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# The future of Brazil-China relations in the context of COVID-19

*By Evan Ellis / September 18, 2020*



In the coming year, the People's Republic of China (PRC) is on track to significantly advance its commercial

presence in Brazil. This possibility reflects China's current strategic interest in Brazil, as the two countries work together to create a vaccine against COVID-19. If successful, a vaccine would alleviate much of the current public health and economic concerns in both countries, as recovery from the pandemic would open trade opportunities, and encourage greater business ties at all levels between the PRC and Brazil.



Brazil was the first country in the region that the PRC recognized as a “Strategic Partner,” with China granting Brazil that status in 1993, then upgrading Brazil’s status to “Comprehensive Strategic Partner” in 2012. In economic terms, Brazil has received \$55 billion in Chinese investment in 145 projects over the past decade, representing almost half of the \$123 billion invested by PRC-based companies in the region. Since 2005, China’s two main policy banks have loaned Brazil \$28.9 billion, more than any country except Venezuela, and representing more than 21 percent of the \$137 billion loaned to Latin America during that time.

The alignment of Brazilian President Jair Bolsonaro with the Trump Administration and recent negative exchanges between the PRC and Brazil gives a misleading impression of an enduring rupture between Brazil and China. Indeed, though investment in Brazil by PRC-based companies fell to a low of \$284 million in 2018, investments by PRC-based companies in Brazil rebounded to a robust robust \$1.8 billion by 2019. By the end of 2019, the Chinese government indicated that it had \$100 billion to invest in Brazil in five different government funds.

## **A Chinese vaccine and economic turnaround in Brazil**

The duration and severity of the pandemic in Brazil complicates predictions as to how quickly the country may move forward when the direct threat of contagion is resolved. As of the middle of September 2020,

Brazil had registered 4.5 million cases of the virus, with 135,000 deaths, the third highest in the world behind only the United States and India. While the pandemic will likely cause long-term damage to Brazil's economy, the arrival and distribution of an effective vaccine, likely in mid-2021, would enable a rapid reemergence of business and other activity, with the PRC as a primary partner.

The PRC-based firms Sinovac, Sinopharm, CanSino Biologics, and Kintor Pharmaceuticals all

announced COVID-19 vaccine initiatives in Brazil in recent months. While it is difficult to anticipate which vaccines will be successful, the commitment by multiple PRC-based firms to do late-stage clinical trials and vaccine production in Brazil, in combination with a Chinese government for the purchase of a vaccine developed by its companies, makes it likely that Brazil will be on the road to recovery by the second half of 2021.

### **Drivers and impediments of the expanded Brazil-PRC engagement**

Even before the current tensions between China and Brazil, President Bolsonaro's economic interest in the PRC was a powerful counterweight against his public skepticism toward the country. Bolsonaro visited the PRC five months after Brazilian Vice President Hamilton Mourao's positive visit in May 2019. During his visit, President Bolsonaro significantly moderated his prior anti-China rhetoric, proclaiming that Brazil and China shared a common goal, and sought to attract PRC

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investment and cooperation in technology. A month later, in November 2019, the President gave a warm welcome to his counterpart Xi Jinping in Brasilia for the BRICS summit, proclaiming that “China is an ever greater part of Brazil’s future.”

China’s expanding role in, and economic importance to Brazil, despite Bolsonaro’s initial skepticism, seems set to play out as Chinese entities purchase Brazilian agricultural, mining and petroleum products; invest and loan funds; acquire distressed assets in strategically valuable sectors across the country; and Brazil’s need for Chinese investment in transportation, electricity and telecommunications infrastructure projects, as well as associated employment-generating activity in the country.

Even with Chinese economic activity impaired by the pandemic, the PRC still purchased 34 percent of Brazil’s \$121.3 billion in exports between January and July 2020. The U.S., by comparison, purchased less than 15 percent of those exports. Thanks in part to China’s strong demand for agricultural goods, its imports from Brazil actually increased 11 percent during the same period. The PRC’s demand for Brazilian exports is magnified when considering the expected sluggish economic performance of Brazil’s other economic partners, including Argentina, with a projected 10.5 percent decline in GDP for 2020, the United States, whose GDP is projected to contract 4.9 percent, and the European Union, whose collective GDP is projected to shrink by 8.7 percent during the period.

Amidst diminished alternatives, Chinese agricultural, mining, and petroleum demand is likely to be a lifeline for Brazil. Currently, 46 percent of Brazil’s agricultural exports go to the PRC. Brazil’s soy exports are anticipated to hit record levels in 2020, and rising 9.1 percent from the prior year. 31 percent of Brazil’s sugar exports go to China, with a particularly large increase after the PRC agreed in May 2020 to reduce



tariffs on Brazilian sugar. China has also demonstrated a growing appetite for large quantities of Brazilian products that the PRC has not previously imported, such as coffee, as well as melons and other fruits.

Perhaps the greatest potential prize for Brazilian agricultural producers is meat. The outbreak of swine fever in China in May 2019 created an opportunity for Brazilian producers to expand market share. Currently, 45 Brazilian meatpacking plants are currently authorized to export to the PRC and, despite the pandemic, Chinese demand is expected to keep Brazil's chicken exports stable for 2020. Nonetheless, COVID-19 has also created challenges in the sector, with six Brazilian meat packing plants blocked from exporting to China after COVID-19 was detected in their chicken.

The Brazilian government's attention to the PRC will likely be bolstered by the President's key cabinet appointments. These include his recent appointment of Roberto Fendt as Deputy Economy Minister, with responsibility for Foreign Trade and International Affairs. Fendt was former Executive Secretary of the China-Brazil Business Council, the country's primary organ for promoting trade and investment with the PRC. Fendt will compliment other senior officials in Bolsonaro's government who are bullish on China, including previously mentioned Vice-President Hamilton Mourau, whose May 2019 visit to the PRC was particularly notable for the Vice-President's extremely positive tone toward China, praising it for "global leadership" and welcoming more investment from Chinese companies.

At the federal level, the advance of Chinese trade and projects in the country will be further bolstered by the COSBAN, a ministerial-level, binational committee set up as part of the Brazil-China strategic partnership to facilitate cooperation, but whose use has varied across different Brazilian administrations. During President Xi's State visit to

Brazil in December 2019, the two governments agreed to use COSBAN as a key coordinating vehicle.

Despite opportunities for Chinese advances on multiple fronts, concerns about China by President Bolsonaro and his government, reinforced by the US, will likely slow the approval of acquisitions and the award of major infrastructure projects to Chinese companies. These concerns may particularly impact areas such as Brazil's choice to build a 5G telecommunications network, with Brazil already initially scheduled for 2020, until 2021 or later.

### **Chinese economic engagement by sector**

As PRC engagement with Brazil takes off in the post-COVID-19 environment, Chinese companies are already present, and are positioned to make significant advances in almost every sector. The characteristics of that advance, whether through mergers and acquisitions, greenfield projects, or incremental expansion of existing projects, the size and sophistication of the Chinese companies involved, and their relationship with local partners, will differ according to the sector and the position Chinese companies have established.

***Petroleum.*** Access to Brazil's petroleum and the technologies for obtaining it such as deepwater exploration and drilling, has long been of interest for PRC-based banks and investors. China's \$10 billion loan to Petrobras in 2009 was key to its advance in the sector, arguably paving the way for Sinochem's May 2010 \$3.1 billion purchase of the Brazilian holdings of the Norwegian company Statoil; Sinopec's injection of \$7.1 billion into the Brazil operations of the Spanish company Repsol in the same year; the company's \$5.2 billion purchase of a 30 percent stake in the petroleum company Galp in 2011; and Sinochem's 2012 purchase of a 10 percent stake in the Brazilian operations of Perenco. Each of these

advances in China's petroleum presence in Brazil ultimately paved the way for China's first major investment in exploration and development in Brazil's deepwater environment.

Despite such Chinese leverage, other actual and potential business involving Chinese companies in the sector has not worked out. Sinopec, operating Repsol's assets in Brazil, chose not to respond to President Bolsonaro's invitation to participate in the November 2019 auction. Similarly, a July 2018 agreement between Petrobras and CNPC to complete construction of a Petrochemical Refinery Complex in Rio de Janeiro (Comperj) was terminated in December 2019 because the Brazilian partner decided to get out of the refining business, calculating that the venture was not viable.

***Mining.*** PRC companies have played a significant role as both a customer and investor in Brazilian mining industries. In August of 2020, despite the negative effects of COVID-19 on its global exports overall, VALE was considering investing in facilities to expand its output to accommodate growing Chinese demand, including a joint venture in Pará, with the Chinese company Concremat, to jointly build a \$370 million flat steel plant.

Sul Americana de Metais, acquired by Hong Kong-based firm Honbridge Holdings in 2010, was considering a new \$2.2 billion mining complex investment in Minas Gerais in September 2019. Chinese companies have also positioned themselves in mining for rare earth metals in Brazil, one of the few countries outside China where such metals are concentrated. In 2011, the Chinese group Baosteel purchased a 15 percent interest in the rare-earth metals mining company CBMM.

***Agriculture.*** As in mining, PRC-based companies have sought to transition from purchasing Brazilian agricultural exports, to buying into

the value chain that produces them. Early attempts, however, such as seeking to purchase Brazilian agricultural land, and building agrobusiness operations in competition with established international companies in the sector like ADM, Bunge, Cargill and Dreyfus were largely unsuccessful. Notable examples of failed projects include a \$2 billion agrobusiness facility by Chongqing Grain in Bahia that was never realized.

PRC companies have been more successful in using their capital to acquire companies with pre-existing agrobusiness assets and technologies of interest, then channeling Chinese demand to favor the acquired companies. Notable Chinese purchases in this regard include the 2014 acquisitions of HK Noble and Nidera by China Oil and Foodstuffs Corporation (COFCO).

***Manufacturing.*** Brazil's large population and associated consumer market, and its access to other markets through its membership in Mercosur, have long attracted Chinese companies. The nation's industrial policies, with steep taxes for imported finished goods, have obligated PRC-based firms to locate varying portions of their final assembly operations within the country in a range of sectors from autos, trucks, and busses to electric trains and solar panel manufacturing.

In the automotive sector, Chinese companies JAC, Chery, Chang'an, Shineray, Foton, and others have established final assembly facilities in the country. Despite the pandemic, in August 2020, Chery Brazil announced plans to expand its Brazil operations to produce its Tiggo-8 model in its factory in Annapolis, São Paulo. Foton has similarly announced plans for a new factory.

The PRC-based company BYD operates a factory for the production of solar in Campinas. It has announced plans to increase production after the Brazilian government dropped tariffs on Chinese solar panels, and



anticipates expanding its share of the Brazilian market from 20 percent to 35 percent in the current year.

Somewhat counterintuitively, persistent softness in Brazilian consumer demand may create opportunities for Chinese manufacturers with well-resourced financial partners to expand their position in the sector as more bottom-line oriented U.S., European, and other Asian competitors are tempted to shift to more lucrative markets.

***Transportation infrastructure.*** For years, the ability of PRC-based companies to acquire logistics assets and win infrastructure construction projects in Brazil was limited by the dominance of Brazil's own national champions such as Odebrecht. The "Car Wash" corruption investigation that shook up the sector created important opportunities for PRC-based firms who had spent years developing relationships and building knowledge of the Brazilian business environment.

In September 2017, China Merchants Port Holdings (CMPort) acquired a 90 percent stake in the Brazilian firm TCP Participações for \$922 million before selling its holdings in January 2020 to the China-Portugal Cooperation Development Fund and the China-LAC Cooperation Fund. PRC-based firms during this period similarly acquired positions in the Babitonga Bulk Terminal at the port of São Francisco do Sul. The government of Espiritu Santo is working to attract Chinese capital to help develop a petroleum transport and storage complex in Porto Central.

In the northeast, a Chinese consortium is developing the port of São Luis into a megaport. In an illustration of the business quid pro quos that often drive the PRC advance in the sector, China's approval for Brazilian mining firm VALE to ship iron ore from the port to four additional Chinese ports is driving VALE to upgrade the port and associated rail lines to transport

minerals from the interior, for which it plans to contract the Chinese Rail 12th for the [\\$1.5 billion project](#).

Beyond ports and supporting infrastructure, as elsewhere in the region, Chinese construction companies are also penetrating the Brazilian market with other projects. The PRC-based conglomerate CCCC, for example, won a contract in Bahia in June 2020 to build and operate a bridge between the city of Salvador and the [island of Itaparica](#). CCCC was also selected to build a new above-ground metro rail system in the city of [Salvador](#). In São Paulo, the Chinese firm Gezouba acquired the consortium [Sistema Productor San Lourenço](#), with a contract to build infrastructure for the local water system.

***Electricity.*** Chinese companies have made the most significant investments and advances in electricity generation and infrastructure. Chinese SOE State Grid was the first PRC-based firm to enter the sector in a significant fashion, purchasing [7 power transmission facilities](#) in 2010, and acquiring seven more from the Spanish company [ACS](#) in 2012. State Grid also won a key project to construct a [\\$3.5 billion, 2,550 kilometer electricity transmission line](#) connecting the new Belo Monte hydroelectric facility in Pará to the southern regions of the country.

In 2015, Chinese firm State Power Investment Corporation (SPIC) spent \$2.5 billion to [acquire Pacific Hydro](#), giving it important electricity generation assets in both Brazil and Chile. In 2016, the Chinese SOE Three Gorges (CTG) [invested \\$1.2 billion](#) to acquire the Latin American holdings of Duke Energy, including significant electricity generation and transmission assets in Brazil. As a result, CTG presently [operates 8.2 gigawatts of installed electric capacity](#) in Brazil.

Beyond the aforementioned acquisitions in Brazil by large Chinese SOEs, other PRC-based entities are also expanding in the country. The Brazilian

operator Electrosul, in combination with Shanghai Electric and Zhejiang Energy, plan to build 2,000 kilometers of electric transmission lines in Rio Grande do Sul connecting wind turbines to the power grid. The Chinese company [BYD announced plans in June 2020 to build a solar generation facility in Aracatuba, São Paulo](#) to supply energy for local factories. In January 2019, China General Nuclear Power Corporation acquired the [solar, wind assets of Italy's ENEL in Brazil](#), representing 540 megawatts of installed capacity, including the Nova Olinda facility.

Even in Brazil's nuclear energy sector, PRC-based entities are positioning themselves to expand. During the September 2017 BRICS summit in Xiamen China, China National Nuclear Corporation (CNNC) signed an agreement to study [completing Brazil's Angra 3 nuclear complex](#), which has been in progress for more than 30 years, but in 2015, temporarily stalled for lack of state funds.

***Telecommunications.*** Despite concerns by the Bolsonaro administration and the United States regarding select infrastructure, [such as 5G](#), Chinese firms are well-positioned to expand. Huawei, has operated in Brazil for 22 years, and in October 2015, established a major customer service and testing facility in São Paulo. The company also opened a smartphone manufacturing facility in São Paulo in 2019. In 2017, China Unicom and Huawei announced plans to [build a 6,000 mile undersea telecommunications cable across the Atlantic](#), connecting Brazil to Portugal through Cabo Verde off the West Coast of Africa.

Huawei has continued to work with each of Brazil's major telecommunications carriers to modernize their infrastructure, increasing their dependence on Huawei technology and services when a 5G auction is eventually held. Indeed, the current COVID-19 pandemic has arguably strengthened Huawei's position in Brazil by increasing demand for

connectivity to support telework and remote interactions from Huawei and other providers.

***Space collaboration.*** Brazil and China have been partners in the space hardware, launch, and services sector for more than 30 years. After the United States declined to work with Brazil in the 1970s and '80s, due to missile and nuclear proliferation concerns, Brazil turned to China. In December 2019, China launched the sixth satellite in the joint China-Brazil Earth Research Satellite (CBERS) program. The CBERS 4A satellite was co-developed by the two countries and was launched from China's Taiyuan space base in Shaanxi on a Chinese Long March 4B rocket, officially entering into operations in January 2020.

The China-Brazil space collaboration is not limited to the CBERS program. In August 2020, Alya Nanosatellites Constellation EO of Brazil and Beijing Tianlian Space Technology Co. Ltd of China agreed to collaborate on the construction of a ground control station in Bahia for communication with and control of space vehicles. China has also been interested in Brazil's Alcantara space launch facility, whose position near the equator makes it ideal for putting space vehicles into equatorial orbits. For the near term, however, a 2019 agreement between the U.S. government and the Bolsonaro government for U.S. commercial use of the facility appears to have foreclosed its availability to the PRC.

***Military cooperation.*** Despite the relatively conservative, pro-U.S. orientation of the Brazilian military, the latter has nonetheless engaged with the Chinese People's Liberation Army (PLA) across a range of training and professional military engagement exchanges. In addition, Chinese vendors have actively sought roles in military equipment and systems purchases.

The Brazilian Armed Forces has sent its personnel to a variety of Chinese military schools, from to army and navy command and staff courses in Nanjing. The Chinese shipbuilding company CSIC participated in a bid for Brazil's future frigate program, and the Chinese defense electronics company CASIC sought a role in the Brazilian coastal defense system SisGAaz. PRC warships have periodically made calls in Brazilian ports, including a visit by two Chinese missile frigates in 2013.

## **Recommendations and conclusions**

As the availability of a vaccine, and other measures, allow Brazil to move beyond the present health and economic crisis, the PRC and its companies are positioned to make significant commercial and political advances in the country. COVID-19 has diverted attention from, and temporarily slowed, China's expanding engagement with Brazil, but also magnified the socioeconomic need for service that Chinese companies are well-positioned to provide and leverage.

While engagement with the PRC as a dynamic and resource-rich economic partner is not inherently bad, Brazil, and other countries in the hemisphere, must be attentive to predatory engagements that leverage the need to realize economic and political relationships that are not in the long-term interest of the country's economic development, democracy, and independence.

The close relationship between Brazil and the United States provides Washington with an important, but delicate opportunity to limit the more damaging elements of the PRC economic, military, and political advance in Brazil as the country emerges from COVID-19. Regardless of who wins the U.S. Presidential elections in November 2020, it is imperative for the U.S. to recognize the value of the U.S.-Brazil strategic partnership over individual differences about policies or governing style, whether that be



disagreements regarding agriculture and other trade issues on one hand, or environmental, policing, or human rights concerns on the other. The U.S. government should particularly seek to collaborate, rather than compete, with respect to agriculture and commodities to deny China's ability to play Brasília against Washington. The US should also look toward Brazil as a commercial and manufacturing partner, rather than a rival, channeling investment into Brazil where possible, leveraging the U.S. Development Finance Corporation, América Crece, and/or follow-on programs of a subsequent U.S. administration.

Where U.S. firms are not well-positioned to finance or participate in infrastructure or other work in Brazil, the U.S. should coordinate and actively work with Japan, South Korea, India, the European Union and other partners with demonstrated commitment to democracy, respect for intellectual property, and adherence to the rule of law to provide sustainable alternatives to Chinese investment and financing. In this way, the U.S. and like-minded partners can support Brazil's long-term development, as well as their roles as trusted partners in the region, rather than leaving the field unchallenged for Chinese loan and investment offers. These deals create ephemeral benefits for Brazil, but are ultimately designed to channel value and long-term benefits to the PRC, its companies, and its people.

In select areas in which a PRC foothold puts the autonomy of Brazil's future government decision-making at risk through espionage and blackmail, including Chinese participation in Brazilian smart cities programs, telecommunications infrastructure, and space collaboration, as well as in defense cooperation and procurement, the United States should insist that Brazil turn away Chinese offers. To do so, the U.S. must work equally hard to provide reasonable, viable alternatives.

Brazil and the United States have historically pursued their own separate political and developmental paths, yet have also been bound by the interdependence of their situations and actions in the global order. In critical moments, such as World War II and the Cold War, they have worked together against shared threats from beyond the hemisphere. Both COVID-19, and the expanded commercial and strategic challenge from the PRC, demand that Brazil and the United States renew and strengthen a partnership rooted in shared interests.

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