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MARIANA LIMA ROBSON

Dissertação submetida como requisito parcial para obtenção do grau de

Mestre em Estudos Internacionais

Orientador(a):
Doutor Álvaro Rosa, Professor, ISCTE

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I thank God who brought me life and for whom I gave my life;

I thank my parents Rôlmerson (in Memorian) and Francidete for all their love, their great support on my choice to study abroad and their high investment in my education;

I thank my school teachers and my universities professors for all the transmitted knowledge.

I thank my Tutor Álvaro Rosa for all his precious time and wise advice;

I thank my siblings Rolze, Rôlmerson Filho and Rolzana, that have always been there for me.

ABSTRACT

To show how China can be a greater partner in trade relations with Brazil, this paper will encourage business owners to discover this fast-growing middle-class market and increase their income profit when selling their products to China. The first part will explore all the advantages of the Chinese market which is growing a very powerful middle-class. The new middle class is up to consume from the very basic export goods such as cereals and meat to the most luxury branded products. Those luxury products can be either imported or produced in Chinese territory. There will be shown the importance of Chinese entrance in WTO and with an analysis PESTEL (made by Brazilian perspective) for this market, key points will be reviewed. The main objective of this paper is to list reasons why China is the best Market to do to business with at this moment. It focuses on Brazil-China trade relations possibilities through the study of two cases of success: Sino-Canadian and Sino-German trade relations. To conclude, steps Brazil should take to conquer this market will be listed.

Keywords: China-Brazil trade; China in WTO; Chinese Middle class and Growing Chinese Market

RESUMO

Para mostrar como a China pode ser um parceiro ainda maior nas relações comerciais com o Brasil, este artigo irá encorajar os proprietários de empresas a descobrir esse mercado de classe média de rápido crescimento e a aumentar seu lucro ao vender seus produtos para a China. A primeira parte explorará todas as vantagens do mercado chinês, que desenvolve uma classe média muito poderosa. A nova classe média compra desde produtos de exportação muito básicos, como cereais e carne até os produtos mais luxuosos. Esses produtos de luxo podem ser importados ou produzidos em território chinês. Será mostrada a importância da entrada chinesa na OMC e com uma análise PESTEL (feita pela perspetiva brasileira) para este mercado, pontos-chave serão analisados. O principal objetivo deste artigo é listar os motivos pelos quais a China é o melhor mercado para fazer negócios nesse momento. Concentra-se nas possibilidades de relações comerciais Brasil-China através do estudo de dois casos de sucesso: relações comerciais sino-canadenses e sino-alemãs. Para concluir, passos que o Brasil deve seguir para conquistar este mercado, serão listados.

Palavras-chave: comércio China-Brasil; China na OMC; Classe média chinesa e crescente mercado chinês

TABLE OF CONTENTS

1. INTRODUCTION

The entire world has seen the rise of China and the exponential growth of their economy. A so-called socialist government turning close to the most powerful nation in the world as fast as no other nation could count on. China has increased their GDP by 200% approximately[1] over the past ten years and their population has come out of the extreme hunger. Chinese people have mostly migrated from the rural sites to the big cities. The government has been investing intensively on their citizens education and their population well-being. China has developed a strategic plan to become the low-cost industry of the world. Their main objective was to further to be a wealthy country in a fast-paced development.

What the western world was not aware of is that, even though China is producing for all over the world consumption, the mindset of its governors is to bring the well-being for their own society. After all, China is getting richer and richer year by year. The Chinese middle class now represents 10% of its population. The statistics point out that by 2030 the middle class will represent 30% of its population, which in numbers represents more than 400 million people[2]. A key point to highlight is that this fast-growing middle class has the power to consume and they as well are aiming to buy western products.

The main objective of this study is to enhance the vision Brazilian entrepreneurs and business owners have of the Chinese Market and contribute to their knowledge and perception that China is a great opportunity to export goods. Following the growing need Chinese are showing to consume goods, many that China cannot produce, for instance due to their lack of fertile soil, Brazil shall not lose this opportunity and should become even a greater commercial trade partner with China.

This paper is divided in two parts. The first part consists in an analysis of the China's entrance in the WTO, its consequences and advantages for Brazil when becoming a greater exporter to China. The second part will explore which tools should Brazil use to enter China's market and there will be conducted a PESTEL analysis for a more thorough look at this point. To conclude, there is going to be outlined a strategy for Brazil to reach Chinese market with their products for exportation.

[1] According to Trading Economics website (https://tradingeconomics.com/china/gdp) accessed on September 11th, 2017;
[2] Information available online at Mckinsey research results on the website: http://www.mckinsey.com/industries/retail/our-insights/mapping-chinas-middle-class) accessed on September 11th,2017;

The first part of this work, is showing the advantages since China entered the WTO (World Trade Organization) and why it has been a seducing invitation for new investors to the Asian tiger which is being profiting from this entrance, so far. This paper focuses on listing the possibilities and advantages for Brazil to enter this risen market through exportations of Chinese market needs and future needs[3]. There will be listed the Chinese trends of importation by the Chinese needs and as well by their willingness of consuming western luxury products - goods the new middle class needs to consume and as so, goods they do want to consume.

The second part of this work will include a PESTEL analysis that will be carried out especially through Brazilian eyes. The PESTEL analysis is keen to understand the Chinese market in different major areas. It is keen to show how it is possible and profitable for Brazilian entrepreneurs to enter the Chinese market and reach its middle class with a bigger variety of Brazilian exported goods. The PESTEL analysis will contribute to understand the reason why Brazil is not being well inserted on the Chinese market and it will be discussed on the following chapter. Based on two case studies about doing business with China, namely the Sino-Canadian, "*Canadian Companies Doing Business in China: Key Success Factors*" conducted in 1999 by Neil Abramson and Janet Ai[4]; the Sino-German study "*Doing Business in China: The modern German Experience*" conducted in 2002 by Martin Francis Parnell[5] and an interview with a big entrepreneur doing business with China Henry Uliano Quaresma[6], Keys Success Factors Brazilian business executives and entrepreneurs should follow in order to be successful in their future trade deals with China, will be listed. The keys will be useful for Brazilians who are willing to reach this exploding middle class consumers in Chinese market.

[3] Future needs based on the prospects of Middle-class growth, excluding external facts that can affect the well-being of Chinese population;
[4] Dr. Neil Abramson is Professor in the Business Administration department at Simon Fraser University, Burnaby, Canada and Janet Ai is Manager Director at Growth Strategies International, Canada;
[5] Dr. Martin Francis Parnell is a Senior lecturer at the School of Management in Liverpool John Moores University, UK;
[6] CEO of Brazil Business Consulting, Director of TSL, Ex-Director da FIESC, Advisor of Associação de Exportadores do Brazil (AEB) and Advisor of Câmara de Comércio Exterior da CNC

2. LITERATURE REVIEW

The ongoing development process which China is passing through in our globalized world for the last 10 years, has brought a big economic impact on a global scale. China has built a very strategic plan to become a developed wealthy country, and so far, they have achieved several goals in different areas of their society. These goals do not relate only to economy as most people acknowledge, but also in education growth and technology development in order to become a wealthy country and to bring well-being for their society. The middle-class population account today around for 20 percent of Chinese society. In numbers, 200 million middle-class Chinese workers are living in the urban areas and got financial power to consume goods.

In reviewing existing literature on the merge of China in the world economy, literature review was divided by fours topics. The first topic relates to the entrance of China in the WTO and its consequences for China's economy when trading with the world. The second topic to be reviewed is literature on Chinese risen Middle Class. The third topic to be reviewed is about the trade relations between Brazil and China and finally the fourth topic is about literature on key success factors for doing business with China.

After 15 years of negotiation China finally joined the World Trade Organization in December 2001. The WTO framework includes the three basic principles concerning the trade administration system: uniformity, transparency and judicial reviewability[7]. In found literature, Tse has pointed out, that the party will continue to determine the pace at which it frees the economy from controls. Companies that wish to do business in China must understand the government's priorities and modify their strategies accordingly.

> For those who wish to do business in China, they should understand that the political party has a strong influence on the Chinese economy and they must structure their strategy considering that the government has retained ownership of key companies in the communications, energy, finance, resources, and media sectors, and contrary to foreign investors' hopes, it has no intention of letting go of them soon. (Tse, 2010)

Rodrik (2010) states that WTO membership made it difficult, if not impossible, for China to promote its industries with the type of explicit industrial policies that the country had been relying on. Prior to the late 1990s. China's manufacturing industries were promoted by a wide variety of inducements, including high tariff barriers, investment incentives, export subsidies, and domestic content requirements on foreign firms. As a condition of

[7] World Trade Organization, 2002;

membership, China had to phaseout these policies. From levels that were among the highest in the world as late as the early 1990s, China's import tariffs fell to single-digit levels by the end of the decade. Local content requirements and export subsidies were eliminated. Currency undervaluation, or protection through the exchange rate, became the *de facto* substitute. As Justin (2016) affirms,

> China followed public-sector-led development strategies prior to its liberalization and institution of market-oriented economic reforms. Thereafter, China implemented the liberalization of its economy, which appears to have helped it to attract foreign direct investment, strengthening its economy to a great extent. China welcomed Foreign Direct Investment (FDI) and private investment during the last two decades, which, in turn, facilitated success in the exports and manufacturing sectors.

Dilip K. Das (2008), points out the higher demand from China to import goods consequently from the WTO entrance and how other countries may benefit from this higher demand as a chance to enter Chinese market. China has been liberalizing its domestic markets and emerged a large buoyant importer as well. Increase in China's domestic demand has benefited those economies that were exporters to the large Chinese market. Leavy (2015) affirms that there is a big chance to grow inside the Chinese market and Pereira and Neves pointed out that China's remarkable economic success rests on a foundation of political reform providing a considerable degree of credible commitment to markets.

For Berdell and Hong Dong (2011), the growth of imports and exports should be contributing to the past, present and future of Chinese long-term growth will remain very much an open subject, but one dimension that certainly deserves attention is the extent to which imported intermediate goods have increased the productivity of Chinese industry. Enderle (2010) pointed out that,

> Looking at the motivations for wealth creation, we can suspect various combinations of self- and other -regarding motivations in both periods. There cognition of the legitimacy of self-regarding motivations was a major cause for the success full take-off of the reform, not least due to the ban of self-interest in the pre-reform era. However, it also seems fair to assume that motivations such as moving the country forward and serving the entire nation played a significant role. (Enderle, 2010)

For Agarwal and Wu (2004), China's membership of the WTO is of great significance, not only to the world economy but also to international business. Following China's entry to the WTO, foreign companies profit substantially from trade and investment liberalization in China. Thus, the emergence of a huge, growing Chinese market is attracting the attention of global marketers since then.

After China's entry in the WTO, foreign firms could distribute their own products in China, and to own and manage distribution networks, wholesaling outlets, or warehouses. Because of the WTO framework, foreign investors were permitted to invest in China's advertising industry via equity joint ventures [8]

On literature found about the risen Middle-Class, Stalk and Michael (2009) affirm that China's cities are growing so quickly that the country now has more urban centers than most Western nations do. For instance, China has about 90 cities with a middle-class population of 250,000 or more; the U.S. and Canada together have fewer than 70. According to projections, by 2020 China will have 400 cities with at least 250,000 middle-class inhabitants—and 50 of those cities will have more than 1 million middle-class inhabitants.

> According to Barton, Chen and Jin (2013), China's new middle class also divides into different generations, the most striking of which we call Generation 2. It comprised nearly 200 million consumers in 2012 and accounted for 15 percent of urban consumption. In ten years' time, their share of urban consumer demand should more than double, to 35 percent. By then, consumers will be almost three times as numerous as the baby boomer population that has been shaping US consumption for years.

Lee (2014) analyses the current china's consumer behavior as Chinese buying power has risen, the relationship between consumers and brands has become increasingly important. In general, Chinese consumer behavior is characterized by a strong tendency to buy branded products. Although interested in buying branded gear, this is often tempered by price considerations. Compared with more developed markets, brands in China cannot charge high price premiums without running the risk of consumers switching brands. Brand loyalty only goes so far in China.

According to Barton; Chen and Jin (2002) 40 percent of China's relatively small urban middle class lived in the four Tier-one cities: Beijing, Shanghai, Guangzhou, and Shenzhen. By 2022, the share of those megacities will probably fall to about 16 percent. They will not be shrinking, of course; rather, middle-class growth rates will be far greater in the smaller cities of the north and west. Many are classified as tier-three cities whose share of

[8] World Trade Organization 2001;

China's upper-middle-class households should reach more than 30 percent by 2022, up from 15 percent in 2002.

> Affluent urban dwellers already own a fair amount of what they want: Televisions and mobile phones are ubiquitous. Accordingly, opportunities in this market spring more from upgrades than from first-time product sales. The product-marketing game in the affluent world is now about brand share. Though marketers will still use the first time-sale approach in rural areas, many affluent city dwellers will now be drawing on their direct experiences and will be persuaded not only by company-managed communications but, more powerfully, by word of mouth. (McEwen, Fang, Zhang and Burkholder, 2009)

According to Reeves and He (2015), the 13th Five-Year Plan[9] will likely accelerate the pace of change. The dynamic which observed on a global level an acceleration of competitive turn over and a decline in the longevity of corporations, will be fully replicated in China too. He states that he time to act is now.

Farrel, Gersch and Stephenson (2006) on McKinsey research, concluded that over the next 20 years more people will migrate to China's cities for higher paying jobs. These working consumers, once the country's poorest, will steadily climb the income ladder, creating a new and massive middle class. They also affirm that tomorrow's middle-class consumers are today's urban workers - dispersed across many cities and still relatively poor. As income rise, spending patterns change. Families tend to buy more discretionary and small luxury items, and the share of the household budget that goes toward food, clothing, and other necessities shrinks.

When researching about trade relations between Brazil and China, Pereira and Neves (2011) affirm that Although China and Brazil have shown considerable degrees of coordination on multilateral negotiations such as the Doha Round of the WTO, trade relations between the two countries point to a more multifaceted arrangement.

> Clearly, there are those who underscore the win-win situation of the bilateral exchange, with both countries capitalizing on their areas of comparative advantage. But, as the exchange becomes more asymmetrical (in China's favor), it is reasonable to consider whether Brazilian

[9] The period covered by the 13th Five-Year Plan will be decisive for finishing building a moderately prosperous society in all respects. We must implement the strategic plans and policies of the CPC Central Committee, achieve an accurate understanding of profound changes in domestic and international environments and circumstances faced by China in its development efforts, proactively adapt to, understand, and guide the new normal in economic development, and comprehensively advance innovative, coordinated, green, open, and shared development so as to ensure that a moderately prosperous society is established in all respects. (Available online at http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf)

officials will alter their stance toward China, to attend to rising domestic distributive conflicts between winners and losers in that relationship. (Pereira and Neves, 2011)

Melo and Amaral Filho (2015) conclude that, China's emergence on the world stage and its interaction with Brazil have had two major results. On one hand, Brazil is a massing powerful forces because of its comparative advantage in primary goods. On the other hand, it has not had a model of industrial development capable of advancing the positive legacies of the old import-substitution model, which was exhausted with the crisis of its external financing in 1982. Thus, it is imperative for Brazil to secure the positive results achieved so far through exports but at the same time take advantage of them to boost national industry and the creative services, aiming at a long-term, sustained competitiveness.

They also affirmed that from the Brazilian point of view, this transition had positive effects: the export of primary products to the Chinese market led to a jump in revenue. At the same time, Brazil faced certain threats related to its imports of Chinese manufactures, which rapidly evolved, shifting from low-technology products to products with medium and high technological content. Zhanga, Zhouc, Witteloostuijnc and Ebbersa (2013) emphasizes the following three conclusions based on their findings.

> First, whilst price is relevant for access to China's market, quality and variety are important instruments in gaining a market share. Second, whilst national final expenditure is significant to import demand, private consumption expenditure is more so than other categories. From a perspective of growth, private consumption has the highest elasticity, followed by government consumption, investment and net export, in that order. Third, the nature of competition is different across industries, whereby the effect of price-related and income-related factors on the import demands is also different from industry to industry. (Zhanga, Zhouc, Witteloostuijnc and Ebbersa, 2013)

Found literature on how to be successful in China affirms that guanxi[10] is the most important Key. Helms 1999, affirms that the Chinese take personal relationships very

[10] Fundamentally guanxi is about building a network of mutually beneficial relationships which can be used for personal and business purposes. In this sense, guanxi is not so much different than the importance of having a strong network when doing business in any country. However, in China, guanxi plays a far more significant role than it does in the West. While in the other parts of the world, you may be able broker a deal just through formal business meetings; in China it is necessary to spend time getting to know your Chinese counterparts outside the boardroom during tea sessions and dinner banquets. In addition to the time commitment, the depth of relationships developed through guanxi can be much deeper than business relationships in the west. For example, it is not uncommon for people who have strong guanxi to lend money to one another or to form a group to pursue business

seriously. For example, the traditional firms can be considered both small society and a big family: father and son often work in the same department; a person's mother-in-law may share an office with his or her mother, and a husband and wife may work in one group.

According to Jin, Yu and Hye Kang (2013), due to the strong social identification within-group members, collectivists usually do not trust new comers as they are out-group members. Therefore, establishing and maintaining, generally translated as "connections" or "relations," is extremely critical to becoming in-group members.

Yang (2002), states that are many important societal factors which will have an impact on the success of an international joint venture in China. For example, building a good relationship with related government agencies sometimes may be a key in solving a critical production and operational problem. Fully understanding the structure of governmental chain of command and the exact functions of different agencies might help firms obtain valuable information and a good business deal. Active participation in public activities and assistance to local education and economic development projects would enhance the development of a company's business reputation and good public image – which, in turn, could bring more long-term business opportunities.

Yang (2002) also listed key success factors for doing business with China:

- The stability of government, political structure, and governmental policies have been viewed by international corporations as essential preconditions for their future investments in China;
- The market potential with expected growth rate in a foreseeable future has been ranked as the second most important factor for future investment in China;
- The appropriateness of transferred technology and techniques in relations to their loyal Chinese partner's need, technological base, financial affordability, skill levels of engineers and workers will play a key role in the success of an international joint venture in China;
- Understanding the local culture and traditions has been well addressed in the international business literature for international corporations operating their global operations – especially in developing countries;

opportunities together. Resource: Goh and Sullivan, China Business US-Pacific Rim International, Inc.

- A comprehensive technical support network with sufficient employee training and a strong corporation culture will also make a significant contribution to the success of an international joint venture in China;
- China's government policy favors an international corporation whose investments is in the direction of national industry development (like in most developing countries);
- The ability to attract high quality local professionals and highly-skilled laborers is certainly another key success factor for an international joint venture business, especially for high-tech industries;
- Finally, for an international corporation to successfully operate as a joint venture in a developing country (like China), increasing the proportion of parts/components provided locally by localizing a company's parts/components supplier network is a stronger key factor.

3. CHINESE ENTRANCE IN THE WTO

China's entrance in WTO back in December 2001 was surely a big step ahead for Chinese further exponential growth. From that moment on the world was opened to trade with China, enter their market easily and buy their products. President *HU Jintao* once said:

> China's accession to the WTO is a milestone in China's reform and opening up, bringing us into a new era to further open up. To join the WTO was a major strategic decision based on our comprehensive analysis of the situation at home and abroad to push forward China's reform and opening-up and socialist modernization drive.[11]

Chinese governors understood the importance to be opened for trade even if internally they built a communist mindset. To be a closed country could never be advantageous for China as they have a need to import commodities to empower their own economy. According to Tse, despite recent controversy over the Communist Party of China's attitude towards foreign companies, economic liberalization will continue. Growth generates legitimacy for China's government and guarantees social stability. (Tse, 2010)

The WTO entrance represented the open-doors of China to the world. There was no more barrier to import products from China and as well to export. The result has been seen so far as a great development on Chinese economy and slowly growth of their wealth. Brazil is one of the countries which has increased exponentially trade with China. China is the biggest trade partner of Brazil and Chinese government continues to invest in order to strengthen Sino-Brazilian relations. Due to the post-WTO accession liberalization of China's trade regime, several developing and industrial economies can reasonably expect to export higher Volumes to China, albeit there will be no uniformity across exporting countries in this regard. (Dilip K Das, 2008)

Dilip K Das (2008), has also affirmed that China's buoyant demand for many tropical and sub-tropical products, like palm oil, coconut oil, rubber, banana and sugar, has increased considerably during the recent years. Brazil is indeed the world bigger exporter of sugar and coffee worldwide. Even though China is not importing coffee from Brazil (especially because Brazilian coffee reaches other destinations) the production of soybean has exponentially increased and together with Iron are currently the greatest exports from Brazil to China.

[11] Chinese President HU Jintao

To adapt to the WTO entrance requirements, Chinese government had to act and plan a reform in many areas of the trade process. This reform reflects a special type of institutionalized decentralization called “federalism, Chinese style” Dilip K Das (2008). President HU Jintao affirmed back in 2002 that China would adopt a more proactive opening-up strategy by exploring new areas, improving internal system, enhancing the quality of the economy, forming a new pattern of development and promoting development, reform and innovation.[12] The action plan is flowing as planned and China has achieved many different goals that were settled by that time.

Indeed, because of Chinese entrance in the WTO, China has become more developed and richer. A country where the mindset remains socialist, China has been using the revenues from its exponential trade growth to invest in different areas of their society. The main investments are in innovation and education. China has increased the proportion of its college-age population in higher education to over 20 percent now from 1.4 percent in 1978. At the same time, China is stimulating their students through international agreements and scholarships to go abroad to study.

About technology and innovation, it is clear to see that China is gradually changing the type of export goods they intend to produce and export in the near future. Since 2016, Brazil is already importing cars from China created and produced under the brand *Chery*. So far it has been well received and it is a good option for those who want to buy a new and less expensive car in Brazil. The Brazilian market for cars is a big opportunity to increase China revenues especially because China can offer very low prices, much under the average prices for cars in Brazilian market.

For portable computers, Lenovo is finding space in Brazilian market as well. The Chinese brand is combining technology and lower prices as well to gain the trust of the buyers. As China has become more and more developed, their economy is turning to a production of high technological and high valued products. China is showing their capacity to innovate and grow through the slightly change of their exportations. Very soon the world will no longer be able to import from China the basic inexpensive production, especially because as the middle class keeps growing, China once will sell their products for their own market.

[12] President HU Jintao

4. CHINESE RISEN MIDDLE-CLASS

China's economic opening promoted a set of transformations that restructured the mold of its society. Far from the ideal planner of Mao Tse-Tung, China today has an immense middle class. Varying in a population that revolves around 100 to 150 million individuals, this middle class shares common consumption achievements such as cars, houses, tourism and technological goods as well as branded goods.

The creation of such a large socioeconomic class has created a great clash of generations and weakened the subservient culture of Chinese society. The members of this new middle-class can note the contradictions of their political regime. The adult generation that lived the time of these transformations still cannot integrate faithfully to the movement of the changes. It has been seen a growing Western of the children's' given names, the access to books with previously national prohibited themes and eating disorder among youngsters. China lays the groundwork for a social context disconnected from its lack of freedom and political participation.

As China's economy continues to grow, more people will migrate to China's booming metropolises to find better-paying jobs. These working consumers, once among the country's poorest, will steadily climb the income ladder and join the new middle class. Companies that can effectively understand the composition and needs of this diverse group will be positioned to reap massive rewards.

Though many foreign companies have remarked on the importance of China's middle class a consumer segment, few realize just how dramatic its ascendance is. From 1995 to 2005, the population of China's middle class—defined here as households with annual incomes ranging from $6,000 to $25,000—grew from close to zero in 1995 to an estimated 87 million in 2005, according to MasterCard Worldwide, Asia Pacific. China's middle class presents marketing opportunities that companies cannot afford to miss.

Continued rapid growth in the size and diversity of China's middle-class will create new market opportunities for both domestic and international companies. Yet strategies that succeeded in the past, given the wide distribution of standardized products for mass consumers, must be adjusted in a unique environment with millions of Chinese trading up and becoming pickier in their tastes. A detailed understanding of what consumers are doing, how their preferences are evolving, and the underlying reasons for their behavior will be needed. (Barton, Chen and Jin, 2013)

Of all the challenges that the middle class represents for those who want to enter the Chinese market, understanding the specific needs and purchasing power of the group is of high importance. Recognizing differences in behavior within middle class segments is essential to success in the Chinese marketplace.

For investors and entrepreneurs interested in doing business with China, it is essential to know how the middle class is divided, the percentage of low-powered and high-powered middle-class and their willingness to buy luxury branded products. They must be consider is their willingness to pay more for the expensive branded products, their faithfulness to these brands as well, their consumption power.

China's relatively new middle class consists of a rapidly shifting, diverse population. Companies must prepare for the different shopping behaviors of each sub-segment within the middle class. According to Mckinsey 2006, Lower middle-class shoppers, for example, tend to buy top-tier products that can display their wealth and status. These middle-class consumers sometimes spend a generous portion of their income on expensive goods. By contrast, upper middle-class shoppers, who are more experienced with diverse types of brands, will seek out relatively high-quality products without paying as much attention to brands or will pick out products that merely reflect personal tastes.

There is no denying the enormous benefit that companies can gain from a better understanding of China's emerging middle class. Marketing effectively to any group of middle class consumers requires an understanding of the needs of specific segments and the recognition of which segments provide the greatest potential profitability for a product. Especially because as the middle-class is divided, it is important to understand which percentage of the middle-class is willing to consume and which brands and goods they tend to buy.

Rising consumer sophistication McKinsey research suggests that by 2020, the income of more than half of China's urban households, calculated on a purchasing power-parity basis, will catapult them into the upper middle class— a category that barely existed in China in 2000. The members of this group already demand innovative products that require engineering and manufacturing capabilities many local producers do not yet adequately possess. China's automakers face a similar challenge: consumers perceive their brands as lower in quality, even compared with foreign brands assembled in nearby Chinese factories.

The brands, already relevant for China's new upper middle class, will become even more important as the middle-class grows. The new upper-middle-class is craving for consuming branded products. A few forward-looking companies are responding with dual strategies: a mass-market business designed for volume alongside an upper middle-class one for profits. In practical terms, such a strategy often plays out along geographic lines: large regions divided into smaller clusters, each, perhaps, with its own product portfolio, pricing, marketing approach, and execution plan. The companies must be ready to respond to this big demand that will very soon come up.

5. STUDY OF CASES

Two case studies were chosen to build the Keys Success Factors for Brazilian entrepreneurs to Entering Chinese Market. Both Germany and Canada have very strengthened relations with China, based on challenging work to understand the best ways to do business in China and doing business with the Chinese. The Sino-Canadian study dates 1999 year. Even before Chinese entrance in the WTO, when it was much more difficult to enter the Chinese Market for foreign investors, Canada already had the vision of what potentially China would become on the following years. The Sino-German case study dates 2002 and shows the keys of success that German investors used to be successful in China. Based on these two studies, it will be possible to list a guideline for Brazilian investors to get profit as well from the Chinese blowing market.

Both Canada and Germany are great exporters to China and both countries expect to grow their exports to China in the following years. USA is no longer Canada biggest trade partner, nor is France the biggest trade partner of Germany. The two countries found in China their biggest trade partner and they plan to strengthen their partnership and increase exports to the Chinese market. By their successful cases it is easy for Brazil to bet their investments in the great eastern Dragon.

5.1 Sino-Canadian Case: From the Perspective of Neil Abramson and Janet Ai (1999)

The Sino-Canadian study conducted by Neil Abramson and Janet Ai was based on a quantitative multi-sector survey study of 138 Canadian companies doing business in China, with confirmatory interviews conducted in China with 30 managers of Chinese companies. Local investment, awareness of and experience with the changing Chinese business environment, guanxi relationships, and informal interactions patterns for obtaining information seemed to represent key success factors for Canadian companies in China. (Abramson and Ai, 1999)

China is Canada's third largest trading partner, with two-way bilateral trade between the countries totaling $85.9 billion in 2015. Prime Minister Justin Trudeau has indicated a desire to double trade between Canada and China before 2025, and steps have been taken to that end. In February 2017, an inaugural round of talks on a potential free trade agreement between Canada and China took place.[13]

[13] Information available at http://dawsonstrat.com/2017/06/12/the-canada-china-trade-relationship/ (accessed on 10/19/2017)

Canada has been working towards increasing trade with China over the past few years. In 2014, Canada and China signed a Foreign Investment Protection Act (FIPA), which offers both material and symbolic support for closer bilateral relations. This agreement aims to protect Canadian investors in China, as well as Chinese investors in Canada, protect against expropriation and discriminatory treatment, in addition to facilitating longer term market opportunities across a range of sectors.

The Canada-China FIPA lays the groundwork for an eventual Free Trade Agreement (FTA) between the two nations. It is suggested that such an FTA would increase Canadian exports to China by almost $7.7 billion, as well as Canadian GDP by approximately $7.8 billion (or 0.14 percent) by 2030. This would translate to the creation of 25,000 Canadian jobs across all skill levels.

According to the Case Study results, four key success were identified. The principal factor seemed to be building guanxi relationships based on shared goals/ trust and avoiding transactional relationships based on competition for positive outcomes. They conclude that Guanxi relationships existed when the Canadians and the Chinese helped each other to achieve their objectives, gave high priority to each other's goals, trusted and relied on each other, and were confident that their work relationships would result in better outcomes.

The second most important key success factor seemed to be having the experience to effectively understand and deal with the uncertainties inherent to the Chinese business environment. Experience either in China itself or in other international markets seemed to have value. Continuous awareness of, and adaptation to, the changing Chinese business environment was important regardless of one's level of experience.

The third most important key success factor seemed to be informal coordinating of interaction patterns with the relevant of Chinese so that information was shared easily and informally as needed. Using group/informal processes for coordinating interaction between Canadians and Chinese, by contrast, was negatively related to sales performance.

The fourth most important key success factor was local investment in China through value chain activity transfer. Transferring value chain activities may have produced additional costumer value by adapting products to local Chinese conditions.

5.2 Sino-German Case: From the Perspective of Martin Francis Parnell (2002)

The Sino-German study case was conducted in 2002 by Martin Francis Parnell, Senior lecturer at the School of Management in Liverpool John Moores University, UK. The Case examined German trade and investment structures in relation to China and official surveys of German business opinion which described very positive frame of mind by German businessmen regarding their business activity in China. (Parnell, 2002)

With bilateral trade worth 169.9 billion euros, China surpassed France (167.2 billion euros) and the United States (164.7 billion euros) in 2016 to become Germany's most important trading partner. German exports to China stabilized again in 2016 after experiencing a moderate decline the previous year. According to Federal Statistical Office (Destatis) figures, German exports to China increased by around 6.95 percent, to 76.1 billion euros, compared with 2015, while German imports from China in the same period grew by 2.5 percent to more than 93.8 billion euros.[14]

The transformation of China's previously export-driven economy into one geared to sustainable, innovation-driven growth and the strengthening of domestic consumption offers great opportunities for German business. In January 2014, China opened in Berlin its first European chamber of commerce with a view to further promoting economic relations and investment. In 2015, China was also the official partner country at the CeBIT technology trade fair, at which numerous Chinese companies were represented.

China is the fourth biggest buyer of German exports, after France, the United States and the United Kingdom, and the principal market for German machinery worldwide. China is the biggest buyer of German motor vehicles, after the United States and the United Kingdom. In 2016, the Volkswagen Group alone sold 3.98 million vehicles in China. In no other country are more German vehicle parts sold. In 2015, German exports of electronic goods to China amounted to 10.4 billion euros, while in the same year sales of machinery totaled 16.3 billion euros and exports of motor vehicles/land vehicles were worth 17.7 billion euros. German exports of food and semi-luxury goods to China (meat, dairy products and beverages) increased in 2015 to approximately 1.1 billion euros. China thus remains one of

[14] Information available online at http://www.auswaertiges-amt.de/EN/Aussenpolitik/Laender/Laenderinfos/01-Nodes/China_node.html (accessed on 10/19/2017)

the most important overseas markets for products of the German food and agriculture industry.[15]

According to the case-study made in 2002 by Martin Francis Parnell, the key success for Germany to enter the Chinese market were:

- An efficient distribution network;
- A strong, leading position among competitors;
- Loyal employees and
- The correct choice of location

For being successful in China, first the investor should find a strategic partner and follow the steps:

- Stablish priorities, remain patient within the large picture, but act aggressively to adapt practices to local conditions;
- Begin in a small scale, then go with market development;
- Set up a thorough "observation system" and install mechanisms to deal with uncertain situations;
- Make it a necessity to form a strong China-team at the head office with a share round of organized learning, to share round the genuine world of China-business experience;
- Have the ability to work in a complex and continually changing business world, to share objectives and to develop and maintain relationships of trust.
- Doing business in China will remain a balancing act between short-term success and survival and long-term independence – tough decisions at the front are necessary.

[15] Information available online at http://www.auswaertiges-amt.de/EN/Aussenpolitik/Laender/Laenderinfos/01-Nodes/China_node.html (accessed on 10/19/2017)

6. METHODOLOGY

With the objective to understand the actual Chinese Scenario, the first chosen Methodology of this Study was built in a gradual process which included the research of all kind of information resources about China's history, social-economic development, politic situation and international trade-partnerships to structure the best and most reliable scenario of the China's reality in the actuality.

The first step was to collect the maximum knowledge from China history and China development since the remarked events of the economic reforms that began in late 1970s. Documentaries available online on China's history and Chinese development; official documents released by Chinese government such as the strategic plans; articles of opinion from influential figures; conferences' transcription; interviews; and so on and so forth, all to accumulate and absorb the most from China and understand it's historically process.

Following the first step, literature was collected in order to list the facts regarding all the consequences and advantages from the Chinese entrance in the WTO. There were plenty of authors listing the advantages and writing about all the doors that were finally open from China to the world and vice-versa. China was finally opened to the globalized world and we should all profit from this remarkable event.

When researching literature regarding the risen middle class, there were many scientific articles showing future numbers for Chinese middle class and as well the articles which were mostly used listing all the advantages of growing so fast the middle class in China which has power to consume goods and their willingness to consume following the western world tendencies. Regarding the future perspectives for Chinese middle class numbers, it was rather not given priority to mention and use that data as, it most be considered that external factors may influence in those future numbers and it may not apply.

The analysis of secondary sources of information, namely the Sino-Canadian and the Sino-German study cases were chosen to be used due to the difficult to find scientific paper on Successful companies from Brazil in China. Nor that they do not exist, because there are successful cases of Brazilian companies entering the Chinese Market[16], unfortunately it is not yet documented to the public. The study of the cases was used to build the Key Success Factors on the discussion of the results.

Methodology to build the contextualization scenario in Sino-Brazilian trade relations uses both scientific literature and as well, secondary resources to trace the history since 1974

[16] Namely VALE, Embraer and Embraco;

when Brazil and China stablished diplomatic relations, following the history, agreements and politic events on both countries to describe their trade-partnership encompassed in very strengthened diplomatic relations. For such collection of information, there were several sources available as *Câmara do Comércio Brasil-China* available documents, Chinese Embassy in Brazil, stated-owned websites within official information and etc.

For the PESTEL analysis, the chosen Methodology was to collect maximum resources from Brazilian authors in order to build the analysis upon Brazilian perspectives. However, there were not so many articles available that could be translated and used in the analysis, therefore, the analysis was also constructed using sources of information at an international view level.

To complete the collection of useful information, there was the attempt to conduct several interviews to Brazilian business owners that are currently doing business with China. However, there was only one response from the many attempts of contact. Henry Uliano Quaresma, CEO of Brazil Business Consulting, Director of TSL, Ex-Director da FIESC, Advisor of Associação de Exportadores do Brazil (AEB) and Advisor of Câmara de Comércio Exterior da CNC, answered to the following five questions sent by e-mail and also responded by e-mail:

1 – At an overall perspective, what are your motivations to invest and stimulate the exports from Brazil to China?

2 – Looking back to your experience, So far, do you find it easy to enter Brazilian products in the Chinese market? If not, do you believe we can manage that?

3 – I've read you have a consultancy business in Brazil to assist Brazilian entrepreneurs who want to invest in China. How has been your experience? Is it a growing interest from Brazil to China?

4 – Are Brazilians investors aware of the China's middle class boom as a big opportunity for our exportations growth?

5 - Do you believe Brazil can be prepared to change their exportation field of products to China from commodities to high value products to reach the growing market in China?

On the exportations field, Fábio Bessa, *Auditor Fiscal Federal Agropecuário, Ministério da Agricultura, Pecuária e Abastecimento*, by answering the following five questions also by email, explaining how is the exportation process of live Catlle in Itaqui Port, São Luis – MA:

1 - Could you give us a quick explanation of how to clears the process of exporting live animals in the port of São Luís?

2 – Which countries import more animals from Brazil?

3 – Does this type of export have grown in recent years?

4 – Is there any State policy for entrepreneurs in order to stimulate the growth of this exportation?

5 – Does the Brazilian animal have a higher selling value for export? Are these exported animals special care or are the same level/quality as consumed internally in Brazil?

Gathering all the information resources together, it was possible to describe the Chinese Market, its advantages for the Brazilian investors to get to know it deeply and be able to invest opening an office in China or exporting to the Chinese. It was also possible to trace fours Key Success factors that those interested business owners and Brazilian entrepreneurs should use to enter easily in the Chinese market.

7. CONTEXTUALIZATION OF THE STUDY: SINO-BRAZILIAN TRADE RELATIONS

China has emerged as an important trade partner of Brazil over the past decade. Brazil, as a great supplier of commodities to the world market, has taken the benefit of the exponential expansion in demand for these products from China as their economy grew. In 2009 China became the biggest trade-partner of Brazil, taking the place of the United States. In 2013, the countries' bilateral trade was USD 83.3 billion, an increase of 10.4% over 2012 and a growth representing almost 13 times the bilateral trade of 2003: USD 6.7 billion. China was the destination for 18% of Brazilian exports and the origin of 16% of Brazilian imports.[17]

Historically, diplomatic relations between China and Brazil officially began in 1974. José Sarney, current president by that time, visited China for the first time in 1988. The growing economic and political relationship between China and Brazil was strengthened by Brazil's former president Lula, visiting China in 2004, accompanied by 450 Brazilian business representatives. Since the group was created, China and Brazil became part of the BRIC, later extended to BRICS. This encouraged strong interaction and a tight connection between the two countries. It includes trade and financial integration.

The balance of trade between these two countries in 2013 was favorable to Brazil, registering a surplus of around USD 548 million to Brazil, a reduction of 18.3% when compared to 2012. But, exports to China grew over imports in 2013, amounting to USD 8.7 billion, a growth of 25% when compared to 2012.[18]

With regards to the Brazilian exports to China, the main exports to China in 2013 were basic products, namely soybean - which amounted to USD 17.1 billion - 37% of exports, iron ore - reaching almost USD 16 billion - 35% - and crude petroleum oils - USD 4 billion - 9%. Basic products amounted for almost 85% of the total value of exports to China. Brazil also exports semi-manufactured goods - goods which are already industrialized, but will be industrialized in a new process - which added up to almost 12% of the total value of exports. Manufactured products added up to 3%. The total value of exports to China in 2013 was USD 46 billion, representing 19% of exports.

Soybean was the principal catalyst for the increase in value of exportations from Brazil to China: 42.6% from 2012 to 2013. Exports of Iron ore to China grew 6.8 from 2012 to 2013. Together they represented almost 72% of the total value of exports to China. The

[17] Information available at http://atlas.media.mit.edu/en/profile/country/bra/;
[18] Information available at http://atlas.media.mit.edu/en/profile/country/bra/;

Chinese economy has boomed and therefore China would import more commodities from Brazil back in 2013 and Brazil were still importing less expensive products from China, and were consuming made in Brazil goods.

Machinery, electronics and electrical appliances, as well as their parts, had a relevant growth in value of importations from China to Brazil - 10.8% from 2012 to 2013. Imports of mechanical appliances grew 2.5% and imports of organic chemicals had a growth of 21.6% in value from 2012 to 2013. Together, they represented 56.8% of all imports from China.

Pereira and Neves (2011) affirm that the winners of this partnership are easy to point out on Brazil's side. Agribusiness (soybean and other crops) experienced a boost in productivity and record-levels of export. VALE (biggest company of iron and aluminum exploration in Brazilian sole) became, in the past decade, one of the largest mining companies in the world. Petrobras benefited, not only from China's demand for oil, but also from much-needed Chinese investment in the company amidst plans to explore deep-sea oil fields off the coast of Brazil. As imports from China, decreased, VALE felt a significant impact on their revenues.

In the context of strengthening the trade relationship between China and Brazil, one significant point is the agreement between Embraer (National state-owned airplanes industry) and the AVIC (Aviation Industry Corporation of China). Embraer back in 2010 opened its first assistance support overseas in Beijing to serve the Chinese market and the country became the company's second largest consumer, behind the United States. Embraer is producing private airplanes for China. This remarks one step ahead in trade relations between Brazil and China.

As economic relations between Brazil and China grew stronger, so did their diplomatic relations. Today China is Brazil's leading export destination and one of its top importers. China has also been Brazil's largest trading partner since 2009. According to the Joint Action Plan, Brazil and China will cooperate in World Trade Organization negotiations, especially in agriculture and oppose protectionism As China is one of the largest importers of basic Brazilian products such as iron ore, soybean and petroleum, China is investing in Brazil for the construction of Porto do Açu near Rio de Janeiro. Porto do Açu will handle Chinamax containerships to import and export raw materials and manufactured goods.

Other major infrastructure investment is the ongoing construction of a continental pipeline, roads and high-speed trains. In July 2014 Brazil and China signed 54 new agreements during an official visit from Chinese President Xi Jinping to Brazil. The agreements and memorandums of understanding were signed to cover areas such as technology, telecommunications, remote sensing, defense, energy and education.

In recent years, Brazil has experienced a significant slowdown of its once-strong economic growth. In 2010, Brazilian gross domestic product growth was 7.5 percent. By 2014, it had dropped to an estimated 0.1 percent. One of the key drivers of this decline has been a decrease in Brazil's exports. Brazil's 2014 trade deficit was $3.93 billion, down from a $2.5 billion surplus in 2013. It was the country's first annual trade deficit since 2000 — when it posted a deficit of $731.7 million — and its largest since 1998.

According to Amann and Barrientos (2015), the Brazilian economy weathered the 2008 global monetary crisis without a blip, but the secondary impact of the global trade shock on emerging economies, a fall in Chinese demand for commodities exports, led to a sharp falloff in growth in 2012–2015.

> Unlike export-driven countries such as Germany and China, Brazil's exports are equivalent to only around 13 percent of GDP. They are, however, still a significant driver of the national economy in terms of providing external revenue sources. Among its exports, commodities are essential. They constitute 60 percent of total exports, led by iron ore, crude petroleum and soybeans. The destinations for Brazilian exports, though, are diverse — China is the top export market at 18 percent but is closely followed by the United States at 11 percent, Argentina at 7 percent, the Netherlands at 5.4 percent and Germany at 4 percent. (Amann and Barrientos, 2015)

Brazil exports sugar, leather, meat, soy oil, paper pulp and airplanes. Its main imports from China include machinery, electrical materials, integrated circuits, chemicals, plastics and cars. Trade between Brazil and China more than doubled to $83 billion between 2009 and 2013. While Brazil’s economic performance in the past decade has made it one of the leading targets of foreign investment in the world, its success has relied heavily—even excessively—on commodity exports, mostly destined for China. Exports have grown to $256 billion, up from $118 billion in 2005, and now account for 14 percent of GDP (compared to 6 percent in the 1990s).

Mineral, agricultural and other primary products constitute more than 50 percent of Brazil’s total exports. But it was not always that way. Exports of manufactured goods were once Brazil’s cash cow, commanding a higher value than primary and semi-manufactured goods combined. But as its agriculture sector grew, Brazil became one of the world’s leading exporters of soybean, sugar, meat, coffee, tobacco, and orange juice. Over the past seven years, the value of commodity exports has quadrupled. Brazil should not rely in commodities exportation any longer. The risks of commodity dependence go beyond the possibility of lost export revenues.

Worldwide, Brazilian products win market when proven high-quality products under reasonable price. The undervaluation of *Real* (Brazilian currency) help Brazilian exporters to increase their revenue. According to Guillen, (2009) companies with overseas ambitions should attain scale quickly, gaining in-valuable experience and building stronger competitive capabilities. In a fast-paced international economy, the risks of falling behind or failing by waiting too long to break out of the home market exceed the hazards inherent in any process of globalization.

Mineral products are a noteworthy example, accounting for a generous portion of Chinese imports as well as world trade, continuing to outpace the import growth of other products. This implies that Chinese import demand for mineral products may influence the world price. On the other hand, an increase in unit value is associated with an increase in import value for products linked to quality improvement and product differentiation. More than one half of Chinese imports belongs to this category, of which machinery is by far the largest product group. Machinery has increased its share in China's total imports substantially. This market is characterized by quality competition. Therefore, identifying quality and price competition is essential in gaining a market share in China.

> China is changing (and expected to change even further) its growth pattern from investment and export-driven to consumption-driven. Note that the pattern is different for machinery and equipment. For this product group, import is more sensitive to government consumption expenditure and investment than to private consumption expenditure and net export. Despite the differences across industries, we should not under-estimate the potentials of the Chinese import market. (Zhanga, Zhouc, Witteloostuijnc and Ebbersa, 2013)

Brazil should use this opportunity of Chinese growing middle class to invest internally in their economy and stimulate the production to exportation of industrialized products to China, namely meat, can goods, tropical products and give the support to Brazilian entrepreneurs need to reach the Chinese market which is opened for import products.

8. PESTEL ANALYSIS

The PESTEL analysis is an overall analysis of Political, Economic, Social, Technologic, Environmental and Legislative scenario that affect the industry. For the Chinese market, the PESTEL will be constructed under Brazilian perspectives. Therefore, information resources from Brazil will be used in the course of the analysis. That will bring a local view of the image Brazilians have constructed about China and the Chinese market. Further, the following Brazilian perspective and thoughts will help to build the Keys-for-success when doing business with China in chapter eight.

8.1 What is the political situation of the country and how can it affect the industry?

The commercial opening was made gradually in conjunction with a complex system of tariffs, non-tariff barriers and licenses. Foreign investors also played a key role in the evolution of the industry as a source of technology. The government attracted foreign investment to create special economic zones of export, where foreign producers could operate with good infrastructure and without excessive regulation.

China has always used a range of policies to ensure that technology transfer would take place and that a strong and competitive local industry be created. The Chinese government has used a system of incentives and controls to try to promote efficiency and competitiveness. Foreign investors were forced into joint ventures with domestic companies (on cell phones and computers, for example) to gain access to domestic markets. The regional governments had autonomy and invested in the creation of industrial clusters in specific areas of the country.

China is a fine example of the complexity-building strategy pursued by Asians. With policies for growth and stimulation of local industry, the Chinese have achieved remarkable industrial and manufacturing evolution over the past 30 years. Competitive exchange and manufacturing exports to the world economy. Transfer of workers from the field to the industrial sector with wide help and interference from the government. A fast-paced industrialization, with manipulation of prices, prohibitions and distortions that directed the industry to produce for the world market.

China’s controller state has been operating for a long time and the impact on their economy is clear to see from outside the country. The struggles for power from the government has an implication in the economy at many distinct levels. As Yang (2002) affirms, the state position has a significant impact when investors should decide to invest or not in the Chinese market.

> Not surprisingly, political factors such as: the stability off government and its policies, the trend of political reform, the development of economic and legal systems, and the efficiency of governmental agencies – all will have an impact on the decisions and operations of foreign investors and their joint venture businesses. (Yang, 2002)

For global business leaders concerned with political risk, it is important to understand how far China has come since the late 1970s and how it differs politically from image of communist rule that prevailed in the West at the height of the "cold war." While the pace of

Political reform is likely to remain cautious, it has already been quite "extensive and far-reaching" in China's own terms and continues to evolve.

> The CPC has been revitalizing itself, with membership extended and broadened to include private capitalists, and intellectuals are increasingly involved in "policy-making discussions in a more open and systematic way at the highest levels." There is also "growing pressure for accountability regarding the conduct of officials" and public protests are a very common feature, particularly at local levels, with concerns about corruption, collusion between developers and local officials, environmental problems and other such issues, among the frequent targets. (Leavy, 2015)

The "Going Global" policy highlights China's strategy of building "national champions". In addition to industrializing efforts, Chinese conglomerates have been encouraged by the government to advance in their internationalization processes. (Cunha, 2011). It was part of the Chinese development plan to encourage their business owners to internationalize their companies. Joint-ventures and FDI were as well goals from the Chinese government economic plan.

> There is, however, the other side of state intervention: relations between state and economy are fluid; there is a great imbrication between the interests of the party and the management of the companies; there is a lack of institutions that guarantee respect for the law and the rights of citizens, and corruption is a recurring practice; the executive power is very strong and the judiciary power is not independent; Finally, there is a lack of a property rights structure capable of protecting investors (Guimarães, 2012)

While transplanting numerous institutions into the new law, the Chinese legislator has also made some adjustments to its economic and political environment, ensuring that the need for economic development becomes a key issue in both competition policy thinking and legal drafting. (Dan, 2012) The planned economy is becoming a market economy, the market situation and activities are immature and unstable; many uncertainties remain for macroeconomic policies and microeconomic measures. The criterion for the analysis of concentrations must consider its adaptability and the characteristics of a transitional economy.

China's competition laws should not only meet the missions of the antitrust laws of many mature jurisdictions, but also carry out the tasks of developing and improving a sound market mechanism. In the long run, there is a critical need for China's enforcement agencies to foster an independent market with less state control, to improve regulatory oversight, and to improve legal systems.

In a world of interdependence, both developed countries and China need to learn how to harmonize existing regulations and escape the local patriotic mentality. (Dan, 2012) The guidelines selected by the Chinese State Council for the formulation of an industrial policy were given in large part by the serious problems that the industrial structure of the country had at that time. Chinese industry in the late 1980s had serious obstacles to its development, such as:

(i) excess production capacity heavily disproportionate to the low development of the agricultural, energy, transport and mineral extractive sectors;

(ii) disproportion between the high development of medium-sized industry vis-a-vis the downstream of advanced industry;

(iii) irrational regional distribution of industries and under-utilization of regional comparative advantages;

(iv) low commitment and capacity for coordination and organization between companies;

(v) excessively low industrial concentration, making the industry extremely inefficient. ((Masiero and Coelho, 2014, pp. 139-157))

Based on this diagnosis, the Chinese government opted to formulate a selective industrial policy oriented towards means capable of culminating in the consolidation of industrial sectors considered strategic - such as high technology and capital-intensive industries.

This general change was not only due to its industrial policy, through the restructuring of the sectors, but also of its articulation with other policies, such as commercial, foreign exchange and technological policies, which together allowed for an extraordinary increase in the volume of exports and such as the competitive international insertion of its industry, through the supply of products with a tendency of greater value added and able to access diversified and competitive markets.

The 1990s were characterized in China by a restructuring of the country's trade pattern, by the technological increase of its exports, mainly in the machinery and equipment sector (metal-mechanics) vis-a-vis a gradual reduction of exports of low added value, resulting in greater economic and industrial dynamism, which allowed the country to win foreign markets, displacing traditional global players. (Masiero and Coelho, 2014, pp. 139-157)

8.2 What are the prevalent economic factors?

Since 1978, China began a series of economic reforms, which were based on large state subsidies, aimed at making the country a major exporter of low-cost products and seeking to attract heavy foreign investment. With these measures, the country faced significant economic growth. Because of cheap labor, hundreds of foreign companies were attracted to the country, making it a veritable exporting power.

In 1989, even with the end of the USSR, China remained with its regime closed. Basically, the economic policy adopted by the Chinese in this period was based on the support of the multinationals, who gradually changed the profile of the Chinese economy. The state was struggling to secure ample infrastructure, energy, raw materials, and cheap labor, all the multinationals wanted. What these foreign companies took to China was technology, which was essential for the modernization of the country.

With mass production, the prices of Chinese products were very cheap compared to other markets, giving the country a fantastic competitiveness in the international market. Who ever found the famous phrase "Made in China" in any product? The State sought to accelerate economic growth even further through strong investments in the construction of ports, airports, bridges, railways, etc.

China is now facing new challenges. Perhaps the most important of these is to reduce dependence on foreign trade by multinationals and to try to create a Western-like economy based on domestic consumption, innovative technology products and companies that offers services.

China’s economic growth has slowed since 2011. The Chinese Government faces numerous economic challenges including:

(a) reducing its high domestic savings rate and correspondingly low domestic household consumption;

(b) servicing its high corporate debt burdens to maintain financial stability;

(c) facilitating higher-wage job opportunities for the aspiring middle class, including rural migrants and college graduates, while maintaining competitiveness;

(d) dampening speculative investment in the real estate sector;

(e) reducing industrial overcapacity; and (f) raising productivity growth rates through the more efficient allocation of capital.[19]

First, China has increasingly become innovative and thus differs from other middle-income countries. Second, China has many successful big businesses, even more than its size predicts. Thus, China differs from other middle-income countries which have few globally competitive big businesses, although the big businesses in China are mostly non-manufacturing firms focused on areas such as finance, energy, and trading (Third, China faces great uncertainty in terms of inequality. Although several signs show that the Kuznets curve will come to represent China, as noted by the gradual reduction of surplus labor and rising wage rates starting in the coastal provinces, China is now facing new sources of inequality, such as wealth (including financial and real estate assets) and non-economic factors (including corruption) (Lee and Li, 2014)

Economic development has progressed further in coastal provinces than in the interior, and by 2016 more than 169.3 million migrant workers and their dependents had relocated to urban areas to find work. One consequence of China’s population control policy known as the “one-child policy” - which was relaxed in 2016 to permit all families to have two children - is that China is now one of the most rapidly aging countries in the world.

The government's 13th Five-Year Plan, unveiled in March 2016, emphasizes the need to increase innovation and boost domestic consumption to make the economy less dependent on government investment, exports, and heavy industry. However, China has made only marginal progress toward these rebalancing goals. Under President XI Jinping, Beijing has signaled its understanding that China's long-term economic health depends on giving the market a more decisive role in allocating resources, but has moved slowly on market-oriented reforms because of potential negative consequences for stability and short-term economic growth. He has also increased state-control over key sectors and Party control over state-owned enterprises. Chinese leaders in 2010 pledged to double China’s GDP by 2020, and the 13th Five Year Plan includes annual economic growth targets of at least 6.5% through 2020 to achieve that goal. In recent years, China has renewed its support for state-owned enterprises in sectors considered important to "economic security," explicitly looking to

[19] Information available online at: https://www.cia.gov/library/publications/resources/the-world-factbook/geos/ch.html (accessed in 10/21/2017)

foster globally competitive industries. Chinese leaders also have undermined some market-oriented reforms by reaffirming the "dominant" role of the state in the economy, a stance that threatens to discourage private initiative and make the economy less efficient over time.

> After economic reform started in the early 1980's, China's economic system has been in a transition period from an "old" centralized planning economy to a more open and decentralized market economy. As a result, the linkage and interaction between China's market and economy and the international market and economy have increased dramatically. For foreign investors, however, the stability of China's economic policies, the establishment of a business legal system, the consumer confidence level and actual income increase, the development of industrial infrastructure components (e.g. energy, transportation, and communication), and the growth rates of China's economy and market all require a close watch for their future investment and operational decisions. (Yang, 2002)

For instance, that is why Chinese people visit Hong Kong to buy expensive imported luxury goods. Not because the Chinese really should like the product, but mostly because the status of a certain brand will give them face.

As a company or as an individual, it is therefore important to establish a sound brand image and/or personal reputation, so doing business with you gives the Chinese face. Many products can be easily copied, but a strong brand image or reputation is much more difficult to copy, if at all. (Wiedenbrugge, 2011) To do business in China, the investors need to understand that China is basically meant for the Chinese and not for foreigners. The main question is: what can you do for or offer to China or to your Chinese business partner – not what your Chinese business partner can do for you.

In this respect, investors should also understand that China is ruled by a single party government. China may look much more friendly and open than 20 years ago, however the Chinese government has, and will have, a very strong impact on almost every aspect that takes place inside China. It is important to note that China need not fully liberalize its exchange rate to create more room for a consumption and market-based economy.

> The impacts of the growth of the Chinese economy on the world economy and especially regional - specific object of this article - were observed from the so-called structure effects - which considers the degree of complementarity and rivalry of Chinese exports - and of the scale effect due to size China's internal market. The resumption of Japanese growth - a traditional supplier of capital goods to China - after a decade of stagnation and the rapid recovery of South Korea's export growth after the 1997 crisis - was largely due to the combination of the two effects of the Chinese economy. (Medeiros, 2006)

With the previous effort to enter the World Trade Organization (WTO) and with effective entry into 2001, China's investment regime has been adapting to the usual parameters of market economies. Tax incentives were leveled between foreign and domestic companies, eliminating some of the local advantages of the former.

> On the one hand, taxes are generally considered moderate, the current account is convertible, there are investment protection agreements with the largest of countries, as well as legal provisions for the protection of foreign investors. On the other hand, there was a strong freedom of local governments to negotiate different conditions for the approval of new investment projects. It is also important to note that foreign investment originally predominated in the form of joint ventures. From the end of the 1990s, the mode of integral (or majority) control by the foreign investor. (Cunha, 2011)

Its growing share of trade and financial flows, as well as determining the pace of global growth, has generated mixed impacts on developed and developing countries. In the case of Brazil, the Chinese demand for raw materials generated a cycle of expansion in the prices of these products, which, in turn, created an environment conducive to the acceleration in growth with an improvement in the fiscal and external situation of the economies with the profile of complementarity with China. The Chinese market has what Brazilian companies need:

1. Lower prices and long-term oriented capital;
2. Superior quality and lower prices machinery;
3. International trade experience that has conquered the world with the Made in China products.

The growing importance of this country as a destination for exports and origin of imports from Brazil and the rest of Latin America was verified. On the other hand, and taking the perspective of economies rich in natural resources, this complementarity has generated a profile of trade that deepens the historical trend of specialization in the production and export of intensive products in the use of those resources, and imports of technology-intensive manufactures.

With the Chinese rise, the greater cyclical convergence between the Brazilian economy and that of the Asian giant, coupled with less convergence with the US and the main South American economies, particularly Argentina, suggests the future possibility of realignment in the growth dynamics from the country. (Cunha, 2011) The strengthening of the international position of the eastern country has depended on its planning of the international economic relations. First, the exchange control in Competitive levels explain part of the country's export performance.

> More than the low-cost supply of labor, macroeconomic conditions such as devalued currency, abundant state credit, and low interest rates are combined with a set of industrial, commercial and technological policies, government stimuli to the conquest of foreign markets. Add to this the aggressive trading option aimed at turning niches into mass markets, gaining scale gains with lower profit margins. (Pautasso, 2011)

Chinese success appears initially in the successful transition to a market economy. The dual track process, named for the way the Chinese introduced market forces without abandoning planning, liberalizing agriculture, stimulating rural enterprises, and reforms of business and financial systems, illustrates the capacity of Chinese leaders in conducting the process. The transition took place so that the introduction of market forces was accompanied by measures aimed at correcting any market failures. (Guimarães, 2012)

The success of the Chinese economy is closely related to the promotion of market forces, well-illustrated by the liberalization of agriculture, permission to run rural enterprises, liberalization of foreign trade, and reforms of the business and financial system. Capital account liberalization will help to reduce interest rate differentials between China and other nations, but this may destabilize the economy where large interest rate differentials persist. Currency appreciation expectations may surge given rapid capital inflows, and some basic controls must be put into place to prevent this from occurring. (Hsu and Simon, 2016)

> Despite the favorable results in terms of economic growth and poverty reduction, the Chinese economic model still causes doubts and apprehensions. Many of the reforms are still incomplete, and both the business and financial systems are fragile. There is a lack of an adequate system of property rights, which leads critics to doubt the persistence of superior performance once the earlier and easier stages of growth are overcome. (Guimarães, 2012)

8.3 How much importance does culture have in the market and what are its determinants?

The Chinese population is the result of the joining of hundreds of ethnic groups, however, the largest number corresponds to the group called Han. Despite the ethnic complexity that developed in China, several ethnicities were unified, and others ceased to exist, leaving no trace of their existence. Many ethnic groups were absorbed by the Han, and it is from this fact that it determines their superiority in number in relation to other ethnic groups. Due to the variety of ethnicities, the Han group practices different languages.

Chinese civilization is very ancient, as well as its social organization, this structuring has given rise to diverse cultures and religions. Chinese Philosophy has exerted and exerts a major influence on its people. In this way, the Chinese philosophical base presents itself in the essence of the religions practiced in the country: Confucianism, Taoism and Buddhism. Despite being the cradle of the three religions cited, China still has other religions other than those mentioned. There are other types of religions existing in China, they are Islam, popular religions, apart from Christianity that is divided into Catholicism and Protestantism, but are very restricted, consolidating as a minority.

It is part of the Chinese culture to value the philosophers, writers and classic poets, many classic sages elaborated irreverent texts, as well as critiques of daily life at the time. Another cultural element developed by Chinese civilization presents itself in music, they created many musical instruments such as zheng, xiao and erhu, migrated to other regions of the Asian continent like east and southeast.

With five thousand years of civilization history, Chinese culture, tradition and its value system have a significant impact on the operations of all Chinese businesses, as well as those joint ventures in China. As the largest country population, China has 50 plus different minority groups of people – each has its own culture, custom, norm, tradition, even unique holidays and languages. Also, as one of the top three nations in land size, China – is geographically divided into many regional centers across the nation – each has unique cultural aspects in terms of tradition, value, social norm, belief and organizational features.

> The cities of Shenyang (in the northeastern Liaoning Province), and Xian (in the northwestern Shanxi Province) become specific regional political and cultural centers largely due to their historic roles – which have some carry-over “negative traditions”, such as the lack of competitive nature in business practice. In comparison, the cities of Shanghai, Tianjin, Guangzhou and Wuhan – have been developed into regional business centers, mainly due to their geographic locations – now displaying a more modern business-oriented culture. Those unique cultural factors will present numerous challenges to foreign investors and international joint ventures managers. (Yang, 2002)

According to Jin, Yu and Hye Kang (2013), global companies need to be attentive to the fact that two Chinese traditional values (modesty and clear distinction between in-group and out-group membership) are strongly reflected in business contexts and have not been influenced by recent Economic changes. Modesty, or being humble, is one of the key elements to maintaining social harmony in a collectivism culture. Therefore, the Chinese do not overtly express their pride in public.

Chinese people needed to develop another means of ensuring trust amongst themselves in personal and business matters. Maintaining face, or reputation, among people within one's own network is also an important characteristic of Chinese culture. Because of the importance of maintaining face, Chinese people will usually not take advantage of a person with whom they have guanxi. Therefore, Guanxi has become a means of building trust that law cannot always provide for Chinese people in personal and business matters.

A Chinese company will feel far more comfortable doing business with a company which they have strong guanxi because they believe it will make it far easier for them to trust their business counterpart. It is equally important for foreign companies to develop strong guanxi with Chinese companies and government organizations. While developing guanxi is important to doing business in China it is not necessarily easy to develop, especially for a foreign company. Having a full-time, long-term presence in China is essential to developing and maintaining guanxi.

Chinese businesses are often connected to families. In fact, most of Chinese businesses outside China are family-owned. Family concerns drive business decisions of all sizes from small to multinational organizations. The family serves as a broader societal network of morally binding, mutually dependent relation-ships. In the past China, all sons had equal rights that extended economic obligations to the whole family.

This means that guanxi, as a discourse in the field of social relationships and business networks, is always being threatened in a game of meanings. It is therefore dynamic, fragile, and easily exposes its provisional condition. The speeches form a very heterogeneous set in which the interests of various entities intersect, oppose and complement each other in terms of the interests they defend, in view of the positions they occupy, in a complex movement in the social space that involves business in China.

In addition, guanxi, as a micropolitical expression of business relations in China, emerges as a moral apparatus that fills the gaps in the gears of the Chinese market economy that combines business prosperity and the incorporation of local rules of relationship. As a fundamental element of business, it becomes the object of business and government desire in the competition for profits, cooptation of employees and reduction of time and obstacles of the bureaucracy. (Fernandes, 2013: p.252 - 269)

Freedom is also one of the discussed points when analyzing China from Brazilian perspective. For instance, internet promised unlimited knowledge about everything that could happen worldwide. For China, the chance to see a "non-Chinese" world was banned by a wall - this time digital - that censors almost all the content accessed by the Chinese. This wall has a name: *Jin Dun* ("golden shield" in Chinese).

Diverse online content is restricted, and search sites only return with results allowed by the censors. Chinese websites that question PCC's actions are also quickly censored. *Jin Dun* lists words and terms that should not be accessed and when a Chinese try to access the content, it is instantly blocked. Anyone who insists on subverting the law can be penalized from the suspension of the internet by the Chinese authorities.

8.4 What technological innovations are likely to pop up and affect the market structure?

Over the last three decades, China has sought to increase its technological capabilities in a variety of ways. At the same time, the increase in total factor productivity, especially since the 1990s, even at a declining pace, has been a major contributor to China's extraordinary economic growth. Chinese development has contributed to a change in the production structure, which has made possible the advance of Chinese industry along the value chain, increasing the added value and technological content of its exports. Thus, not only is the total trade surplus increasing year by year, but the surplus in high technology products has also been increasing in recent years, especially in office and computing equipment and radio, TV and communication equipment. (Nonnenberg, 2010)

Of course, many local companies have failed, and all has not worked out, but in general these strategies seem to have been successful as several Chinese companies matured and were able to compete in the world market and internally with foreign competitors. The result of these strategies can be seen, for example, in the Chinese electronics industry that today has a different structure from what is seen in Mexico, for example. National companies now play a significant role in China, in addition to the high number of joint ventures between foreign and domestic companies. The interaction of international companies with domestic companies has created a genuine history of global success in China, according to Rodrik's analysis. Although the focus of his work has been the consumer electronics industry, the same could be said of other success stories.

The auto parts industry, for example, has been heavily promoted through local content requirements. The Chinese government required foreign automakers to invest in the domestic market to achieve a relatively high level of domestic content within a short period of time (typically 70% within three years). This has forced multinational companies to cooperate closely with local suppliers in the development and use of new technologies. In the Chinese supply chain, foreign manufacturers themselves continued to buy from local suppliers after the local content obligation was abolished in accordance with WTO rules; proof that the system was able to create efficient domestic producers. Local sources of supply proved to be superior in terms of cost and quality when compared to imported alternatives.

It should be noted that the objective of advancing technological capacity has been permanently strengthened. R & D spending as a proportion of GDP increased from 1.23% in 2004 to 1.75% in 2010, so that in 2011 China became the second country to spend more on R & D in absolute terms. The effort to expand technological capacity is captured by indicators that, when measuring the degree of commitment of governments to technological policy, put China well ahead of Brazil and Mexico, although well behind countries like the United States and South Korea. (Guimarães, 2012)

Since the economic opening, the development of science and technology in China has already made breakthroughs. In recent years, with a clearer position on innovation in science and technology, independent innovation capacity has grown significantly, moving from quantitative growth to qualitative growth. The gap between science and technology in general between China and other developed countries has declined markedly, with some areas moving from a secondary position to a leading position. In 2015, 1,718,000 patents in the field of science and technology were approved, with 30,548 international patent applications under the Patent Cooperation Treaty, with China taking third place at this level. global growth for two consecutive years since 2013. Rapid growth, structural optimization and international patent position reflect China's growing development in terms of efficiency, level and scientific and technological production capacity. However, Chinese economic development is entering a new normal. Traditional development forces continue to weaken and the extensive mode of growth is unsustainable and innovation is essential to create a new engine of growth and to continue to improve the quality and effectiveness of economic growth.

Scientific and technological development is not adequate to be managed from a political or executive perspective. The current leadership position of the United States in the field of science and technology involves a large, imperceptible movement of resources across the country. Military needs for scientific and technological development (including space technology) in terms of materials or energy, electronic computing and communications have already been commercialized.

Scientists need a free space, and Xi Jinping seemed to realize this aspect, for he mentioned the need to respect the momentary inspiration in scientific and technological research, its arbitrariness and its uncertain path, to allow scientists their free imagination, bold conjectures, and meticulous confirmation. In addition, roles and powers should be assigned to professionals in this field: greater decision-making power over technology, greater control over funds and greater authority over resource mobilization.

To reduce commercial interference, government departments of science and technology must, above all through strategies, plans, policies and services, display the institutional superiority of the country's strategic power in this field. That is, scientists must be given freedom to demonstrate what they do best. Currently, the total national human resources in science and technology stands at 71 million, with more than 5.35 million R & D professionals.

Once there is an active mobilization of these intelligent scientists and a boost to their creativity, China's scientific and technological innovation will change the world. The fact is that China has sought its own space, reaffirming itself as an alternative to the West for the peripheral countries, insofar as it defends a model of international interaction based on mutual gains, such as the cases of the official theses of the "harmonious world" and/or the Beijing Consensus. (Pautasso, 2011)

8.5 What are the environmental concerns for the industry?

Deterioration in the environment - notably air pollution, soil erosion, and the steady fall of the water table, especially in the North - is another long-term problem. China continues to lose arable land because of erosion and urbanization. The Chinese government is seeking to add energy production capacity from sources other than coal and oil, focusing on natural gas, nuclear, and clean energy development. In 2016, China ratified the Paris Agreement, a multilateral agreement to combat climate change, and committed to peak its carbon dioxide emissions between 2025 and 2030.

> Coal has accounted for over two-thirds of China’s primary energy consumption for several decades. Coal-fired power plants dominate total electricity generation in China, consuming over half of the total coal use. As a result, China’s total installed capacity of coal-fired power plants is more than the current total of the United States, the United Kingdom and India combined. (Zhang, 2011b)

China's capital-intensive, export-oriented, spectacular economic growth since launching its open-door policy and economic reforms in late 1978 not only has created jobs and has lifted hundreds of millions of the Chinese people out of poverty, but also has given rise to unprecedented environmental pollution and CO2 emissions. Estimates of the embedded CO2 emissions in China's trade differ, depending on the boundary assumed in the calculation of embedded CO2 emissions, the choice of methodology, and the treatment of technology and emission intensity data across trading partners. Measured as a percentage of total CO2 emissions produced in China, global studies based on more accurate country trade flow and technology details tend to give a lower estimate of the embedded CO2 emissions than those single-country studies for China, which may fail to capture potentially large national differences in technology levels between China and its trading partners.

The fact that countries like China and India use more coal is not because they prefer it, but because of their abundant supplies of coal and its relatively lower price compared with its more environmentally friendly substitutes. The trade-related emissions issue has created a new impetus for encouraging the use of renewables and improving energy efficiency. Increasing this share not only enhances energy security, but also is environmentally friendly and conducive to good health.

> China is already the world's largest carbon emitter, and its emissions will continue to rise rapidly as it is on its way to become the world's largest economy. Thus, China is seen to have greater capacity, capability and responsibility. The country is facing intense pressure both inside and outside international climate negotiations to exhibit greater ambition. China needs to extend its level of ambition, making further credible quantified domestic commitments in these areas for the second commitment period. (Zhang, 2011a)

In China, the level of contamination of air, land and water has reached levels never seen in history and begins to become intolerable for its nearly one and a half billion inhabitants. In the absence of comprehensive action, local governments must take palliative measures. Since the pollution levels began to rise, policies were adopted restricting the movement of people and a rotation between cars with even or odd plates. However, China has plans to cut its use of fossil fuels and shift its energy matrix toward renewable sources.

The main targets of the Chinese government are wind power and hydropower. The investment in dams is so great that the Chinese even generate negative impacts on the water supply of neighboring countries by diverting the river route. Another positive indicator identified by experts is the end of government denial of pollution. In 2008, the American embassy in Beijing installed an air pollution meter, causing the Chinese government's revolt.

Pressurized, the country's administration started to make the measurement itself, making room for political changes from the recognition of the problem.[20]

8.6 Are there any current legislations that regulate the industry, or can there be any change in the legislations for the industry?

The China-West relationship characterizes a *dynamic system*. At first, such system would deliver the cheap goods needed by Westerners to keep their rate of economic and consumption growth. After a while, however, the resulting dependency and growth of China' s international reserves inverted the polarity, causing Western societies to become more and more dependent on the apparently endless supply of Chinese opportunities for imports and investments.

> The only alternatives to that conundrum belong so far to the realm of wishful thinking. The role of organizations is a very complex one: on one hand they must profit; on the other, so far, they have failed in decrease absolute levels of resources consumption. Moreover, the organizational world is still lacking a model of *financial sustainability* that could be based, in large scale, on delivering goods that are not supposed to be changed for newer ones on an increasing frequency. (Gelis Filho, 2010)

China's emphasis has been on modernizing the country into four areas: industry, agriculture, technology, and the military. The best way to achieve these goals would be to implement a policy of internal economic reforms, to open the country to the dynamism of the technological revolution that was beginning, to associate with the flock of the Asian geese, and to make the most of the economic and strategic benefits of an alliance with the United States, during a phase of interna1tional distension. (Visentini, 2011)

Back in the 1990's, the Communist Central Committee decided that every property must has given to the modernization of the country's economy structure. As a result, they have sacrificed the most important ideas of the Marxist based economy to progress economically. Chinese economic missions are running the world to attract new investments and technologies from foreign countries to provide more international exchange. New laws to protect foreign investments and guarantee the investors profit were created. The creation of financial incentives to compensate workers as well as the reduction of employees' stability have also been implemented to increase the efficiency and quality of industrial production.

[20] NEXO JOURNAL, 2016. Available online at - https://www.nexojornal.com.br/expresso/2016/12/21/Qual-a-gravidade-da-polui%C3%A7%C3%A3o-do-ar-na-China

The prices' system was modified to follow more the demand-offer law and less of following the bureaucratic from the Communist Party. Around the properties and private initiatives for micro and small business it was generated one new urban social class while the free initiative of the country-side brought fortunes to the agriculture sector.[21]

China is very different from the EU in terms of the level of development. There is no universally applicable competition law that can be directly applied in other countries without adopting any variations. As an emerging country undergoing transformation of the economic structure, the Chinese legislator must consider its unique political-economic environment and the sophistication of institutions, seeking not only the experiences of developed countries but also those of other developing countries and international organizations.

[21] Charles Tang, 1988 (Former President of Câmara do Comercio Brazil-China) in Brasil, Nós Temos Futuro? *Folha de São Paulo*, March 26th 1988

9. DISCUSSION OF RESULTS: KEYS SUCCESS FACTORS FOR DOING BUSINESS WITH CHINA

All the information provided on the previous chapters, were used to understand that Brazil is a rich country in natural resources, has a fertile soil and the capacity to produce more; China is growing a great market built on a Middle Class and their willingness to consume and that Brazilian entrepreneurs and business owners are not fully aware of this opportunity they must not lose to export more when choosing exporting to China. The following structured four Keys Success Factors that will be described in this chapter will help the Brazilian community of Entrepreneurs and business owner to enter the Chinese Market easily.

Brazil is the world's largest producer and exporter of coffee, sugar and orange juice, the largest meat exporter and the second-largest producer and exporter of soy products, as well as a major grower of corn. From Brazil to China, investors must focus on products for which China has a huge and rapidly growing demand. Brazil has keen advantages in food and beverages, such as noodles, pasta, snacks, canned beef and chicken, wine, *cachaça* (a distilled spirit made from sugar cane), juice, beer, honey, propolis and *açaí* (fruit from Amazon forest well exported to the USA and Europe). Some Brazilian vendors know China offers terrific opportunity but do not know the name of even one Chinese buyer who could be interested in their products. Some Chinese buyers show their interest in Brazilian products but do not know any brands that can provide them with what they need. This lack of knowledge is the biggest barrier both countries face when doing business.

As described in the previous chapters, the biggest challenge for Brazilian entrepreneurs to introduce products in the Chinese market is to make buyers understand the positioning of Brazilian brands in the market regarding quality and pricing. This barrier can be overcome as Brazilian companies manage to present themselves through meetings and participation in fairs and business trips, and as more Chinese buyers visit factories in Brazil.

The first step for Brazilian entrepreneurs to enter China is to get to know China's needs and the relation between the state and the economy. For Henry Uliano Quaresma, CEO of Brazil Business Consulting, Director of TSL, Ex-Director da FIESC, Advisor of Associação de Exportadores do Brazil (AEB) and Advisor of Câmara de Comércio Exterior da CNC, "There is some resistance to China's image as something very distant, difficult to attain and even predatory. However, when the participation of entrepreneurs in international missions for market prospecting occurs, the vision changes totally and the perspectives appear."

> The strong powerful state in China is a big influencer in the Chinese economy at both national and local level. Therefore, for doing business with China is important to be well aligned with government economic priorities at provincial and local levels. Since the beginning of the reform era, regional party leaders have much more autonomy, and regions compete with one another to support commercial projects, domestic and foreign, that are most aligned with state as well as national development targets (Leavy, 2015).

In general terms, it is a must for investors to understand the Chinese laws and Chinese import conditions. These regulative bodies define what types of products foreign companies can export to China, and what minimum level of quality import goods must have in order to be sold in China. For those who want to invest in China, it is keen to understand that the national, provincial, or local government agencies and their respective officials are involved in almost every aspect of business. The license and permit requirements are numerous and complex. (Chapman, 2008)

Mr. *Li Changjiang* Chinese Minister, signed in 2002 the agreement to remove sanitary barriers against Brazilian meat, poultry and pigs. Brazilian exports of meat had much more opportunities to grew from this moment. What could be lacking? In interview with Fábio Bessa[22], responsible of the exportation of cattle in Itaqui port (São Luis - Maranhão) has pointed out that the animals exported by the Port of Itaqui were so far sold only to Venezuela and Lebanon. At a national level, Turkey is currently the largest importer of live cattle in Brazil. He also pointed out that the exports of cattle have been grown in the recent years. “In 2016, 282,300 heads of live cattle were exported through Brazil, 36.1% more than in 2015. We had no exports of live cattle through the Port of Itaqui in 2017. The main ports used for this activity are *Vila do Conde*, in Pará, and *Rio Grande* in Rio Grande do Sul.”

When questioned about the government support on stimulate the exports, Fábio answered that he is not aware of any instruments from the Brazilian national government to motivate the exportation of cattle. Regarding the government of Maranhão (power at a state level), it is known that there was an express determination to the administration of the *Itaqui Port* to make feasible the activity, considering that it is a public port, specialized in the operation of solid and liquid bulk, and that the operation with live cattle must pass through a very slow process and is unprofitable for the port.

Meanwhile, China is living greater prosperity and the government encourages a consumption of a glass of milk for each citizen. Since China has never had a tradition in milk

[22] Original interview available at the Attachments section;

or dairy cattle, how many dairy cows or embryos can be exported from Brazil.[23]. Indeed, there is an opportunity that Brazilian entrepreneurs are losing. Very probably because First, they do not acknowledge the need China has of Milk Consumption and second, the government is not stimulating the exports.

The second and very important step to do business with China is to develop Guanxi. To effectively develop guanxi a company it is much helpful to have a native-born Chinese person to be responsible for developing these relationships. A native Chinese person will be familiar and comfortable with the cultural niceties of developing guanxi in China. Local Chinese staff or representative should meet regularly, in both formal and informal settings, with potential and current customers and relevant government agencies to develop strong relationships on behalf of the company.

In case the company has no local Chinese person to work in China's office, the language barriers are fading as the Chinese get to elevated levels of education. According to Jayme Martins, negotiating with the Chinese has been getting easier, especially since both parties are trying to get to know each other better, including Brazilians learning Mandarin and Chinese dominating Portuguese. Direct linguistic understanding is far more effective than interpreting. With a very broad and fluent command of our language, Ambassador *Chen Duqing* has made the arrangements with Brazilian, official and private parties a bit quicker. In the absence of good interpreters from Portuguese to Mandarin and vice versa, the two parts can be understood very well in English.[24]

In Brazil, at a cultural sphere, the equivalent of Guanxi should be the so-called *Jeitinho.* Jeitinho is one predominant way for doing business and is part of Brazilian culture. When comparing jeitinho with *Guanxi*, which is the key tool to enter the Chinese market, while *jeitinho* represents an attempt to treat others equally, overcoming the barriers that may be present in a hierarchical society, *Guanxi* accepts such hierarchical features, and uses them in its favor. Also, in the *jeitinho* process, no assumptions about a previous relationship between the parties involved is made, while the roots of *guanxi* follow the principle of long-term equity and maintenance of a long-term relationship. At the same time, both processes encompass a pragmatic use for solving problems. Brazilian investors must understand the differences between both cultural practices and stablish closer relationships to the Chinese

[23] Charles Tang, 2002. Available online at - http://www.camarabrasilchina.com.br/publicacoes-ccibc/artigos/brasil-e-china-uma-parceria-estrategica-e-comercial (Accessed on 10/22/2017)
[24] Jayme Martins, 2006 / Publicado por: CCIBC - (ref. Palestra em 4.o Seminário Serasa de Comércio Exterior) (Acc) Available online at - http://www.camarabrasilchina.com.br/publicacoes-ccibc/artigos/brasil-e-negocios-com-a-china (Accessed in 10/22/2017);

partners without trying to use the Brazilian Jeitinho. The benefits of developing Guanxi will increase a company's chance of success according to the case studies.

> There is a saying that “successful business communication is ten percent business and ninety percent human relations.” These words should be kept in mind as an important maxim for all internationally-minded persons. It is important for the executive investors to form friendly interpersonal relationships because, as general semanticists claim, “meanings reside in people, not in words.” As one develops a close friendship with another person, one develops a better understanding of his or her words and phrases, and a shared perception can be achieved. (Lee, 2014)

When asked on interview about how is the flowing the process between Brazilian investors and the Chinese Market, Henry Quaresma answered that “The experience is positive. More and more, Chinese grow interest in imported products, both for the final consumer market (meat, honey, footwear, etc.), and raw materials for industry (wood, minerals, soybeans, etc.) arises. Brazilian stockings and small businesses still have some difficulties accessing the Chinese market.”

The third step is to develop a market strategy. According to Henry Quaresma, “the entry of products into the Chinese market requires a good strategy, investors must study the market, define reliable partners and choose best forms of entry. The management of exports to China are more complex than in other traditional markets. Therefore, influence factors should be evaluated in more depth such as strategic analysis (risks and opportunities), cultural and business environment, etc. At an overall perspective, I believe in the possibility of expanding the exports of Brazilian products to China in terms of typology and quantity.”

While performing market research, investors must try to establish contacts with Chinese consumers to find out their tastes and preferences. Undoubtedly, it can be inefficient, therefore it can also be reasonable to research which brands are most successful in China and analyze their products in order to find if the Brazilian goods would fit the Chinese consumers preferences. However, with the expansion of the Chinese Market, it is most likely to sell all kinds of goods once inside the market. When working with numbers, China will soon need to import all kinds of goods to supply their society needs.

When interviewing Henry Quaresma, he was also questioned if investors from Brazil are aware of the China’s middle-class boom as a big opportunity for Brazilian exportations growth. He answered that “Large investors are aware because they are constantly evaluating the Chinese market, but greater boldness is still needed for decision-making for broader and more consistent strategies.”

The fourth step is to start at a small scale and work local with a Chine business partner – very probably in China - the business man or company that will receive your product in China. That person/company will guide you. According to the case studies (Chapter 7) it is very important to work locally. That means that an investor should try to find a local partner in China and should as well, find resources for his company in a local level. Taking into account that China is a country with an immense territory, it is really important to consider having close tools.

Embraco, one company located in Joinville, Santa Catarina - Brazil, it has established a joint venture in China called "Snow Flakes", a factory that manufactures 1.7 million refrigeration compressors per year and has plans to double the production of this factory located in Beijing. Until a medium-sized valve company of advanced technology in São Paulo sought the Brazil-China Chamber of Commerce and Industry to look for a Chinese partner to install a factory in China to be able to export to the international market. Brazil needs currency capital and partnerships with China can perfectly leverage the capital needed for production and the competitive cost of manufacturing in China to conquer new markets.

For Chinese reality today, it does not matter much the product Brazil must sell, because they will probably need it. If government relations are important to doing business, the company may also want to consider hiring someone experienced working with the Chinese government on a full or part-time basis to leverage their contacts and experience with the government on the company’s behalf.

For Henry Quaresma “Brazil exports the most varied products, from soybean to high-tech aircraft, demonstrating great capacity of industry. The most sophisticated markets in the world are destinations for Brazilian products (…) Brazilian exports to the Chinese market are basically commodities, such as soybeans, iron ore, cellulose and meat, which are mostly used as raw materials for Chinese industry. China is practically repeating first-quarter growth, which is now being considered sustainable growth, surpassing even the defined targets. Investments had a decisive influence on this growth in state-owned companies by 12% and by 6.7% in private companies compared to the previous year. Sales in the Chinese retail market also grew by 10.3% in the first five months of the year. China's consumer economy will continue to grow rapidly and could rise by $ 1.8 trillion by 2021, according to research by the Boston Consulting Group (BCG) and ‘AliResearch’ of China's Alibaba. In this perspective, sectors of consumer products have real conditions to operate in the Chinese market.”

10. CONCLUSION

On this study, I proposed to study China at an overview, The Chinese Middle Class growing market; the Sino-Brazilian trade relations context and from this study, build a paper to contribute on the knowledge the Brazilian community of entrepreneurs and business owner must achieve to enter the Chinese Market. China is a gigantic market with 1.3 billion consumers, each time with more income available for consumption due to the wealth created by its accelerated development. It presents multiple commercial opportunities, partnerships and investments for Brazil. China is a market that the whole world covets, and the entrepreneur who does not pay attention to it, loses numerous important opportunities. However, with the exception of a few Brazilian companies, such as VALE, Embraer and Embraco, which installed their offices in China, among others, our Brazilian companies have not yet awakened to these business opportunities with China.

As Brazilian investors are not working directly within the Chinese trade partners and due to the lack of knowledge a significant portion of the trade between the two countries are intermediated by foreign companies. The opportunities are vast. China consumes more and more wine, chocolate, concentrated fruit juices, aircrafts[25]. Many High-quality Brazilian products can be found in European stores, namely *Schutz*, a very famous Brazilian footwear and accessories brand, *Boticario* which is a Brazilian cosmetics and perfumes brand; Even *Havaianas*, which started selling simples day-to-day flipflops could conquer foreign markets showing innovative products and high-quality goods and became a huge exporter. If Brazil cannot export textiles to China, based on their comparative costs, they can rather export fashion. Fine furniture and fine shoes are exported to China by many countries, except for Brazil that both exports its wood and its leather to that country.

Charles Tang, the former president of the Center for Sino-Brazilian trade in Brazil affirmed that Brazil also needs export currencies to the Chinese market, as well as Chinese investments to generate jobs in this country. China, for its part, needs the strategic products that Brazil can provide for its continued growth and food for its people of 1.3 billion. We must turn challenges into opportunities and win-win partnerships with the Chinese to strengthen both sides. Both Brazilian and Chinese entrepreneurs have a lot to gain from each other. In most cases, the Chinese wish to make joint ventures with Brazilian companies.[26]

[25] Charles Tang, 2002. Available online at - http://www.camarabrasilchina.com.br/publicacoes-ccibc/artigos/brasil-e-china-uma-parceria-estrategica-e-comercial (Accessed on 10/22/2017)
[26] Charles Tang, 2005. Available online at - http://www.camarabrasilchina.com.br/publicacoes-ccibc/artigos/china-uma-economia-de-mercado (Accessed on 10/22/2017)

To conclude, in the near future Sino-Brazilian relations will depend, to a significant extent, not only on favorable economic conjunctures, but above all, on good technical and political choices. Brazil will have as a major challenge not only a clear strategy for dealing with China, but especially overcoming its internal structural obstacles, which are considered fundamental to a more proactive approach towards China. Brazil will have to get to know China deeply and must not, as stated in this study several times, loose the opportunity to enter the Chinese Market. In a globalized world, Brazil cannot be only doing business internally. In order to grow economically and become richer, Brazil has to extend their exports and achieve different Markets. China was chosen as favorite for all the reasons already listed on this paper, China has a growing capacity to buy and do not have the capacity to produce many different basic needs such as vegetables and meat. The time is now to discover this new market opened doors for incoming import goods.

10.1 Limitations of the Study and Future Research

When researching sources to structure this study, it was difficult to find Brazilian scientific sources of information regarding China and the Chinese Market. The PESTEL analysis which was meant to be built from Brazilian perspective, had to be build part on Brazilian view and part on international view as the found sources of information from Brazil were not consistent enough in numbers and quality to structure the PESTEL analysis only using this type of source.

Another difficult faced, was to make interviews in order to contribute for this work. Both official institutions in Brazil, the *Câmara do Comércio Sino-Brasileiro* and the Chinese Embassy in Brazil were contacted several times to propose an interview explaining the importance of this study, however, with no successful. Certainly, if more interviews were made, the second part of the work would bring a more empirical and view of experience which was only partially achieved on this study as only two people were available to give an interview. For future research, it is highly recommend to use secondary information sources from interviews which are already made and available online at a trustworthy tool and articles of opinion from important influence figures to enrich the paper as there are few other official sources available in Brazil from Brazilian perspective.

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12. ATTACHMENTS

12.1 Interviews (Original Versions)

12.1.1 Interview to Henry Uliano

Henry Uliano Quaresma, CEO of Brazil Business Consulting, Director of TSL, Ex-Director da FIESC, Advisor of Associação de Exportadores do Brazil (AEB) and Advisor of Câmara de Comércio Exterior da CNC was interviewed by e-mail and answered some opinion questions about the opportunity to export to China based on his work experience:

1 - Em uma perspetiva global, quais são suas motivações para investir e estimular as exportações do Brasil para a China?

O Brasil exporta os mais variados produtos, desde soja até aviões de alta tecnologia, demonstrando grande capacidade da indústria. Os mercados mais sofisticados do mundo são destinos dos produtos brasileiros. A China é o principal parceiro comercial do Brasil, em 255 países, sendo o primeiro em destino de exportações, chegando ao primeiro semestre de 2017 com USD 26,9 bilhões. Nas importações com origem chinesa, os valores são na ordem de USD 12,2 bilhões, no mesmo período. As exportações brasileiras para o mercado chinês são basicamente commodities, como a soja, o minério de ferro, a celulose e as carnes, que são usados na sua maioria como matérias-primas para a indústria chinesa. A China praticamente repete o crescimento do primeiro trimestre, que agora está sendo considerado um crescimento sustentável, superando inclusive as metas definidas. Os investimentos influenciaram de forma decisiva nesse crescimento nas empresas estatais de 12% e de 6,7% nas empresas privadas, comparados com o ano anterior. As vendas no mercado de varejo chinês também cresceram em 10,3% nos primeiros cinco meses do ano. A economia de consumo da China continuará em rápido crescimento e pode aumentar em US$ 1,8 trilhão até 2021, segundo pesquisa da Boston Consulting Group (BCG) e AliResearch, da chinesa Alibaba. Nesta perspectiva, setores de produtos de consumo possuem condições reais de atuarem no Mercado chinês.

2 - Olhando para a sua experiência, até agora, você crê ser fácil inserir produtos brasileiros no mercado chinês? Caso contrário, você acredita que podemos gerir melhor nossas exportações?

A entrada de produtos no Mercado chinês requer uma boa estratégia, devendo preceder estudos de mercado específico, definição parceiros confiáveis e escolha da melhor forma de entrada. A gestão de exportações para a China é mais complexa do que em outros mercados tradicionais. Portanto, os fatores de influência deverão ser avaliados com mais profundidade *como a análise estratégica (riscos e oportunidades), ambiente cultural e de negócios, etc. De forma geral, acredito na possibilidade de ampliar em tipologia e em quantidade as exportações de produtos brasileiros para China.*

3 - Li que você possui uma empresa de consultoria no Brasil para auxiliar empresários brasileiros que desejam investir na China. Como tem sido sua experiência? Há um interesse crescente do Brasil na China?
A experiência é positiva. Cada vez mais surge interesse dos chineses por produtos importados, tanto para o Mercado final de consumo (carnes, mel, calçados, etc.), como matérias-primas para a indústria (madeira, minérios, soja, etc.). As medias e pequenas empresas brasileiras ainda tem algumas dificuldades de acessar o mercado chinês.

4 - Os investidores brasileiros estão cientes do boom da classe média da China e podem ver esse fator como uma grande oportunidade para o crescimento de nossas exportações?
Os grandes investidores têm conhecimento, pois avaliam permanentemente o mercado chinês, mas ainda é necessário maior arrojo para tomadas de decisão para estratégias mais amplas e consolidadas.

5 - Você acredita que o Brasil pode estar preparado para mudar seu campo de exportação de produtos para a China de commodities para produtos de alto valor agregado para alcançar o crescente mercado na China?
Certamente que isso é possível, mas acontece de forma ainda lenta. Há algumas resistências pela imagem da China como algo muito distante, difícil de ser atingido e até mesmo predador. No entanto quando ocorre a participação de empresários em missões internacionais para prospecção de Mercado, a visão muda totalmente e aparecem as perspectivas.

12.1.2 Interview to Fábio Bessa (Auditor Fiscal Federal Agropecuário, Ministério da Agricultura, Pecuária e Abastecimento)

1 - Poderia nos dar uma rápida explicação de como se tramita o processo de exportação de animais vivos no porto de São Luís?

O procedimento para exportação de bovinos vivos é único para todas as unidades do Sistema de Vigilância Agropecuária Internacional do MAPA em todo o Brasil. Inicialmente, o exportador deve solicitar ao Serviço de Inspeção, Fiscalização e Saúde Animal (SIFISA) da SFA-MA abertura de quarentena dos animais indicando em qual EPE (estabelecimento de pré-embarque) previamente registrado os animais serão quarentenados. Autorizada a abertura de quarentena, que, dependendo do país de destino, pode variar de 24h a 40 dias, o EPE pode começar a receber os animais a serem exportados. Tal período é utilizado para que sejam atendidas exigências do país importador, tais como análises laboratoriais e exame clínico dos animais. Após o período de quarentena, o SIFISA emite a Autorização para Emissão de CZI (Certificado Zoossanitário Internacional) e o envia à Unidade de Vigilância Agropecuária Internacional do Porto do Itaqui-Madeira (UVGPITM). Paralelamente, o interessado protocola na UVGPITM o respectivo Requerimento para Fiscalização de Produtos Agropecuários juntamente com o atestado de saúde dos animais emitido pelo médico veterinário Responsável Técnico do EPE e toda a documentação aduaneira pertinente. Previamente ao embarque, o navio transportador passa por uma vistoria técnica, realizada pelo Auditor Fiscal Federal Agropecuário responsável pela área animal da UVGPITM, com foco na limpeza, segurança e adequações das instalações quanto ao bem-estar animal. Após a emissão do Termo de Vistoria, estando toda a documentação regular, os eventuais problemas da embarcação sanados e a montagem do embarcadouro devidamente concluída, o embarque é autorizado.

Durante o processo de transferência dos animais do modal rodoviário para o modal marítimo, a equipe da UVGPITM efetua simultaneamente a verificação da identificação individual dos animais, da ausência de lesões ou sinais clínicos de enfermidades e da condução dos animais conforme regras internacionais de bem-estar animal. Os animais que não cumprem qualquer das exigências do importador são rechaçados. Após a finalização do embarque e apresentada a documentação fiscal correspondente com a quantidade e o peso exatos dos animais embarcados, o Auditor Fiscal Federal Agropecuário emite o CZI.

2 – Que país importa mais nossos animais?

Os animais exportados pelo Porto do Itaqui até o momento foram destinados apenas à Venezuela e ao Líbano. Em nível nacional, atualmente a Turquia é o maior importador de bovinos vivos do Brasil.

3 - Esse tipo de exportação tem crescido nos últimos anos?

Sim. Em 2016 foram exportadas 282,3 mil cabeças de bovinos vivos pelo Brasil, 36,1% mais que em 2015. Não tivemos nenhuma exportação de bovinos vivos pelo Porto do Itaqui em 2017. Os principais portos utilizados para esta atividade são o de Vila do Conde, no Pará, e o de Rio Grande, no Rio Grande do Sul.

4 – Há algum estímulo por parte do Governo para que os empresários exportem mais?

Desconheço qualquer estímulo por parte do Governo Federal. Quanto ao governo do Maranhão, sabe-se que houve expressa determinação à administração do Porto do Itaqui para que viabilizasse a atividade, considerando que é um porto público, especializado na operação de granéis sólidos e líquidos, e que a operação com bovinos vivos é demorada e pouco lucrativa para o porto.

5 – O animal brasileiro tem um valor de venda mais alto para exportação? Estes animais exportados tem um cuidado especial ou são do mesmo nível/qualidade dos consumidos internamente no Brasil?

O bovino para exportação não tem um valor de venda mais alto, mas são negociados em dólar. Os animais exportados têm a mesma qualidade dos consumidos internamente. Entretanto, dependendo da demanda do importador, pode haver exportação de animais mais leves ou mais pesados, por exemplo. A qualidade sanitária dos animais também depende do país importador. Há países que recebem animais com status sanitário idêntico ao dos animais brasileiros e há países que somente permitem o ingresso de animais após comprovar ausência de determinados patógenos que são endêmicos no Brasil.