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China and Brazil: Searching for Sustainable Complementarity

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**Executive Summary**

- According to IMF figures, China is the world’s second largest economy, with a GDP of €9.5 trillion (PPP) and €6.3 trillion (nominal). Brazil is the 6th largest, with a GDP of €1.8 trillion (PPP and nominal). Both nations have shown substantial GDP growth over the past decade, the prior owing to high levels of investment and manufacture exports; the latter owing to booming consumption and commodity exports.

- Distinct pathways to growth in China and Brazil have produced structural complementarities: China is Brazil’s largest trade partner largely because of its thirst for Brazilian iron ore and soy, while Brazil is China’s largest Latin American trade partner largely because of its consumption of Chinese manufactured goods. This complementarity produced €58 billion of bilateral trade in 2012, but also tensions as Brazilian analysts point to growing pressure on national manufacturers, and an underlying trend of “de-industrialization.”

- Emerging needs within Brazil and China will produce new complementarities. The Brazilian government has announced a USD $235bn (€180bn) infrastructure investment program to offset consumption’s excessive share of GDP (currently 65 per cent). Chinese construction, engineering, electricity, transport, and other enterprises will benefit from resulting opportunities and in the process widen the scope of Chinese FDI beyond resource sectors. Conversely, the Chinese government has pledged to stimulate domestic consumption and reduce investment’s share of GDP from around 45 per cent to around 25 per cent. Brazilian metals and agricultural exporters will benefit from the process of urban construction and consumption underpinning this transition in China, while Brazilian manufactures will benefit from the diversion of Chinese consumer products away from their shores and toward China’s growing cities.

- Multilateral forums reflect entrenched differences between Brazil and China. Unlike China, Brazil does not import food, mineral, and energy resources; hence the two pursue different goals in Africa and the developing world. Brazilian and Chinese officials describe their relationship in the context of the BRICS, the G20, and the United Nations, but in practice Brazil has demonstrated a stronger commitment to multilateralism. The Chinese government has prioritised bilateral engagement, including with Brazil, to advance its international interests.

- Renewable energy, climate change, and sustainable development will provide platforms for future Sino-Brazilian cooperation. A joint satellite imaging initiative to monitor environmental impact in the Amazon rainforest began in 1988, and bilateral wind and biofuel initiatives are under discussion. Since climate change is a growing global concern, the development of environmental technologies and techniques will foster deeper bilateral cooperation between China and Brazil, as well as multilateral cooperation through the BRICS, the UN, and the G20.

- The annual EU-China and EU-Brazil Summits afford opportunities to establish a trilateral EU sub-dialogue with China and Brazil. This would furnish the EU with insights into Chinese approaches to food security, technology transfer, development financing, and other issues pertinent to Brazil and the EU. It would also facilitate discussion of objectives that China wishes to pursue with the EU—and is already achieving with Brazil—such as technological cooperation, progress toward more open trade, and diversification of investment.
1. Building the BRICS (Brazil, Russia, India, China, South Africa)

With 43 per cent of the world’s population, the cumulative trade of the BRICS in 2012 totalled USD $5.6tn (€4.3tn, or 16 per cent of total global trade). According to UNCTAD, 2012 trade between the BRICS grew to $282bn (€216bn). Investment shows similar dynamism: by 2012 FDI between the BRICS reached $263bn (€201bn), accounting for 20 per cent of global flows (from just 5 per cent in 2001). The fifth BRICS Summit in March 2013 focused on the prospective creation of a BRICS development bank, headquartered either in Durban or Shanghai with an initial capital of $50bn (€38bn). The bank will strengthen the group’s capacity to assume a prominent—potentially leading—role in addressing entrenched problems such as poverty in Africa and environmentally sustainable development in emerging economies.

BRICS and Africa

BRICS-Africa trade in 2012 reached $330bn (€252), with China accounting for $200bn (€153bn) and Brazil $27bn (€21bn). By 2015 it is expected to exceed $500 billion (€382bn). While their African activities provide China and Brazil with a platform to showcase their growing global impact, until now coordination has been minimal. Their trade and investment strategies in Africa reveal diverging priorities, supported by considerable diplomatic presence: China has 49 embassies across Africa and Brazil has 36. The greatest prospects for cooperative Sino-Brazilian action in Africa stem from their work with African institutions like the African Union’s New Partnership for Africa’s Development (NEPAD), which has worked to secure BRICS investment.

Brazil’s former president Luiz Inácio Lula da Silva visited Africa in 2003 and 2010, on the latter occasion speaking of a “historic debt” that his nation owes to Africa dating back to the 18th century, when enslaved Africans underpinned Brazil’s national development. Brazilian investors have focused on Africa’s former Portuguese colonies, such as Angola, where the Brazilian logistics, construction, and chemicals conglomerate Odebrecht is one of the largest private employers, with some 2,000 staff. Mozambique is home to Brazilian mining giant Vale’s $6bn (€4.6bn) coal expansion venture in the Northwestern town of Moatize, which will reportedly be connected to the Northeastern port of Nacala by a $4bn (€3.1bn) railway financed by Vale. Kenya has received a Brazilian government loan of $150 million to construct roads and related infrastructure. Total Brazilian investment in Africa by 2012 reached $21bn (€16.1bn). Brazilian firms view Africa as an opportunity to gain experience in large-scale international projects in emerging economies, oriented largely to Asian energy and commodities markets.
China’s interests in Africa follow an established pattern: 90 per cent of African exports to China in 2010-2011 were mineral products and metals. As payment for these products, the Chinese government often provides roads, hydroelectric power stations, dams, railways, sports stadiums, public buildings, and other infrastructure at comparatively low cost. The Standard Bank of South Africa estimates that by 2012 China had invested $30-40bn (€22.9-30.2bn) in Africa, mainly in resource sectors, and that the total will grow to $50bn (€38.3bn) by 2015. One factor that sets China apart from Brazil in Africa is its pursuit of consumer markets. The China Development Bank’s “China-Africa Development Fund” enables Chinese independent entrepreneurs (some 2,000 of them according to London’s Africa Research Institute) to start up small businesses in Africa, often with the goal of importing Chinese manufactured goods.

**BRICS and Sustainable Development**

An emerging strength of the BRICS is their approach to sustainable development. The group is well placed to avoid the disputes that have slowed previous attempts at multilateral environmental cooperation (including the 2012 COP18 Climate Change Conference), such as binding emissions reductions and financial support to promote clean growth in developing countries. Brazil and China harbour the capacity to affordably expand existing clean energy research, monitor public and private sector initiatives in developing and middle-income countries, facilitate North-South and South-South technology transfers, and underpin financial mechanisms (such as the proposed BRICS development bank) to support sustainable development. The March 2012 Delhi Declaration is the BRICS’ first comprehensive statement on global affairs, setting out an environmental agenda that advocates progress “through sustainable and inclusive growth and not by capping development.” This implies a socio-economic rationale for environmental action; that is, green technologies should become a driver of trade, investment, and inclusive growth. As the Declaration puts it, “Sustainable development is also a key element of our agenda for global recovery and investment for future growth.”

According to Brazilian finance minister Guido Mantega, closer BRICS integration was a key motivation for a currency swap of $30bn (€22.9bn) with China in 2012. Entitling Brazil to 190 billion renminbi from the Chinese central bank and China to 60bn reales, the deal will facilitate trade, promote investment in low-carbon infrastructure, and supply reserves during financial turbulence. The BRICS “Master Agreement on Extending Credit in Local Currency” and “Credit Confirmation Facility” also support these objectives, as will the much-anticipated BRICS development bank through its intended
focus on sustainable infrastructure. Underlying these initiatives is an attempt to diversify international finance beyond the IMF and World Bank, which have been slow to accommodate Brazilian and Chinese pressure for greater representation. The same contention underpins BRICS opposition to Washington, D.C. as the likely headquarters of the $100bn (€76bn) Green Climate Fund.

2. The G20: Toward representative consensus?

Brazilian policy researchers often refer to the G20 as indicative of the differences between their nation’s commitment to multilateralism and China’s narrow concern with its own interests. Brazil has coordinated its policies on financial regulation, climate change, trade, and nuclear non-proliferation with those of emerging countries (including Iran, discussed below). However, this ecumenical spirit has not averted tensions with China over issues such as anti-dumping and currency manipulation. The Brazilian foreign ministry has endeavoured to develop harmonious and conflict-free relations with China, but Brazilian businesses, trade chambers, industry associations, commercial lobbies, economic pundits, and even the Finance Ministry have been less diplomatic. Finance Minister Guido Mantega’s strident criticism of China’s currency policy at the 2010 G20 summit revealed the depth of disagreement within Brazil about relations with China.

Despite their differences, Brazil and China share the position that the G20 should act more assertively to address global financial issues such as volatile cross border capital flows. Brazilian President Dilma Rousseff recently articulated the need for multilateral strategies to diminish “the indiscriminate flow of speculative capital,” and former Chinese president Hu Jintao used the G20 as a platform to criticise “deficiencies in the existing institutions and mechanisms” that have permitted “massive unregulated cross-border flow of capital.” This theme is taken up in the Delhi Declaration, which endorses the G20 as the premier forum for stemming excessive liquidity “generated by rash monetary policies in rich countries.” This concern is driven largely by a shared Brazilian and Chinese interest in stabilizing commodity prices. However, the multilateral coordination of monetary policies this implies will face opposition from the United States, the United Kingdom, Australia, and other liberally oriented G20 members.

The transformation of the G8 into the G8+5, and the subsequent emergence of the G20 have augmented Brazil and China’s confidence and international profiles. The Chinese government’s G20 platform has become progressively bolder over time, asserting China’s emergence as a “leadership state” and articulating the need for structures of global governance that reflect the growing prowess
of emerging economies. It is worth noting a parallel process underway in the IMF, which in 2010 approved an increase of China’s voting shares from 3.81 to 6.07 per cent, positioning it as the third most influential nation after the United States and Japan. According to IMF managing director Christine Lagarde, “If the Chinese economy continues to grow and be a driver of the world economy, then clearly that percentage will have to further increase.” Chinese negotiators have pushed to secure a place for the renminbi in the IMF’s multi-currency reserves (Special Drawing Rights, SDRs) and advocated the replacement of the U.S. dollar with SDRs as the global base currency.

Greater independence from the U.S. dollar is a goal shared by Brazil, whose 2012 $30bn (€22.9bn) currency swap with China is the latest in a long history of attempts to offset U.S. influence. This trend dates back to the 1970s when Brazil’s military dictatorship embraced the doctrine of non-intervention, advocated by China, to defend against external concerns over human rights. Like China, Brazil has used the G20 to argue its case for IMF reform, stating in 2012 that it would consider reducing its contribution to the $430bn (€330bn) European recovery fund (from $10bn [€7.6bn]) unless its IMF voting power be increased.

Until the G20 was recognized in 2008 (with Brazilian backing) as the leading forum for international economic coordination, Brazilian and Chinese calls for greater influence showed few results. According to one study, between 1999 and 2007 the G20’s official communiqués reflected the position of the G7 twice as often as that of the G24. However, following the 2009 G20 summit Brazil secured a place on the Financial Stability Board, as well as on the Basel Committee on Banking Supervision, and has used this new footing to voice concerns especially about exchange rate imbalances, at times creating tensions with China.

Looking forward, China and Brazil support the prospect (initially raised by Nicolas Sarkozy in 2010 and formally recommended by David Cameron in 2011) of a G20 secretariat to build institutional memory across host nations and formalise bureaucratic process. Both nations hope to leverage benefits from the more institutionalised—and perhaps more representative—structure that this could encourage. As the G20’s 2014 host, Australia will likely seek to establish such a secretariat on a trial basis.

3. Brazilian and Chinese Objectives in the United Nations and UN Reform

Brazilian analysts still express exasperation over their 2005 misunderstanding with China over UN reform. The problem originated in former Chinese President Hu Jintao’s November 2004 landmark
visit to Latin America, which sought to secure broad recognition for his nation as a “market economy” in the WTO. The Brazilian government signed a Memorandum of Understanding pledging to accommodate Hu’s request, provoking outrage from national footwear, toy, and textile manufacturers, who would consequently lose their ability to impose anti-dumping measures on Chinese products. Two motivations underpinned the Brazilian government’s decision: the first, discussed below, concerned Brazil’s thirst for Chinese investment. The second concerned Brazil’s pursuit of Chinese support for its bid to secure a permanent seat on the U.N. Security Council.

Brazil officially bid for Security Council membership in 2005. Having vowed to recognise China as a market economy the year before, and having diverged from other Latin American nations (especially Mexico) in endorsing China’s accession to the WTO, Brazilian diplomats were confident that China would support them. To their dismay, China joined with the United States in opposing an increase in the number of Council members, in part because the proposal included India and Japan. China’s decision caused serious damage to the bilateral relationship, and is one of the main reasons that the MOU on China’s market economy status has never been fully implemented. China therefore remains Brazil’s number one target for WTO anti-dumping claims.

The UN Security Council was again the focus of Sino-Brazilian discord in 2010. As a proponent of solidarity among developing nations, Brazil had sought closer relations with the two most important emerging powers in the Middle East, Iran and Turkey. In May 2010 the three governments jointly released the Declaration of Tehran, which affirmed “the constructive efforts of the friendly countries Turkey and Brazil in creating the conducive environment for realization of Iran’s nuclear rights.” The Declaration proposed that Iran send 1,200kg of 3.5 per cent enriched uranium to Turkey in exchange for 20 per cent enriched uranium to fuel a research reactor in Tehran. Brazil’s interest was twofold: consolidate commercial relations with Iran and demonstrate capacity to mediate entrenched international disputes. The proposal was quickly rejected by the U.S.-led Vienna Group, and Brazil’s attempt to convince China to delay UN Resolution 1929 (which imposed sanctions on Iran) failed. Brazil and Turkey, both rotating members on the Security Council, were isolated as the sole dissenters, and Brasilia once again found itself at odds with Beijing.

The 2012 Delhi Declaration notes China’s support for Brazil to play a greater role in the UN, and in general China has sided with other developing nations on climate change, human rights, and development cooperation. However, history shows that with regard to UN reform and international security, China has acted as an established status quo power. In this light, Jiang Zemin’s 1993 recognition of Brazil as a “strategic partner” has long outpaced the reality of bilateral interactions.
The next section suggests that this may be set to change as new forms of Chinese investment enter Brazil.

4. China-Brazil bilateral relations: trade, investment, and the environment

China and Brazil have both grown quickly over the past decade, but they face distinct challenges. Investment constitutes around 45 per cent of China’s GDP, while consumption makes up only 30 per cent. The Chinese government intends to reduce investment’s share of GDP to around 25 per cent and boost internal consumption to fuel growth. In Brazil, by contrast, investment accounts for just 19 per cent of GDP and consumption around 65 per cent (with 23 per cent of household income servicing debt). The Brazilian government is therefore planning the opposite of China: promote greater investment through a $235bn (€180bn) package of concessions targeting roads, rail, ports, airports, energy, and oil and gas. Their distinct economic circumstances and emerging development trajectories will recondition Sino-Brazilian relations, creating complementarities in finance and investment, and not simply in trade as has been the case so far.

Trade

The global financial crisis (GFC) severely impacted Brazil’s exports to all major economies except China. The GFC saw Sino-Brazilian trade expand more than 2,000 per cent to $50bn (€38bn), in the process enabling China to displace the United States as Brazil’s largest trading partner in 2009. China is now also poised to displace the EU as Latin America’s second largest trading partner.

China-Brazil trade by export, import, and total as reported by Brazil (2000-2012)

Source: United Nations Commodity Trade Statistics Database
On the face of it, the composition of Sino-Brazilian trade is unbalanced: iron ore and soybeans account for 85 per cent of Brazil’s exports to China, while manufactured goods constitute 90 per cent of imports from China. This imbalance has deepened over time: in 2000 Brazil was exporting more manufactured goods than commodities to global markets, but now commodities represent over half of all exports. Contrary to conventional wisdom, though, most of Brazil’s imports from China are not cheap manufactured consumer goods (shoes, clothes, toys, etc.) destined for low-income stores and markets, but rather industrial machinery and capital goods. Even as the GFC dampened Brazilian imports from China (especially in 2008) the prior category accounted for only 8 per cent, and the latter 70 per cent.

The most recent data from the China-Brazil Business Council shows that for the first semester of 2012, Brazilian imports of Chinese locomotives and agricultural equipment grew faster than any other product class (1,126 per cent and 88 per cent respectively, compared to first semester of 2011). Over the same period, Brazilian exports to China of iron ore and oil fell by 20 per cent and 18 per cent respectively while soybean exports to China increased by 45 per cent, representing $8.7bn (€6.7bn) – Brazil’s largest export in that period. These figures indicate not only growing Chinese consumption of Brazilian soybeans, but also active Chinese input into the expansion and logistics of Brazil’s soy industry. In 2012 Brazil produced 82 million tons of soybeans (up from 65 million tons in 2011), and Brazil supplied 45 per cent of China’s soy imports.

China’s expanding urban population (already exceeding 700 million people) will sustain high levels of demand for Brazilian soy and other primary products. There is debate over the prospective impact of the Chinese central government’s intention to bring investment’s share of GDP (currently around 45 per cent) into line with developed countries (around 25 per cent). The contraction of heavy industry and infrastructure spending that this implies could negatively affect the fortunes of Brazil and other metals exporters, but this impact may be offset by new sources of demand at the provincial and county levels to service the boom in urban construction and development. Senior mining sector representatives interviewed by the author at the 2013 Brazil-Australia Dialogue in São Paulo expressed optimism that the current resource boom will continue, albeit at more subdued intensity, for at least two decades. While steel consumption exceeds 1000kg per head in Beijing and Shanghai, it remains at only 250kg per head in less affluent cities, suggesting sustained demand as economic development and urbanisation expand.
To avoid over-exposure to fluctuations in demand—and prices—for its natural resources, the Rousseff administration has urged the Chinese government to purchase higher value-added Brazilian products. In April 2011 it oversaw a $1.4bn (€1.1bn) deal under which China agreed to purchase twenty Embraer E-190 jets. Owing to competitive concerns from China’s Commercial Aircraft Corporation, the deal has since evolved: Embraer will instead produce its Legacy 600/650 business jet in a joint venture with the China Aviation Industry Corporation (AVIC) at a factory in Harbin, Northern China. The factory is often celebrated as an example of Brazil’s innovative approach to investment in China; meanwhile, Chinese investments in Brazil have so far been largely restricted to resource sectors.

*Investment*

Hu Jintao’s 2004 visit to Brazil raised high expectations of Chinese investment. As then President Luiz Inácio Lula da Silva put it in his reception speech for the Chinese president, ‘The awaited $7 billion (€5.4bn) of Chinese investments in Brazil will help the country to regain its competitiveness in strategic sectors such as infrastructure, energy, steel, and telecommunications.’ By late 2009 Chinese investment in Brazil amounted to only $80m (€61m), but as the Global Financial Crisis dried up global liquidity and deflated asset prices in 2010, Chinese investors avidly pursued stakes in international energy and resource sectors. The Chinese state-owned oil enterprise Sinopec paid $7.1bn (€5.4bn) to acquire 40 per cent of Spanish oil giant Repsol’s Brazilian subsidiary, and announced a deal under which its Brazilian counterpart Petrobras would supply it with 200,000 barrels of oil per day oil for ten years in exchange for a $10bn (€7.6bn) loan. Meanwhile, Sinochem acquired 40 per cent of Norwegian Statoil’s operations in Brazil’s Peregrino oilfield. Wuhan Iron and Steel Corporation’s agreement to finance 70 per cent of a $5bn (€3.8bn) steel mill at the Açú port facility made global headlines, but the deal was suspended in late 2012 because of low global demand for steel and difficulties in transporting iron ore to the mill. According to the Heritage Foundation’s China Global Investment Tracker, Chinese investment in Brazil totalled $27.7bn (€21.2bn) at the end of 2012.

Chinese investors have attempted to acquire Brazilian land for soy cultivation, but progress has been slow. China’s growing interest in foreign arable land reflects a concern with food security: 300 million additional Chinese citizens are expected to leave behind rural agriculture for urban consumer culture by 2025, spurring continued demand for soy products, not least for animal feed as beef and pork become household staples. Fuelled by perceptions that Chinese FDI is qualitatively different from traditional sources because of its connections to the state, a coalition of powerful Brazilian
industrial federations and senior figures like former Minister Antonio Delfim Netto have convinced their government to reinstate a cadastre land registry (suspended since 1994) to monitor and regulate foreign holdings. Brought into effect in 2010, the new system limits foreign land purchases to 5,000 hectares or 25 per cent of any property. In this contentious environment, Chinese researchers are drawing lessons from Japan’s successful Brazilian agricultural ventures. Bai Yimin of the Chinese Academy of Social Sciences notes the example of Mitsui Foods, which gained access to Brazilian soy production in 2007 by acquiring 25 per cent of a Swedish company with a Brazilian subsidiary. Mitsui subsequently extended its coverage from production to logistics by purchasing shares in Brazilian farming companies. Chinese investors have begun to employ this strategy in the Australian coal and agriculture sectors, and will likely also do so in Brazil.

Chinese investment in Brazil remains focused on primary sectors, and has therefore not yet substantiated former President Lula’s vision of value-adding industrial development. However, the tide may turn as Brazil rolls out $121bn (€92.5bn) of transport and infrastructure concessions, announced in 2012 by Finance Minister Guido Mantega as part of a $235bn (€180bn) investment package. Justified by the 2014 World Cup and 2016 Olympic Games, this unprecedented initiative serves the Brazilian government’s attempt to offset consumption’s excessive share of GDP (currently 65 per cent). According to the China-Brazil Business Council, Chinese companies are bidding, and will likely be successful, in securing part of a $17.9bn (€13.7bn) tender to build and provide technology for Brazil’s first high speed railway system. The line will stretch 520km between Rio de Janeiro and Campinas via São Paulo by 2020. An easing of eligibility criteria for foreign bidders, announced in December 2012, includes a reduction from ten years to five for fatality-free operation, removing a barrier for Chinese participation following the 2011 Wenzhou accident that killed 40 people. Chinese investment in ports and airports are likely to follow, not least because existing seaports cannot cope with the massive growth of soy exports.

The electronics sector is also likely to see growing Chinese investment, building on existing projects. Huawei hires more than 3,000 Brazilians and expects Brazilian revenues to grow from $2bn (€1.5bn) in 2012 to $5bn (€3.8bn) by 2016. ZTE (China’s second-largest telecommunications manufacturer) has announced it will construct an industrial park in the Brazilian city of Hortolândia, housing a research and development centre and employing some 2,000 locals. By comparison, Brazilian investment in China is small, accounting for just .06 percent of total Brazilian outbound investment over the past decade (and .04 per cent of China’s inbound investment). Embraer’s factory in Harbin—established in 2003 with 49 per cent Brazilian ownership—remains emblematic of what could and should be achieved.
Brazil and China are beginning to cooperate in wind turbine and biofuel production, and to this end have created a research and engineering program called the China-Brazil Center for Climate Change and Energy Technology Innovation. Prior to this initiative, the two nations jointly developed satellites to digitally map Brazil’s Amazonian territories and monitor deforestation. President José Sarney’s 1988 visit to China resulted in the initiation of the China-Brazil Earth Resources Satellite program (CBERS), with launches in 1999 and 2003 financed 30 per cent by Brazil and 70 per cent by China. Two further satellites are expected to result from the $30bn (€22.9bn) currency swap signed by Brazil and China in 2012.

In mid 2011 Brazil’s National Institute for Space Research (INPE) announced that in two observation periods, March-April 2010 and March-April 2011, deforestation had increased from 103km$^2$ to 593km$^2$. The Rousseff administration responded by creating a “crisis cabinet” to stem the increase, drawing on the expertise of the Sino-Brazilian Centre for Climate Change and Energy Technology Innovation (established in 2009). While Chinese researchers are involved in this policy-driven initiative, their nation’s massive demand for soy is the driving force behind the problem. A survey by the Brazilian government’s National Food Supply Company (CONAB) shows that farmlands dedicated to soybean production grew by 10.4 per cent in 2012, giving rise to a variety of social and environmental consequences. Monoculture on this scale displaces food crops and endangers the livelihoods of small farmers, while the intensive application of agrochemicals and fungicides to control pests and soybean rust has contaminated streams and other sources of water for nearby communities.

According to the United Nations Panel on Climate Change, global deforestation is responsible for around 17 per cent of all greenhouse gas emissions (the third largest human cause), and deforestation has seen Brazil’s carbon footprint increase by 11 per cent per year since 2000. The Brazilian government has committed to investing $20bn (€15.3bn) to address climate change, undertake and publish an annual tree census, and expand the existing satellite program to track illegal logging. Brazil’s National Climate Change Plan, launched by the Ministry of Environment in 2008, makes ambitious commitments including a 20 per cent increase in urban recycling by 2015; 80 per cent reduction in the rate of Amazonian deforestation and an 11 per cent increase in domestic ethanol consumption by 2020; and an 11.4 per cent increase of sugarcane-based electricity production by 2030. In 2009 Brazil reported that deforestation was at the lowest level in 20 years.
(around 7, 400km²), down 75 per cent from 2004, pushing the nation halfway towards its Copenhagen commitment to reduce greenhouse gas emissions by 36 per cent by 2020. The rate of Amazonian deforestation is now down almost 80 per cent from the late 1980s, but (partly as a result) soy agribusiness in unprotected areas like the vast Cerrado Savanna in the North Eastern state of Piauí has expanded on an unprecedented scale.

Although Chinese assistance to Brazil with satellite design, development, and launching technology is focused on environmental monitoring, it has raised concerns about possible military applications. Brazil was admitted in 1995 into the Missile Technology Control Regime, but its rejection of a technology safeguard agreement has inhibited cooperation with the United States, and arguably facilitated cooperation with China. According to a U.S. Secretary of Defense report, ‘The China-Brazil Earth Resources Satellite’ (CBERS) was launched in October 1999 and the experience gleaned from operating this satellite will support Beijing’s efforts to develop improved military reconnaissance satellites. CBERS also will provide some militarily useful data.” There is no hard evidence that China is pursuing military reconnaissance objectives with Brazil, though the Fengyun (FY-3) weather satellite, built partly in Brazil, has drawn suspicion. China’s space reconnaissance capabilities are in fact more effectively served by its Ziyuan 3 (ZY-3) imaging spacecraft (launched in 2012), and the Beidou network, which is expected to interlink 35 satellites by 2020.

5. Conclusion: Policy Implications for the European Union

As dynamic emerging economies and leaders in their regions, China and Brazil will shape the contours of 21st century world development. The global rebalancing of economic gravity that this implies need not diminish the international authority and guidance capacities of the European Union. On the contrary, despite its current financial predicament, the EU harbours important trade, investment, and policy strengths that will influence the trajectory of the “Asian Century.” The EU can optimise its contribution to international development by leveraging its strengths in relation to China and Brazil’s international priorities. The following recommendations offer some pathways toward this goal:

- Maximise China’s disposition for cooperation with the EU by addressing China’s priorities, such as market access for Chinese high-technology products, more open sharing of European technological capacity, and facilitation of investment. In comparison with the EU-China Summit and the EU-China Comprehensive Strategic Partnership, Brazilian dialogue with China has more directly targeted the latter’s priorities, such as phased elimination of tariff and non-tariff barriers,
investment in infrastructure, and progress toward a China-Mercosur Free Trade Agreement. Chinese officials are concerned about the prospective EU-US FTA and Trans-Pacific Partnership (TPP), and wish to counterbalance these initiatives by incrementally moving toward FTAs with the EU and the United States. Drawing insight from Brazilian interactions with China, the EU should demonstrate its commitment to working with China by advancing bilateral negotiation of a Partnership and Cooperation Agreement. This process would help to define steps toward recognising China as a market economy in the WTO and toward lifting the EU arms embargo on China. It would also build consensus on Chinese priorities such as investment beyond government bonds, technological cooperation, and mutually acceptable provisions for intellectual property and trademark/patent registration.

- Elevate the prominence of food security in the EU-China Summit and EU-Brazil Summit, with a view to assisting China to overcome this critical long-term challenge. Rapid urbanisation will boost the number of Chinese city dwellers to around one billion people by 2025, generating unprecedented demand for food commodities. With only nine per cent of the world’s arable land, China is beginning to expend its massive foreign currency reserves of $3.3tn (€2.52tn) to acquire arable land internationally. Brazil’s 2010 controls on foreign land holdings are emblematic of an emerging global unease—and toughening regulatory response—toward these investments. Like Brazil, EU nations are suspicious of Chinese investment in land, in part because of connections between the Chinese state and outward investors, but also because of uncertainty about Chinese approaches to genetically modified crops, irrigation techniques, use agrochemicals and fungicides, processes of negotiation with the private sector and provincial/national governments, contracting of labour and visa procurement, and relations with local communities. As Chinese investors increasingly target foreign arable land, the European Commission should take stock of Brazil’s experience, define best practices and standards, and communicate these to member nations and to China.

- Establish a EU-China-Brazil sub-dialogue or working group alongside the existing EU-China and EU-Brazil Summits to address issues of trilateral concern. Brazil has seen the best and worst of China’s rise. On the positive side, it has enjoyed Chinese technology transfer and unprecedented demand for commodity (and some high-technology) exports. On the negative side, Brazil has raised concerns about currency manipulation, deindustrialisation, commercial dumping, and China’s market economy status in the WTO. A trilateral sub-dialogue would enable the European Commission to gain insight into the challenges and opportunities faced by emerging economies in light of China’s rise, and build its capacity to advise the growing number of nations (EU
members and others) facing these. It would also provide a forum for discussing China’s trade, investment, and food security priorities, which have advanced further in Brazil than in the EU. Furthermore, a trilateral dialogue would enable China and Brazil to demonstrate leadership in fomenting closer interaction between emerging economies and the EU, and potentially in preparing the way for a EU-BRICS Summit.

- Use the EU-China-Brazil sub-dialogue proposed above to engage in frank discussion on climate change mitigation, with a view to progression toward a legally binding emission reduction framework that incorporates developing countries. Attention should be directed at supporting and accommodating the existing efforts of China, Brazil, and the other BRICS countries within the 2015 Climate Deal in which the EU is playing a prominent role. The EU’s commitment to reducing emissions by 20 per cent by 2020 resonates with the concept of “green economy” developed at the Rio+20 UN Conference on Sustainable Development, opening the way for trilateral cooperation in infrastructure development, clean energy, and emissions trading.

- Leverage trilateral dialogue with China and Brazil to formulate more effective approaches to media engagement and public relations. The EU should minimise the perception, widely reported by journalists after the 15th EU-China Summit in September 2012, that high-level discussions are quarantined from public scrutiny. Chinese concerns over political criticism from journalists should be acknowledged and diminished through assurance of structured moderation to keep questions on point. Having advocated freedom of information since its rejection of authoritarian rule in the mid 1980s, Brazil could contribute a constructive and fresh perspective to the EU-China Summit’s existing coverage of human rights and UN mechanisms for protecting them. Media engagement could be part of this discussion, generating conceptual and practical public relations benefits for all parties.