct-10
<a href="#">Brazil: Antidumping investigation on magnesium powder imports from China</a>	7-Oct-10
<a href="#">Brazil: 6-Hexanelactam (epsilon-caprolactam) - removal from the list of exceptions and quota change</a>	2-Sep-10
<a href="#">Brazil: Temporary tariff increase for castor oil and its fractions, as well as electrical machinery, equipment and parts thereof</a>	5-May-10
<a href="#">Brazil: temporary tariff increase for crane lorries</a>	25-Jun-10
Mercosur: temporary increase in tariffs on articles of leather	31-Jan-10
<a href="#">Mercosur: temporary increase in tariffs on textiles</a>	11-Aug-10
<a href="#">Brazil: Initiation and termination of antidumping investigation on imports of other float glass and surface ground and polished glass from China and Mexico</a>	14-Jul-10
<a href="#">Brazil: Suspension of antidumping duties applied on imports of barium carbonate from China</a>	30-Jun-10
<a href="#">Brazil: Antidumping investigation on imports of ferrite magnets from China</a>	26-May-10
<a href="#">Brazil: new credit line for exports of consumer goods</a>	30-Apr-10
<a href="#">Brazil: ad-valorem tariff increase for steel plates (NCM code 7214.20.00)</a>	6-Jun-09
<a href="#">Brazil: temporary tariff increase on some textiles and textile articles products</a>	1-Jan-10
<a href="#">Brazil: temporary tariff increase on some articles of leather</a>	1-Jan-10
<a href="#">Brazil: tariff increase from 2% to 14% on industrial fatty alcohols</a>	31-Aug-09
<a href="#">Brazil: tariff increase on refractory bricks, valves for oleohydraulic or pneumatic transmissions and parts of the electric appliances</a>	1-Oct-09
<a href="#">Brazil: Final antidumping duty on synthetic fiber blankets from China</a>	29-Apr-10
<a href="#">Brazil: Ad-valorem tariff increase for selected products</a>	5-Jun-09
<a href="#">Brazil: Tariff increase on copper foil imports.</a>	26-Mar-09
<a href="#">Brazil: Extension of the Brazilian Drawback System</a>	28-Jul-10

<a href="#">Brazil: Definitive antidumping duties on imports of tires from China</a>	9-Sep-09
<a href="#">Brazil: Definitive antidumping duties on imports of shoes originating in China</a>	9-Sep-09
<a href="#">Brazil: Definitive antidumping duties on imports of syringes from China</a>	18-Sep-09
<a href="#">Brazil: Reduction in payroll taxes for exporters of IT services</a>	21-Aug-09
<a href="#">Brazil: Public financing for the production of goods for exports by small and medium companies (pre-shipment phase)</a>	26-Aug-09
<a href="#">Brazil: Initiation of antidumping investigation on imports of ball point pens from China</a>	29-Apr-10
<a href="#">Brazil: Automatic import licensing for selected products</a>	26-Jan-09
<a href="#">Brazil: Interest rate reduction on public financing for the export of capital goods</a>	16-Jun-09
<a href="#">Brazil: Temporary import tariff reduction for paper products and flanges</a>	30-Aug-11
<a href="#">Brazil: Temporary import tariff reduction for titanium oxides</a>	21-Jun-11
<a href="#">Brazil: Temporary tariff reduction on certain telecommunications, IT, and capital goods.</a>	13-Feb-12
<a href="#">Brazil: Temporary tariff reduction on certain telecommunications, IT, and capital goods.</a>	10-Aug-11
<a href="#">Brazil: Temporary tariff reduction on certain telecommunications, IT, and capital goods.</a>	6-May-11
<a href="#">Brazil: Temporary tariff reduction on certain telecommunications, IT, and capital goods.</a>	23-May-11
<a href="#">Brazil: Temporary tariff reduction on certain capital and integrated systems goods.</a>	24-Feb-11
<a href="#">Brazil: Temporary tariff reduction on certain telecom, IT, and integrated systems goods.</a>	24-Feb-11
<a href="#">Brazil: temporary tariff reduction for flat-rolled products of iron/non-alloy steel, of a width of 600mm/more, clad/plated/coated</a>	28-Dec-10
<a href="#">Brazil: temporary tariff reduction for products of the tariff lines 3206.11.19, 8535.21.00 and 8547.10.00</a>	28-Dec-10
<a href="#">Brazil: Temporary import tariff reduction on 542 capital goods</a>	15-Dec-10
<a href="#">Brazil: Temporary import tariff reduction on 23 IT equipment</a>	15-Dec-10
<a href="#">Brazil: Temporary import tariff reduction for other parts suitable for use with the transmission apparatus for radio-broadcasting or television, and monitors or projectors</a>	9-Dec-10
<a href="#">Brazil: Temporary tariff reduction for 161 capital goods</a>	4-Nov-10

<a href="#">Brazil: Temporary import tariff reduction for television receivers</a>	4-Nov-10
<a href="#">Brazil: Temporary import tariff reduction on capital goods</a>	20-Oct-10
<a href="#">Brazil: Temporary import tariff reduction on IT equipment</a>	20-Oct-10
<a href="#">Brazil: Temporary import tariff reduction for some auto parts</a>	16-Sep-10
<a href="#">Brazil: Tariff reduction for capital goods</a>	3-Sep-10
<a href="#">Brazil: Temporary import tariff reduction for more IT products</a>	3-Sep-10
<a href="#">Brazil: Temporary import tariff reduction on IT equipment</a>	15-Dec-09
<a href="#">Brazil: Temporary tariff reduction for sardines, sardinella, brisling or sprats and for terephthalic acid and its salts</a>	25-Jun-10
<a href="#">Brazil: tariff reduction for cellulose ethers and refined copper foil</a>	25-Jun-10
<a href="#">Brazil: Temporary import tariff reduction for enumerated IT products</a>	5-Aug-10
<a href="#">Brazil: Temporary tariff reduction on selected IT products</a>	26-May-10
<a href="#">Brazil: Temporary reduction of import duties on enumerated capital goods</a>	26-May-10
<a href="#">Brazil: Temporary import tariff reduction on various capital goods</a>	24-Jun-10
<a href="#">Brazil: Temporary import tariff reduction on selected IT equipment</a>	24-Jun-10
<a href="#">Brazil: Temporary reduction of import tariffs on IT equipment</a>	30-Apr-10
<a href="#">Brazil: Temporary import tariff reduction on enumerated capital goods</a>	4-Feb-10
<a href="#">Brazil: Temporary elimination of import tariff on specialized video equipment</a>	4-Feb-10
<a href="#">Brazil: tariff reduction on a range of capital goods</a>	6-Aug-10
<a href="#">Brazil: temporary tariff reduction on certain volumes from 12% to 2% for flat-rolled products of iron</a>	29-Jul-10
<a href="#">Brazil: tariff reduction for certain volumes of fluorides of aluminium, 6-Hexanelactam (epsilon-caprolactam) and aluminium casks, drums, cans, boxes</a>	2-Jun-10
<a href="#">Brazil: temporary tariff reduction on certain volumes for palm kernel other than crude, refined copper foil and other electrodes of carbon</a>	29-Apr-10
<a href="#">Brazil: tariff reduction for the vaccine against influenza H1N1</a>	1-Jun-10
<a href="#">Brazil: additional tariff reduction for capital goods and computing machinery and telecommunication equipment and apparatus</a>	26-Mar-10

<a href="#">Brazil: tariff reduction for capital goods (machinery and equipment), computing machinery and telecommunication equipment and apparatus</a>	16-Dec-09
<a href="#">Brazil: tariff reduction from 30% to 20% for D-glucitol (sorbitol)</a>	31-Aug-09
<a href="#">Brazil: tariff reduction for preparations of a kind used in animal feeding other than dog and cat and steroidal hormones</a>	1-Oct-09
<a href="#">Brazil: Extension of tariff reduction from 12% to 0% for terephthalic acid</a>	11-Feb-11
<a href="#">Brazil: Average tariff reduction of 12 percentage points for selected products</a>	26-Mar-09
<a href="#">Brazil: Elimination of import tariffs on certain contraceptives</a>	18-Jun-09
<a href="#">Brazil: Amnesty for foreigners with irregular immigration status</a>	2-Jul-09

### Appendix B:

China Trade Measures Against Brazil	
Measure Name	Inception Date
<a href="#">APEC Members: Reduced tariffs on environmental goods</a>	11-Sep-12
<a href="#">China: Cancellation of export licensing administration on silk worm cocoon, and certain silk products</a>	3-May-12
<a href="#">China: Elimination or reduction of export taxes on certain products</a>	1-Jul-09
<a href="#">China: Adjusted import tariff and import value-added taxation on key technological units</a>	1-Jan-10
<a href="#">China: Import tariff quota on sugar for 2012</a>	1-Jan-12
<a href="#">China: VAT rebates for more than 2600 products</a>	3-Jan-09
<a href="#">China: VAT rebate of 15 percent for textile products</a>	1-Feb-09
<a href="#">China: Increased VAT rebates for 553 products</a>	1-Jan-09
<a href="#">China: Import tariff reduction for 33 products</a>	1-Jul-11
<a href="#">China: Temporary duty free import of designated high-tech products</a>	5-Jul-11
<a href="#">China: Export quota on non-ferrous metals for 2011</a>	8-Jul-11
<a href="#">China: Export quota on coke (fuel) for 2011</a>	8-Jul-11
<a href="#">China: Decrease of certain import tariffs</a>	1-Jan-11
<a href="#">China: Reduction of import tariffs on 33 commodities</a>	1-Jul-11
<a href="#">China: Export restriction on Diesel</a>	13-May-11
<a href="#">China: Export tariff increase for fertilizers</a>	1-Dec-10
<a href="#">China: Export tax adjustments for 2011</a>	1-Jan-11

<a href="#">China: Reduction of import tariffs on strawberries, beverages and fibres</a>	1-Jan-10
<a href="#">China: Removal of local content requirement on wind turbines</a>	29-Oct-09
<a href="#">China: Modification of tariff schedule for foreign trade (Tariff Execution Plan 2010)</a>	4-May-10
<a href="#">China: Fertiliser off-peak export tax cut from 10% to 7%</a>	1-Jan-10
<a href="#">China: Elimination of export duties on certain mineral and iron or steel products</a>	1-Jan-10
<a href="#">China: Adjustment of import tariffs policy on key technical equipments</a>	1-Sep-09
<a href="#">China: Restructuring of equipment manufacturing industry</a>	12-May-09
<a href="#">China: Revisions to export tariffs</a>	19-Jun-09
<a href="#">China: Implementation of State Council Opinions on imported goods</a>	26-May-09
<a href="#">China: Increased VAT rebates for exports</a>	7-Jul-09