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The State of and Prospects for Brazil's Relations with China



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On March 28, 2023, Brazil's recently inaugurated President Luiz Inácio Lula da Silva will make a State Visit to the People's Republic of China (PRC). The visit highlights the significant, longstanding commercial and political relationship between the two countries and the prospects for the relationship to expand and assume a more strategic character under the new Lula administration, with significant implications for the United States and the region.

The Current State of PRC Engagement with Brazil

The Brazil-PRC relationship is both substantial and diverse. Bilateral trade between Brazil and China reached \$152.8 billion in 2022, representing a 37-

value-added agricultural goods as well as mining and petroleum products. In the past two decades, PRC-based companies have invested an estimated \$70 billion in the country, representing over 40 percent of PRC investments in the region. This highlights the importance of Brazil to China.

China has a broad commercial footprint across Brazil. Its companies currently have projects in 23 out of Brazil's 27 states. By investment volume, the state of Sao Paulo has received almost one third of total investments. Since 2019, the northeast of the country has also been a particular focus of that trade.

China's commercial engagement with Brazil is diverse in terms of sectors, with investments seen in mining, agriculture, industry, telecommunications, finance, and medicine, for example. Since 2010, Chinese companies such as Sinochem and Sinopec have invested more than \$10 billion in the petroleum sector to acquire oilfields in Brazil. Chinese firms have also established a position in the mining sector with a \$2 billion stake in a niobium mining consortium and other rare metals.

In agriculture, Chinese-owned companies have a growing presence in the agro-logistics sector. The PRC has become a major market for Brazilian agricultural products such as soy and beef. China has also become a major market for Brazilian corn, purchasing 15 percent of its corn exports in January 2023 as increasing U.S.-PRC tensions decreased China's purchases of U.S. corn.

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PRC-based companies have also set up factories in major Brazilian cities for manufacturing cars, busses, and heavy equipment, among other items—with the manufacture of electric vehicles becoming an increasing focus of Chinese investments. Similarly, electricity generation and transmission has been an important focus of Chinese investment in Brazil. Over the past two decades, 48 percent of all PRC investment by value, went to this sector. Significant financing in renewable energy generation sectors such as hydroelectric, solar, and wind have also been targeted since 2010.

In telecommunications, Huawei is a lead supplier of 5G technology across the country. The company is also building data centers and marketing its cloud computing services in the country, while other Chinese companies—such as Xiaomi—are also present in Brazil. In other digital services, in 2018, the Chinese rideshare company Didi Chuxing acquired the Brazilian firm 99—the main rival to Uber in Brazil—and has since built a strong position in the country.

Finally, China has also made extensive investments in the financial and medical sectors in Brazil. In 2013, the PRC targeted the country with a \$30 billion currency swap arrangement. Major PRC-based banks operate there, such as the China Construction Bank (CCB) and the Industrial and Commercial Bank of China (ICBC), among others. In medicine, the Chinese company Sinovac performed the phase III trials for its COVID-19 vaccine in Brazil and manufactured the vaccine in the country through Brazil's leading medical research institute, Butantan.

Beyond commerce, the Brazil-China relationship has a political dimension. Brazil was one of the first countries in the region to be recognized by the PRC as a “strategic partner,” which received the designation in 1993 as one of only ten countries to have that designation. China upgraded the relationship to “comprehensive” strategic partner in 2012. Brazil and China signed a ten-year

level coordinating group—the Sino-Brazilian High Level Commission for Coordination and Cooperation (COSBAN)—for managing issues and facilitating technical details with the relationship, which was reactivated in 2019.

The Future of the PRC-Brazil Relationship Under the New Lula Administration

Both Brazil's commercial and political relationship with the PRC is likely to expand under the new Lula administration, albeit with problems, and with a China far more powerful and experienced relative to Brazil than the last time Lula acted as the country's president.

Chinese Vice President Wang Qishan attendance at Lula's inauguration as well as Lula's scheduled trip to the PRC on March 28 highlight the strong commitment by both sides to the relationship and interest in deepening it. There are rumors that Lula will take an enormous delegation to Beijing, as he did during his first state visit to the PRC in 2004. Still, Lula's choice to visit Washington DC before traveling to China suggests that he still seeks to maintain good relations with Washington even as he engages with the PRC.

Lula's approach to China—as during his first period as president in 2003—will bring renewed warmth to the tone of the relationship and renewed possibilities of state-to-state deals, such as China's \$10 billion loan to Petrobras in 2009. This will happen while fostering a regulatory environment in which Chinese companies can advance more easily with acquisitions, other investments and public projects, as well as expanded Chinese engagement at the state and lower levels.

During the new Lula administration, financing by the Asia Infrastructure Investment Bank (AIIB) could expand. The bank approved its first project in

multilateral BRICS forum—for which NDB is the financing arm—as a preferred engagement tool with China and other nations. The presence of former Brazilian president and once Lula protégée Dilma Rousseff as the head of NDB may further facilitate its use in Brazilian projects.

During Lula’s trip to the PRC, many expect him to pledge Brazil’s adherence to China’s Belt and Road Initiative (BRI). Although BRI has been recently de-emphasized in China’s discourse in favor of its “Global Development Initiative,” Brazilian membership would be a symbolic achievement for China as it hosts the third Belt and Road Initiative (BRI) later this year. In trade, Lula has signaled interest in using Brazil’s weight in the MERCOSUR trade block to push for a MERCOSUR-PRC free trade agreement (FTA).

From the beginning of his administration, Lula has announced his interest in developing the political component of the relationship between Brazil and China. This would include mentioning a potential role for China in the international “mediating group” he is trying to form to position Brazil as an internationally relevant mediator in the Ukraine conflict.

Lula has also returned Brazil to the Community of Latin American and Caribbean States (CELAC), which his predecessor Jair Bolsonaro pulled the country out of. As China’s principal vehicle for multilateral engagement with the Americas, CELAC helps Brazil become even more important in the region as a lynchpin for the expansion of Chinese engagement across Latin America.

Lula’s expanding work with China through the BRICS and the China-CELAC forum—from which the U.S. and Canada are notably excluded—also aligns with the PRC’s increasingly aggressive courtship of the global south through its “Global Development Initiative.” The dynamics of this political relationship are likely to increasingly diverge from the values of limited government, individual rights, and procedural democracy that Washington has

The choices that the Lula government makes on welcoming Chinese participation in key sectors of the Brazilian economy will shape the ability of the Brazilian government to make private and sovereign decisions and the ability of companies operating in Brazil to compete and protect their intellectual property. The size of the Brazilian market means that it will also affect the fight for market position and standards globally between China's intrusive authoritarian technology solutions and alternatives from more democratic actors. In the same sense, Brazil's embrace of Chinese green energy companies, infrastructure projects, and PRC presence in both Brazil's extractive and manufacturing sectors will impact the question of "who benefits" from Brazil's mineral and agricultural wealth and biodiversity.

For the moment, Washington has sought to focus on areas where the politics of the Lula and Biden administrations coincide. The February summit between Biden and Lula emphasized common positions on social justice and environmental issues, including the reactivation of the U.S.-Brazil Climate Change working group and a joint action plan to eliminate racial, ethnic and gender discrimination. Brazil's economic and political embrace of China comes partly at the expense of how the United States was publicly left off the table, as witnessed by Brazil's expansion of agricultural exports to the PRC. This strategy allows the PRC to punish U.S. producers by reducing their exports in the context of expanded U.S.-China hostilities.

When Lula visits China on March 28, it is likely that he and Xi Jinping will likely not be talking much about social justice and preserving the voice of marginalized groups in democracies. They will, however, be talking about two very important items that did not come out of Lula's summit with President Biden: promises of significant cash on the table from China in Brazil and a roadmap for political coordination on strategic issues with an impact on the interactions between nations in the current geopolitical order.

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