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Brazil–China Trade Relations

In search of a strategy

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In Partnership with

the Brazil Institute & the Brazilian Center for International Relations (CEBRI)

CEBRI

BRAZILIAN CENTER FOR INTERNATIONAL RELATIONS

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Foreword

The People's Republic of China has traditionally regarded Latin America as a zone for US interests and influence and has tended to tread carefully with countries in the region. But with the issuance in 2008 of the first ever State Council White Paper in Beijing on relations with Latin American countries, this attitude started to change. As a sign of acceleration, in 2016, a second paper came out, updating and enhancing what had gone before. This has been complemented by the number of visits to the region by Chinese President and Communist Party leader Xi Jinping since his appointment in 2012–13.

Of all the places in Latin America, for China, Brazil is among the most important. As this paper makes clear with plentiful data, in terms of exports and trade, Chinese–Brazilian relations are very strong. This is particularly the case with raw materials such as iron ore and agricultural products. Even during the pandemic, from 2020, flows of meat, soybeans and oils have been maintained, meaning that Brazil ranks as China's largest supplier in these areas.

The paper also argues how, with China's economic transition to a more service-sector-dominated structure, Brazil's export pattern will need to evolve and change. China's intensive manufacturing and high use of imported raw materials is still important, but there are new developments. The 'dual circulation' idea of 2020 issued from Beijing stressed the need for the government to develop Chinese consumption. It also showed how much China wished to become more autonomous in terms of research, development and technology.

Brazil's approach might, as the paper's authors argue, be criticised for lacking in strategy and being led more by what China wants. Even so, Brazil's relations with the People's Republic of China come unburdened by the vexed politics that the US and Europe bring. That at least makes things a little simpler. Brazilians certainly feel that they should, and can, do more with their relationship with China, particularly in emerging areas where ideas, rather than commodities, are brought to the fore. This study unpacks how that might happen. Brazil's relations with China are important but understudied and underappreciated. This contribution, filled with data, evidence and sound argument, is therefore valuable in correcting that.

Kerry Brown
Professor of Chinese Studies &
Director of the Lau China Institute

Abstract[1]

For a country like Brazil, dealing with China involves dynamics of co-operation and competition, with complementarities and asymmetries. These complex movements and the international and bilateral impacts ushered in by China should lead Brazil to rethink its own development path. In Brazil's eyes, China gradually emerges less as a competitor and threat and more as a reference – or inspiration – and opportunity. Hence, Brazil's relationship with China must be built on dedicated negotiations, patience, and, most importantly, a long-term strategy. At a time of souring relations between China and several western countries, Brazil should build upon the tradition of its foreign policy and the long-standing strategic partnership established with China in the last 30 years to expand the frontiers of national development in a world that is likely to be shaped in large part by China, as it has been in the last 20 years or so. Under this framework, this policy paper looks at bilateral trade relations to draw some lessons for the Brazil–China partnership going forward and, most importantly, to shed light on Brazil's own development path.

The results of Brazil–China trade in recent years demonstrate a successful complementary agenda with few parallels in the world. For every dollar that Brazil exports to the United States, it exports almost three to China, which is its largest trade partner and the destination of over 30 per cent of Brazilian exports. Conversely, Brazil is China's main source of agricultural imports, with an import market share of over 20 per cent. Despite these impressive numbers, Brazil has not been able to satisfactorily implement its declared official priorities in relations with China: diversification and increasing the share of high value-added products in Brazil's exports.[2] The speed of technological transformations and the establishment of the role of digital technologies require great efforts and national co-ordination for Brazil to add value to its products in a world where services represent an increasing part of industrial goods.[3] Moreover, what Brazil exports to China is as important as what Brazil imports, or could import, from China and the world. This is so because imports and two-way trade denote an important part of the impact of international trade on productivity increase and growth.

1 This text is based on the study 'Foundations for Brazil's Long-Term Strategy Toward China', authored by Tatiana Rosito and first published in October 2020 by the Conselho Empresarial Brasil–China (CEBC).

2 Strictly speaking, the concept of high value-added products used frequently in the literature about Brazilian foreign trade does not necessarily coincide with the real value added by some economic activities. Rather, 'high value-added' often refers to products that embed high technological content by some measure of volume or value, thus spurring the backward-and-forward production links required for structural transformations and productivity increase. It is often disregarded that some products that are considered 'low valued-added' include sophisticated technologies in their value chains, such as deep-water oil extraction or agriculture. In the latter example, however, the higher value-added activities do not usually occur in Brazil, such as seed research and development.

3 See Arbache, J. (2016). 'The contribution of services to the manufacturing competitiveness in Brazil'. In: *Innovation and Internationalization of Latin American Services*. ECLAC, United Nations, Santiago, p.65–98.

In a world where globalisation and the fragmentation of global value chains co-exist, and where China plays a central role, Brazil must reimagine its path to development by exploring global and regional dynamics that can promote structural domestic transformations. Exploring the full potential of low-carbon and sustainability-linked products may add value and transform the bilateral trade pattern with China in a sustainable way. It also offers a consistent framework for the Brazilian transition to a low-carbon economy and for the integration of Brazil into global chains. To be clear, this paper does not consider China as a solution to or the culprit of any Brazilian development challenge, but it does regard the Asian power as offering new opportunities (and risks) that are not being fully explored.

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Context

Throughout the pandemic, Brazil has continued an expansion of its foreign trade with China, which reached a historic peak of USD 135 billion in 2021. Over 2020, exports and imports grew by 29 per cent and 37 per cent, respectively, to reach USD 87.8 billion and USD 47.7 billion (see Figure 1). China accounted for 65 per cent of Brazil's trade surplus in 2021, or USD 40 billion – the largest ever registered with an individual partner. The record numbers in 2021 are mostly attributable to price increases, since the volume of the main export products has fallen since 2020.

China has firmly held the lead, both as a destination of Brazilian exports and as a source of Brazilian imports, for over a decade now, even if there was a slight fall in the share of exports compared to 2020. Notably, Brazil's exports to China are almost three times greater than those to the United States and eight times greater than exports to Argentina – the second and third largest export destinations, respectively (see Figure 2). The rise of China among Brazil's largest trade partners has been clearly accompanied by other Asian countries (see Figure 2). Conversely, other regions have gradually lost relative importance as export destinations, such as North and South America and Europe.

Just as in the aftermath of the global financial crisis, throughout the COVID-19 pandemic, China has continued to be a dynamic and resilient bilateral trade partner for Brazil (see Figure 3).[4] China experienced its third-largest trade deficit with Brazil in 2020, behind only South Korea and Australia (excluding Taiwan). And Brazil has posted trade surpluses with China in 17 of the last 20 years. In 2019, the share of Brazilian exports in world exports was 1.19 per cent, and the share of Brazilian exports in Chinese imports was 3.83 per cent (Trade Map).

The trade pattern has largely been reinforced in recent years: iron ore, soybeans and crude oil have accounted for around 80 per cent of Brazilian exports (see Figure 4). There have been fluctuations over the years, including a relative decline in the participation of iron ore coupled with increases in soybeans and oil, although the mineral recovered the lead last year amid spikes in international prices.[5] Notably, meat exports have increased their share in total exports and represent the fourth-largest export, followed by wood pulp, sugar, iron and cotton. In 2021, despite the suspension of Brazilian bovine meat imports by China in the last quarter, beef, pork and poultry were among the largest traded products, ranking at fourth, seventh and eighth, respectively, or approximately 8 per cent of Brazilian total exports to the Chinese market.

Brazilian agricultural exports to China as a share of total agricultural exports have steadily increased in recent years, reaching 38 per cent in 2020, compared to 32 per cent in 2019. Although beef, poultry, pork, cellulose, sugar and cotton have shown important growth, there has been a concentration of exports in a single product: soybeans (see Figure 5). Thus, Brazil has not been able to significantly diversify its exports or add value to them as envisaged in most of its domestic and bilateral statements and policy documents, even though Chinese annual imports of Brazilian goods have increased by c.113 per cent between 2011 and 2021, from USD 44.3 billion to USD 87.8 billion.

Figures 5 and 6 show the concentrated pattern of Brazilian exports. Although the evolution of Brazilian soybean exports to China is a success to be hailed per se, it does call attention to the fact that the country probably has not adopted adequate incentives to fulfil its declared strategy regarding China. There are also other aspects to explore regarding the long-term sustainability of this trade pattern, given Brazilian national and regional environmental priorities and Chinese food security policies, which have been highlighted in the 14th Five-Year Plan.[6] In other words, although it would be very difficult to think of a 'decoupling' of Brazil–China agricultural trade – even in the long term, given the sheer complementarity of land and natural resources endowments (eg Brazil's expandable agriculture frontier and productivity, and China's arable land limitations and natural resource exhaustion) – it is important to consider the risks of concentration stemming from economic shocks, climate change, pandemics, or even technological innovations. There is also the need to consider the changing structural pattern in global soybean production and trade, with Chinese companies having made decisive acquisitions in the last decade both

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4 The suspension of Chinese beef imports from Brazil in September 2021 had a sizeable effect on Brazilian meat exports, but it was reverted in mid-December.

5 In 2021, from the 10 most important export products by value, nine had export volume reductions (CEBC Alerta, Comércio Brasil–China 2021, Ed.154, Jan. 2022, cebc.org.br).

6 See, for example, thediplomat.com/2021/11/chinas-evolving-food-security-strategy and Chinese statements on '*dúlì zìzhu*' (independence and autonomy of action).

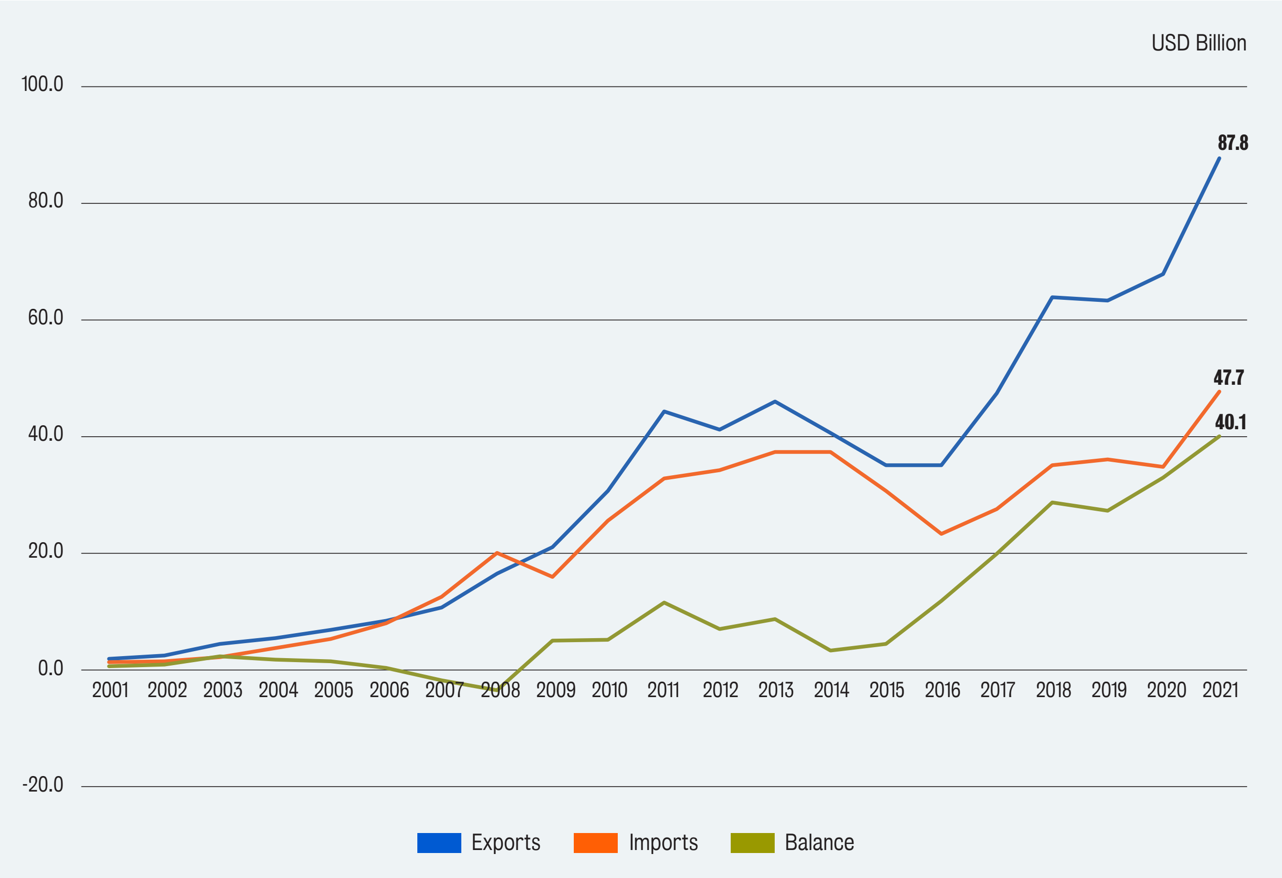


Figure 1. Brazil–China Foreign Trade 2001–21. Source: Comexstat.midic.gov.br, Jan.2022.

Brazil exports destination	**2021** USD bn	**% of total**	**Brazil exports destination**	**2011** USD bn	**% of total**	**Brazil exports destination**	**2001** USD bn	**% of total**
China	87.8	31.3%	China	44.3	17.5%	USA	14.1	24.4%
USA	31.1	11.1%	USA	25.8	10.2%	Argentina	5.0	8.6%
Argentina	11.9	4.2%	Argentina	22.7	8.9%	Netherlands	2.9	4.9%
Netherlands	9.3	3.3%	Netherlands	12.4	4.9%	Germany	2.5	4.3%
Chile	7.0	2.5%	Japan	9.5	3.7%	Japan	2.0	3.4%
Singapore	5.8	2.1%	Germany	9.0	3.6%	China	1.9	3.3%
South Korea	5.7	2.0%	Italy	5.4	2.1%	Mexico	1.9	3.2%
Mexico	5.6	2.0%	Chile	5.4	2.1%	Italy	1.8	3.1%
Japan	5.5	2.0%	UK	5.2	2.1%	Belgium	1.7	3.0%
Spain	5.4	1.9%	South Korea	4.7	1.9%	UK	1.7	2.9%
Germany	5.0	1.8%	Spain	4.7	1.8%	France	1.6	2.8%
Canada	4.9	1.7%	Venezuela	4.6	1.8%	Chile	1.4	2.3%
India	4.8	1.7%	France	4.3	1.7%	Russia	1.1	1.9%
Malaysia	4.7	1.7%	Russia	4.2	1.7%	Venezuela	1.1	1.9%
Italy	3.9	1.4%	Belgium	4.0	1.6%	Spain	1.0	1.8%
Top 15 Partners	198.4	70.7%	Top 15 Partners	167.1	65.9%	Top 15 Partners	36.4	62.7%
Total	280.6	100.0%		253.7	100.0%		58.0	100.0%

Figure 2. Brazil's main export destination partners (2001, 2011 and 2021). Source: Comexstat.mdic.gov.br, Jan. 2022. Authors' calculations.

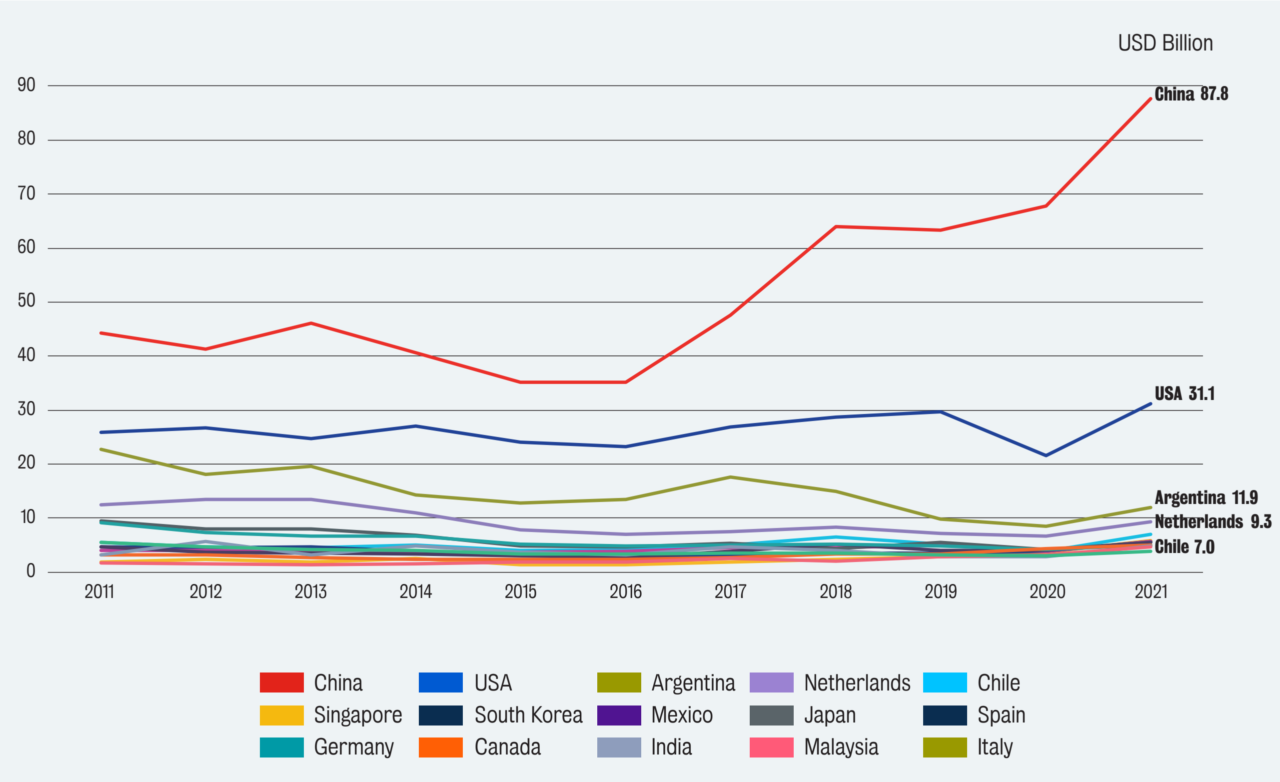


Figure 3. Brazilian exports top 15 destinations (2011–21) Source: Comexstat.mdic.gov.br, Jan. 2022.

in upstream and downstream industries. Conversely, it is important to look for ways to mitigate such risks, such as through long-term strategic bilateral trade and regulatory agreements.

Although China has increasingly voiced its intention to diversify import markets and to increase self-sufficiency and food security, it will probably continue to depend on imports for some of its consumption, especially soybeans and meats. In 2020, China and Hong Kong imported USD 181 billion in agricultural goods (Agri WTO), making them the world's largest importer (see Figure 7). Brazil is China's premier partner in agriculture, accounting for 21 per cent of total sector imports (USD 37.2 billion in 2020; see Figure 7, left). In the same period, as shown in Figure 7 (right), Chinese soybean imports totalled USD 40 billion, of which USD 25 billion was from Brazil (62 per cent). Total beef imports by China and Hong Kong were 13 billion, of which the Brazilian share was USD 5 billion (38 per cent).

In considering the prospects for long-term trade relations with China, it is also important to understand that the country is itself a global agricultural power (see Figure 8), ranking among the world's top agriculture exporters. In 2020, world agricultural exports/imports totaled USD 1.1trillion. The largest individual agricultural exporters were: the United States at USD 156 billion (14.6 per cent of total), followed by Brazil at USD 87.3 billion (8.2 per cent), China at USD 57.7 billion (5.4 per cent) and Canada at USD 52 billion (4.9 per cent).

On the imports side, China ranked first at USD 159 billion (14.6 per cent), followed by the United States with USD 153 billion (14.1 per cent), the EU with USD 142 billion (13.1 per cent) and Japan with USD 59 billion (5.4 per cent).

Finally, on the side of Brazilian imports, China has emerged as a great source of manufactured goods and associated traditional and business services. Electrical and mechanical machinery, including telecommunication equipment, account for more than half of imports, followed by organic chemicals and fertilisers. The latter are related to Brazil's agricultural production and have shown significant increases in recent years.

By comparing the evolution of bilateral exports and imports for Brazil and China, a pattern of inter-industrial trade clearly emerges, highlighting complementarities. These have sustained dynamic trade and prevailed over the asymmetries regarding the concentration of trade in only a few products and the emergence of China as a major economic and technological power over the last decade. The asymmetries cannot be taken for granted, however. Not only because of the long-term risks alluded to above. There is also an opportunity cost in not benefitting from this dynamic relationship to advance structural transformations in Brazil, which to many

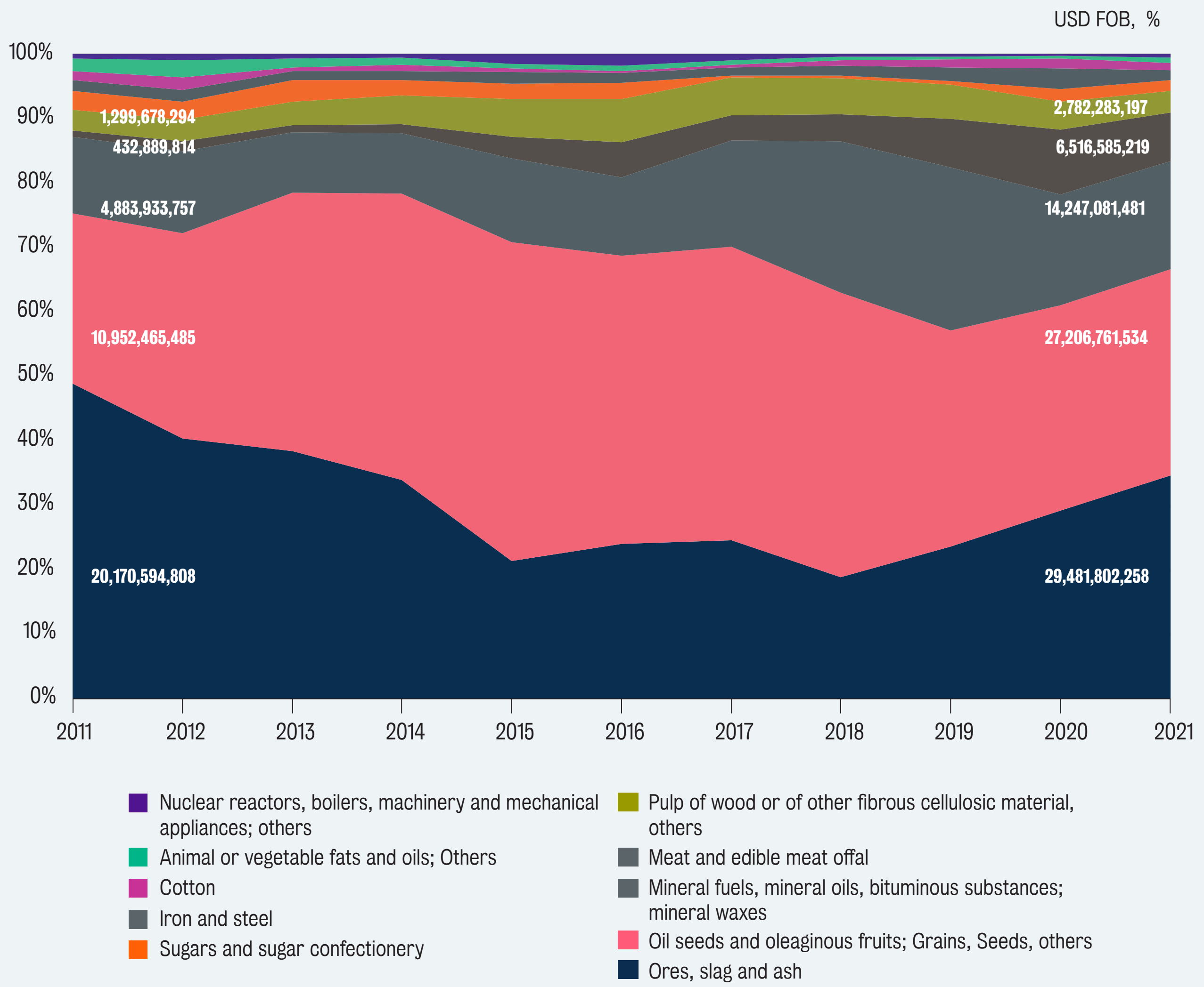


Figure 4. Top 10 Brazilian Exports to China (2011–21). Source: Comextstat.mdic.gv.br, Jan. 2022.

observers could be facing a premature deindustrialisation.[7] This is represented by manufacturing-sector declines in total output and employment, and low productivity rates. These challenges have been magnified by the pandemic, accompanied by persistently high unemployment rates and low growth prospects in the short to medium term.

Complementarities and asymmetries in Brazil–China trade relations require policies that reimagine Brazil's role in global and regional value chains. China is an inevitablereference, including on how concerted government action can stimulate structural transformation and economic diversification. But perhaps the

'Perhaps the opportunities offered by [China] as it continues its structural transformation, could be even more meaningful – from an avid consumer of food and energy products to an increasingly sophisticated market for sustainable and low-carbon products.'

7 The phenomenon of 'premature deindustrialization' was characterized in Rodrik, D. (2016). 'Premature Deindustrialization'. *Journal of Economic Growth*, 21(1): 1–33. It refers to the fact that many developing countries start to present a decline in the participation of industrial activity as a percentage of output (GDP) and of the total industrial employment from levels of per capita income that are inferior to the ones observed in developed countries and in those developing countries that were able to reach high per capita income levels in the second half of the 20th century, such as the Republic of Korea and the Asian Tigers.

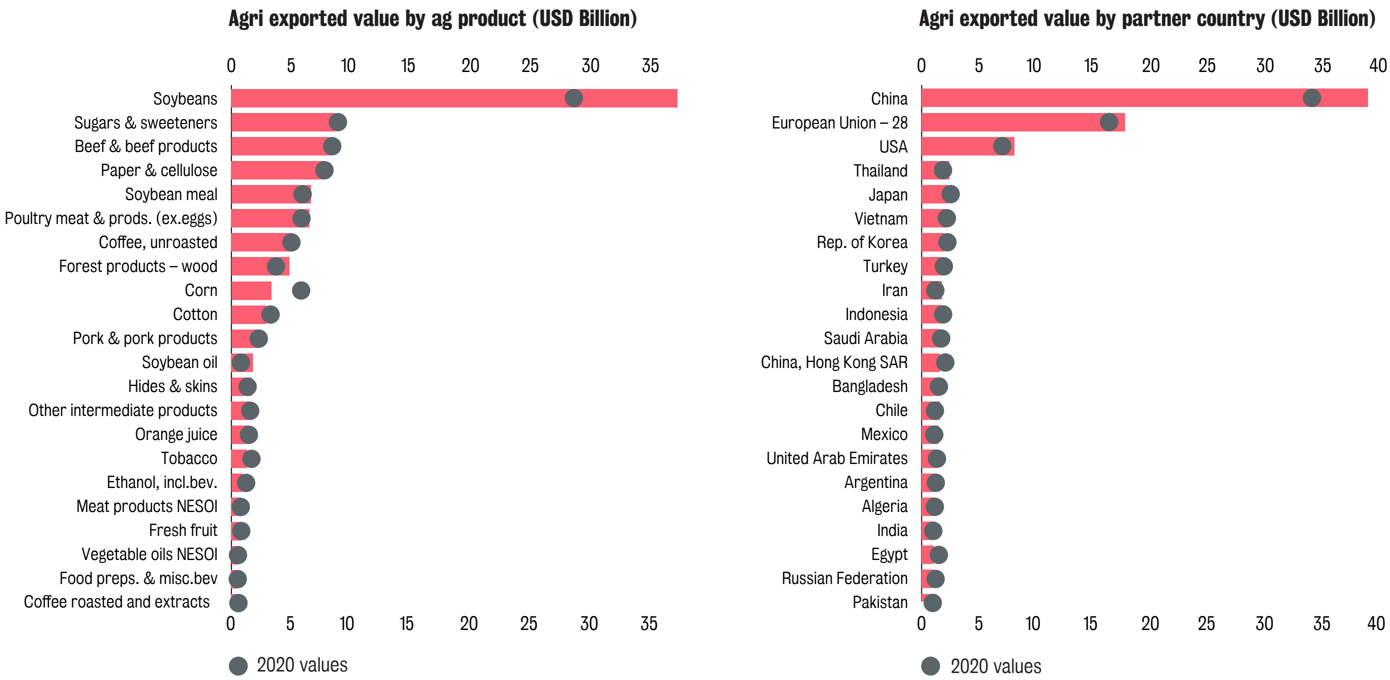


Figure 5. Brazil's total agricultural exports by product and partner (2021). Source: GAT Brazil (Agri Mapa_BR) till Nov. 2021 (insper.edu.br, Jan. 2022).

opportunities offered by the country as it continues its structural transformation could be even more meaningful – from an avid consumer of food and energy products to an increasingly sophisticated market for sustainable and low-carbon products. The challenge of designing a strategy for China has thus been a topic of growing attention in Brazil.

A strategy for China could mutually reinforce a Brazilian national strategy

It is very common to hear Brazilian authorities or business communities say, 'China knows what it wants from Brazil, but Brazil does not know what it wants from China' or, 'China has a strategy for Brazil, but Brazil does not have a strategy for China'. One can argue about whether or not China really knows what it wants from Brazil, but at least there is this perception that the country has a strategic approach to Brazil. It is correct to say that Brazil does not have the same centralised state planning activities as China, like the Chinese five-year plans and long-term sector plans that allow Beijing to support the outreach of Chinese companies abroad.

China's high capacity in planning and efficiency in policy execution, associated with the scale of the Chinese economy and its companies, requires greater domestic co-ordination from its economic partner countries in at least two aspects: to react to the potential or concrete impacts of Chinese commercial initiatives, and to ensure the best outcome from co-operation with Beijing. Like China, Brazil is also a continental country, listed among the largest economies in the world, with a large internal market, a complex industrial park and great potential in the agricultural and environmental areas. However, Brazil does not have the same centralised model of planning. Although the Brazilian Federal Constitution foresees an indicative planning role for the state (Article 174) as a normative and regulatory agent of private economic activity, the country has only recently (2018) published a National Economic and Social Development Strategy.[8] Moreover, each state of the federation and each municipality can also pursue local plans that are not necessarily well co-ordinated with the national plan in any instance.

The general national objectives, legislation and regulations defined by the Chinese Communist Party and the Chinese Government provide a certain framework that orientates investments and trade – even though it is not

8 The theme has been developed in Rosito, T. (2020). Chapter 2. In: *Foundations for Brazil's Long-Term Strategy Toward China*. Conselho Empresarial Brasil–China (CEBC), Rio de Janeiro. cebc.org.br/2020/11/26/bases-para-uma-estrategia-de-longo-prazo-do-brasil-para-a-china

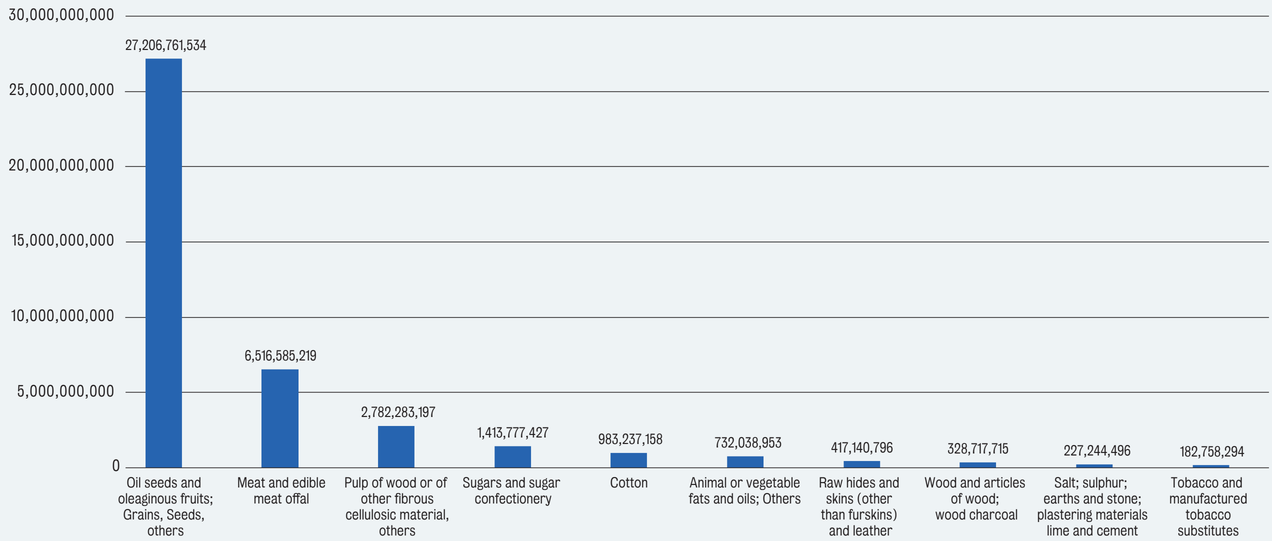


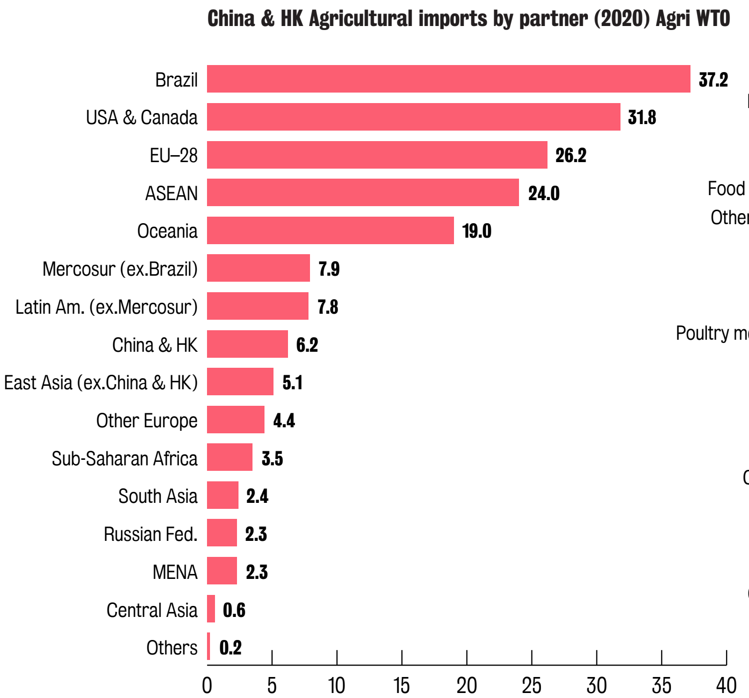
Figure 6. Brazil's 10 top agricultural exports to China (2021). Source: Comexstat.mdic.gov.br, Jan. 2022.

necessarily a strict planning of the operational activities of Chinese companies abroad. For example, the 'Going Out' policy encouraging investments abroad from the year 1999/2000, the White Papers of the Ministry of Foreign Affairs of China for Latin America of 2008 and 2016, and the Belt and Road Initiative (BRI) announced in 2013, all demonstrate clear priorities for investments abroad and provide guidance for a long-term planification. The 14th Five-Year Plan, unveiled in 2021, puts science and technology development at the centre of China's pursuit of a more qualitative development and adds an important layer to China's transformation in this decade. It would not be an exaggeration to say that China's policies of export-led growth with massive attraction of FDI, coupled with a steering role for the government – recently in a starker way – have also played a role in reviving industrial policy[9] around the world.

China's Paris Agreement-related commitment to reach its peak in carbon emissions by 2030 and carbon neutrality by 2060 is a game-changer for the country and for the world. It was confirmed in the preparations for the Glasgow Climate Change Conference in November 2021. This will require massive amounts of investment and technological breakthroughs in the years ahead, including in sectors where Brazil has potential natural comparative advantages (solar and wind energy, agriculture, new materials, biodiversity, forests, etc) or in new sectors such as electric vehicles, hydrogen, new materials and smart cities.

Besides climate change, other challenges have also increased the need for countries to enhance their national strategies, where they exist, or to think in terms of a more strategic and long-term view about their future – and Brazil is not an exception. The heated strategic competition between the United States and China and the threats of decoupling based on national security grounds must be accounted for. In addition, the pandemic has shed light on national preferences to increase the resilience of economies, partly steering away from the focus on efficiency that has prevailed in the last three decades. Finally, the very fact that China has emerged as the largest economy in PPP and may be on the way to becoming the largest global economy in the next decade or so has given new impetus to the role of the state in co-ordinating economic development. The challenge, including for Brazil, is to define what could be a modern policy for a more active state action that does not repeat past mistakes and inefficiencies.

9 Aiginger and Rodrik underline that industrial policy will be back on the development agenda for a long time in Aiginger, K. and Rodrik, D. (2020). 'Rebirth of Industrial Policy and an Agenda for the Twenty-First Century'. *Journal of Industry, Competition and Trade*, 20: 189–207. doi.org/10.1007/s10842-019-00322-3



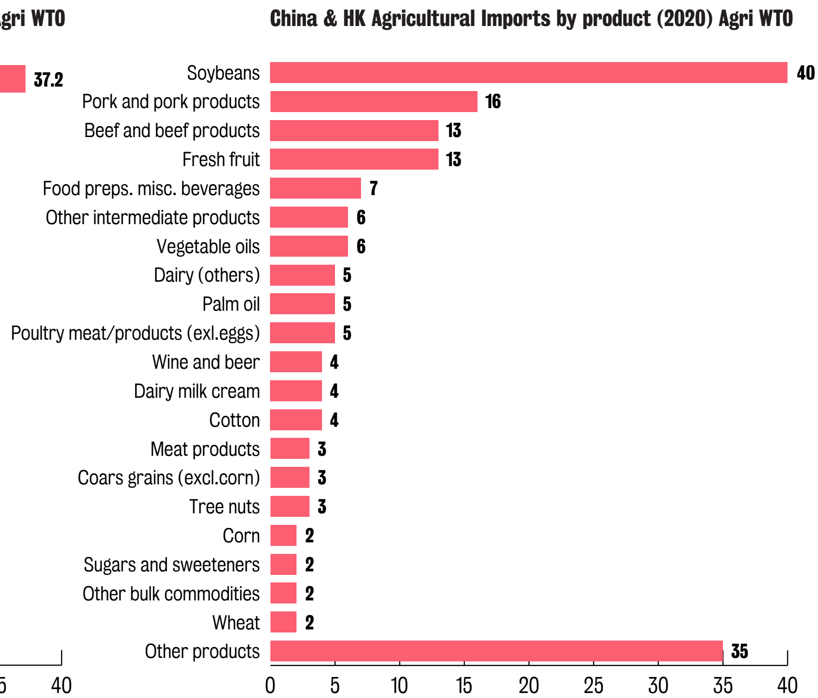
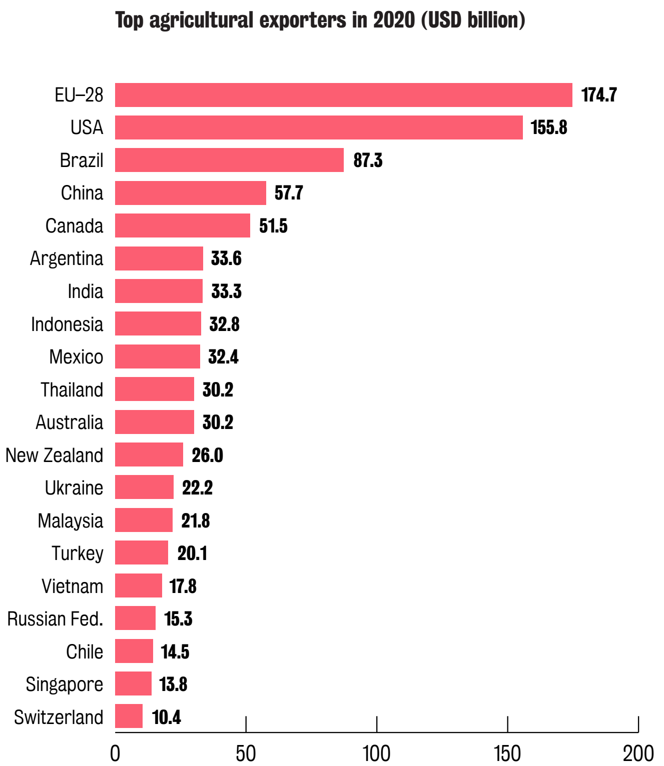


Figure 7. China and Hong Kong agricultural imports by partner and products (2020). Source: GAT (Agri WTO) (insper.edu.br, Jan. 2022).



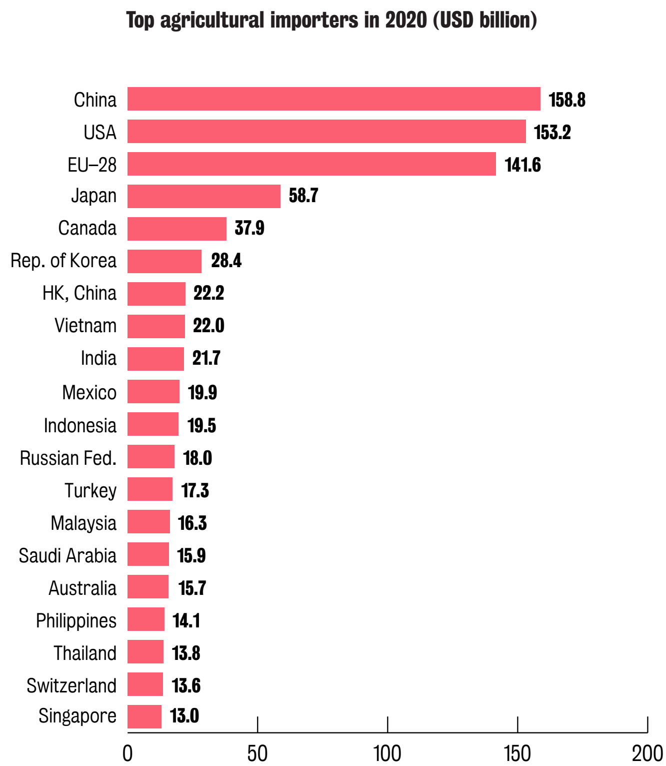


Figure 8. World's largest agricultural products exporters and importers. Source: GAT (Agri WTO) (insper.edu.br, Jan. 2022).

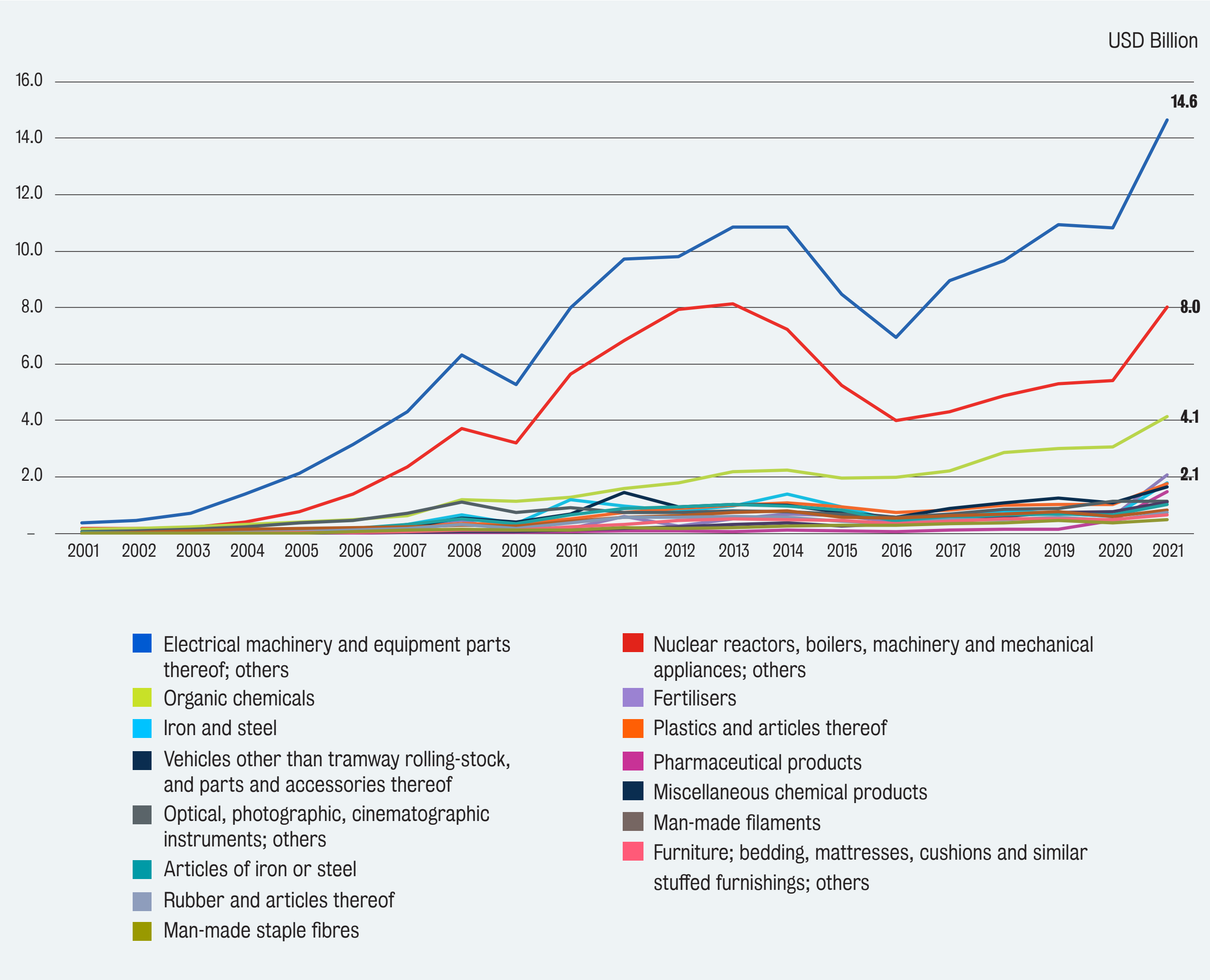


Figure 9. Brazilian imports from China (2011–21). Source: Comexstat.mdic.gov.br, Jan. 2022.

‘China’s Paris Agreement-related commitment to reach its peak in carbon emissions by 2030 and carbon neutrality by 2060 is a game-changer for the country and for the world… This will require massive amounts of investment and technological breakthroughs in the years ahead, including in sectors where Brazil has potential natural comparative advantages.’

Brazil and the BRI

The Chinese perspective in its relations with Brazil is more complex and diverse than the BRI. However, considering the relevance of the BRI to China's international trade and diplomacy, it is important to look at how Brazil has reacted to the proposal. Among the more than 140 countries that are signatories of the BRI through different bilateral instruments, 20 are from Latin America and the Caribbean. This number is almost the same as that of the EU member countries, of which 18 signed memoranda of understanding with China related to the BRI: mostly from central and eastern Europe, but also Portugal and Italy. Some European countries, such as France, signed specific co-operation instruments in relation to the BRI, aimed at co-operation with third countries, but they are not considered to have joined the BRI.

Brazil has so far decided not to join the BRI, although it takes note of and diplomatically recognises its importance as a contribution to global co-operation. From a Brazilian perspective, perhaps it has not made sense to join the BRI when the bilateral relationship between Brazil and China is already important and strong. Brazil cannot yet see how the BRI would add value to this already solid partnership. President Jair Bolsonaro, upon a visit to India in January 2020, admitted that China is a very important partner for the Brazilian economy, but declared that, despite the great extent of Chinese investments in Brazil, the country does not need to bind to the comprehensive framework of the BRI to maintain a good relationship with China.[10] Another important aspect is Brazilian diplomatic tradition. It would be unusual for Brazil to sign an agreement that it has not actively negotiated. Because the BRI entails bilateral agreements that would comprise a multilateral initiative, it is a new phenomenon, expressing a very Chinese mentality. In that sense, it requires a higher degree of accommodation from partners. Although the specific memoranda are bilaterally negotiated, the destiny of BRI as a concept and initiative is virtually China-bound.

Looking ahead

Although the prospects for China's GDP growth rate have declined compared with the last decade, the Chinese scale and many of the ongoing transformations present opportunities mainly through the prism of how new technologies can generate new business models and structural transformation in Brazil. These can have a positive impact on productivity and growth, and on the reduction of inequalities in the country.

As discussed in previous sections, it is unrealistic to think that a change will happen soon in the pattern of what Brazil exports to China. Therefore, it is important to focus not solely on what Brazil currently exports to China, but also on what it could potentially export to

10 gov.br/mre/pt-br/centrais-de-conteudo/publicacoes/discursos-artigos-e-entrevistas/ministro-das-relacoes-exteriores/entrevistas-mre/president-bolsonaro-pm-modi-share-views-on-the-idea-of-a-nation-the-hindu-india-25-01-2020-ingles

Country	Year
Antigua and Barbuda	2018
Argentina	2022
Barbados	2019
Bolivia	2018
Chile	2018
Costa Rica	2018
Cuba	2019
Dominica	Unknown*
Ecuador	2018
El Salvador	2018
Grenada	2018
Guyana	2018
Jamaica	2019
Panama	2017
Peru	2019
Suriname	2018
Trinidad and Tobago	2018
Uruguay	2018
Venezuela	2018

Figure 10. Latin America and Caribbean country signatories of the BRI. Source: Nedopil, C. (2021). 'Countries of the Belt and Road Initiative'; Beijing, IIGF Green BRI Center, green-bri.org.

*Dominica never confirmed to be a signatory, but they have also never denied the fact.

China and on what it could import from there. The speed of transformations and the establishment of the role of digital technologies require great efforts and co-ordination if Brazil is to benefit from China by adding value to its products. Brazil needs, strategically, to build stable and efficient channels for the absorption of new technologies in which China offers growing leadership.

There is no doubt that seizing these opportunities must be the focus of a Brazilian strategy for China that puts productivity and competitiveness at the centre, as required by the Brazilian national strategy. Three main paths in this direction are herewith explored as a starting point:

1. Add value to commodities exported by Brazil by intensifying relations with the Chinese market and discovering new niches.

Brazil is an upper-middle-income economy with sophisticated industry and services. The country would be adding value to its products and services by incorporating more systematic values such as sustainability, bioeconomy, energy efficiency, traceability and mobility. These concepts are already an integral and crucial part of the production chains of main raw materials exported by Brazilian large corporations to China, but they still have enormous potential, including through the creation of new markets by making Chinese consumers aware of sustainable products produced in Brazil or associated with Brazilian brands. If it is true that China has provided growing demand for Brazilian raw materials such as soybeans, oil, iron ore, cellulose and meat, it is also true that in recent years the main Brazilian exporting companies, often among the global leaders in their sectors, have learnt to seek spaces to offer differentiated products to the Chinese market. The move often involves bringing Chinese consumers closer together: first in a commercial effort and then through establishing local operations, starting with commercial activities and evolving into warehousing, logistics and distribution, and selling in local currency. The way to add more value could go through the establishment of local research and development centres and the development of brands aimed at the Chinese market.

2. Adopt technologies or parts of production chains that may lose attractiveness for domestic production in China as the country progresses up the ladder of the knowledge and service economy.

Global value chains are going through profound transformations, which have intensified due to the pandemic and the strategic rivalry between the United States and China. The very successful 'hub and spoke' system epitomised by the electronics industry in China and south east Asia may resist, but we may see some re-location of activities from China to neighbouring countries, even if through Chinese investments. An increased focus on security and resilience of supply chains may also spur new regional supply chains or a restructuring of global chains. This is an opportunity for Brazil to attract Chinese investments or to partner with Chinese firms to increase the localisation or regionalisation of some industrial activities, both in traditional goods (machinery) and goods associated with new technologies (electric vehicles, wind and solar energy, drones, telecommunication equipment, etc).

3. Adopt a combination of Chinese industrial commodity imports with added value for consumption in Brazil.

The large Brazilian market requires some customisation. An example is the textile industry. It is virtually impossible to compete with Chinese producers in polyester yarns, derived from the petrochemical industry with extremely high productivity in a sector that is still undergoing an intense process of consolidation and increased competitiveness in China. But there is a series of processes through which value could be added in the manufacturing of products more attractive to the Brazilian or the Latin American markets, such as in innovative and local-tailored design, sustainability-linked materials, texture, colour –

not to mention the soft power of the fashion industry. The same example can be applied to other industries, such as in solar and wind energy production, or to technologies aimed at solving urban problems, which often require specific solutions and a high degree of customisation. For this to prosper on a large scale, improvements in the business and infrastructure environment in Brazil will be necessary. Not only does the country need to make strides in simplifying its tax system, but also in better integrating its trade in the world, via efficient hard and soft trade-enabling infrastructure (ports, logistics, telecommunications, airports, digital e-commerce), as well as via formal trade treaties.

The three above-mentioned channels are also part of a national strategy. Regarding a strategy specifically for China, this would require taking full benefit and deepening the strategic partnership that has been developed since 1993 and was elevated to the level of global strategic partnership in 2012.[11] One issue in point is the possibility of Brazil adhering to the BRI in some form, although the country has not shown interest in the proposal. Domestically, a China strategy also entails more co-ordination at the federal level, including an enhanced dialogue with federal states. When it comes to trade policy, possible avenues include the negotiation of trade and regulatory agreements with China and more efforts on trade promotion activities, in close alliance with the private sector. Targeted investment in campaigns to raise the awareness of Chinese consumers about Brazilian sustainability-linked advantages and products is also crucial to compete in an increasing and sophisticated market.

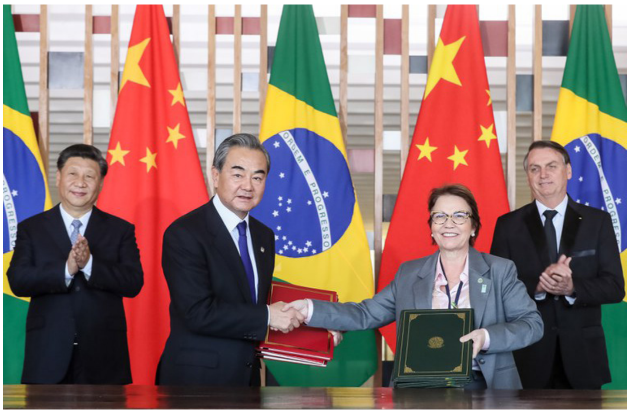
Conclusion

Brazil and China trade is emblematic of the complementarity between a dynamic and highly productive commodity exporter and a gigantic market in transformation from a manufacturing powerhouse to an innovation-driven economy. Although bilateral trade has posted record numbers in recent years, including throughout the pandemic, complementarities are not without risk, given the concentrated trade pattern. Moreover, although in the short to medium term there would be losses of efficiency for China in a forced diversification of its food imports, it is difficult to foresee all the impacts of food security concerns and new technologies in the future.

The road to long-term sustainable bilateral trade must rely on exploring new avenues that would allow for a continuous and steady flow of agricultural exports from Brazil while contributing to a structural transformation in the country through new technologies and services in its exports, or by building a higher degree of bilateral trust that could contribute to long-term stability in food exports. Also, given that China is transforming its production, part of the manufacturing activities that take place there could relocate to a country like Brazil. All avenues point to an increased role for sustainability-linked issues in leading structural transformations and growth, including in bilateral trade with China.

Currently, these possibilities all pertain to the realm of ideas. For them to become realities, there is a need not only to increase bilateral dialogue but also for Brazil to continue to implement reforms that will increase the efficiency of its economy and open the way for it to better explore integration in the world economy through its own lens.

‘The speed of transformations and the role of digital technologies require great efforts and co-ordination if Brazil is to benefit from China by adding value to its products. Brazil needs, strategically, to build stable and efficient channels for the absorption of new technologies in which China offers growing leadership. There is no doubt that seizing these opportunities must be the focus of a Brazilian strategy for China that puts productivity and competitiveness at the centre.’



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Brazil’s Minister of Agriculture Teresa Cristina and China’s Minister of Foreign Affairs Wang Yi at a signing ceremony in 2019.

11 See Rosito, T. (2020). Section 2.4. In: *Foundations for Brazil’s Long-Term Strategy Toward China*. Conselho Empresarial Brasil-China (CEBC), Rio de Janeiro.

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