

China in Brazil: the quest for economic power meets Brazilian strategizing

China no Brasil: a busca pelo poder econômico encontra as estratégias brasileiras

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Abstract

China's economic growth and the expansion of its companies have led to many questions about the country's global objectives. Leaders in Beijing cultivate economic power to maximize the country's global influence. Brazil, as one of China's largest trading partners and top destinations for outward Chinese investment, has attracted much attention. This paper presents field research and scholarly analysis to demonstrate that China's governmental institutions are supporting economic expansion into Brazil as part of a broader strategy to shore up global economic power. However, the Brazilian government has successfully limited Chinese investment in certain sectors, like agriculture, to protect its own economic interests.

Keywords: China, Brazil, Investment, Power, Strategy.

Resumo

O crescimento econômico da China e a expansão das suas empresas têm levantado questionamentos sobre seus objetivos globais. As lideranças em Pequim buscam o poder econômico com a finalidade de maximizar a influência global chinesa. O Brasil, que é um dos maiores parceiros comerciais da China e um dos dez maiores destinos de investimentos chineses, tem atraído muita atenção. Este artigo, por meio de pesquisa de campo e de análises documentais, busca demonstrar que as instituições governamentais chinesas estão apoiando a expansão econômica da China no Brasil e esse apoio faz parte de uma estratégia que visa expandir globalmente o poder econômico chinês. Entretanto, o governo brasileiro tem limitado o investimento chinês em algumas áreas, como agricultura, com a finalidade de proteger seus interesses econômicos.

Palavras-chave: China, Brasil, Investimento, Poder, Estratégia.

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Introduction

As China is poised to become the world's largest economy by 2030, the Asian giant aims to rival the United States on the world stage. Leaders in Beijing are carefully cultivating economic power to maximize the country's global influence. To do so, the regime is actively pushing its companies and state banks to "go global" in addition to boosting economic growth at home.

As a result, between 2005 and 2012, Chinese outward foreign direct investment grew by almost 800 percent, from \$10.9 billion to \$87 billion, catapulting China to the position of third largest internationally investing country (DIAOCONU, 2012; LI, 2013). In 2010, Chinese lending to developing countries eclipsed that of the World Bank. Supported by subsidized loans and political intermediation, Chinese companies have poured billions into countries as diverse as Angola, Canada, Sudan, Peru and Venezuela.

China's staggering expansion has extended deep into Latin America, where countries are scrambling to understand their new investor's motivations and to identify both the opportunities and dangers posed by China's arrival. While results vary by country, China has found limited success in the playing field of Brazil. The country is of particular interest to China, as it possesses generous supplies of three major commodities that China desperately needs—mineral, agricultural and oil resources—and Brazil's growing middle class presents a valuable new market. Consequently, Brazil has become China's third largest trading partner outside Asia—behind only the United States and Germany (BAMRUD, 2011). In addition, Brazil sits beside China in the BRICS bloc of emerging nations that seeks to challenge Western institutions.

Through our research, we find China's success in Brazil varies by both the targeted sector and the channel of investment. This paper outlines how Chinese leaders have facilitated investment in Brazil through political Brazilian government entities, strategic alliances with corporate conglomerates and direct business negotiations for smaller deals. At the same time, we note that Brazil has been careful to manage China's efforts, allowing only such investment that Brazil considers beneficial. Given that investment in commodities is most controversial and subject to media misrepresentation, we devote special attention to agreements in these areas.

We begin with a review of Chinese governmental involvement in overseas investment and background on Beijing's strategic planning. The second section presents a case study of Chinese investment in Brazilian agriculture. We demonstrate how national and provincial Chinese politicians have attempted (but often failed) to invest, primarily to guarantee a steady supply of agricultural commodities. The third section charts how, in the energy sector, Beijing has formed partnerships with Petrobras, the semi-public Brazilian energy giant, and steered its central state-owned enterprises (SOEs) to buy up European assets in Brazil to increase ties with Brasília and build stronger Chinese oil companies. Fourth, we explore Chinese initiatives to invest in Brazilian mining, which have often floundered as they encounter Brazilian suspicion. Finally, we highlight Chinese support of investments outside natural resources, which aim to build world-class Chinese multinationals and capitalize on Brazil's formidable consumer market.

In conducting this research, we draw on scholarly analysis, industry newsletters and interviews with Brazilian officials and executives who have interacted with Chinese investors. In many cases, interviewees wished to remain anonymous because of political sensitivities or to

respect client confidentiality. Finally, we have used the most reliable data available, but Chinese activity is notoriously opaque. For example, according to official Chinese statistics, in 2010, the top four destinations for outward investment were tax havens or “pass-through locales,” obscuring the final destination of more than \$50 billion of the \$68 billion (SHAMBAUGH, 2012; AN, 2011). Moreover, many investments are announced but not consummated.

China in the world: economic power as a primary strategy

China’s investment in Brazil must be viewed through the context of how China is positioning itself in the world. Ultimately, Beijing aims to gain equal footing with the United States, if not to challenge U.S. global primacy. Chinese interests, of course, vary heavily by region and its foreign policy is tailored accordingly. In Latin America, Chinese leaders are prioritizing economic expansion as a conduit for cultivating political alliances and developing economic power.

Above all, China understands that much of the United States’ international influence derives from its position as the largest economy in the world. Naturally, China’s primary goal is to guarantee that its GDP continues to grow. But Beijing has recognized that economic expansion requires other inputs, which in turn bestow further advantage. These include the ability to control natural resources, influence markets, threaten economic sanctions and exert pressure in return for loans or investment, among others, as Joseph Nye (2011) notes in *The Future of Power*. Brand recognition, too, profoundly shapes public opinion and can inspire an affinity for China in foreign countries’ populations.

Indeed, some observers even argue that economic power has eclipsed other forms of international influence. Leslie Gelb (2010, p. 35) argues:

Today, the prevailing idea is that economic strength should be applied primarily toward achieving economic—not military—ends. Money is what counts most... What preoccupies most leaders is trade, investment, access to markets, exchange rates, additional riches for the rich and a better life for the rest.

Chinese leaders, at least, have opted for leveraging economic power to build a broader power base and develop alliances where they do not wish to challenge the United States more directly (at least not yet).¹ In the 1990s, former president Jiang Zemin first advocated for the regime to assist companies’ internationalization to bolster general economic power:

We should encourage and help relatively competitive enterprises with various forms of ownership [i.e., private and state-run] to invest abroad in order to increase export of goods and labor services and bring about a number of strong multinational enterprises and brand names (SHAMBAUGH, 2012, p.160).

A decade later, the Chinese government formally adopted the “going-out strategy” (走出去战略) to supplement China’s supply of natural resources, promote Chinese exports and foster development of China’s multinational companies.

¹ This contrasts to China’s foreign policy in Asia, where it more explicitly challenges U.S. interests on issues like navigation rights in the South China Sea.

The first goal, natural resource acquisition, is straightforward. Guaranteeing access to—and low prices for—energy, minerals and metals, and agricultural products is crucial to sustaining China's economic growth and the wellbeing of its citizens. Simultaneously, these enterprises are often highly profitable, can be used as leverage in foreign capitals and help build internationally recognized companies. Lastly, during a potential military conflict, access to resources is crucial. To this end, China's central and state-level SOEs have launched myriad initiatives abroad. Especially throughout the developing world, these deals are often signed by top leaders and billed as evidence of burgeoning alliances. However, nationalist sentiment and reports of exploitation have led to wariness in many countries.

Second, Chinese exports have flooded the world, and Latin America is no exception. The growing consumer class snatches up Chinese-manufactured goods, which often carry artificially depressed price tags. Beijing supports the expansion of exports by providing government-backed loans as Chinese companies seek to establish subsidiaries, construct factories and capture market share overseas. Locals often complain they cannot compete. In Latin America, the fact that China primarily sells manufactured goods in the region but mainly buys raw materials has inspired bitterness. The region's economies also depend more on their trade with China than vice versa, rendering them more vulnerable during economic or geopolitical negotiations or a downturn in the Chinese economy.

The third goal, to foster China's multinational companies (MNCs), aims to help companies earn higher profits, strengthen overseas alliances via business relationships and improve global public opinion of China. These are important factors in "soft power," which top Chinese leaders have recently identified as a crucial sphere of competition with the United States. President Hu Jintao, for example, emphasized soft power in a 2007 speech to the Chinese congress (FENG, 2007). Thus, Beijing increasingly devotes financial and political capital to help Chinese firms mature into world-class multinationals, especially because Chinese firms generally struggle to do so. One prominent Chinese lawyer estimated that 90 percent of deals involving China through 2010 "were not successful" (CHAO, 2010, p. 1). In 2012, not a single Chinese brand appeared among the top one hundred brands in the world (BACKALER, 2013).

This going-out strategy is implemented by the Chinese Export-Import Bank (Exim Bank), the China-Development Bank (CDB) and State-Owned Enterprises (SOEs). The CDB and Exim Bank provide loans according to the State Council's policy preferences. For their part, SOEs often have embedded Communist Party cells, and the state appoints their CEOs. At times, they even forego profits for political reasons, since they are confident that the state will continue to grant highly subsidized loans and "never calling in debts" (SHAMBAUGH, 2012, p. 16). Lastly, the Ministry of Commerce (MOFCOM) steers investment by researching and publishing investment opportunities and fashioning financial incentives. Unsurprisingly, therefore, central SOEs accounted for 75 percent of China's overseas direct investment in 2010 (FLEURY and FLEURY, 2006; SHAMBAUGH, 2012).

Channeling funds into these companies also allows the leadership to reduce its dependence on foreign exchange reserves, which have ballooned thanks to controlled interest rates and depressed consumption at home. Indeed, in 2009, Premier Wen Jiabao announced that the state would deploy these virtually unlimited funds to "accelerate overseas expansion and acquisitions by Chinese companies" (ANDERLINI, 2009, p. 1).

Even when the regime does not provide direct support, authorities monitor outbound investments. A complicated system governs which projects fall under the jurisdiction of the State Council, National Development and Reform Council, Ministry of Commerce, or the State-owned Assets Supervision and Administration Commission (SASAC); in many cases, more than one entity has jurisdiction (CEBC, 2013). Briefly, the MOFCOM reviews any proposed overseas investment over \$200 million. The National Development Reform Commission and MOFCOM both can veto a project, while the State Council examines proposals involving natural resources.

At the same time, it is important to note that China's size precludes constant top-down supervision. With so many institutions involved, oversight and policy directives can be fragmented and contradictory. Many provinces wield considerable power and interpret national interest differently. Finally, Chinese companies still operate according to their commercial interests when officials do not prioritize the political implications of their overseas business.

The upshot is that Chinese firms' competitiveness is heightened by support from the state and that their overseas activities are often politically motivated. Still, the extent of government involvement in a particular endeavor is virtually impossible for outside researchers to assess accurately and requires much analytical guesswork.

Chinese interests in Brazil

Both China's investment in Brazil as well as trade between the countries have surged in recent years. Top political leaders have encouraged many of these deals through strategic partnerships, investment protocols and memoranda of understanding (MOUs) during state visits—in large part as a signal to the United States and Europe of deepening Sino-Brazilian ties.

Accounting for 40 percent of Latin America's economy, Brazil is China's biggest trading partner in the region and the only Latin American country in China's top ten trading partners. Its generous natural resources and growing consumer class have attracted thirty-nine projects worth \$24.5 billion from Chinese investors (CEBC, 2013).

The lion's share of Chinese investment in Brazil is from SOEs. In 2010, fully 93 percent originated from the large central SOEs, which the SASAC directly supervises (CEBC, 2011a). Of the 23 companies that form a group of companies known as the dorsal fin, which Beijing has identified as the most critically strategic, eight have announced investments in Brazil. Overall, only 13 of 47 confirmed projects between 2005 and 2012 were wholly private (CEBC, 2013).

Brazil's export basket to China is an important gauge of China's interests in the country and Brazil's ensuing attitude toward its investment. The vast majority of Brazil's exports to China remain concentrated in commodities. In 2010, 76.6 percent of Brazilian exports to China consisted of wood, vegetable, or mining products (BRAINARD and WELCH, 2012). Brazil, on the other hand, imports manufactured goods, principally machines and equipment from China.

Therefore, investment initially skewed toward natural resources, though it has diversified. Before 2010, the seven Chinese investment projects in Brazil totaled less than \$600 million (CEBC, 2013). Then, in 2010, 21 investments were announced, with almost half in natural resources. The

following year, 14 investments were announced but notably, only two were in natural resources. Afterwards, data is available only through June 2012, but of 18 announced projects, only three were in natural resources. Clearly, Chinese investment in Brazil continues to rise, but the number of projects in natural resources is visibly declining.

Regardless of the recent diversification, Beijing's strategy for securing natural resources is a critical component of its economic foreign policy. China's depleting water resources and growing consumption of meat have caused agricultural imports to surge. Energy demand is skyrocketing; in October 2013, China's oil imports per day surpassed those of the United States and they are predicted to triple by the year 2030 (SHAMBAUGH, 2012). Finally, manufacturing and economic growth require vast mineral resources.

In a revealing comment to reporters, Li Keguo, the vice-governor of the CDB, lamented, "God is not fair; he gave Brazil vast land, water resources, mineral resources and oil, but what we have is people." (SANDERSON and FORSYTHE, 2013, p. 127). Institutionally, the CDB has sought to help Chinese companies enter Brazil and dispatched a team to research opportunities in natural resources, particularly agriculture, in the early 2000s (DOWNS, 2011). While Brazilian leaders at times welcomed the investment as a counterweight to U.S. influence, they have also demonstrated wariness and limited Chinese entrance into Brazilian markets.

Chinese Investment in Agriculture

With China's rapid growth, particularly of the middle class, pressures on the nation's agriculture and food-supply chain are increasing. Clean water is limited, and the population's demands are spiking. Consequently, China is working to develop alternate resources to meet its burgeoning needs. To illustrate, China's water-per-person ratio is only a quarter of the global average, and nearly 40 percent of China's major rivers are contaminated (HOOK, 2013). The country's growing middle class is consuming more meat, which requires farmers to produce more grain (as animal feed). At the same time, many farmers have abandoned the countryside, flocking to cities in droves.

Beijing's motives in building relationships to secure resources from other countries, and with Brazil in particular, are understandable. Brazil possesses the most unused farmland in the world, and its annual renewable water resources are equivalent to the entire continent of Asia's (THE ECONOMIST, 2010). Brazilian soy has attracted special attention, since Chinese leaders made a strategic decision to source soy from overseas (in order to encourage domestic production of other grains that would be more valuable during a famine). As a result, China has significantly increased the amount of soy imported from Brazil. Between 2008 and 2011, Brazilian soy exports to China jumped from 48.6 percent to 67.1 percent (CEBC, 2012). By 2020, that figure is estimated to surge to as much as 90 percent (BLACKMORE, DANNING and CASALLAS, 2013).

Chinese investors would also like to build a better route from Brazilian fields to Chinese dinner plates. The Brazilian transport system today is pitifully inefficient. A container takes an average of 21 days to clear Brazil's main port in São Paulo, compared with two in Rotterdam.

Brazil's decrepit rail system and potholed highways swell transport costs to six times those for U.S. exports (LEAHY, 2013). In March 2013, China was forced to cancel a major shipment of soybeans from Brazil because of logistical bottlenecks. A top manager of COFCO (China National Cereals, Oils and Foodstuffs Corporation) explained that delays had reached 60 days, paralyzing a soy-processing factory in China (SENADO FEDERAL, 2013).

Currently, Chinese companies purchase soy from three major multinationals operating in Brazil: Cargill, Archer Daniels Midland and Bunge, exposing them to price fluctuations and increasing costs. In response, Beijing has launched an offensive to integrate supply chains by investing on the ground in agriculture, according to Beijing University professor Zheng Fentian (CARDENAL and ARAÚJO, 2013). But these efforts have met widespread opposition, and Brazil, in particular, has impeded Chinese investment in agriculture. Generally, this resistance stems from nationalist sentiment as well as historic controversy over inequitable allocation of land between the elite gentry and impoverished peasants.

Some Chinese investors consummated minor investments, but not without controversy. A Brazilian subsidiary of Sustainable Forest Holdings Ltd. allegedly bribed a state deputy to deliver a favorable verdict during an inquiry into a front company set up in the state (LEANDRO, 2011). Sateri Holdings Ltd., based in Shanghai, owns woodlands and operates a wood-pulp industrial complex in Bahia, but has sparked union opposition (SINDIFLORA, 2012).

The Noble Group, headquartered in Hong Kong, also boasts 13 properties in Brazil—but is far from a state-run company that could be influenced, if needed, to guarantee a steady, affordable supply of foodstuffs to Chinese citizens. Finally, Sinopec, a Chinese energy company, earned a contract to build part of a fertilizer factory in 2011 (UFN 3), but because its participation resulted from cooperation in the oil sector with Petrobras, this agreement did not open doors in Brazil for state-run agricultural companies.

In response to news of proposed large investments, in August 2010, the Brazilian attorney general limited the size and ratio of these ventures in a district of permitted foreign ownership—effectively prohibiting foreigners from purchasing farmland. Furthermore, according to Adler Martins, a Brazilian attorney who specializes in foreign investment, significant investment by a foreign shareholder in a Brazilian company “could be interpreted as a ‘de facto’ ownership” and would trigger the restrictions.

Brazilian government officials interviewed for this project attested that the change was overwhelmingly aimed to stop Chinese purchases of land. U.S., European and Japanese businesses have long invested heavily in Brazil's agricultural sector, but rumors of Chinese aspirations to secure food supplies, rather than to maximize profits, alarmed Brazilian officials.

As a result, Chinese government representatives and business executives recognized that they needed domestic support, given that corruption and delays could also be an excuse to indefinitely table a license application for political reasons. They turned to Brazilian state-level officials. Though attitudes and policies vary heavily by state, officials universally demanded that Chinese investors develop the local industry—by building local mills, factories and warehouses. At the same time, however, each Chinese proposal to invest in transportation infrastructure as part of the investment was dismissed at the outset.

Only one Chinese company, Chongqing Grains (CQG), has succeeded to date. In April 2010, before the ruling on foreign ownership, reports surfaced that the company planned to purchase 100,000 hectares in Western Bahia (ESTADO DE SÃO PAULO, 2010a). Notably, the CDB would bankroll 60 percent of the cost, or \$180 million. But before CQG could proceed, Brazil passed the restrictions on foreign ownership of land.

CQG then opened negotiations with the state and local government. By 2011, top leaders from both countries were involved in the talks. In March of that year, China sent a group of high-level politicians to negotiate with Brasília. The Chinese team was led by Hu Junlie, the CQG president, who had previously served in numerous government posts such as the Chongqing People's Political Consultative Conference, (the Communist Party's directive board in the city). He also won an award for "Model Communist Party Member of Chongqing" (RTRS, 2013). According to confidential documents obtained by the authors, the group also included Bo Xilai who had previously served as commerce minister and was slotted for promotion to the country's 25-member politburo that oversees the government.

The Brazilian national secretaries of agriculture and transportation received the Chinese committee, along with various officials from Barreiras, including Federal Deputy Oziel de Oliveira. Representatives from President Dilma Rousseff's chief of staff also attended. Deputy Oliveira emphasized that the president followed the negotiations from the beginning (most likely because of the close political relationship between President Rousseff and the state's governor) (NOVA FRONTEIRA, 2011).

On the sidelines of the BRICS summit in April 2011, Rousseff and Hu Jintao signed a protocol for Chongqing Grains to inject \$2.4 billion (R\$ 4 billion) into a local agro-industrial complex (INVEST IN, 2011). CQG would also build a soybean mill, with an initial capacity to process 1.5 million tons annually (almost half the state's production), a fertilizer factory and desperately needed silos. The local municipality in Barreiras, Bahia, would donate and level the land for the factory, as well as connect it to the energy, water and phone grids. Employees in Barreiras declined to comment when asked if the CDB had provided funding.

According to the Bahian Association of Farmers and Irrigators (AIBA), the investment is a mystery to locals because there is no need for a new soy-processing factory. Of the 2.7 million tons of soybeans produced in the state, 1.5 million is already sold to Bunge, and another million is spoken for by Cargill. ADM and two other exporters take the rest. The agribusiness director of AIBA observed, "There's not enough soy for another factory." This lack of demand would ordinarily deter an investor. Clearly, Chongqing Grains is more concerned about entering the market than losing profits—underscoring the political motivations and confidence that the government will provide a financial backstop if needed.

As of September 2013, the land was still being leveled, indicating that the factory will begin operations in late 2015 at the earliest. CQG had established a subsidiary, Universo Verde, with a handful of employees in Bahia's capital, Salvador, Barreiras and two other states where the company hopes to invest: Piauí and Tocantins. Out of a small, unmarked apartment in Barreiras, a handful of Chinese and Brazilian employees liaise with local authorities and oversee its compliance with environmental regulations. They were unaware, or unwilling to say, if the CDB provided funds

for their projects. Roughly 90 kilometers to the north, in Luis Eduardo Magalhães, Universo Verde rents 250,000 hectares from local farmers. However, AIBA representatives were skeptical that the warehousing and fertilizer factory projects would proceed.

In the neighboring state of Goiás, we find another example of the difficulty in establishing these relationships. China's Sanhe Hopefull Group announced a \$7.5 billion deal in the soybean industry in 2011 after two years of talks with the local government. Officials who participated in the negotiations noted that Sanhe originally proposed buying land and consistently sought to do so. But given Brazilian restrictions, Sanhe instead revised its plans to guarantee its acquisition of 6 million tons of soybeans annually—over 75 percent of the state's total production at the time.

The Goiás secretariat of agriculture was reticent from the outset. Above all, Brazilian officials said that it was never clear whether they were speaking with government representatives or with private sector executives, even though Sanhe is ostensibly a private company. Furthermore, the secretariat does not believe that Brazilian state governments should participate in negotiations with private Brazilian agribusinesses, but they attempted to do so after Sanhe approached them with plans to invest such a large sum in the state.

With help from the local Federation of Agriculture (FAEG), the secretariat designed a plan to set up purchase agreements between Sanhe and local farmers, as other multinational exporters do. Sanhe hoped to finance the recuperation of degraded pastures in the north of the state, where the market was not already dominated by European and U.S. agribusiness. But the secretariat would only facilitate partnerships with the more vulnerable farmers in the poorer north of the state after Sanhe established itself as a trustworthy partner. First, they would work with established producers in the South. If all went well, Sanhe could expand into the North if they agreed to build a soy-processing factory there. In addition, the secretariat's plan would gradually increase the guaranteed supply of soybeans over a period of five to ten years; the initial quantities would be far less.

The talks then halted. The Goiás government delayed six months before sending a revision, and then Sanhe never responded, according to interviewees who wished to remain anonymous. FAEG hopes to bypass the government and arrange a deal with Sanhe directly to such avoid bureaucratic delays. But from the perspective of the secretariat, Sanhe simply disappeared unexpectedly and therefore is deemed an untrustworthy partner.

Chinese officials continue to seek investment opportunities with support from their government. For example, in October, 2012, Chinese ambassador to Brazil, Li Jinzhang, traveled to Mato Grosso, where he met with the governor and proposed visits from Chinese "empresarial groups" (TRENTO, 2012). Six months later, CDB representatives visited the state and then published a study of potential projects in Mato Grosso worth \$2.5 million for Chinese investors (FOLHA DE SÃO PAULO, 2013). In 2013, Chinese investors announced new projects in Bahia and Mato Grosso do Sul, though it is too soon to tell if these will materialize.

To sum up, the Chinese regime is attempting to support investments by state-run companies in Brazilian agriculture in order to secure a reliable supply of agricultural imports at steady prices. Brazilian authorities, however, have blocked them from purchasing land and demanded that they seek local partners to develop Brazilian agriculture and industry. To date, this has proved difficult for Chinese investors.

Chinese Investment in Brazilian Energy

On the other hand, Brazilian officials have welcomed Chinese investment in energy. Given that Chinese energy companies are large, central state-owned enterprises, these negotiations have naturally been closely monitored and controlled by the regime. The strategy has been two-pronged: to negotiate with Brasília in order to forge partnerships with Petrobras (which remains under majority control by the state) and to buy up Brazilian operations of European companies.

The sovereign partnerships began evolving in the early 2000s. During a 2004 visit to China by then-president Luis Inácio da Silva (Lula), Petrobras signed a strategic cooperation agreement with Sinopec. Lula made no secret of Brazil's motives, announcing that it was "important...to tighten ties to China via strategic partnerships" (FRANCE PRESS, 2010, p. 1). He added that, precisely for that reason, his ministers had voted to reject Japanese financing and instead opted to work with Sinopec.

By 2005, Sinopec had won a contract to build part of a natural-gas pipeline along the Brazilian coast. The CDB also stepped in to lend \$750 million to Petrobras just as Sinopec began its work, indicating that the CDB lent money it knew would circle back into Chinese coffers (CHIARNI, 2007). Still, Sinopec's Brazilian subsidiary, Jocec, hired six Brazilian contractors for the job, and its only independent contribution was to dig a trench between two rivers using superior technology and expertise that was previously unknown in Brazil (O EMPREITEIRO, 2011).

In 2008, the CDB offered Petrobras a generous credit line in exchange for doubling or even quadrupling exports to China. Petrobras badly needed the financing to develop pre-salt oil reserves as global crude-oil prices plummeted, and credit markets dried up. Notably, the CDB designed the deal in order to develop business abroad, but its success was guaranteed only after being embraced by the Ministry of Foreign Affairs, the Ministry of Commerce and the State Council "as a symbol of the growing economic ties between the two countries" (DOWNS, 2011, p. 81).

At the 2011 BRICS summit, the two heads of state signed the deal. CDB extended a \$10 billion credit facility at the commercial interest rate of LIBOR+2.8 percent to Petrobras. In exchange, despite initial resistance, Petrobras agreed to sell to Sinopec 150,000 barrels of crude oil a day in 2009 (at market prices) and 200,000 annually through 2019 (PETROBRAS, 2010; GOY, 2012). Brazil also reluctantly agreed to earmark \$3 billion to purchase Chinese equipment (DOWNS, 2011).

Though Petrobras accessed the credit line, it had never met its monthly oil commitment as of February, 2012 (SANDERSON and FORSYTHE, 2013). Nevertheless, Sinopec deemed the partnership "a success," underscoring its determination to deepen ties with Petrobras (SINOPEC, 2013). Moreover, at the time, the CDB apparently extended an \$800 million line of credit to Brazil's development bank (BNDES) as a "friendly gesture" (RABINOVITCH, 2011). The CDB-Petrobras collaboration paved the way for other partnerships. Sinopec has since bought a 20 percent stake in two of Petrobras's northern oil fields and partnered with the Brazilian company on four other smaller engineering projects to strengthen ties between the companies (CEBC, 2013).

In addition to oil, the Chinese energy company State Grid, which, like Sinopec, is among the dorsal fin SOEs, has invested heavily in Brazil. In 2010, it obtained seven major concessions for \$1 billion. Again, top Chinese politicians had clearly promoted the deal (STATE GRID, 2010). Sinopec and CDB officials attended the opening ceremony, and a note from the SASAC emphasized that

the arrangement aimed to build a “stronger, more competitive and influential first-class power business in South America” (WINNING and YAP, 2010, p. 1). State grid went on to purchase another 2,800 kilometers of power lines in 2012 and plans to invest another \$10 billion from its 17-floor Rio headquarters (AGÊNCIA ESTADO, 2013; OLIVEIRA, 2012).

The remainder of Chinese energy investments featured acquisitions of European companies’ operations in Brazil. In 2010, Sinopec purchased for \$7.1 billion a 40 percent stake in the Spanish Repsol’s Brazilian unit. The next year, it paid \$5.2 billion for a 30 percent stake in the Brazilian operations of the Portuguese Galp Energia, which owns the important pre-salt field known as Lula. Finally, Sinopec reportedly offered as much as \$8.5 billion to the private energy company OGX, though negotiations stalled (SCHUFFNER and RAGUZZI, 2010).

In addition, another state-run energy giant, Sinochem, bought a 40 percent share of Norwegian Statoil’s Brazilian oilfield for \$3 billion in 2011. Sinochem also acquired 10 percent of the French company Perenco’s Brazilian deep-water blocks in October, 2012, though officials refused to comment on the price (PRAKASH, 2012). And the China National Petroleum Corporation and China National Offshore Oil Corporation were part of a consortium that will partner with Petrobras to explore Libra, a major pre-salt deposit.

In sum, China has been successful in developing energy resources in Brazil. China’s push to invest in oil assets worldwide coincided with Petrobras’s need for funds to explore new discoveries, thus creating positive synergy between the two countries. In addition, European energy companies were tightening their finances during this period, creating a ready opportunity for China to purchase their Brazilian energy assets.

Chinese Investment in Mining

In stark contrast, a number of large Chinese investments in mining have fallen through. As economic growth took off in the early 2000s, Beijing adopted a strategy to intensify domestic production of minerals and metals and “acquire control over foreign resources” (WORLD BANK, 2011, p. 23). Though the sector is less centrally controlled than energy, the government retains majority control of most large companies. The state must grant approval for overseas projects and has supported internationalization by negotiating with foreign governments underwriting investments abroad. In Brazil, however, these efforts have largely failed.

Though it was ostensibly bureaucracy that stalled plans, it may actually be a general Brazilian suspicion of foreign mining companies, particularly from China, that have derailed these contracts and investments. From the Zambia to Peru, Chinese mining companies have earned dreadful reputations for degrading the environment, underpaying workers and neglecting health and safety conditions. While Western mining companies receive their fair share of scorn, China lacks transparency regulation, a free press and nongovernmental organizations to hold companies accountable, which causes further alarm. When questioned about Chinese mining investment in Brazil, the most common refrain from scholars, business executives and politicians was “Brazil is not Africa.” In their view, Chinese mining companies exploit African countries and should be blocked from Brazil.

As in agriculture, political support is necessary for overseas investors who wish to invest in the Brazilian mining sector. Even after partnering with a Brazilian firm, acquiring land rights is thorny: more than half of the land is not properly documented. One businessman attested that in one case “over 1,000 people made claims to the land” (GLOBAL BUSINESS REPORT, 2012, p. 90). And even then, applications can languish indefinitely in the convoluted permitting processes common in Brazilian bureaucracies.

Therefore, lack of Brazilian support likely doomed Chinese investment at the outset. Especially given that the government maintains control of the largest mining company active in Brazil, Vale, China’s failure to invest in Brazilian mining implies that it was unwelcome.

Mirroring its partnership with Petrobras, the CDB, along with the Exim Bank, extended in 2010 a \$1.2 billion line of credit to Vale for the construction of 12 ships that would transport iron more cheaply to China (ESTADO DE SÃO PAULO, 2010b). However, this partnership did not lead to further Chinese collaboration with Vale. (And ironically, in 2011, Chinese authorities prohibited the gigantic vessels from docking to protect local shipping companies from competition. The ban was lifted in 2013.)

Other major deals also collapsed. Baosteel, a mining company that is also part of the “dorsal fin” of SOEs, announced three investments between 2005 and 2009 worth more than \$9 billion but abandoned all of them due to licensing delays and regulatory roadblocks. Another Chinese firm, Wuhan Iron and Steel Company (WISCO), negotiated an investment of \$5 billion in Passagem Mineração, a Brazilian mining company with valuable iron assets. But this too failed—this time due to a feud between sibling shareholders (PONTO FINAL, 2010). Finally, in 2010, a Nanjing-based company announced that it would purchase Itaminas Comércio, another Brazilian company with large iron reserves, but plans were suspended in 2011 (MACAU HUB, 2011).

Chinese investors persisted. WISCO successfully acquired a 21.5 percent stake in MMX for \$400 million as part of a larger arrangement that included a \$5 billion steel mill project at a Rio de Janeiro port. But WISCO ditched the steel mill talks shortly thereafter, after Brazilian authorities failed to provide the necessary infrastructure (PETRONOTÍCIAS, 2012). Furthermore, by 2013, MMX’s future looked bleak along with the dramatically imploding empire of its owner, Eike Batista.

Sinopec also won a contract in 2011 for a \$1 billion mineral pipeline from Minas Gerais to Espírito Santo, but as with the fertilizer plant, Brazil apparently only welcomed its participation because of Sinopec’s prior collaboration with Petrobras (CEBC, 2013). The deal therefore does not portend further openness to Chinese mining companies.

For \$400 million, a Chinese mining consortium also secured a 15 percent stake in CBMM, the Brazilian company whose Araxá mine produces 80 percent of the world’s niobium, a rare element used for high-quality steel (MERCOPRESS, 2011). And in March, 2013, Honbridge Holdings, which represents two major state-run mining companies (Xinwen Mining Group and Shandong Iron and Steel), closed a \$390 million deal with Votorantim to jointly manage production of an iron mine. Yet, even in this case, the iron ore is reportedly “of poor quality, in concentrations insufficient to generate adequate returns on investment” (ELLIS, 2011, p. 3). Compared to the \$15 billion in investments by WISCO and Baosteel, it must be disappointing to Chinese investors that the completed deals are valued only in the millions.

Today, few signs indicate that China remains interested in Brazilian mining. Since late 2011, Brazilian mining licenses have been frozen as the government reforms the mining code. Coupled with declining steel prices, Chinese investors appear to have desisted—at least for the time being.

Investment in Sectors Other Than Natural Resources

Chinese investment in Brazil outside natural resources is concentrated in technology and automobiles. Between 2010 and June, 2012, Chinese companies announced 19 investments in technology, including projects in electronics, communications, computer sciences and solar energy (MDIC, 2013). During the same period, announced investments in cars, motorcycles and electric bikes totaled 18.

A number of these investments have been by smaller private Chinese companies. For example, Gree (which manufactures air conditioning units) and SVA (which produces electronics) opened shop in Brazil to secure more favorable treatment for their products throughout Latin American markets. Yet, even in these cases the state's role behind the scenes is often considerably larger than in investment originating from Western countries where private activity is not as closely tied to government policies and subsidies. For instance, Sky Solar, which announced an \$18 million solar plant in Brazil in July, 2011, is private but has received at least \$1 billion in assistance from the CDB (SKY SOLAR, 2012). And even fully private investments—like those made by the private Chinese computer manufacturer, Lenovo—might be subject to government intervention if their interests overseas began to diverge from top leaders' foreign policy objectives.

Chinese leaders have prioritized investment in the Brazilian automobile sector, the fourth-largest in the world. Automobile companies are emblematic, and China hopes to compete with two of its main international rivals in this sector: Japan and the United States. In China, state-owned companies controlled 86 percent of the market in 2010 (CEBC, 2011a). Dongfeng Motors, which is also among the “dorsal fin” SOEs, sought to enter the Brazilian market beginning in 2010, and finally announced a \$4 billion partnership with Peugeot in Brazil in 2013 (CEBC, 2011a; REUTERS, 2013). Highlighting the challenges of working with non-transparent Chinese investors, a different Chinese company had used Dongfeng's name without its permission to sign an agreement with the state government in Rio Grande do Sul (AGÊNCIA RBS, 2012). Chery and JAC, the two companies at the forefront of Chinese investment in the Brazilian automobile sector so far, are among the few Chinese companies that do not have an international partner. Chery is the largest of these so-called independent companies.

The Chery case is revealing. In an interview on the CDB website, the president of the bank stressed that support for Chery “is the unshirkable duty of CDB” (YUAN, 2005, p. 1). Speaking about plans to open a \$400 million factory in Brazil, Chery's CEO noted that the project had “been approved by the National Development Reform Commission, the Chinese federal government and is linked directly to the office of China's prime minister” (CEBC, 2011b, p. 33). Even after Brazil hiked its import tax on foreign cars 30 points to 55 percent—principally to insulate the domestic market from cheaper Chinese cars—Chery managed not to raise its prices (BARBOSA, 2011). Though there is no confirmation of the Brazilian investment being solely responsible for forcing Chery to

seek government funding, it is notable that the CDB recently extended a \$6.5 billion line of credit in early 2013 for the company's overseas expansion (RITA, 2013).

Huawei is another important example. The telecommunications company is not state-owned, but its dizzying growth was largely underwritten by government loans. Underscoring how the central government steps in to help its companies go global, in 2009 the CDB loaned \$1.3 billion to the Brazilian phone company, Oi, to buy Huawei equipment (CEBC, 2010). Still, the Brazilian industry benefits. In Brazil, Huawei was able to offer prices that were 30 percent lower than competitors and was more experienced than Western companies in providing service to rural, underdeveloped areas. Huawei has since opened research and development centers, established Latin America's largest GSM network and been hired by Brazil's three largest cell phone carriers to develop 3G networks (CEBC, 2013).

Conclusion

Brazil is clearly an important playing field for China's push to shore up economic power by helping its companies invest abroad and strengthen alliances via commercial relationships. Chinese presidents and central institutions like the China Development Bank have supported and encouraged SOEs to set up shop in Brazil and partner with local companies in order to secure steady supplies of Brazilian commodities and capture a portion of Brazil's growing consumer market.

However, Brazilian leaders have carefully monitored Chinese interests, blocking Chinese companies from certain sectors while channeling money into areas that they consider beneficial. Proposed Chinese investments in agriculture raised protectionist hackles, and in response, the federal government effectively prohibited foreigners from buying land. Chinese companies therefore launched talks with local governments to enter Brazil's agricultural sector and have succeeded only in Bahia to date.

In energy, on the other hand, top Chinese leaders orchestrated partnerships between Petrobras, the CDB and Sinopec, which Brazilian leaders welcomed in order to secure access to advanced technology and capital. More recently, Chinese SOEs have also spent billions on acquiring stakes in the Brazilian operations of struggling European oil companies.

Chinese attempts to invest in mining have proven particularly frustrating. Regulations are particularly challenging for any foreign investor in Brazil and generally require tacit governmental support to succeed. However, Brazilian officials and business executives proved especially reticent about Chinese investment. Consequently the major, billion-dollar, agreements between Chinese and Brazilian mining companies collapsed.

Chinese authorities have also supported many firms in market-seeking initiatives in Brazil, but Brazilian openness to investment outside of natural resources is similarly tailored. Chinese technology firms, supported by the China Development Bank and welcomed by Brazilian politicians, have pumped millions into the Brazil. In contrast, Brazil has tried to impede investment in the automobile sector as China seeks to develop world-class companies to compete with international rivals by bolstering their expansion into Brazil.

In all sectors, however, heavy regulation has forced Chinese companies that do enter Brazil, particularly in the automobile and technology sectors, to seek local partners and therefore reduce the potential for abuses. Unfortunately, the relevance for other targets of Chinese investment may be limited. Brazil's size and abundant resources allow it to enact major barriers that would most likely result in investors foregoing opportunities in smaller countries. Still, the Brazilian experience shows that Chinese leaders may accept compromises in their pursuit of broader global, economic influence.

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