

FUNDAÇÃO GETÚLIO VARGAS
ESCOLA DE ADMINISTRAÇÃO DE EMPRESAS DE SÃO PAULO

Zhen Zhang

**Obstacles for Chinese and Brazilian SMEs in the bilateral trade
between China and Brazil**

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2013**

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Dissertação apresentada à Escola de Administração de Empresas de São Paulo da Fundação Getúlio Vargas, como requisito para obtenção do título de Mestre Profissional em Gestão Internacional.

Campo do Conhecimento: INTERNACIONALIZAÇÃO DE EMPRESAS

Orientador Prof. Dr. LIGIA MAURA FERNANDES GARCIA DA COSTA

**SÃO PAULO
2013**

Zhang, Zhen.

Obstacles for Chinese and Brazilian companies in the bilateral trade between China and Brazil / Zhen Zhang, 2012.

76 f.

Orientador: Lige Maura Fernandes Garcia da Costa.

Dissertação (MPGI) - Escola de Administração de Empresas de São Paulo.

1. Comércio internacional. 2. Brasil - Comércio - China. 3. Brasil - Comércio exterior. 4. China - Comércio exterior. 5. Pequenas e médias empresas. I. Costa, Lige Maura. II. Dissertação (MPGI) - Escola de Administração de Empresas de São Paulo. III. Título.

CDU 339.5

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Data de Aprovação:

___/___/___.

Banca Examinadora:

Profa. Dra. LIGIA MAURA FERNANDES GARCIA
DA COSTA

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Prof. Dr. VALERIO DE OLIVEIRA MAZZUOLI

ACKNOWLEDGMENTS

I would like to express my thanks to all those that have helped me along my university life, all those that have given me ideas inspiration of writing this thesis : my parents, who have always been supportive to my ideas and actions, and always believed in me; my graduate schools: Bocconi and FGV, two great institutions which have given me this great opportunity to study and live in Italy and Brazil, both my beloved countries, and the opportunity to study and learn from all great professors and my peers; Prof. Dr. Ligia Maura Costa, my supervisor at FGV-EAESP and Prof. Dr. Fabrizio Perretti, my supervisor at Bocconi University to first accept me for my dissertation, then the support they have given; Both International Relation office at Bocconi University and FGV-EAESP, especially Maria Cecilia at FGV and Eduardo Ambrosi at Bocconi University to have helped me with a lot of administrative procedures for which I could make it for this Double Degree program despite my the issues I had for my student VISA and school conversion procedures. Last but not least, all my friends who have given me help on writing and submitting my thesis: Silvio Leo, Marzia, Andre, Thierry, Jieni, Xina, Yanhan. And many other friends I met during this amazing two years of my Master's.

RESUMO

Brasil e a República Popular da China iniciaram a sua relação diplomática em 1974, na época, o comércio entre Brasil e China foi de apenas 17,42 milhões de dólares, 5 anos depois, em 1979, a escala deste comércio bilateral aumentou 12 pastas. Hoje em dia, o comércio bilateral entre a China e o Brasil já contava mais de 57,000 milhões de dólares USD. China tornou-se já o primeiro parceiro comercial do Brasil, e do Brasil em troca torna-se o primeiro parceiro comercial na América Latina. Esta dissertação teve como objetivo compreender os obstáculos para as PME brasileiras e chinesas no comércio entre os dois países e dar recomendações às autoridades públicas e empresas privadas sobre como superá-los. Com uma análise qualitativa, baseada em entrevistas com as empresas chinesas e brasileiras para identificar quais são os obstáculos mais graves para as empresas brasileiras e chinesas para beneficiar mais o comércio bilateral. O estudo feito pela OCDE-APEC em barreiras de internacionalização das PME é usado como um quadro para melhor identificar quais são os obstáculos mais graves no caso das PME brasileiras e chinesas.

Palavras-chave: Pequenas Médias Empresas, comércio Brasil-China, os obstáculos.

ABSTRACT

Brazil and People's Republic of China started its diplomatic relationship in 1974, at that time, the trade between Brazil and China was only 17.42 million USD, just 5 years later, in 1979, the scale of this bilateral trade increased by 12 folders. Nowadays, the bilateral trade between China and Brazil counted already over 57,000 million USD dollars. China has become already the first trading partner of Brazil, and Brazil in return becomes the first trading partner in Latin America. This dissertation aimed at understanding obstacles for Brazilian and Chinese SMEs in trading between these two countries and giving recommendations to public authorities and private companies on how to overcome them. With a qualitative analysis based on interviews of the Chinese and Brazilian companies to identify what are the most serious obstacles for Brazilian and Chinese companies to benefit more from this bilateral trade. The study made by OCED-APEC on barriers of SMEs internationalization is used as a framework to better identify what are the most serious obstacles in case of Brazilian and Chinese SMEs.

Key words: Small-Medium Sized enterprises, Brazil-China trade, Obstacles.

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Abbreviations

FOB: Free on Board

SEBRAE : Serviço de Apoio às Micro e Pequenas Empresas

APEX : Agencia brasileira de promocao de exportacoes e investimentos

SECEX: Secretariat for Foreign Trade

MDIC: Ministry of Development, Industry and Foreign Trade.

UNCTAD: United Nations Conference on Trade and Development

OECD: Organization for Economic Co-operation and Development

APEC: Asia-Pacific Economic Cooperation

Introduction

We have seen a strong growth in trade between Brazil and China started from 21st Century. And nowadays, China already become Brazil's biggest trade Partner, in return, Brazil is now also China's biggest trade partner in Latin America, Top ten worldwide.

However, we have noticed that the big Brazilian and Chinese corporations have benefited much more from this bilateral trade. However, SMEs in both countries, which count for 99% of companies in both countries, have not participated a lot in this trade.

This dissertation aims at identifying what are the obstacles which prevent Brazilian and Chinese SMEs.

In this dissertation, we will use the framework of OECD-APEC on Barriers of SMEs Internationalization, which is a general research on all OECD member countries, what are the common obstacles faced by SMEs in those countries when it comes to SMEs Internationalization. In the findings of OECD-APEC, it identified 10 obstacles which harm the internationalization of SMEs.

In this thesis, based on the 10 obstacles identified by OECD-APEC, after interviews with companies, researchers and findings of other publications, we

will further identify the top three obstacles for Brazilian companies entering Chinese Market, and Chinese companies entering Brazilian markets. What are the obstacles in this bilateral trade of SMEs internationalization?

The Research question then is: what are the obstacles for Chinese and Brazilian SMEs in this bilateral trade?

The assumption is that obstacles exist for potential SMEs expansion in both markets in trading cross border, that are related to Lack of International Management skills, shortage of working capital, unfamiliar with foreign business practice, etc. Public authorities can help tackle those problems by providing credits to SMEs, establish government agency in helping SMEs internalization, implementing strong quality regulations and facilitating foreign trade or company set up.

In the first chapter, a literature review will explain the current situation in trade between Brazil and China, and the performance of both countries' SMEs in this trade, and the impact on each economy. The second chapter will explain the interviews (surveys) conducted as a methodology to shortlist the obstacles. Chapter 3 dedicates on exploring what the top three obstacles are facing by Chinese SMEs entering Brazil. Chapter 4 is then focused on identifying what are the top three obstacles for Brazilian SMEs to enter China. The last chapter is aimed at discussing what public authorities and private companies can do to

overcome those obstacles, in order to boost the economy exchange not only undertaken by big corporations, but also SMEs from both countries.

The personal motivation to write the thesis is that after my Master's Degree, I decided to work in Brazil, and I see a huge potential between Brazil and China based on my part time working experience as an interpret, and I would like to, in the long run, help the trade interaction between Brazil and China. And SMEs are the ones which are more accessible compared to the big corporations to work with. And this development of this thesis helps me to understand better the obstacles between China and Brazil trade which will contribute to my future career plan.

Chapter 1: A literature review of the Bilateral Trade between China and Brazil

I. Bilateral Trade between China and Brazil.

A. Historical events in the Brazil and China bilateral trade.

1974, Brazil and People's Republic of China started its diplomatic relationship, and at that time, the total sum of the two countries' trade was only 17.42 million USD, just 5 years later, in 1979, the scale of this bilateral trade increased by 12 folders. (Yilmaz & Koyuncu, 2006)

In 2004, an exchange of state visit between Brazilian President Lula and Chinese President Hu has given this bilateral relationship an even wider space to grow. As the Brazilian Foreign Minister stated at the time, "We are talking about a relationship between the largest developing country in the Western hemisphere and the largest developing country in the Eastern hemisphere (Folha de Sao Paulo, 2004)."

Brazilian exports to China went from \$1.1 billion in 2000, to \$21 billion in 2009. Of this, approximately 78 percent accounts for basic goods (soy, iron ore, and oil). Imports from China also went up, from \$1.2 billion in 2000, to \$15.9 billion in 2009. In the first two quarters of 2010, China became the number one buyer

of Brazilian exports, ahead of the United States, and number two source of Brazilian imports, behind the United States. Overall, in terms of total trade flows, China is Brazil's main trading partner.¹

According to a research did by the Secretariat for Social Communication-International Area, we can see the gradual evolution of this bilateral trade (In USD Million terms):

Table 1: Bilateral trade between China and Brazil from 2001 to 2010

Year	Exports to China (A)	Share relative to total exports (%)	Imports from China (B)	Share relative to total imports (%)	Bilateral trade flow (A+B)	Surplus (A-B)
2001	1,902	3.3	1,328	2.4	3,231	574
2002	2,521	4.2	1,554	3.3	4,075	967
2003	4,533	6.2	2,148	4.4	6,681	2,386
2004	5,442	5.6	3,710	5.9	9,152	1,731
2005	6,835	5.8	5,355	7.3	12,190	1,480
2006	8,402	6.1	7,990	8.7	16,393	412

¹ According to CNI (Brazilian National Confederation of Industries), of 134 protectionist measures Brazil undertook until March 2010, more than 30 percent had China as a target.

2007	10,749	6.7	12,621	10.5	23,370	-1,872
2008	16,523	8.3	20,044	11.6	36,567	-3,522
2009	21,004	13.7	15,911	12.5	36,915	5,093
2010	30,786	15.2	25,593	14.1	56,379	5,193

Sources: Secretariat for Foreign Trade (SECEX)/Ministry of Development, Industry and Foreign Trade (MDIC).

According to Data from the Ministry of Commerce of the People's Republic of China, in 2011, the bilateral trade between China and Brazil increased to 82.4 Billion USD dollars, a 45% increase compare to 2010. Out of the 82.4 Billion USD dollars, China's export accounted for 31.8 Billion USD dollars, 30% increase compare to 2010. Comparatively, China's import from Brazil accounted for 52.4 Billion USD dollars, 70% increase compared to year 2010. Brazil now becomes the 9th largest trade partner worldwide and the largest in South America, as well as in BRICs countries. On the contrary, China is now the biggest trade partner to Brazil (Ministério do Desenvolvimento, Indústria e Comércio Exterior), with the United States second (60.1 Billion USD dollars) and Argentina the third (39.6 Billion USD dollars).

This relationship has been strengthened even deeper after trade agreements signed by leaders from Brazil and China aimed at increasing investment and trade flows. Ms. Rousseff and Mr. Wen, who was in Brazil to attend Rio+20, the

sustainable development summit meeting sponsored by the United Nations, signed the agreement to accord each other the status of a global strategic partnership. (Reuters , 2012)

B. Characteristics of Trade between China and Brazil

Nevertheless, it is easy to notice that the big state owned companies from China have played a large role in importing from Brazil due to its hunger for resources. And the beneficiary of this Chinese import are mainly Brazilian big corporations, for example, *Vale* 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. Furthermore, Brazil's infrastructure benefited from Chinese investments in the steel sector (*Companhia Siderurgica do Atlantico*), a major gas pipeline (*Gasoduto Gasene*), and a thermoelectric power plant (*Candiota*). (Carlos, 2011)

The same is also true from the Brazilian side, even though Brazil nowadays doesn't have as many big corporations as China according to the Forbes fortunes 500 list, However, we can notice an increasing outward investment from Brazil to China led by the big corporations, for example, Brazilian Food Corporation recently opened their factory for processing meat in China, and

Embraer opened its first airplane factory overseas in China and the country became the company's second largest consumer, behind the United States.

If we take a deep look at the composition of trade in this bilateral relationship, Brazilian and Chinese companies are very different:

A) Bilateral trades by Category

We can first analysis the composition of bilateral trade by its categories of exports:

Table 2: Brazilian Exports to China by Category (US\$ million FOB)

	2010		2009		Δ%
	Valor Value	Part. % Share %	Valor Value	Part. % Share %	
Total	30.785,9	100,0	21.003,9	100,0	46,6
Básicos / Basics	25.755,5	83,7	16.310,7	77,7	57,9
Semanufat. / Semimanufact.	3.622,2	11,8	3.262,1	15,5	11,0
Manufat. / Manufact.	1.395,4	4,5	1.422,2	6,8	-1,9
Op. Especiais / Spec. Op.	12,9	0,0	8,8	0,0	46,2

Source: Secretariat for Foreign Trade (SECEX)/Ministry of Development, Industry and Foreign Trade (MDIC).

From the table above, it's quite obvious that the exports from Brazil to China are mainly basic products that are generally referred as nature resources. And

Semi-manufactured and manufactured goods account for around 15% to 20% of total exports.

And if you take a look at the exports by categories from Chinese side to Brazil, we can see the situation is really the opposite:

Table 3: Brazilian Imports from China by Category (US\$ million FOB)

Brazilian Imports from China by Category (US\$ million FOB)

	2010		2009		Δ%
	Valor Value	Part. % Share %	Valor Value	Part. % Share %	
Total	25.593,2	100,0	15.911,1	100,0	60,9
Básicos / Basics	535,6	2,1	255,9	1,6	109,3
Semanufat. / Semimanufact.	104,6	0,4	42,8	0,3	144,3
Manufat. / Manufact.	24.953,0	97,5	15.612,4	98,1	59,8

Source: Secretariat for Foreign Trade (SECEX)/Ministry of Development, Industry and Foreign Trade (MDIC).

Brazilian imports from China are mainly manufactured goods, with basics and semi-manufactured goods account for around 2%.

B) Bilateral trade by numbers of participating companies

Table 4: Total Number of Brazilian Companies trading with China

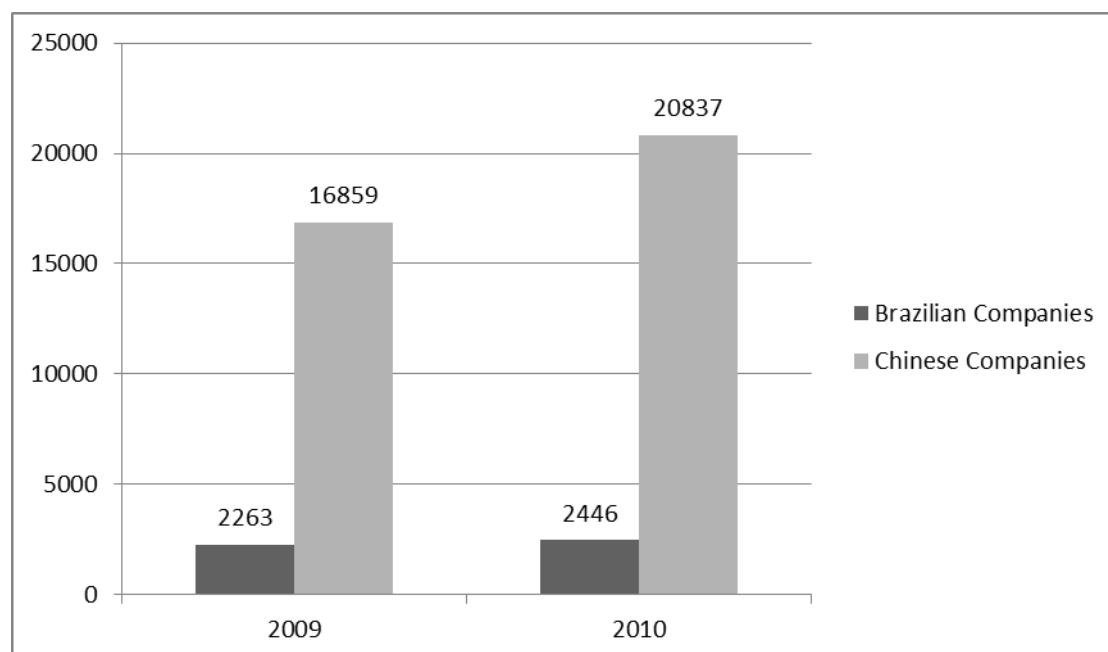
Total Number of Brazilian Companies Trading with China

Período <i>Period</i>	Exportadores <i>Exporters</i>	Importadores <i>Importers</i>
2009	2.263	16.859
2010	2.446	20.837
Variação / Change		
Abs.	183	3.978
Rel. %	8,1	23,6

Source: SECEX/MDIC

The total above demonstrates the numbers of participating companies from China and Brazil in this bilateral trade. We can summarize the finding above into a chart:

Chart 1: Number of Chinese and Brazilian companies in this bilateral trade:



Because the Brazilian exports are mainly concentrated in commodities, therefore, even with much smaller number of companies, Brazil is still able to have a trade surplus against China. This is due to the nature of Commodity trading businesses; it's hard to find the presence of SMEs in this business. On the other hand, Chinese exports are mainly concentrated on manufactured goods, normally manufactured by SMEs in China. Brazil can have a trade surplus against China with only 10% number of companies compared to Chinese ones.

C. The Evolution and Motivation of Chinese companies in Brazil.

After 30 years of economic development, China today surpassed Japan, become the 2nd biggest economy worldwide in GDP terms, and is playing a more and more important role in today's international trade. (Bloomberg News, 2010) According to the National Statistics bureau, SMEs in China account already for 99% of total companies registered in China, and contributed over 60% of GDP, 50% of tax, 70% of international trade and 80% of job positions. According to Forbes, the average life of an American SME is about 7 years, and in China, this number is between 3-5 years. However, even with the fierce competition, a lot of companies got disappeared, there are even more companies created every year. Therefore, the sum of SMEs in China is increasing every year.

In order for companies to be more competitive, Chinese government encourages Chinese companies "Go Global" in order to directly learn from competitors, acquire external resources in order to prove its own competitiveness. (Peter J. Buckley, 2007)

Brazil and other emerging markets have already been important to Chinese companies, and nowadays Chinese government also encourages Chinese companies to invest in Brazil and to have more diverse cooperation with Brazilian companies. (Peter J. Buckley et al., 2008)

Since the Economy reforms of China, there were quite a few Chinese companies have set up their trading companies in Brazil, companies like Bank of China and Cisco have set up their branches in Sao Paulo and Rio de Janeiro too.

Nowadays, there were recent discovery of petro sites in the coast of Brazil; the reserve of those sites will pump Brazil into the list of major petro exporters. In 2008, Brazil has made its 10 years plan for the expansion of its energy sector, aiming to invest into Petro, Nature Gas, Electricity, Bio Energy sectors 352 billion USD, 146 billion USD, 83 billion USD, 23 billion USD respectively, total of 600 billion USD until 2017. (Wrobel, 2009) Just one year after the 10 year-plan was made, China and Brazil signed the 10 billion USD dollars contract for petro exchange with loans in 2009, China become one of the biggest country which invests into Brazilian energy sector.

In 2010, 93% of Chinese investment in Brazil come from big states owned

companies, including China Oil & Foodstuffs Corporation , Shanghai Baosteel Group , SINOCEM GROUP , China Railway Construction Corporation Limited , Sinopec Group , State Grid Corporation of China, Dongfeng Automobile Co.,Ltd already invested over 21.6 billion USD in Brazil (一财网, 2011). However, Chinese SMEs are also looking forward to expanding their business into Brazil, especially areas such as: Mechanical Machinery, Telecommunication, light industry etc.

There are also five advantages that Brazil has five big advantages that Chinese companies regard as opportunities (Peter J.Buckley et al., 2007):

- 1) The Population is large as a single market, and the GDP per capita is not low. In 2009, the GDP per capital of Brazil is 8237 USD, is about 2.3 times of Chinese ones.
- 2) The economic structure of Brazil is very similar to the developed countries: in the research conducted in 1990: the primary industry contributes 9.1% of its GDP, and the secondary industry and Tertiary industry contribute 34% and 46.9% respectively. And the 3rd research conducted in 2009 showed that the percentage of GDP occupied by Tertiary industry increased to even 68.5%.
- 3) The durable goods consumption per capital, such as cars is much higer than the one in China
- 4) High level of Urbanization, 80% of places in Brazil are urbanized, the rate is much higher than the rate in China

5) The huge reserve of nature resources attract many companies coming to Brazil. For example: Arable land per capital in Brazil is 20 times than it is in China.

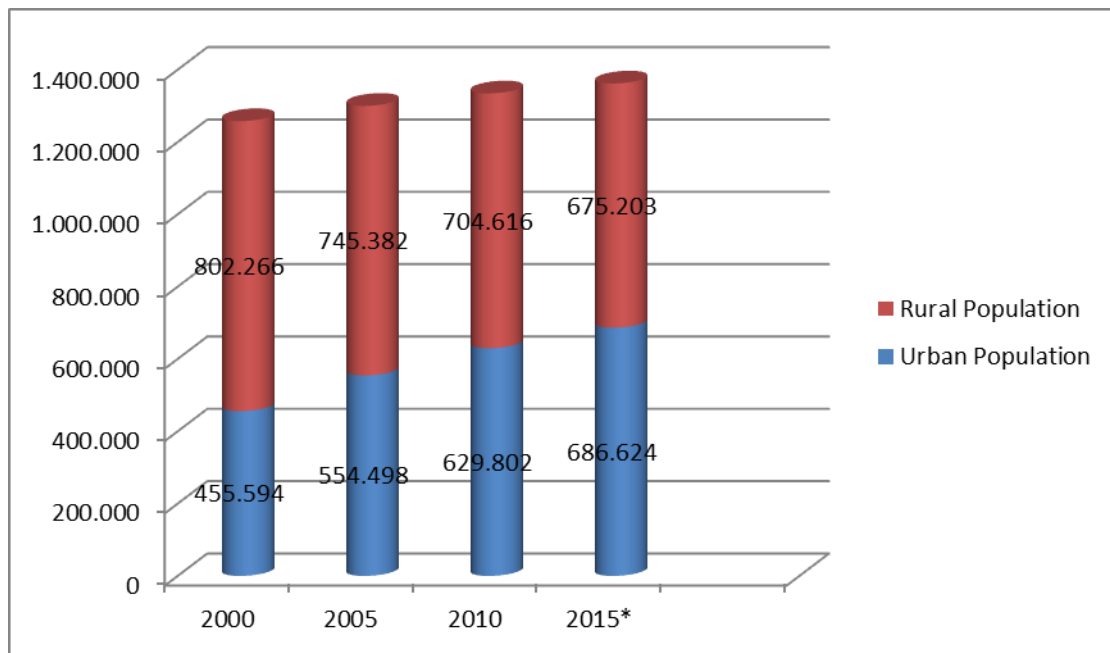
D. The Evolution and Motivation of Brazilian companies in China.

While the Chinese companies are expanding internationally, Brazil companies also start exploring China on return.

According to data of Banco Central do Brasil, the Brazilian direct investment (Investimento Brasileiro Direto) in China is increasing a lot:

In 2008, there were investments of 48 million USD from Brazil to China, this investment increased to 138 million USD in 2009. In the following years, the Chinese government wants to balance the development of Chinese economy which means they will try to increase the domestic consumption in China; Chinese Urbanization is another attractive factor for foreign companies to enter, more and more Chinese will have disposable income to purchase foreign goods. According to United Nations Population Division, we can see there are more and more people who are moving to cities in China, both population wise and percentage wise.

Chart 2: Chinese Demography change between urban populations and rural populations

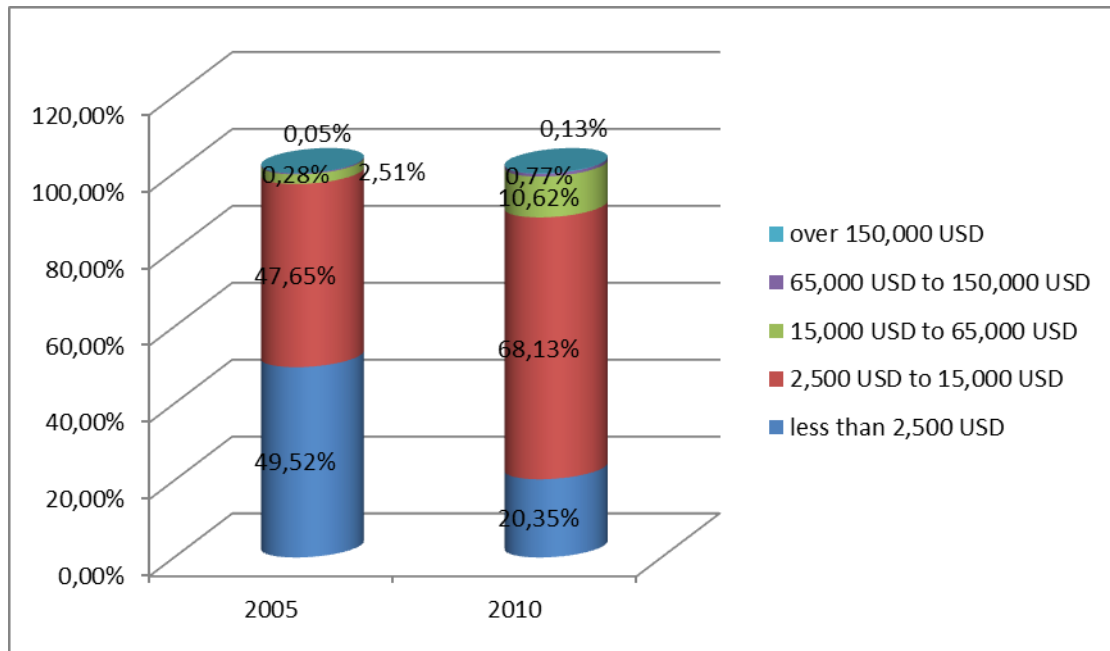


Source: UN population Division

*provision

And in terms of income, it's even easier to notice that purchasing power of Chinese family is increasing:

Chart 3: Purchasing power per household in China



Source: Euromonitor

Another data published by United Nations Conference on Trade and Development (UNCTAD), in 2009, 32% of Foreign Direct Investment in Asia were invested in China.

Therefore, it will create more opportunities for international companies, like Brazilian companies to invest in China.

II. How to define SMEs in Brazil and China, and its importance on country's economy

In order to better continue research the topic, it's better to have a clear definition of what can be defined as SMEs:

While in Europe, the European Union defines SMEs as companies with fewer than 250 employees, and with an annual turnover not exceeding 50 million euros/or an annual balance sheet total not exceeding 43 million euros (European Commission , 2011), and the United States define SMEs as firms with fewer than 500 employees (OCED, 2011). China and Brazil have different criteria to define SMEs.

A. Definition of SMEs in China and Brazil

(1) Definition of SMEs in China:

Table 5: Definition of SMEs in China

	Employees	Sales (USD 15,000)
Industry	2,000	3,000
Construction	3,000	3,000
Wholesale	200	3,000
Retail	500	1,000
Transportation	3,000	3,000
Postal Service	1,000	3,000
Accommodation & Restaurant	800	3,000

Source: National Bureau of Statistics of China, 2009.

As we can see from the table above, it's quite difficult the definition of SMEs in China compared to in the EU and United States, however, we only need to focus on finding the impact of Chinese SMEs on Chinese Economy:

Given that most of Chinese exports are manufactured and semi manufactured goods, so the Chinese exports are concentrated in the industry category, as we can see from the Chinese National Bureau Statistics, we can therefore consider the definition of Chinese SMEs which are participating International trade is companies with employees less than 1000. Income wise, they are companies with annual gross income below 400,000,000 RMB, equals to 60,000,000 USD.

(2) Definition of SMEs in Brazil

After having known what SMEs mean in China, we shall take a look on the Brazilian Side, the definition is again different from Europe, US and also China.

According to Sebrae

Table 6: Definition of SMEs in Brazil

Firm Size	Industrial	Service/Commerce Sector
-----------	------------	----------------------------

Micro	Up to 19	Up to 09
Small	20 to 99	10 to 49
Medium	100 to 499	50 to 99
Large	500 and more	100 and more

Source: Sebrae, 2005

According to SIMPLES, a taxation law specially designed for SMEs' needs, the values of annual gross income are different, as follow:

- Micro Business: Annual gross income up to R 240.000,00 (120.000 USD)
- Small Business: Annual gross income up from R 240.000,00 to R2.4000.000,00 (120.000 to 1.200.000 USD)
- Medium Business: Not in the category

As we can see, in general term, Brazilian SMEs are much smaller than how we defined SMEs in China, as number of employees wise, or annual gross income term.

However, in this thesis, an absolute comparison is not necessary, since we are more focused on the Internationalization of SMEs in this thesis, and the impact on its economy. We should respect how the SMEs are defined in each country. Because in China and Brazil, SMEs of its own countries have benefited many programs, such as taxation reduce, training and financial aid from its own

government agents. Plus, both in China and Brazil, SMEs account for 99% companies created in the country, proportional wise, it's the same in both countries.

Also, in the absolute term, China's GDP is much larger than the one of Brazil, as well as in terms of population. Therefore, we will use the own definition of its own country in this thesis.

B. The impact of national SMEs on China and Brazil

The importance of small and medium sized businesses in any economy is unquestionable, according to SEBRAE, micro and small firms represented around 98% firms established in Brazil. And according to the Brazilian Federal Accounting Council (CFC), the estimated number of SMEs in Brazil (Jan 2009) was 5.9 million, representing 99% of Brazilian enterprises. However, SMEs in Brazil contributes only 20% of Brazilian GDP.

On the other side, according to Chinese government official journal, People's Daily, there are 42 million SMEs within China, Making up also 99% of the total number of enterprises in China.

Also, according to RAIS (Annual Report of Social Information), micro and small companies are responsible for 53% of job generation in the country in 2003.

Meanwhile, SMEs in China account for 60% of China's GDP, 66% of China's patent applications, 68% percent of China's exports, 80% of its new products and provide more than 80% of total employment. (The Economist, 2009)

C. Exports generated by SMEs in Brazil and China

In terms of Exports, SMEs in China are responsible of 90% of China's all exports, mostly labor-intensive products (China Briefing, June 12, 2007). Despite the importance of SMEs in Brazil's economy as a whole, regarding international business, their share is irrelevant. According to OECD (Organization for Economic Cooperation and Development) and UNCTAD (United Nations Conference on Trade and Development), 31% of all US exports are from small companies. In China, the numbers may vary from 40% to 60%. In Italy, 53% of Italian exports are from small and medium sized companies. Here in Brazil, in 2003, SMEs reached 2, 4% of all Brazilian exports (values expressed in FOB US\$). Many are missing overseas opportunities because they feel comfortable selling in the domestic market only. The problem is that in a global scenario, competition comes from unexpected place²

III. The OECD-APEC framework of barriers of SMEs internationalization.

² According to Globalizacao e Internacionalizacao de Empresas by Paulo Marcio da Silva Melo of Centro Universitario Euro Americano and Marcelo Goncalves do Valle of Universidad Estadual de Campinas.

According to a study by OECD and APEC in 2007 about *removing Barriers to SME Access to International Markets*, it identified the major drives for SMEs to go abroad, as well as the major obstacles for SMEs from going abroad.

The aim of this OECD-APEC report is to gain a better understanding of the barriers to internationalization of SMEs of its member countries. The OECD conducted two surveys in order to obtain have both point of views from policy maker in each member economy and SMEs in each member economy their perceptions of the most significant barriers to exporting/internationalizing. The survey lists a number of known barriers and invites SMEs and policy makers to rank the barriers according to the SME's perception of which are the most or least significant factors they face in internationalization.

I would first start introducing the drives of SMEs going abroad, and then the obstacles prohibit companies from going abroad. However, the findings from OECD-APEC are quite general; I will use the findings from OECD-APEC as a general framework, then to compare with my findings in the specific bilateral trading relationship between Brazil and China.

In the OECD report, there are many drives for SMEs to go abroad

Table 7: Motives of SME internationalization

Country	Motive/Stimulus	Author
Australia	Grow Market; Control supply chain, reduce cost	EPIC, 2008
Belgium, France, Germany, Greece, Italy, Netherlands, Poland, Spain, Sweden, and UK	Market position; knowledge and relationship search	Kocher and Buhl, 2007
Cnada	Growth, Management capacity factors, social capital, immigrant links, R&D investment, firm size/age/experience, limited domestic market	Orser et al., 2008
Ireland and India	Knowledge resources	Garvey and Brennan, 2006
Portugal (Azores Island)	Social Networks/ties	Camara and Simoes, 2008
Spain	Managers' previous international experience, firm size/age, regional location; country/regional image	Lopez, 2007
Spain (Catalan region)	Managers' previous international experience, growth and profit expectations, social and business networks, and domestic market saturation/stagnation	Stoian, 2006
Sweden	Growth, managers' previous international experience, unique product or technology, limited domestic market	Rundh 2007
UK	Growth, Profits, market size	Barnes et al., 2006
USA	Profits	UPS,2007
USA	Weak dollar, immigrant links, Internet global reach	Iwata, 2008 USA Today, 2008
USA	Global trade infrastructure	USA Today,

		2008
Chile	Firm-specific factors (technology content and size) and sector	Milesi et al., 2007
Indonesia	Firm size/resource base, sector-level export intensity, presence of foreign buyers, and firm export orientation	Wengel and Rodriguez, 2006

Source: Research from OECD-APEC.

After a careful review of the studies above, there are a few key drives for SME internationalization, those are:

- A. Growth Motives
- B. Knowledge-related motives
- C. Network/Social ties
- D. Domestic/Regional Market factors

We then go into the area which interests us the most, which are obstacles facing by SMEs :

Despite the motivations above for the internationalization of SMEs, there are still many obstacles, according to the report of OCED. The main obstacles are:

Table 8: Barriers ranked by SMEs using the top ten ranking method:

Rank-Weighted factor	Description of barrier
1	Shortage of working capital to finance exports
2	Identifying foreign business opportunities

3	Limited information to locate/analyze markets
4	Inability to contact potential overseas customers
5	Obtaining reliable foreign representation
6	Lack of managerial time to deal with internationalization
7	Inadequate quantity of and/or untrained personnel for internationalization
8	Difficulty in matching competitors' prices
9	Lack of home government assistance/incentives
10	Excessive transportation costs

Source: OECD-APEC 2007

Table 9: Barriers ranked by Member Economies using the top ten ranking method

Rank-Weighted factor	Description of barrier
1	Inadequate quantity of and/or untrained personnel internationalization
2	Shortage of working capital to finance exports
3	Limited information to locate/analyze markets
4	Identifying foreign business opportunities
5	Lack of managerial time to deal with internationalization
6	Inability to contact potential overseas customers
7	Developing new products for foreign markets
8	Unfamiliar foreign business practices
9	Unfamiliar exporting procedures/paperwork

10	Meeting export product quality/standards/specifications
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Source: OCED-APEC 2007

In this thesis, we will use the above factors as a general framework to check if all factors apply in the case of Brazilian and Chinese SMEs in this bilateral trade relationship with the results we will obtain from interviews and other public publications to check, complement or modify the above factors.

The Methodology will be explained in the next chapter.

IV. Laws and legislations in Brazil

For any company considering going to a foreign market, laws and legislation are always very important for companies to be aware of, especially countries like Brazil have gotten very complex law and legislations.

1. Brazilian Taxation system

Brazil's taxation system is complicated, with more than 60 types of taxes for corporate, make foreign companies more reluctant in coming to Brazil. According to Doing Business in Brazil report 2013, Brazil ranked 156th among the 185 surveyed countries as the country with the longest taxing

paying process. Moreover, the taxation system changes in Brazil almost every year, companies have to spend a lot of energy on dealing with the taxation system in Brazil in order not to have trouble in the future. Apparently, this added the complexity for Chinese companies to set up an office in Brazil.

Brazil imposes taxes at the federal, state and municipal levels for corporations. A Brazilian company is subject to income tax at a general rate of 25% on its worldwide income. A Brazilian branch office, agency or representative office of a company domiciled abroad is also subject to Brazilian tax on its worldwide income.

In addition to corporate income tax, a Brazilian company is subject to social contribution tax, charged at a rate of 9% on its worldwide income. After May, 2008, social contribution tax rate was increased to 15% for financial institutions, private insurance companies and capitalization companies.

The federal government imposes a VAT-type of tax (IPI) on imports and transactions involving manufactured goods, while states also impose a VAT-type of tax (ICMS) generally charged on sales transactions (including any movements of goods out of the company's facility as well as certain types of services). PIS and COFINS are two additional taxes charged on imports of goods and services and on gross receipts. The main municipal tax is the service tax (ISS) charged on the importation and the local provision of certain services. ISS applies at rates that vary from 2% to 5%.

Exported services may be exempted from ISS, provided certain conditions are met

According to Doing Business report by Ernst & Young 2013, there are few things companies need to know about the Brazilian taxation system:

Tax Administration

The Federal tax system is administrated by the Federal Tax Revenue (Secretaria da Receita Federal or SRF), which is part of the Ministry of the Economy. States and municipalities maintain similar administrative departments.

Tax Payment

Legal Entities

A company may elect to pay corporate taxes based on a presumed profit method (lucro presumido) or based on actual taxable income (lucro real). The election is annual and binding for the entire calendar year.

Under the actual profit method, corporate taxes are calculated on the actual profit made, adjusted for nondeductible expenses and nontaxable revenue on an annual or quarterly basis. The tax rate is 15% plus a surtax of 10% on annual income that exceeds R\$240,000. Prepayments are required on a monthly basis. The monthly corporate tax payments may be calculated using a

deemed or actual taxable income, and they are considered to be advance payments of the actual corporate tax due by the end of calendar year. If the taxpayer elects for a quarterly tax period, the difference between the prepayments made and the actual corporate tax due at the end of each quarter must be paid by the last working day of the month following the previous quarter (installment payments are available plus interest).

If taxpayers elects for an annual period, any positive difference between the prepayments and the actual corporate tax due at the end of the calendar year must be paid by the last working day of March of the following year.

The corporate income tax due may be reduced by income taxes paid or withheld and certain tax incentives may also apply. A Brazilian taxpayer may claim a refund if an overpayment has been made (although the process tends to be very time consuming) or the taxpayer may recognize a tax credit that may be used to offset other federal taxes (under special conditions).

A company that uses the presumed profit system calculates corporate taxes based on a deemed taxable base made up of a set percentage of gross sales and service receipts.

Tax Audits

All Brazilian taxpayers are subject to tax audits. Although the criteria for

selecting taxpayers for inspection are not publicly known, it is common for the tax authorities to audit companies with relatively high income and net worth. A Brazilian company must maintain proper records and supporting documentation for taxes paid for a minimum of six years, in case of a tax audit.

Tax Assessment

A Brazilian taxpayer is notified through a Notice of Assessment (Auto de Infração) if the tax authorities find any irregularity in the income tax return. The taxpayer has 30 days to file a defense based on the tax assessment. If this defense is rejected an administrative appeal may be made to the Taxpayers' Council (Conselho de Contribuintes).

If a company receives a Notice of Assessment, it may reduce the penalty by paying the amount due within 30 days following the issuance of the Notice. If payment in full is made in this period, the company receives a 50% reduction in the normal penalty rate of 75% (therefore, the effective penalty rate is 37.5%).

2. Labor Laws:

(1) Nationality Requirements:

To preserve jobs for Brazilian nationals, Brazilian government generally requires that at least 2 out of 3 employees in any Brazilian company are

Brazilian citizens, and as well as 2 out of 3 total remuneration for Brazilian citizens. Companies must prepare an annual report for the Ministry of Labor with a statement showing the proportion of national to foreign employees.

This creates a huge barrier for Chinese companies doing businesses in Brazil. Since Chinese companies are not good at International Management, they prefer to hire Chinese workers even for its overseas activities.

However, with this law in Brazil, it discourages Chinese companies to have more diversified activities in Brazil. Different from Africa where Chinese companies won many big projects, then they are able to undertake the entire project by workers sent from China. But this is almost not possible to be seen in Brazil.

For Small-Medium sized Chinese companies, their overseas business activities normally need only 2 or 3 persons to operate, or even just one employee. In this case, SMEs even have stronger preference to send a Chinese worker to Brazil, instead of hiring Brazilian workers locally. Interesting fact is that even the Chinese employees are hired to work in Brazil are entitled to exact the same rights that Brazilian workers or any other nationals working in Brazil have.

(2)Labor Legislation

Labor relations are controlled by the Consolidated Labor Laws and numerous complementary laws and regulations. Employees in Brazil are given

numbers of labor rights and benefits. If any of these rights or benefits is violated, an employee can make a claim in court for a period of up to two years after the termination of the employment contract. Claims may be made for the five year period preceding the exercise of these rights. A change in the legal structure of ownership of an employer does not affect the rights of employees under the labor laws.

This is also an issue companies need to think of before hiring local workers:

The interview I took with a construction company, exactly because of this 2 year cause, their company got suit by a local worker they fired one year ago.

And different from China where workers need to prove their unfair treatment by the company, this Chinese company has to at first place prove this worker has never been badly treated. In order to prove something hasn't happened one year ago, this gave a headache for this Chinese company which never had the similar problem back home.

(3) Civil and Labor Law Rights

Civil and Labor law rights provide that all workers must be regarded equally, the Federal Constitution grants the right to strike to workers in private sector companies. Also, companies must provide their employees with transportation or meal vouchers, especially for transportation cost, an employee must not pay over 6% of their only salaries to the cost of transportation.

The strike is rarely to be seen in China, not only because of the law, also because of Chinese mentality, people don't strike even they are not satisfied. Also, employees are not taken care of as well as the Brazilian companies do for their employees.

V. Laws and legislations in China

Tax is the most important source of fiscal revenue of China. It is also an important economic lever utilized by the State to strengthen macro-economic regulation, which produces important impacts on China's economic and social development. After the tax system reform in 1994 and the fine-tuning of it in subsequent years, China has preliminarily built up a tax system adaptable to the socialist market economy, which has been playing an important role in assuring China's fiscal revenue, broadening the opening to the outside world and promoting the sustained, fast and healthy development of China's national economy.

1. TYPE OF TAXES

Under the current tax system in China, there are 25 types of taxes, which, according to their nature and function, can be divided into the following 8 categories:

a) Category of turnover taxes. It includes 3 kinds of taxes, namely, Value - Added Tax, Consumption Tax and Business Tax. The levy of these taxes is normally based on the volume of turnover or sales of the taxpayers in the manufacturing, circulation or service sectors.

b) Category of income taxes. It includes Enterprise Income Tax (applicable to such domestic enterprises as state-owned enterprises, collectively-owned

enterprises, private enterprises, joint operation enterprises and joint equity enterprises), Income Tax on Enterprises with Foreign Investment and Foreign Enterprises, and Individual Income Tax. These taxes are levied on the basis of the profits gained by producers or dealers, or the income earned by individuals.

c) Category of resource taxes. It consists of Resource Tax and Urban and Township Land Use Tax. These taxes are applicable to the exploiters engaged in natural resource exploitation or to the users of urban and township land. These taxes reflect the chargeable use of state-owned natural resources, and aim to adjust the different profits derived by taxpayers who have access to different availability of natural resources.

d) Category of taxes for special purposes. These taxes are City Maintenance and Construction Tax, Farmland Occupation Tax, Fixed Asset Investment Orientation Regulation Tax and Land Appreciation Tax. These taxes are levied on specific items for special regulative purposes.

e) Category of property taxes. It compasses House Property Tax, Urban real Estate Tax, and Inheritance Tax (not yet levied).

f) Category of behavior taxes. It includes Vehicle and Vessel Usage Tax, Vehicle and Vessel Usage License Plate Tax, Stamp Tax, Deed Tax, Securities Exchange Tax (not yet levied), Slaughter Tax and Banquet Tax. These taxes are levied on specified behavior.

Chapter 2: Methodology

I. The research project and research questions

The research project sought to answer the research question: what are the obstacles of Chinese and Brazilian SMEs in this bilateral trade? And what are the ways to overcome them.

Since both Brazilian and Chinese SMEs start their internationalization quite late compared to the European and American ones. The subject matter is novel; the literature review enables to identify the main initiatives of the bilateral trade and try to understand what the main obstacles of Chinese and Brazilian companies are in this bilateral trade, and further to focus on the difficulties of Brazilian and Chinese SMEs.

The methodology used for this thesis is qualitative and descriptive, to conduct interviews with businessmen from Chinese SMEs and Brazilian SMEs, as well as import/export companies which have significant experience in this bilateral trade, as well as professors, officials to understand the initiatives and obstacles existing in this bilateral trade for both Brazilian and Chinese SMEs.

During my Master's at FGV-EAESP in Sao Paulo, I worked as a Portuguese-Chinese interpret for many Chinese companies from different industries coming to Brazil mainly for exhibitions and clients visits. It helped me a lot on understanding the initiatives of Chinese companies in coming to Brazil, and the difficulties they are facing doing business in Brazil. I took the advantage talking and interviewing to those Chinese, usually owners of SMEs. Some had time to respond questions oriented survey (Appendix 1), which are made to check if OECD-APEC findings apply in the situation of Brazil and China bilateral trade

With some of interviewees, according to their preference, the questions were open-ended in order to get as much information as possible from the owners of those SMEs without missing potential assumptions that were not foreseen. Also, while translating for Chinese companies, I got many contacts with their counterpart: Brazilian companies. Very often, those Brazilian companies are also SMEs in Brazil.

The types of participants are:

1. The Owners or Managers of Chinese SMEs
 - a) Chinese SMEs in textile, clothing industries
 - b) Chinese SMEs in light industries such as small electronic products
 - c) Chinese SMEs in heavy industries, like mechanical machinery industries
2. The Owners or Managers of Brazilian SMEs
3. Import/Export companies between Brazil and China
4. Officials from Public organizations
5. Researchers

Table 10: Type and number of participants

Type of interviewees	Number of participants
Chinese SMEs	15
Brazilian SMEs	8
Import/Export companies	5
Officials	3
Researchers	4

It is easy to notice that the sample is not big, especially the from the Brazilian SMEs side, mainly due to the less active participation of Brazilian SMEs in

International Market, most of Brazilian SMEs I had chance to meet are simply importing from China, or doing business internally in Brazil.

Together with those interviews above, I also got information from public organization or governmental secretariat publications and websites.

II. Result of interviews and result analysis

From the results of the interviews, the obstacles for Chinese SMEs are very different from the obstacles for Brazilian ones.

For Brazilian SMEs to come to China, obstacles are:

- Lack of International Management skills
- Lack of foreign business practice
- Shortage of working capital, financing

For Chinese SMEs to come to Brazil, obstacles are:

- Lack of International Management skills
- Lack of foreign business practice
- Meeting exporting goods quality/standards/specifications

From the results of those interviews above, we can analyze to which extend these obstacles prohibit SMEs in benefiting from this growing bilateral trade, and how those obstacles could be overcome.

In the next chapter, the identified obstacles will be analyzed and grouped under different variables and detailed.

Chapter 3: The Top 3 obstacles for Chinese companies in Brazil

I. Lack of International Management skills

This is a huge disadvantage that Chinese companies have compare to many other multinationals. There are many factors which contribute to this handicap of Chinese companies:

- 1) First of all, China was and is still quite insolated in terms of races mixture, very different from countries like Europe, USA or Brazil, China is a pretty much a single race nation where 90% of people think they are Han (the biggest ethical group in China), we are not used to deal with multi-cultural or multi-lingual issues
- 2) Secondly, the executive education didn't keep the path with the country's development. The first generation of entrepreneurs in China very often doesn't have as high education as owners in the world, even

compare to countries like Brazil, the owners or executives quite often inherit from their family businesses. And normally rich people in Brazil had better access to higher education, therefore, in terms of education; owners of SMEs in Brazil in general had better education and international exposure than the owners of SMEs in China. But we know see the trend is changing in China as well since in China, it starts to have second generation businessmen who start taking over their parents' business.

- 3) Also, Chinese companies prefer to hire Chinese workers even overseas, this limits companies and managers from improving their international management skills.

In the context of Chinese companies in Brazil, they often only hire Chinese workers, with one or two interprets, very often, those interprets are of Chinese origin too. When working for Chinese companies, it's harder to separate private life from work, if managers or co-workers call you in the evening asking for a job to be done, you have to get it done. This is really hard to accept for many Brazilians.

Since Brazilians are hired by Chinese companies in Brazil, are not really for high positions, often it's hard to expect them to contribute a lot. For the same management position, a Brazilian manager would make much more than a Chinese one: from an interview I did with a big Chinese mechanical machinery company in Brazil, they are hiring a Brazilian

manager for its Brazilian market, and the salary is about 20,000 reals per month, without counting all other benefits they have to provide to this manager. And the director of International department back home in China is making even less money than him. The cost of hiring qualified people in Brazil is really high and this prevent Chinese companies from hiring more competent Brazilian workers also.

II . Unfamiliar foreign business practices:

Chinese companies often prefer emerging market because of the market potential and less regulations in emerging markets to decelerate business from taking off. Because many things need to start from zero, it's better to implement projects as fast as possible.

However, Brazil is quite different from this concept of emerging markets:

First of all, Brazil is quite developed compared to many other emerging countries, like countries in Africa. Or many other countries in Latin America, therefore, starting a project in Brazil is not only about to implement something as fast as possible, but to find the most correct way to achieve that.

Secondly, due to its historical background, Brazil had a huge influence of European Culture and the way of doing things. People still regard Europe and

The USA as a model of its country's development. Therefore, laws and regulations are quite strict in order to make sure the economic development is in line with the country's environment, labor, etc.

And since Chinese companies due to the short time of knowledge gathering on International expansion, are in a great lack of international management skills in doing business abroad. Brazil is truly a tough place for Chinese companies. While Chinese companies are undertaking a lot of big construction project in Africa, this is really rare to be seen in Brazil.

A. For Chinese companies which just import/export:

The procedure is also quite bureaucratic from the regulatory perspective:

Import and Export transactions are controlled by the Chamber of Foreign Trade (Secretaria de Comercio Exterior or SECEX), an agency of the Ministry of Development for foreign trade.

In order to import goods into and export goods out of Brazil, it's mandatory to register with RADAR, an electronic system operated by Brazilian Federal Revenue Service. However, applying for RADAR in Brazil means more restricted tax auditing, and many small and medium sized Brazilian companies are reluctant in having RADAR of their own, they prefer to import through importing companies, using their RADAR to import.

B. For Chinese companies intend to set up a branch/company in Brazil:

Having a Brazilian branch is of course much easier to do business in Brazil, with CNPJ, a company can perform all non-restricted business activities in Brazil. However, it involves a lot of Brazilian Business practices that Chinese companies have to learn.

In the literature reviews, we have seen already a lot of laws and legislations in Brazil, in practice, it's very important that Chinese companies in Brazil obey these laws.

One interviewee from a big Chinese company said there was once a big project between China and Brazil in purpose of building a huge dam in the south of Brazil. However, because of the lack of knowledge on laws and regulations in Brazil, this company couldn't manage to get the 2nd project after the dam was built. They had to ship all equipment back to China and exit from Brazilian market.

III.Meeting Export Product quality/ standards/ specifications

As Chinese products often regarded as cheap and bad quality products in most places in the world, this has harmed Chinese companies from expanding abroad.

Also, Chinese SMEs often trade with everywhere worldwide, the energy needed to customize products according to each country's standards and

specifications is very hard to manage.

An interview with a mechanical machinery company, their products were sold almost everywhere in the world for the fact that the margin is quite high compare to its domestic markets. However, at the beginning, there were many problems of not meeting specific standards and specification of each country: At the beginning, when they just sold their first machine to Brazil, they didn't check with its buyers the voltage prevailed in Brazil, instead of sending the one with 220V/60 HZ, the machine they sent came with 220V/50HZ. The result was of course predictable. This company had to change all motors used for this machine. The manager said they know some situation has also happened to its competitors, however, some competitors chose to ignore the clients after machines are sold, therefore, the competitors lost the market, and it has given bad impact even on their own company.

Chapter 4: The Top 3 obstacles for Brazilian companies in China:

I. Shortage of Working Capital

Doing business in Brazil is very costly, not only Brazilian companies have to deal with the high tax they have to pay, at the same time, it's very difficult to get loans from banks, and the interest rate is very high.

As we discussed in the Chapter 3, high taxes are inevitable a big obstacle for Brazilian companies, especially Small and Medium sized enterprises from expanding abroad.

Fundraising is a huge barrier for small and medium entrepreneurs. On one side are institutions financial and clarifies require guarantees, charge reporting, as the plan company's business and management statements. However, in

some cases, it's not easy for SMEs to organize all the documents and fit in all aspects.

Internationalization always involves costs, and in many cases, there are some advanced investments need to be made in order to receive the benefit afterwards. If companies have problems financing their internationalization activities even at the beginning, it will be truly difficult for businesses abroad to take off.

However, even if the company gets loans from the bank, the interest rate is quite high, which means the business must be really quite profitable in order for companies to make profits after paying back the loan.

According to BNDES (Information published in September, 2012):

- 12% was the average rate of interest paid by SMEs in 2011
- 18% to 26% was the rate paid by companies in the consumer products in general, and tourism and hospitality industry.

This seriously limited small companies going bigger, and also their international activities. Many interviewed Brazilian SMEs have reported shortage of working capital as the primary obstacle to implement their overseas expansion

II. Unfamiliar of foreign business practice.

Different from Chinese SMEs, exportation is embedded in the DNA of Chinese SMEs for many years of trading with foreign countries. Brazilian companies are not very aware of the process even in its own country.

A. For Brazilian companies just export to China.

Like many companies like to use importing/exporting companies to prepare the documents, and outsource the service to those companies, it limited them from learning the procedures of exporting.

Also, exporting to China is easier than exporting to Brazil, not still quite complicated compare to many other countries.

According to data collected by Doing Business, exporting a standard container of goods requires 8 documents, takes 21 days and costs \$580. Importing the same container of goods requires 5 documents, takes 24 days and costs \$615

According to Doing Business in China 2013 edition, Globally, China stands at 68 in the ranking of 185 economies on the ease of trading across borders. While Japan ranked at 19th, United States 22nd. However, it's already the highest among BRIC countries, with Brazil stands at 123th, India 127th and Russia 162th among the 185 countries studies in the report.

B. For Brazilian companies intend to set up a branch/company in China

1. Chinese taxation system is also quite complicated compare to many other countries:

In Average, Chinese firms spend 338 hours a year filing, preparing and paying taxes and pay total taxes amounting to 63.7% of profit. (World Bank Group, 2013)

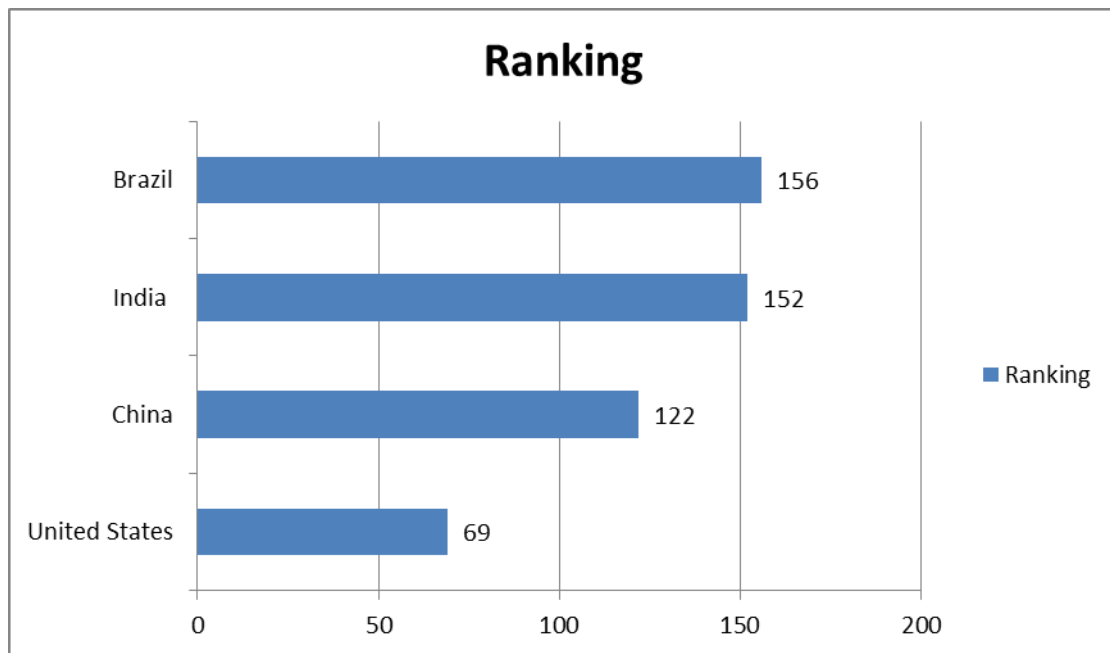
Table 11: Taxation system in China

Tax or mandatory contribution	Payments (number)	Notes on Payments	Time (hours)	Statutory tax rate	Tax base	Total tax rate (% of profit)	Note on total tax rate
Real estate rate	1		0	1%	80% building value	1	
Stamp duty	1	Online filing	0	0%	Transactions	1	
Business tax	1		0	5%	Capital gain	0.5	
Levies for construction and maintenance of river projects	0	Paid jointly	0	1%	VAT and BT	0.5	
Land use tax	1	Online filing	0	RMB 6 per square meter	Land area	0.4	
Value added tax (VAT)	1	Online filing	112	17%	Value added	0	Not including
Total	7		338			63.7	

Source : Doing Business Database

Internationally, China ranked 122th in the ranking of the easiest countries to pay taxes.

Chart 4: Ranking on ease of paying taxes



Source : World Bank Data

III. Lack of International Management skills.

From the interviews, the obstacles facing by Brazilian SMEs in this regard are quite similar to Chinese SMEs.

The similar obstacle is also about the lack of International Management skills: countries have been developing very fast in the recent years, however, the expansion of its big corporations is still in the very early stage, and the complexity of overseas businesses is quite low for both countries.

This is even worth in SMEs where businesses are normally family owned, and

due to the size of Brazilian SMEs, it's harder to have the right personals to handle international expansion, therefore to international manage its overseas activities.

Chapter 5: Recommendations for Public and Corporate action.

I. Public authorities

A. From China side:

1) Legal support for Chinese companies in Brazil

Chinese companies overseas often face legal issues, some Chinese companies did take risks on making money overseas by intentionally violating laws, and also many Chinese companies are not aware of the legal requirements or practices in other countries while doing business abroad.

There are very few government agencies in China or abroad which promote or help Chinese SMEs overseas.

For big corporations, often more capable of financing operations abroad, are able to hire more capable personals and also to learn all the legal supports by paying high fees to lawyers and accounts, etc. However, SMEs, very often have less attractiveness to workers with good education or working experience, also are less willing to pay high fees to lawyers and accounts while entering the market.

- 2) Help financing companies on credits and exchange rate matters abroad.

Chinese government did give tax refund on many exported products from China, especially during financial crisis; this tax refund indeed helped many companies.

Some bigger steps can be to help direct currency exchange with important trade partners, instead of using dollars for all transactions, Chinese government can consider establishing the direct exchange system with major trading partners. This also requires Chinese banks to be more aggressive abroad, to provide support Chinese companies to conduct foreign business activities.

B. From Brazilian Side

- 1) Make the process easier for companies to import and export

In order to keep jobs, Brazilian government had initiated a few anti-dumping actions on goods coming from China. The protectionism will in some degree protect Brazilian job markets; however, it makes the Brazilian companies become less competitive overseas.

Nowadays, many other Brazil's Neighboring countries have changed their

import countries from Brazil to China; this is a good example of bad effect of protectionism.

2) Provide cheaper loan to SMEs for its international expansion

In general, internationalization always involves investment, for Brazilian SMEs which already paid a lot taxes on capital gain. It's important that government gives more incentive and help for companies not only being satisfied by staying in its domestic market, but also explore overseas markets.

II. Actions can be taken by SMEs

A. From China side.

Actions can be taken by Chinese companies are mainly for the purpose of having more diverse business activities in Brazil instead of just import/export products, overcome the obstacles such as unfamiliar with local business practice, etc.

1) Establishing a branch/company in Brazil

Chinese companies often prefer to directly import/export without too much interaction with its counterpart, neither to get involved with local countries' regulations by doing more complicated business practice. Very different from many other foreign SMEs, which usually just trade with a few neighboring countries. Chinese SMEs always leverage on its world's factory advantage to trade with almost everywhere in the world. For SMEs with only a few hundred

employees, it's harder to delegate personals to care about one specific market.

However, Brazil is indeed a place in which Chinese SMEs should spend more time and energy on planning its business development. Instead of just import/export, Chinese companies can explore options such as establishing a branch in Brazil, or have a joint venture with Brazilian companies, etc.

One interview with a company registered in Curitiba, the manager is a Chinese lady who has lived in Brazil for many years. She started as interpret for this Chinese company whose products are laser cutting machines for advertisement industry. At the beginning, this Chinese company only exported to Brazil. After some quick sales to Brazil at the beginning, there come also other problems:

Once Brazilian business men discover the way to import from China, instead of going through the international trading companies, they were all actively looking for Chinese suppliers. At the first glance, prices are very important as a part of decision making factor.

The company interviewed had to not only compete with Brazilian companies in Brazil, more often, it existed even more fierce competition with its Chinese competitors. This made the company to rethink its strategy in Brazil.

The company thus took a more aggressive approach to Brazilian Market, for

which they decided to open its branch in Brazil: this interpret was assigned as the business development manager since she was the only Chinese the company knows who can speak Portuguese and the only one who is familiar with Brazilian business practice.

This move has helped company to gain great competitiveness against its competitors:

- After Sales Support: This is the biggest worry when Brazilian entrepreneurs buy machines from China. Already the communication problem is a big obstacle for good communication between Brazilian buyers and Chinese companies. Even any problem occurred; it's very hard for maintenance service to be provided by Chinese companies. One machine of them costs around 10,000 USD, and one flight ticket for a Chinese engineer to fly to Brazil costs about one quarter of the price of machine.

By having registered a company in Brazil, this Chinese company can therefore send its engineers working and living in Brazil. It's a huge advantage compare to its Chinese competitors in front of Brazilian buyers.

- Once the company is registered in Brazil, the company is able to offer several installments to its customers, instead of the traditional import/export form of payment for which buyers need to pay 100% before they can get the machine. As we discussed in Chapter 4, this is another

handicap of Brazilian SMEs: Shortage of working capital. Being able to offer several installment (Pagamento parcelado), helped greatly the company to sell to clients that they could have never been able to sell if they are just based in China.

- Ability to store products in order to deliver locally its machines

Logistics and Distance is another issue limited the trade between Brazil and China. It takes in general 45 days to transport goods by sea between two countries, plus a few days to liberate the containers from Duane.

This company is able to store machines in its warehouse in Curitiba, and offer immediately delivery to buyers.

All these advantages above helped the company to get out of the fierce competition on prices among its Chinese competitors, and have more flexible ways of selling to Brazilian Markets.

2) Looking for Joint Venture or Acquisition in Brazil

Like the first option, Joint Venture or Acquisition is definitely an even better way to conduct business in Brazil. However, the degree of complexity to successfully conduct this kind of business activities is not easy for any Chinese company, especially SMEs which are normally family owned in China.

There are some listed Chinese companies have taken the lead on this, such as Chinese Air-conditioning manufacture Gree, or the leading Chinese computer manufacture Lenovo have both acquired local Brazilian companies to enter

Brazilian markets.

However, despite many advantages given to companies by forming a joint-venture or acquiring a local company, there are too many steps need to be taken care of during the long process. It's hard for SMEs to accomplish all process on their own. Therefore, Chinese SMEs should in this case be more willing to ask external help, such as governmental organizations or private consulting firms with local expertise to help companies go through the long process. Paying fees before seeing making money, this was a situation that Chinese SMEs refused to deal with a few years ago; it's indeed challenging the mentality of Chinese companies. But with many years encounter with foreign companies and authorities, SMEs in China start realizing that "investment first, money afterwards" is sometimes necessary in more consolidated success in foreign countries.

B. From Brazil side

1) to focus on the niche and offer things that China doesn't have

China, regarded as a world factory, produced almost everything in the world.

It's very difficult for Brazilian SMEs especially in industry area to be competitive in China. And this situation will still stay for quite a while.

However, this doesn't mean that Brazilian SMEs won't have any chance to success in China. Brazil has its uniqueness to offer to Chinese market: such as food and beverage industry, fashion, nutrition elements, etc.

For example, the brand “Havaianas” become more and more famous in China just after 4 years business development in China. Nowadays, it has already 80 stores in China, and it charges a premium price to customers.

Also, because of the concern over food and beverage safety in China, many Chinese consumers have a strong desire towards nature food and beverage.

This created potential growth to Brazilian agriculture industry.

- 2) To Use help from government agencies and expand company by hiring people outside the family and friends circle.

In the regards of helping Brazilian companies abroad, the Brazilian government did engage in a serious of promoting and educating entrepreneurs to export and expand the businesses overseas. There are two great organizations in Brazil: Sabrae (serviço brasileiro de apoio às micro e pequenas empresas) to help SMEs in Brazil, and APEX (agencia brasileira de promocao de exportacoes e investimentos) to helo promote exports from Brazil. There are also many other governmental programs to facilitate exports by giving taxes or investment incentives. Brazilian SMEs should more actively look for those opportunities to grow businesses not only in Brazil, but also in countries like China in order to make more profits and diversify risks.

Another symptom of SMEs is that companies are generally run by family, control is very important to SMEs. However, in the fast changing economic environment, the best suitable person to conduct international activities may

not come from the family who owns the company, SMEs in Brazil should be more willing to give up a little bit control in order to make ways to more capable person to help company to be more successful.

Conclusions and Limitations

Obstacles for Brazilian and Chinese SMEs in cross-border trade between these two countries have been identified on the variables given by OECD-APEC report. Some obstacles in this report are not only related in SMEs internationalization in terms of bilateral trade, but more broadly applies to the international trade in general. Also from the survey, there were easier to identify Chinese SMEs active in international trade than Brazilian ones, maybe also because of the background of author.

Another limitation is to have a standard definition of SMEs worldwide, different countries have its own definition about what can be defined as SMEs in its own countries. Also different economy scale between Brazil and China determines that it is hard to have a uniform definition for SMEs between two countries. However, we will stick with each country's own definition, and also 99% of companies in China and Brazil are considered to be SMEs in its own country, this has helped the author to confirm the necessity of not changing the definition of SMEs of both countries.

The complementarity in trade between Brazil and China is based on the need

of commodities from Chinese side, and the need for consumer products, and machines & equipment from Brazilian side. This South-South cooperation still has a lot of space to grow once many of identified obstacles are overcome. However, in this bilateral trade, big corporations have played much bigger roles, much need to be done by SMEs to benefit more from this booming trade relationship.

There are many obstacles prevent SMEs being more participative in this trade, in the dissertation, we identified the most serious obstacles prevent SMEs trading cross border.

The interesting finding are those obstacles faced by Brazilian SMEs are quite similar to the ones faced by Chinese SMEs.

Such as lack of International Management skills: in general, SMEs are most likely family owned, or owned by people with close relation, however, in terms of choosing the right personals to handle the international business, the people chosen by the founder or founders of the company is not necessary the best for the position, but is the one who has the most trust.

Unfamiliar with foreign business practice is also a big issue for both Chinese and Brazilian SMEs, regarding the fact that both China and Brazil are not easy places for conducting business even for local companies. Each country has

got its own complexity in local business practices, and neither of both is very transparent in conducting businesses. In the ranking of “doing business in” report, 2013 edition: China and Brazil ranked 91st, and 130th respectively, demonstrate that both countries are not easy places to conduct businesses. SMEs with limited experienced personals are difficult to conduct more diverse operations overseas.

Another obstacle for Chinese companies, not for Brazilian ones is the obstacle of meeting export quality/ standards/ specification: Since Chinese SMEs are exporting to everywhere in the world, the single market focus is not really common to be found in SMEs, meeting each country’s specific standards and customized products for specific clients are difficult to manage

For the Brazilian SMEs instead, shortage of working capital is a big issue for its internationalization, because in general, the sales volume of Brazilian SMEs is difficult to match the Chinese ones and most of profit generate by companies need to pay the high tax and social benefit of its workers, this created a limited financial support for its international activities. Plus, the credit system in Brazil makes SMEs almost impossible to get big loan from banks. Even if they get the loan, it needs to have a very profitable return in order to repay the loan with a very high interest rate to banks.

It's easy to see that Chinese SMEs and Brazilian SMEs are not in the same stage of development in International trade. Chinese SMEs have gained capital and experience in international trade after the economic reform due to the cheap labor cost and a serious of governmental help in order to export to the rest of world, including Brazil. After a few years direct export, Chinese companies now should think of more diverse approach to enter this very important market. Direct Exports are becoming less welcome to the Brazilian government, and more and more restriction will be applied to keep jobs in Brazil. Now, it's a new stage for Chinese companies to think and conduct more complex cooperation with Brazilian companies to be successful in Brazil in the future.

However, Brazilian companies should focus on the uniqueness of Brazil can offer to China, instead of competing on prices with Chinese local companies when entering China. With a growing number of middle classes in China, many Chinese consumers are actively looking for new and exotic products and the image of Brazil together with World Cup event and Olympic will help branding Brazilian products in China. Brazilian SMEs should take the opportunities to strategically plan their move in Chinese Markets, and Marketing and experience in exporting products to China would be the key to the success.

Appendix I

Survey based on OECD-APEC report to identify obstacles for SMEs internationalization in this bilateral trade between Brazil and China

1. Is your company participating in the bilateral trade between Brazil and China?
2. According to your experience, what are the most difficulties facing by SMEs in Brazil or China in participating in this bilateral trade? You can rank the most difficult one with 10 points, and the least with 1 point.

Rank by points	Description of barrier
	Shortage of working capital to finance exports
	Identifying foreign business opportunities
	Limited information to locate/analyze markets
	Inability to contact potential overseas customers
	Obtaining reliable foreign representation
	Lack of managerial time to deal with internationalization
	Inadequate quantity of and/or untrained personnel for internationalization
	Difficulty in matching competitors' prices
	Lack of home government assistance/incentives
	Excessive transportation costs
	Any other obstacle not listed above :

3. Have you hired anyone outside of your friend and family circle to help with the cross border trade between China and Brazil?
4. Have you asked a loan for the purpose of your international expansion into China (or Brazil), and did you get the loan at the end ?
5. Have you any asked help from any governmental agency, or private consulting firm, trading company in order to trade with China or Brazil? If so, which one (s)?
6. Would you prefer instead of importing/exporting, having more complex business activities with Brazilian (Chinese) companies? And why?
7. Any example or experience you want to talk about if you have worked with Brazilian (Chinese) companies on the purpose of expanding into this market?

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