Cooperating across Capitalisms: Organizing Sino-Brazilian Trade

ABSTRACT

The early 21st century has witnessed the beginnings of change in the dominant patterns of global trade. For instance, the BRICS (Brazil, Russia, India, China, and South Africa) have intensified the coordination of their economic, political, and social agendas, including increased trade among their own firms. This paper explores the formation of new transnational business relationships between firms of two BRICS members, Brazil and China. Building on institutional theorizing, the study focuses on the organizational implications of the growing Chinese commercial presence in Brazil. Using a narrative approach to data collected through interviews, company visits, and fieldwork at trade events, the analysis profiles the practices used to manage new Sino-Brazilian relationships. The analyses paint a dynamic landscape in which new proto-institutions might be emerging as organizational activities between both countries progress.

INTRODUCTION

> "They [China] are surely our country's future, our most important strategic partner."
>
> \- Dilma Rousseff, President of Brazil, June 2012

Over the last thirty years, large emerging market economies, such as the BRICS (Brazil, China, India, Russia, and South Africa), have begun to play an increasingly prominent role in the global economy. More recently, firms from these economies have also started to look for opportunities and resources beyond their home markets and regions. This is particularly true of China, whose firms have expanded not only into wealthy markets, but also into other economies of the developing world (Brennan & Rios-Morales, 2007). Additionally, since 2008, there has been a rapid increase in collaboration among the BRICS themselves, as their governments increase their coordination on political, economic, and social issues. These efforts led to the formal establishment of the BRICS Forum in 2010.

Unlike many other regional trade blocs based on geographic proximity e.g., ASEAN, the EU, NAFTA, or UNASUR, the creation of the BRICS forum is based upon a 2001 paper, *Building Better Global Economic BRICs*, written by Jim O'Neill of Goldman-Sachs, to analyze the relative potential of the largest emerging markets at the time. Critics who doubt the potential of a long-lasting BRICS union have noted that the members share little in terms of common history or language, suffer from competing interests and industries, and employ political systems that range from the world's largest democracy, India, to the world's largest authoritarian regime, China (Armijo, 2007; Müller, 2011). Despite these doubts, the BRICS have begun a concerted effort to counterbalance the dominance of the North American – European Union – Japan triad in the world system through their combined political weight on contentious global policy issues, such as world climate change regulations and proposed structural reforms to multilateral institutions (Hounsell, 2011).

BRICS economic collaboration has has already begun to show impressive results. A study by de Castro (2012) indicates that there has been a significant increase in commercial integration among members of the bloc with the exception of trade between Russia and China. Within the matrix of available bilateral relations of the BRICS forum, de Castro calls attention especially to economic relations between Brazil and China. According to the Brazilian government total bilateral trade grew from USD 3.1 Billion in 2000 to over USD 82 billion at its peak in 2013.

Scholars from various fields are now paying increased attention to these developments. For instance, areas of concern that have been examined include economics, trade and industrial policy (e.g. Hearn & León, 2011; Lederman, Olarreaga & Perry, 2009), political relations (e.g., Jilberto & Hogenboom, 2010; Glosny, 2010), and the effects of these developments for countries outside the bloc (e.g. Arnson , 2011; Müller, 2011). Thus far, these analyses have primarily remained at the level of the nation-state, and have largely relied on the assumption that the BRICS' integration has developed to further the political interests and economic gains of each participant country (Blyth, 2003).

This body of research has paid less attention to how these processes are unfolding among the individuals, firms, and organizations that constitute them through their actions and understandings in any given place. To expand our knowledge of how economic integration takes place from the ground up, this paper shifts the focus to the social interactions and efforts at coordinating these economic developments among the market participants collaborating with new foreign business partners. These actors are creating, managing, negotiating, and at times resisting, the economic challenges and opportunities afforded by the opening of a new transnational space, in this case between Brazil and China, and its possible impact on the institutions and organizations in a specific locality, here Brazil**.** Following Jackson, Crang & Dwyer (2004), a transnational space is broadly characterized as a social arena that unites actors involved in a given activity across national boundaries. While there have been links between China and Brazil since the 19th century (Viotti da Costa, 2000), BRICS integration has deepened and changed this transnational space due to the heightened level of interaction brought about by the coordinated involvement of the two states as well as the actions of other participants in managing the commercial flows between them.

The recent intensification of relationships in this space may offer challenges to firms and other organizations involved in the process. In any given cultural, social and political context, capitalism operates within a system of interactions based upon the shared expectations and understandings of those involved. When faced with uncertain situations, market participants make decisions and pursue actions based on their understandings of "prevailing institutional structures, cultural templates and social networks" (Beckert, 2012). Economic collaboration depends in part on the shaping and maintenance of beliefs, interpretations, and expectations through repeated personal interactions, social structures, and the formulation of state policies.

The arrival of investment and trade from China into Brazil under the guise of the BRICS forum sets up an interesting moment in which to study organizing processes as two very different societies are meeting to do business on a large scale for the first time. To deal with the complexities of the marketplace, both the Brazilians and Chinese each have a set of possible solutions in mind based upon the environment in which they usually operate and the dominant, legitimate practices organizations employ to deal with them. Due to the role of this social embeddedness inherent in industrial organization, and its impacts on economic actors as they seek opportunities and knowledge about future action (Granovetter, 1985; Uzzi, 1996), the current moment offers an opportune window to explore how actors in emerging transnational relationships understand the possibilities for coordinating and governing their joint activities.

THEORETICAL FRAMING

Conceptually, this study begins with the premises of a socio-economic approach to the study of organizing. Within this perspective, economic coordination is the result of the intersubjective relations of rational actors who obey market rules and norms. However, transactions are not only monetary, but also mediated through an interpretive effort to establish equivalence, communal agreement on industrial categories, and shared moral boundaries (Espeland & Stevens, 1998). Formal and informal mechanisms, which may complement or contradict each other, are rooted in local history and tradition (Estrin & Prevezer, 2011). These mechanisms guide actors to solutions deemed appropriate for the ambiguity that surrounds all economic activity, for example, the rise of family-based business groups in societies in which market-based contracts and transactions are deemed too risky or ineffective (Carney, Shapiro & Tang, 2009). While solutions to economic coordination vary from society to society, in each case certain solutions have become an accepted and legitimate "way of doing things" at a given time (Biggart & Beamish, 2003).

Meanwhile, despite prior predictions that business environments would become more similar under globalization (e.g. Peng, 2003) researchers have found persistent differences across national contexts. The increasing numbers of transborder interactions seem to provide significant challenges to the assumed homogenizing forces of multinational enterprises (Guillén, 2001; Meyer, Mudambi & Narula, 2011). It is in this diverse environment that firms make decisions about how to pursue possible avenues for international exchange. This decision-making process, including determining the likelihood of partnership and the selection of a form of governance, are embedded within specific societal contexts. Furthermore, Hagedoorn (2006) specifies that firms making partnership decisions are operating continually within at least three levels of embeddedness; the macro institutional environment, the networks and industries of a given firm, and the dyads that result from prior and existing partnerships among actors. Here, complex historical and social structures play a pivotal role.

Recognition of this latter fact has given way to a body of research, including the related national business systems and varieties of capitalism literatures, that examines how societal institutions shape the coordination of economic activity leading to different organizational practices and national economic outcomes (Hotho, 2013). While the literature documents differences between these analytical approaches, there is general agreement upon several principles of what constitutes capitalism as an economic practice; namely, private or corporate control of production, the use of markets to trade goods, services and labor, the existence of property rights, and the dependence on both technological advancement and the accumulation and reinvestment of capital in order to spur development (Miller, 2005).

Whitley (1999) defines national business systems as distinctive patterns of economic organization, ownership and integration across factors of production including sources of capital, customers and suppliers, competitors, firms and employers and kinds of employees. Using the borders of the nation-state as the traditional boundaries for business systems, the heterogeneity among the configuration of interdependent relationships of these five factors of production gives rise to differences in firm governance mechanisms. The varieties of capitalism tradition focuses on the holistic examination of how capitalism is uniquely organized within national institutional environments (Hall & Soskice, 2001; Jackson & Deeg, 2008: Redding, 2005). This body of literature also shows that institutional differences in industrial relations, workforce education, corporate governance, inter-firm relations, and human resource management have led to historical variations in organizational practices among firms.

In applications to business research, the varieties of capitalism lens begins with the study of the firm and other economic actors as part of a relational network where they face coordination problems within a given environment in which they are embedded (Hancké, 2009). Influenced by local history and culture, the solutions developed to govern coordination across these areas of concern may take place through markets, bureaucracies, social networks, state actions, and activities of other entities such as professional associations, interest groups or social movements (Deeg & Jackson, 2007).

Both constrained and empowered by institutional arrangements, actors engage in "pragmatic experimentation" in order to find acceptable solutions that lead to economic returns (Sabel & Zeitlin, 1997). The governance of activity thus plays a central role in research and analysis as firms may experiment with a limitless number of mechanisms at local, national or global levels in their aim to find a profitable approach for dealing with a coordination in a given situation (Crouch, 2005). This experimentation in turn leads to developing various organizational practices and organizational forms that may become accepted and even dominant in a particular context at a specific time.

Echoing the variability that is possible at the macro institutional level, such as the strength of state regulation or the degree of collaboration among competitors, the principles that guide organizing are also variable and subject to revision and adjustment in response to the actions of other economic actors in the marketplace or other changes in the environment (Streek

& Thelen, 2005; Whitley, 1999). In thinking about impact of internationalization and other transnational relations on these processes of economic coordination more specifically, Morgan (2001) theorized that repeated, structured economic interactions based on shared interests across national boundaries may lead to new forms of organization and transnational communities that evolve beyond simple extensions of national systems. To govern these interactions, actors working together can draw upon institutional tools from either the home or host context to strive towards an optimal solution to governing their business transactions within the dynamic mix of institutions, firms and other economic actors in which these take place (Morgan & Kristensen, 2006).

Comparing Capitalisms

The organizing of capitalism in Chinese societies has frequently been characterized as a series of networks organized around hierarchical, family-based structures, which comprise a totality rather than independent separate networks (Hefner, 1998). Chinese scholars have also described these "bamboo networks" as concentric circles of organizations with the main business at the center and outward radii representing social connections (Peng, 2000). At the core, the principal business firm is where top management and primary decision-makers work, all of whom are usually members of the family. Beyond control of the core business, the family typically holds shares in its subsidiaries that in turn exert looser control over another layer of peripheral business either through personal relations or financial arrangements such as loans. The outermost circles consist of acquaintances, people from the same town, those who speak the same Chinese dialect, etc. The governance of these networks functions under the social mores of Confucianism such as harmony, trust and family loyalty (Park & Luo, 2001).

Ethnic Chinese business communities share characteristics of many co-ethnic business networks in which members of a particular cultural background maintain ties based upon kinship, social history, and professional association, to form a network that allows them to exploit information and resources to their advantage (Bräutigam, 2003). Membership in the network assures fair dealings through the threat of community sanction to wrong-doers while also providing valuable market information, access to capital, referral services for buyers and suppliers, and partnerships for services needed along the entire supply chain (Rauch & Casella, 1998).

The organization of firms in Brazil and throughout Latin America reflects the challenges of doing business in the region soon after independence. While enjoying growing demand for their products in Europe and North America, firms had to deal with many problems in their domestic economies including the absence of strong, functioning capital markets, weak skilled labor markets, difficulties assimilating and developing technology, and ineffective government advocacy in the areas of foreign trade and international finance (Miller, 1999). Schneider (2009) argues that the nations of Latin America today present a "hierarchical market economy" which revolves around a few general features: the presence of large diversified national family business groups, the large influence of foreign multinationals, and a weakly organized labor force that suffers from low levels of formal education and vocational training. These factors have influenced the general development of organizational forms and structures in the region to deal with these regional deficiencies as well as variations to accommodate the challenges of each local market.

Regarding Brazil specifically, Abu El-Haj (2007) has shown that its form of capitalism shares many of these factors with its neighbors. For instance, capitalism in Brazil reflects a network of dense relationships between state powers, the national bourgeoisie, and major domestic corporations (Phillips, 2004). This network provides firms with certain protections from capital fluctuations, foreign competition, labor disputes, and research and training costs, as all of these fluctuations can be mitigated by state action (Nölke, 2010). While Brazilian business networks function on personal ties supported by family, common values and shared social background, due to legal changes in the 1990s designed to increase foreign investment, the number of traditional firms owned and managed by a single family has decreased (Nölke, 2010). Though direct government intervention in business affairs is rare, the state maintains a degree of participation in industry indirectly through institutional shareholding, such as funding provided by the national development bank, BNDES (Nölke, 2012).

To summarize, an institutional lens, informed by varieties of capitalism theorizing, calls attention to the interaction of cultural, market, and political forces creating multiple approaches for economic coordination. As a result of variations in these forces, capitalism is structured differently within national contexts. These differences in turn give rise to the selection and eventual naturalization of different organizational forms and governance practices that are considered legitimate within a given context. Thus, when change occurs within a context, organizations may modify or develop practices to cope with the new environment in order to meet their objectives.

EMPIRICAL STUDY

One way to examine how individuals and groups make sense of the world around them, and the taken-for-granted rules of legitimated institutions, is through the narratives and discourses they use while talking about events in their workplace and the world around them (Currie & Brown, 2003). When confronted by moments of change, narratives are a means for members of a group to establish a shared subjective account of what is happening. This process is often not simple and linear, and may reflect the shifting interests and power struggles of those involved (Westwood & Linstead, 2001). In choosing different plausible elements to construct their narratives, individuals express their evaluations of the events to which they are ascribing meaning (Abolafia, 2010). As such, the study design described below acknowledges the value of discourse and narrative as an approach to access participants' understanding of the world around them.

Data were collected from three different sources during 2012 – 2014 in the states of Bahia, Minas Gerais, and São Paulo. First, company visits and semi-structured interviews were conducted with members of twenty organizations directly involved in doing business with China. The sample set includes Brazilian firms as well as subsidiaries of European and North American corporations operating in Brazil. Several of these firms are run by entrepreneurs who set up their ventures in order to work with Chinese partners as importers or distributors. These visits were complemented by fieldwork at international trade events in São Paulo where China was featured Finally, archival data beginning in 2003 about Sino-Brazilian relations from both public entities and private sources; this period included President Lula's first presidency during which he undertook intentional efforts to cultivate links with Beijing.

The complete data corpus was coded for commonalities and patterns to create a typology of organizational responses among Brazilian firms doing business with China. Two areas stood out that differentiated the participants into groups with similar tendencies. The first was the extent of organizational adaptation reported to make business with China possible i.e., different choices of structure and practice used to meet the challenges of doing business with new Chinese partners. This yielded an axis that characterizes different levels of adaptation, ranging from failing to create any meaningful relationship with Chinese partners to high levels of adaption, including those considering the creation and design of firms to take advantage of the opportunities offered by the Chinese economy. At the same time, the participants were also appraising the desirability of doing business with Chinese counterparts and the growing bilateral partnership. These appraisals constituted a second axis for analysis, ranging in a continuum from negative, to neutral, to clearly positive evaluations.

Once I had organized the sample by these two dimensions, four general clusters or patterns emerged which I have named *Resistors, Reluctants, Pragmatics* and *Entrepreneurs*. Figure 1 illustrates where the organizations in my sample fell along these two dimensions at the time of the interviews. I have separated the different groups with curved, dotted lines to portray the dynamism and potential instability of the commercial environment. The situation is far from settled, and it is certainly possible that firms may move from one group to another over time. Moreover, I make no claim that this is a definite set of possibilities, as there could be other configurations that did not emerge from my data. Figure 1 that emerged from these two axes are simply a heuristic developed to make sense of the participants' responses out of a mostly open ended interviewing protocol and other fieldwork data collection activities.

- Insert Figure 1 about Here -

Next we present the characteristics of each of these groups to explore the narratives that demonstrate the interplay between their organizational choices and their assessments of Global China.

The Resistors

For all the attention that the successful rise of the BRICS has received in the popular press, one would be amiss to assume that these processes are easy. The Resistors are those who have failed to participate in creating any productive links with Chinese partners. Based on their stories, differences between the participants' expectations, derived from the norms of their different business systems, have impeded any possible progress. The resulting negative experiences have led to pessimistic appraisals of both future opportunities and China's role in Brazil's economy.

In Bahia, I had the opportunity to interview Firm C, an entrepreneur who expressed immense frustrations in his attempts to create deals with a Chinese partner. He had tried on several occasions at trade shows to find a new source in China to import bulk quantities of the metal bars and sheets that the company custom cuts for the construction industry. In this case, the attempt to establish relationships was thwarted by seemingly very different ways of beginning the relationship. As he summarized the case,

> 'It became impossible to do any business. The gentleman from China only had a catalogue at the booth, but he wanted an order right away without showing me a sample or even giving me exact prices.'
>
> \- Business Owner, Firm C

In this case, the acceptable ways of even getting a relationship established were too difficult for the participants to overcome despite the possible economic benefits. The idea of placing an order without having handled the merchandise, or receiving a firm price list, standard procedure between Brazilian companies, was unfamiliar and frustrating enough to derail the potential deal.

Similar instances of differing expectations about how to start business deals appeared while visiting the trade shows in São Paulo. For instance, Brazilian participants expressed frustration at the lack of "sincerity" when I attended the EnerSolar+ Green Energy show. Given Chinese dominance in the manufacture of certain renewable energy components, such as solar panels, there were numerous Chinese companies at the show and a constant stream of Brazilian business owners who were trying to meet them. As it turned out, “trying” was about as much as many of these interactions achieved.

There was obvious intent among Brazilians to build connections. As China was the featured country of the show, many Chinese company booths had large signs with phrases like “Looking for a Partner”, though often in English rather than Portuguese. Despite interest, most of the interactions were fraught with difficulty. To the Brazilians in attendance, it seemed the Chinese had only come to São Paulo with the intention of gathering business cards. In many booths, there was only a young woman in business attire with a shoebox whose cover had a slot cut in it. One Brazilian attendee summed up his experience as,

> “I have never spoken so much English in my life….
> thank you, thank you and sorry, sorry”.

- Attendee, EnerSolar+ Show

The participant was clearly annoyed that the Chinese had not come to do ‘serious’ business. He had hoped to gather more information and ask questions about the products, but in addition to language issues, many of the people in the booth did not seem prepared to answer in-depth technical questions or to conduct sales negotiations. The overall purpose of meeting vendors at the trade show may have been the same for both groups i.e., to gather information and create a list of potential partners, but from the Brazilian perspective there were clearly expectations about the appropriate approach and what they should be able to accomplish while attending the event.

This first group represents the segment of the economy that has had the least success participating in the process of BRICS integration. They demonstrate the possible complexities of organizing in a new transnational space. The business owner and those at the trade show are unable to connect with possible partners because the actions of the Chinese do not fit into the ways of doing business to which they are accustomed. As such, their appraisals of the future for Sino-Brazilian relations point towards a frustrating and difficult road ahead for all involved.

The Reluctants

The second group consists of firms doing business with China out of pure necessity even if they would prefer not to do so. Firm D cited primarily economic reasons for wanting to reduce the firm's dependence on sales into China, which at that time accounted for 20% of the firm's sales worldwide,

> "After the crisis, China is beginning a price war that we do not want to enter. We take into consideration contracts, and for our business, long-term relationships, and we have been unable to see that there."
>
> \- Sales Manager, Firm D

In Firm P, the interviewee was an electronics engineer working as an IT consultant responsible for the design and support of projects that involved Chinese suppliers having the lowest cost products. He had already been sent to China several times for technical training so that he could provide after sales services to customers in Brazil. When asked about the nature of their collaboration, he retorted,

> 'When I went to China, they did not want to show me anything…it was as if they feared we would see something or learn something…pure distrust.'
>
> \- Engineer, Firm P

He was upset that the Chinese were not only preventing him from acquiring the knowledge he needed to do his job properly, but also that they were not fulfilling his norms of what support partners should be willing to provide. Furthermore, there was a sense of personal insult as well because of the way he was treated on site. The different expectations of what a host firm should do with visitors from a partner firm became a source of conflict i.e., when the

Chinese come to Brazil he does everything he can to make them feel welcome and would not openly deny them access to what they needed to see to expand their business together.

Firm K was a European firm that had been active in the Brazilian market for decades. As one of the largest and oldest subsidiaries, it has enjoyed a certain degree of autonomy for many years. The firm is a worldwide player in the metallurgical industry, selling and building extremely capital-intensive equipment. Since the commodity slowdown, sales other than replacement parts and maintenance have been slow, while competition from other firms, in particular Chinese providers, has been on the rise. While many customers would most acknowledge that the Chinese have inferior quality and technology, they have been successfully using price to entice buyers. The purchasing manager blamed the situation on lower labor costs, fewer regulations, and subsidies from the Chinese government. As one engineer said,

> "Everyone knows that the quality standard is not the same, but you cannot just let it [the business] go. We have to keep up."
>
> - Engineer, Firm K

As an organization, the Brazilian subsidiary was forced to undertake several initiatives, and not all voluntary, in order to deal with the challenges presented by Chinese firms. The first was to outsource parts of projects to Chinese suppliers. In one instance, the engineers in Brazil and Europe created detailed plans for each required part. When the batch was done, however, the inspection team found that most of the 10,000 tons of parts produced were wrong which resulted in the costly suspension of the construction project on site and the remanufacturing or correction of the parts.

In response to this experience, the buyer from Firm K explained that the firm created two entities in China. Due to differences in the legal environment, a trading company was opened in China to deal with these issues. The company has also found that problems must be dealt with before the materials leave China. As such, they also had to open an inspection and reparation plant in China that employs 30 people whose responsibility is to go over all of the components before they leave for Brazil.

The second decision was to change the outsourcing strategy to only the simplest parts and components. Interestingly, when the firm designs new projects, they now do so with Chinese norms in mind to avoid the problems that arose when they requested parts built to Brazilian standard designs. The actual technology that runs the machinery, created in Brazil or Europe, is never shared with Chinese suppliers; they no longer consider the savings worth the risk and hassle for these key components.

While the engineer spoke about culture and language as barriers, he also noted that Brazilians are curiously still better off than Americans or Europeans. One of their Chinese counterparts had noted that the latter two arrive in China ready to order people around, while Brazilians arrive on a friendlier note, less arrogant, and ready to use their own *jeitinho* in order to get things done, which plays favorably with the Chinese once they get to know each other. However, they also felt the Chinese were unwilling to accept problems, so one has to arrive prepared to defend one's own interests to guarantee that objectives are met. While the purchasing manager doubted 100% Brazilian production will ever become viable again, he will strive to reduce Chinese content as much as possible. However, he also echoed complaints Brazil's tax structures, local corruption, and underdeveloped logistical infrastructure will all need to improve for them to compete.

Together, these narratives provided by unwilling partners with China paint a picture of necessity. In their view, China is seen as a factor they simply need to deal with until a better option or substitute becomes available. Firms D and P actively seek to reduce their activities in the Chinese market as much as possible. Firm K has had to make costly organizational changes in order to deal with the shortcomings of its Chinese suppliers.

The Pragmatics

With the exception of Firm N, all of the firms in this group are large Brazilian or foreign multinationals. These organizations expressed a very matter-of-fact attitude towards their relations with China; it's just one more place where they do business that did not present more difficulties than other places. Firms B and G were involved with similarly sized state-owned Chinese partners. Firm B acquired links through government directives after the two states agreed upon trade and investment agreements. Firm G had only just begun purchasing equipment from China, but had had little problem getting started once the decision had been made. Firms A, D, J, M and O had become involved with China through strategic directives or cost necessity initiated by the foreign home office.

Firms A, B, G, J and M all had a "bridge", for example, an employee in the organization who manages the relations between the Brazilian office and overseas suppliers in China. When I asked how the firm tackled problems when doing business with Chinese partners, Firm G responded,

> "We have a unit in our Shanghai office so our supervision becomes easier. A large team supports us. Once a week we do a video conference with our supplier. The meetings are in English but on our team we have an engineer who is Chinese and helps us a lot clearing up technical issues. He is fluent in Mandarin, English and Portuguese. The only problem we have sometimes is that the agreed upon time periods for engineering projects are not met."
>
> \- Manager, Firm G

For the most part, these large firms were involved with China for purely commercial reasons, though there were a few other rationales provided. For example, in one case the commercial sourcing between China and Brazil was motivated by the lack of environmental protection in China. For example, one chemical manufacturer interviewed produces a product made from a mix of natural materials available in Brazil with Chinese metallic chemical products that produce pollutants. When I inquired why, the buyer responded,

> "We buy the metallic chemicals from China principally because they can generate pollutants that need to be thrown into the Yangtze River".
>
> - Buyer, Firm A

He went on to explain that it would be very difficult to produce these components in Brazil due to local legal regulations and the lack of some metals, so they are purchased from China where firms are able to make components of any quantity or quality seemingly without any hassle at all. In this case, the organizational reaction to the Chinese market is one of institutional arbitrage rather than purely economic motivations. Due to the relative size of the chemical company's business in Brazil, the firm does not usually deal directly with the Chinese suppliers. Instead, they interface with groups of Chinese trading companies located in São Paulo who import large quantities of the materials required by the firm and its competitors.

The story of Firm N represents a more problematic story of partnerships between Brazil and China. The firm is a local company that has been importing heavy machinery for the construction industry for over forty years. This company was among the first to import Chinese heavy construction equipment to Brazil. The firm had had an exclusive partnership for sales in the southern half of Brazil with a large state-owned Chinese supplier, which he described as "a monster, dinosaur of a company" whose installations are the size of a small city. The partnership went very well for about eight years. Engineers and salespeople from both companies would travel back and forth to engage in training, but eventually the Brazilians found that the relationship was not entirely reciprocal. While they welcomed the Chinese to their offices and sales visits, when Brazilians went to China they would only be shown the final assembly line. All of the other areas of the facility would be off limits, no questions, no cellular phones, no cameras, etc. and everything happened very slowly. As such, while the partnership was financially successful, they described the Chinese as being “very closed” and difficult in negotiations.

However, the Chinese company eventually decided to open a factory in Brazil and its own sales offices, which Firm N interpreted as a violation of prior agreements. The Chinese firm then offered employment to all of the sales and trained technical employees at Firm N and began to copy recent product innovations. In order to put additional pressure on the competition, the Chinese company uses a Chinese state bank to offer interest rates and payment plans that are unavailable among Brazilian financial institutions. Given that some of the largest customers are Brazilian state firms, the management team has come to the conclusion that some of this change was due to intergovernmental initiatives. Lacking the political contacts to file an effective complaint, the firm has been unable to recover any damages from the broken partnership agreement.

The Pragmatics includes a diverse group of companies doing business with China. Most of them had undertaken a moderate amount of organizational change in order to accommodate their Chinese counterparts. The exception would be Firm A because it met these needs through trading houses, but its actions are still characteristic of employing a sort of bridging mechanism to meet the challenges of the transnational space. While they have not all come to the same position on China through their diverse experiences, what characterizes this group is a realist sense that China is here to stay. Even Firms O and N who had the most negative appraisals still intend to do business with Asian suppliers. This outlook separates them from the Resistors who would prefer a regional positioning rather than a global approach.

The Entrepreneurs

In contrast to the other three groups, the entrepreneurs represent a radically different interpretation of growing relations between Brazil and China. With the exception of Firm L, all of these organizations have been created due to the economic opportunities that China presents. While the road may not have always been easy at the beginning, they tend to embrace the potential of the bilateral relationship and focus much more on the positive sides of doing business with their new partners.

Firm E is a mother-daughter entrepreneurial team that has built a successful small business, importing handbags, purses, belts, wallets, etc. which is, at present, completely dependent upon China for its existence. The development of this business is illustrative of the broader changes in the world economy brought about by China's ascendance as the workshop of the world. While the mother had originally bought most merchandise from Brazilian companies to retail in their store, about seven years ago this became increasingly difficult as importers began bringing in cheaper Asian goods. Faced with this situation, the daughter decided to go to China with the help of a Chinese immigrant family friend, to see if they could also buy directly from the factory.

> "Because nowadays importing from China is available to anyone, you say you want to go to China, you get on an airplane and there are so many Brazilians, people that do not even know where China is. It is very easy for you to go to China today. And so we started buying, saw this, and I said we needed to go."
>
> \- Owner, Firm E

Today the company purchases from five different Chinese manufacturers. They described their relations with the suppliers as relatively straightforward; orders are placed, paid in advance in cash, and then ship a month later. While the operation today seems to hum along smoothly, there were several bumps along the way. These entrepreneurs had problems with manufacturers sending the wrong designs and poor quality merchandise. As these problems were frequently discovered only after the goods had arrived in Brazil, the company was unable to fix the merchandise or get any sort of monetary compensation. The Chinese factories have so many orders that they are simply immune to threats to move business to a competitor.

> "Because if I don't know who is on the other end, the Chinese are crooks, he could put a stone in the container, without any problem, you paid, he does not have the smallest scruple. He places the order for you, you bought a product, he sends you a different product. If we don't want to go China we don't need to, but we want trust, though even doing this, you don't know if it will go correctly."
>
> \- Owner, Firm E

Due to this situation, with the help of the same family friend who helped them initially, they eventually set up an office in China to handle all communications with factories there and to inspect all of the items before they are shipped. Despite the company's success, the owners are wary about the future due to a variety of factors, some related to costs and currency valuations, and others related to national politics regarding relations with China.

Firm H is a new Brazilian start up that wants to buy and sell large furnaces and other heavy industrial equipment typically used in waste disposal. Like other foreign entrants before them, the lack of local Chinese connections soon became problematic. The firm hired a local manager who they liked, taken away from a former supplier in Hong Kong, who had the necessary political ties to close deals. When I initially asked about opening an office in China, one of the partners explained,

> "If we don't have an office there, nothing will happen. Nothing. How am I going to use this office in China? We are already in China, already with a virtual office. That's how it is. Next idea, we are going to start selling, start looking around…in two years we imported just one tractor. It was not even a tractor. It was a concrete injector. We did not do anything. You know what nothing is? Nothing. Just contacts. Airline tickets here and there for contacts, contacts, contacts."

- Owner, Firm H

At the time of the interview, the company had been pursuing trade with China for about three years. Despite considerable enthusiasm for the possibilities, the participant admitted that much time and money had been wasted on the efforts due ignorance of how the system in China worked. Registering a company in China – even if it is just a phone line, one employee and a rudimentary web site – had already generated more business in six months than in the previous two years without such a presence.

Firm L is the only member of this group that was not formed specifically in response to the growth of China. An established firm that has been in the retail sector for decades, its owner had interesting comments comparing how he does things in Brazil versus what happens when he does business with China, demonstrating how differences in governance practices play out in interfirm relationships,

> "It is all very formal, as such, in terms of documentation, the business of…fix it for me, we'll see later, does not exist...it is all very clear…very different from the relationship, a relationship in Brazil where you order by phone, the guys delivers it here and then we discuss payment, no, which happens with some suppliers here. Not there, there everything is done ahead of time, very formalized, well written out, and the money has to be in the account."

- Owner, Firm L

Similar to L, all of the small companies I interviewed described the process of managing business with their Chinese suppliers as very straightforward and rigid, starkly different from what they would do in Brazil. Orders are placed, paid for in advance, either in full or a substantial percentage, at which point the production process begins. Even those who had been doing business with China for sometime were generally unable to convince their partners to change these arrangements in hopes of gaining more flexibility.

The experiences of the entrepreneurs provide a window to see how those most active in building the BRICS have attended to the opportunities these integrative efforts offer those in Brazil. Their experiences demonstrate how even China's most ardent supporters have experienced troubles in building their companies. Through experimentation with different approaches and solutions, this group has overcome the challenges of the transnational space to build new relationships and start profitable organizations.

DISCUSSION

Table 1 presents a summary comparison of the findings of the four types of organizational responses identified.

- Insert Table 1 about Here -

Each of these four groups has a very different interpretation of what China represents for Brazil. The resistors pass between possibility and impossibility as they fail to make connections with potential partners. Those who don't really want to do business with China tend to frame China mainly as a threat they must face. The large firms take a pragmatic view of China as one more place they might do business. Finally, the entrepreneurs approach China with enthusiasm creating organizations that aim to take advantage of the booming mainland market.

Their relationships with Chinese companies vary in part as a result of these interpretations. Some of the participants spoke of doing business with the Chinese as difficult due to low levels of cooperation, problems during individual transactions, or broken agreements. The pragmatics did what was required to get the job done and did not report more difficulty than for other partnerships. The entrepreneurs, on the other hand, talk enthusiastically about what they have overcome in establishing their commercial enterprises.

A large variety of organizational outcomes appear in these accounts. Those who espouse a more negative view of China frame the changes they had to make as a method to cope with the problems they face. The pragmatists, often enjoying large resource bases, take steps to mitigate possible problems by employing bridging techniques they have likely used in other contexts. Finally, the entrepreneurs have viewed the creation and changing structures of their organizations as a natural part of doing business due to conditions in both Brazil and China.

When considering the future of the BRICS, these four groups also paint starkly different images of what might happen next. The Resistors and Reluctants largely believe that China will continue to threaten their operations and doubt the potential for long-term, successful relationships. The Pragmatists express a more realistic view that China is simply here to stay. Finally, the Entrepreneurs, buoyed by recent success, take a more optimistic view, often looking forward to the next opportunity that will come their way as they grow their own relationships in Asia.

New Organizing

A point of departure at the outset of the project was how new relationships are emerging on the ground. The first way this occurred in the organizations interviewed reflects methods for starting businesses long accepted in Brazilian capitalism. Entrepreneurs used interpersonal connections, such as family friends or former coworkers, to get the process started. As described above, Firm E was able to begin relations through an ethnic Chinese friend who lived down the street and still had family on the mainland who facilitated the connection.

As another example, Firm Q had worked with a Chinese company during his employment with a tool supplier in São Paulo that went out of business. Over several years of transactions, he had gotten to know one woman in the marketing department in China fairly well. Facing unemployment, he contacted her and asked if she would do the sourcing for him if he decided to open his own small company in the same industry. In the end, she agreed and they have run a successful enterprise for about five years. He decides what he needs for local customers and sends funds with which she finds the best option from about five different local suppliers. Ironically, while he realizes that it puts him in a vulnerable position, he has never been to China and has no real desire to go. He is making a good living and has decided to trust her "to do the right thing".

Changing Structures

Assuming a partnership forms, Responses to the challenge of governing the uncertainty in these commercial transactions gravitated towards two solutions. First, for those with more loosely coupled linkages, partnerships tend to rely on relatively formal, market-based mechanisms. The second method employed was that of having a 'bridge' to manage the interactions between partners. This approach might involve hiring a person who joins the organization, or a third party that works to mediate relations between them. Among the larger organizations I interviewed, the corporations had hired bicultural individuals, a Brazilian of Chinese descent in the case of Firm G, who were placed in a position to smooth out problems.

Among the smaller entities, such as Firms E and L, the shortcoming of the first solutions was that the market-based mechanisms often failed. As such, these organizations reported hiring agents or creating internal departments to deal with problems. Firm E, hired an agent – actually a relative of the family friend who took them to China – who works on their behalf for both quality control and bureaucratic necessities. Similarly, Firm K created an entirely new department devoted to the surveillance and repair of quality problems in parts received from China. These structural changes result from a lack of institutional mechanisms that allow for the enforcement of contract obligations in the two societies. Given the historical tendencies of Latin American businesses to concentrate on economic activities within their own country, this may be a newer experience for many firms.

Governance Practices

Despite theoretical expectations to the contrary, there is a near complete absence of relational governance in these new relationships despite the long history of such governance in both societies. Everything is done using strictly market-based, formal contracts reflecting an "arm's length" transaction style (Peng, 2003). Nearly all of those interviewed characterized their transactions with China as 'rigid', 'strict' or 'inflexible', and often, simply 'difficult'. Within their own national context, Brazilians are used to more informal and flexible relations when people with whom they have done business for some time are involved. For instance, those who imported goods from China were dissatisfied that they must prepay orders they place in some measure before manufacturing begins, as Firm L described,

> "I have to pay 30% or they won't do a thing."
>
> \- Owner, Firm L

I saw only one glimpse, in the interview with this owner, of anything approximating the elements of relational governance that one could have expected. He told me that he once miscalculated a down payment to his oldest Chinese supplier, paying only about 19% of order in advance. Given that she was expecting 30%, and that he had not made such a mistake in the past, she "confiou desconfiando" ("mistrustingly trusted") and made sure he was well aware of the favor she was doing for him by building and shipping his order immediately anyway. This is the only instance I encountered of actions that could be seen as initial attempts to cultivate something akin to *guanxi* between partners in Brazil. Given the importance of reciprocity in Chinese business networks, one could posit that she had set the stage for a favor from him at some point in the future taking a first step towards cultivating social capital. The owner of Firm L, on the other hand, recognized it as an anomaly, but did not express that their relationship had changed in any way or that he owed her anything for helping him.

The relational aspects that organizations in both Chinese and Latin civilizations have historically used to govern their affairs have resulted in the formation of networks. Interview p participants have difficulty adapting to their Chinese partners. The ways in which networks form and expand in Brazil have changed over time. While networks were primarily family-based in the past, and some certainly remain so today, the incorporation of new nodes has become more flexible. As one engineer equipped, being “daddy’s boy” is not longer sufficient for automatic inclusion or exclusion from membership. Beyond kinship, participants reported that ties such as classmates, childhood friends, and referrals made through these groups, have also become legitimate means to join a network.

Despite these changes in how one joins a network, they described the functions of network membership in ways that are historically consistent. The network, I was told, exists primarily to combat outsiders whether that is for competitive reasons i.e., keeping a competitor out of the marketplace, or in order to maximize gain on the customer who is not part of the social group. Additionally, the network is to make sure that no one can “passar a perna” (lie, cheat, or fool someone) and to keep everyone honest reflecting the monitoring that network membership has traditionally provided. Contracts are only signed once, afterwards business continues on informal agreement, which typically includes members taking turns giving and taking little advantages as transactions or projects come and go. A member who either cheats or takes all the time is eventually excluded from the network's benefits or expelled altogether.

These issues of trust and intimate relationships discussed above may be in part due to differences in the speed with which new nodes may be incorporated in the network or the conditions required for membership. Brazilians tire of needing to prepay their orders after years of business with the same supplier. Likewise, they are frustrated with partners who ignore the rules and terms of signed agreements, do not deliver on time, or ship faulty merchandise and will only consider fixing the problem if detected before the goods leave China. These difficulties may reflect not only differences in business norms, but also different expectations about who should be in a network and the benefits that come with membership in it.

However, participants clearly still recognized the overall importance of relationships in order to build and maintain these new commercial ventures. The interviewees who reported having attended large trade fairs had done so in order to meet new partners face to face. One of the owners of Firm E still visits China several times a year because she believes that the service and delivery times are better if she appears in the showroom. Moreover, she said that knowing people is essential,

> "Because if I don't know who is on the other end, the Chinese are crooks, he could put a stone in the container, without any problem, you paid, he does not have the smallest scruple."
>
> \- Owner, Firm E

The possibility of any practices becoming institutionalized will depend in large part on the actions of the Entrepreneurs. The Reluctants already seek to exit their relationships with China when possible. The Pragmatics will do business as long as there is a commercial rationale. The entrepreneurs however are engaged in the most experimentation within the transnational space and have the most to gain. If BRICS economic integration continues, this group will likely be at the forefront on the ground and passing on what they have learned.

To conclude, this initial foray into the organizational implications of rising Sino-Brazilian commercial relations found that the organizing of new partnerships is a challenge for many of those involved. Despite historical similarities in some institutional arrangements, the governance of these relationships relies on imperfect legal mechanisms and ad hoc changes to organizational structures and daily practices. Coming from different institutional environments, incommensurable expectations about how new relationships should form and function has thus far played a prominent role in influencing organizational outcomes. Should these relationships continue to expand, future scholarship may or may not witness the emergence of other organizing patterns in this transnational space.

Figure 1. Organizational Implications of Sino-Brazilian Relations

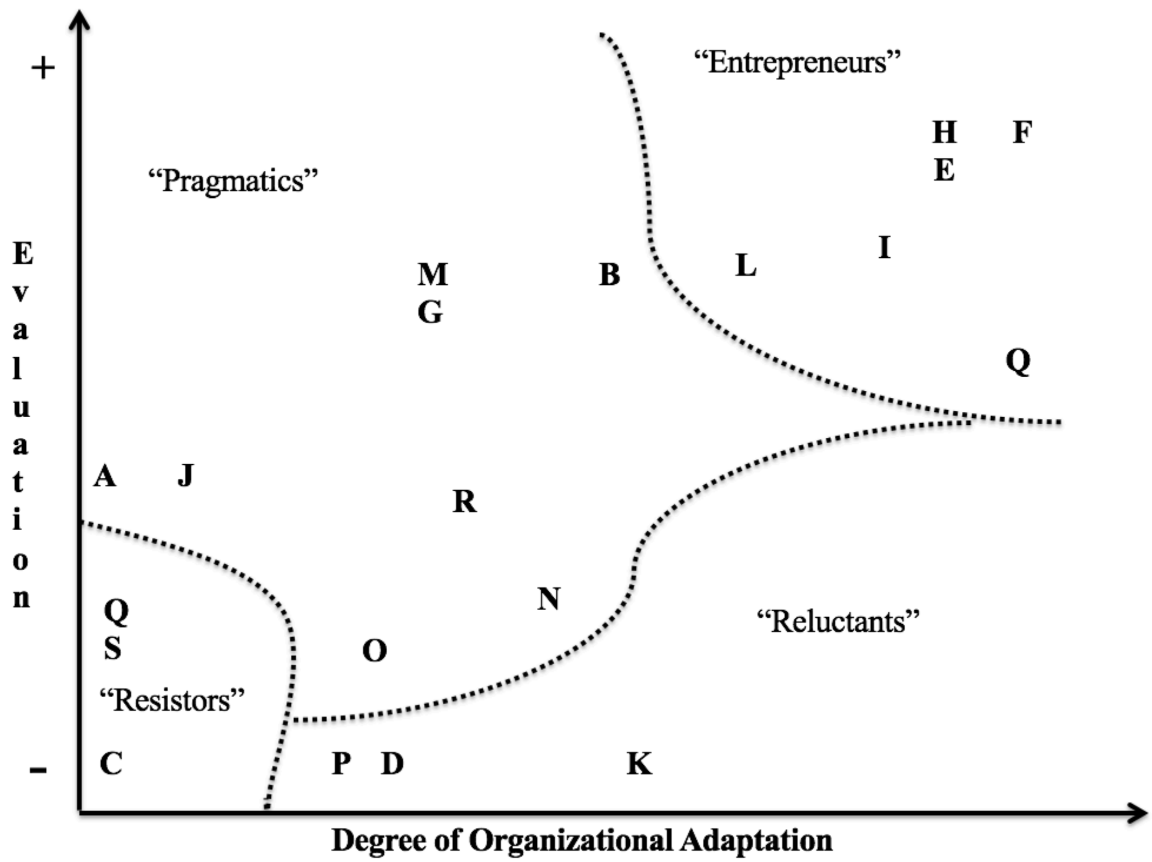

Table 1. Summary of Organizational Implications

Group	Sense of China	Interfirm Relations	Organizational Implications	Future Outlook
Resistors	(Im)possibility	Difficult	N/A	Difficult
Reluctants	Threat	Reactionary	Coping	Pessimistic
Pragmatists	Necessity	Organic	Bridging	Realistic
Entrepreneurs	Opportunity	Adventure	Adapting/Growing	Optimistic

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