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Reimagining China-Brazil Relations Under the BRI: The Climate Imperative

By Rogério Studart, *World Resources Institute and CEBRI,* and **Margaret Myers**, *Inter-American Dialogue*

Brazil and China: Long-Standing Partners, Intertwined Interests

The first decade of the 21st century saw a considerable deepening of China-Brazil economic and political relations. The two countries built an extensive trade relationship, with total bilateral trade rising from just over the $3 billion in 2001 to over $44 billion in 2010 and then to $100 billion in 2019. At the same time, Brazil and China intensified political cooperation, including through the development of multilateral arrangements, such as the BRICS grouping—consisting of Brazil, Russia, India, China, and South Africa—and corresponding multilateral development banks, such as the New Development Bank, of which the BRICS nations are members.[1]

For many years, Brazil also has been the top destination for Chinese direct investment in Latin America and the Caribbean (LAC), despite initial obstacles to investment in the country's green energy, transport infrastructure, and agricultural sectors. Brazil has received $55 billion in Chinese investment in 145 projects over the past decade, almost half of the $123 billion invested by Chinese companies in Latin America overall. Since 2005, China's policy banks—China Development Bank and China Export-Import Bank—have provided Brazil with nearly $29 billion in financing and other assistance, with most of that money directed toward the Brazilian state oil company, Petrobras, which according to Petrobras officials has since repaid that debt. As a result of booming investment, an increasingly extensive, commodities-based trade relationship, and generally productive relations with certain Brazilian leaders, such as Luiz Inácio Lula da Silva and Dilma Rousseff, Brazil was named a "comprehensive strategic partner" by China in 2012.

The long-standing political relationship has recently been tested, with bilateral tensions mounting during the presidency of Jair Bolsonaro, a critic of China. But even under Bolsonaro, Brazil-China economic interaction has continued apace, driven by prevailing economic complementarities and individual Brazilian states' interests, many of which see considerable value in growing their

[1] Brazil was also among the founding members of the China-led Asian Infrastructure Investment Bank (AIIB) in 2015, following a direct request from China to then-president Dilma Rousseff. The country's membership in the bank has yet to be ratified by Brazil's legislature, however.

relations with China, regardless of broader geopolitical considerations and of Bolsonaro's harsh rhetoric towards Beijing. The relationship, whether before or after the Belt and Road's development, also continues focus heavily on extractives, agriculture, and energy infrastructure, with sometimes extensive environmental and social impacts.

At this moment of profound global uncertainty and unprecedented socioeconomic crisis in Brazil, it is difficult to speculate about the future direction of the China-Brazil relationship. As it stands, prevailing economic complementarities will undoubtedly drive growing bilateral trade in the coming years, with soy-based trade and BRI-related investments dominating the narrative. Yet both Brazil and China would be better served by re-imagining their bilateral relationship, with other, more sustainable, though still complementary, interests in mind. As Teixeira and Rossi (2020) and Jaguaribe and Rosito (2020) have suggested, there is considerable prospect for a sustainability-oriented Brazil-China agenda, that would better advance both countries' economic development goals, while also upholding China's environmental and "green" BRI commitments. The Bolsonaro government has not prioritized sustainability, but both Brazil and China would have much to gain by adopting a shared commitment to social and environmental sustainability. Doing so is of existential importance, of course, but can also be economically advantageous for both counties.

China's BRI-Related Investment in Brazil

Trade complementarities rather than the Belt and Road Initiative (BRI) have mostly driven the development of China-Brazil economic relations over the past decade. Indeed, in the case of Brazil, the sort of connectivity-enhancing infrastructure development emblematic of the Belt and Road has yet to feature especially prominently. This is due in large part to the deterioration of bilateral relationship since Bolsonaro assumed office in 2018, precluding any possibility of Brazil officially joining the BRI (despite participation from nineteen other LAC countries in the initiative since 2017), and limiting prospects for new, high-profile deals. But China has been unsuccessful in investing in Brazil's infrastructure even before Bolsonaro, despite many indications of Chinese interest in the sector since 2010.

Chinese interest in infrastructure to support trade in Brazilian soy and other agricultural goods boomed after the global food crisis in 2008, for example. Firms such as Noble Group, Chongqing Grain Group, Sanhe, and China National Heavy Machinery Corporation invested in factories, pressing plants, mills, and ports across Latin America to better control food supply and pricing. But in Brazil, aside from ports, which China Merchants Port Holdings, COFCO, and other Chinese companies have successfully purchased or developed, Chinese efforts in the area of agriculture-related and other transport infrastructure have generally fallen flat. The Ferrovia de Integração Oeste-Leste (FIOL) rail project, a project of considerable interest to Chinese companies, and which would link agricultural producers in central Brazil to coastal ports, stalled in the mid-2010s.[2] China Railway Construction Company (CRCC) and Brazilian construction company Camargo Corrêa sought a construction contract for the Ferrovia de Integração Centro-Oeste, yet that process also stalled following a conflict between CRCC and Camargo Corrêa on contract pricing details.

Of all of China's infrastructure proposals in Latin America and the Caribbean, the Bi-Oceanic Railway project, which Xi Jinping highlighted during a visit to the region in 2014, is perhaps most representative of BRI-related objectives. The project sought to facilitate trade in Brazilian primary commodities through the development of cross-regional infrastructure. Soy and other products were to be transported by rail, possibly through Bolivia and on to Peru for eventual shipment to China. This project was also abandoned, however, despite the involvement of a wide range of international actors, including the governments of Peru, Bolivia, and Brazil, at various stages in the project's development. One problem that undermined the project was that the rationale for the project "reduced Peru's role to a mere *entrepôt*, and placed the project in direct competition with other routes for the export of Brazilian commodities to China," as Oliveira and Myers (2020) noted in the *Journal of Contemporary China*.

That said, to the extent that supporting hydropower and electricity transmission infrastructure feature as part of the BRI, China is beginning to make larger, more successful BRI-related inroads in Brazil. China Three Gorges (CTG), in particular, has acquired significant assets in Brazil's hydropower sector. CTG considerably grew its holdings by buying Duke Energy's Brazilian business in 2016. The deal included eight hydropower plants with a total installed capacity of 2,242 MW, located on Brazil's Paranapanema River, and two small hydropower plants with 16 MW capacity each, situated on Brazil's Sapucaí-Mirim River, in the state of São Paulo. China's State Grid is also heavily invested in Brazil's electricity transmission industry, resulting from greenfield investment and acquisitions.

In addition to trade and infrastructure, there is also evidence of Chinese activity in the other three of the BRI's other so-called 'five links' (*wu tong*)—policy cooperation, financial integration, and people-to-people engagement—as well as efforts to expand the so-called Digital Silk Road into Brazil. The Sino-Brazilian High-Level Commission (Cosban) has become a prominent platform for policy coordination, for example. During its 2019 meeting, the vice presidents of both countries agreed to boost trade and bolster cooperation in all areas.

So, despite growing tensions in the bilateral relationship, Brazil's reluctance thus far to sign onto the BRI, and a lack of progress to date on bilateral road and rail projects, China is exceedingly active in Brazil, including in certain BRI-type projects. The trade relationship, in particular, continues to be driven by economic complementarity and Chinese agricultural policy promoting soy imports. In other cases, the interests of individual Brazilian states are driving the relationship.

[2] Gustavo Oliveira, *The South-South Question: Transforming Brazil-China Agroindustrial Partnerships*, (PhD dissertation, University of California, Berkeley, 2017).

For instance, in addition to his deal with Sinovac, the governor of São Paulo state, João Doria, has aggressively sought to establish stronger ties with China, both to ensure Covid-19 assistance and to advertise key investment opportunities in the state.

The nature of the bilateral relationship continues to be concerning from both an economic and, especially, environmental perspective, however. The composition of China's trade with Brazil has been of concern to Brazilian officials for many years, reviving debate about unequal [terms of] exchange and economic dependency. Most recently, Vice President Hamilton Mourão noted the persistence of exports of low-value-added products to China. With Brazilian exports to China focused overwhelmingly on agricultural products, Brazilian agriculture remains highly vulnerable to price and demand shocks. Developments in Chinese demand, and also in US-China soy trade, have had dramatic effects on Brazil's soy producers, which usually send over seventy percent of their crop to China.

Yet there are considerable prospects for enhanced Brazil-China engagement in the coming years, albeit in many of the same sectors identified above. Indeed, as mentioned in a recent *Global Americans* commentary, "amidst diminished alternatives, Chinese agricultural, mining, and petroleum demand is likely to be a lifeline for Brazil." This trend is even more likely if the global economic scenario remains bleak, if Brazil's trade opportunities outside China continue to narrow, and if Brazil's overall economic situation worsens.

In the remainder of this paper, we propose ways of refocusing the China-Brazil dynamic on sustainability and climate diplomacy, which we view as other possible areas of complementarity in the bilateral relationship. Focusing on these other areas, we propose, would help balance the relationship and support both nations' economic development objectives, while also addressing the existential crisis that is climate change.

Sustainability as Smart Economics for Brazil

In official Brazilian and even multilateral accounts, it has become somewhat commonplace to claim that Brazil was on a path toward economic recovery before 2020. However, a quick look at leading macroeconomic indicators challenges this view. As it turns out, Brazil had been struggling for several years with mediocre growth performance, rising inequality, high unemployment, low domestic investment, low productivity, and a lack of global competitiveness among critical industries even before the pandemic hit. In 2015, amidst failed adjustments and growing political turmoil, Brazil entered into a spiral of adverse economic and social effects. Overall investment collapsed, and unemployment rose throughout the country. Covid-19 then hit an already-fragile economy in 2020, bringing it to its knees.

As a result of the pandemic, Brazil's GDP is likely to shrink by more than five percent in 2020. Unemployment is at an all-time high, investment at an all-time low, and poverty continues to rise, as it has for the past five years. Emergency stimulus programs and household support programs have no doubt slowed the country's economic decline. Still, millions of Brazilians could slip back into poverty if these emergency outlays end this year, as is planned.

It is unlikely that trade, though a critical contributor to Brazil's overall economic growth, will be enough to lift Brazil from its deep economic problems. The World Trade Organization (WTO) expects global trade to fall by between 13 percent and 32 percent in 2020. Recovery in 2021 depends, the WTO says, on "the duration of the outbreak and the effectiveness of the policy responses." Moreover, domestic consumption as a driver of growth in Brazil is limited by high unemployment and inequality levels. And although inward greenfield investment appears to be on the rise, international investors are increasingly concerned about the extensive environmental destruction and climate risks of recent Brazilian policy decisions, which may alienate some international investors.

Despite the IMF's extraordinary $11.8 trillion announced in global fiscal stimulus support to fight Covid-19,[3] the Fund nevertheless anticipates that the global recovery will be a K-shaped one—one with a long, uneven, and uncertain ascent—with disparities in recovery among countries and domestically among different socioeconomic strata. In this scenario, Brazil may very well be among the biggest economic losers, even possibly suffering a lost decade of low or no growth.

Recovery from the most profound economic crisis in Brazil's history will depend on innovative solutions—ones that feature measures to both raise net exports and promote domestic investment. One possible solution is featured in a recent report from the World Resources Institute (WRI), which suggests that a key to Brazil's recovery will be its ability to attract private and foreign investment by embracing an ambitious green recovery plan towards a sustainable, deforestation-free development strategy.

Opting for such a strategy could add $535 billion to Brazil's GDP by 2030 while also creating two million new jobs, according to WRI estimates. Moreover, this approach would make better use of natural capital in agriculture and infrastructure and industrial innovation. In addition, the report notes that Brazil is structurally well-positioned to attract the "vast flows of finance that are shifting away from fossil fuels, [to] leverage new green capital instruments, and [to] help guarantee continued access to markets for exports." To do so, though, it argues Brazil must focus on sustainable infrastructure and agriculture-based recovery, incorporating green technologies.

A sustainability-focused model is promising because it addresses structural challenges in Brazil's two critical sectors—infrastructure and agriculture. One of Brazil's longest-standing challenges persistently poor infrastructure and logistics investment. This trend has contributed to a widespread infrastructure gap that impedes economic performance and presents severe social and human development obstacles. For example, as indicated in Brazil's national logistics plan, a continued

[3] This fiscal stimulus is already three times the amount committed in response to the 2008-09 financial crisis. It is however concentrated most in a handful of industrial economies (USA, Japan, European Commission, Germany, UK, Italy, France and South Korea), China and India. Most developing countries, including Brazil, do not have fiscal space to maintain their current programs.

lack of appropriate transportation and connection hubs costs Brazil some $10 billion each year. And according to the country's sanitation authorities, more than 35 million Brazilians do not have access to clean water, and 100 million do not have access to sewage collection services. A 2018 World Bank report indicates that Brazil needs to double its current investment over two decades to overcome these gaps. However, in a moment of constrained fiscal capacity, Brazil is less able than ever to mobilize the necessary resources to address this challenge. A prioritization of low-carbon, integrated infrastructure would help attract investors and also boost financing for investments that would reduce Brazil's infrastructure and logistics gaps.

Agriculture accounts for four percent of the annual value added to Brazil's gross domestic product and a 9 percent share of Brazil's total employment. Advancing sustainable agriculture to preserve some of the planet's richest biodiversity is not just a moral obligation to future generations of Brazilians but also a smart economic decision. Most of Brazil's dynamic economic sectors depend on the country's natural capital. The Amazon rainforest produces the "flying rivers" needed to irrigate the Cerrado's most productive farmlands. The Cerrado is one of the largest agricultural producing and exporting regions in the world. If deforestation continues at its current pace, the Amazon could reach a tipping point that would convert much of the forest to less bio-diverse savannah. If that happens, agricultural production and exports will be irreversibly impacted. Studies have shown that continued native vegetation loss in the area, for instance, could lead to steep reductions in soy yields by up to 60 percent.

Of course, Brazil does not have to choose between agricultural production and biodiversity. Indeed, as scientists have indicated, until 2014, reductions in deforestation in Brazil were often paired with increases in cattle production and productivity (cattle/hectare). There is plenty of other research to suggest that agriculture production that avoids deforestation is not only feasible but can also generate clear benefits for Brazilian producers and exporters. For example, the restoration of degraded pasturelands can add value worth $3.7 billion and generate $144 million in taxes annually by allowing ranchers to use the lands to their full potential.

Limiting deforestation also would help reduce portfolio risk among Brazilian companies. Some Brazilian firms have been unilaterally dropped from investor portfolios over deforestation concerns over the past year, for example. Indeed, as a result of fire-related destruction in Brazil's Amazon and Pantanal, Brazil faces unprecedented pressure from the finance and business communities to control extensive deforestation. There is little doubt that continued efforts to destroy Brazil's natural capital will severely limit future investment.

Opting to make sustainability a crosscutting issue would also create opportunities for Brazil to leverage scarce public resources by crowding-in (attracting private investment with an initial public investment) green finance for much-needed investments in infrastructure. As national and international private investors increasingly shift away from high-risk, unsustainable projects, this change in approach would vastly improve Brazil's remote finance access. Through enhanced policy and regulation, Brazil could leverage its sophisticated private and public financial institutions to create pipelines of sustainable projects and green financial instruments to support them. Brazil has the potential to generate $1.3 trillion to support new credit, including green bonds backed by projects in renewable energy, transportation, solid waste management, and industrial energy efficiency.

The realization of Brazil's fundraising potential will, of course, require considerable efforts to build confidence among international partners, including by ceasing activities that considerably deplete the country's natural capital. It would also require a reorientation of the China-Brazil economic relationship, which, despite some signs of green cooperation, remains heavily focused on industrial agriculture and on the development of sometimes environmentally untenable infrastructure to support it.

Reimagining China-Brazil Relations: The Role of "Green Diplomacy"

As noted above, China's engagement with Brazil is still primarily driven by China's food and energy security calculations and focused on the Belt and Road's central tenets, including trade facilitation through transport infrastructure investment. Still, there are considerable commercial rationales, from Beijing's point of view, for Chinese investment in a Brazilian green recovery.

On the one hand, were Brazil to pursue an increasingly sustainable development path, Chinese companies would be exceedingly well-positioned to meet demand as prominent investors in renewable energy. The share of wind (7.2 GW) and solar (3.1 GW) in China's overseas power investments are relatively limited in comparison to coal (24.5 GW), gas (20.5 GW), and hydropower (18.1 GW), but may be rising, according to Li et al., (2020). China is already investing more extensively in Brazil's solar and wind projects.

Also, as noted above, China has thus far struggled in Brazil to produce the sort of BRI transportation infrastructure that is evident elsewhere in the region. Despite considerable interest in Brazil in Chinese rail technology, few if any Chinese rail investment projects have materialized in Brazil to date. Instead, China has focused its infrastructure-related activity in Brazil's energy sector (e.g., hydropower acquisitions and electricity transmission line construction) and on acquisitions or greenfield investment in port infrastructure. New opportunities for engagement in green energy development in Brazil would undoubtedly be of interest to Chinese companies.

In fact, Chinese green energy investment in Brazil is already happening to a considerable degree, according to *Diálogo Chino* analysis. As a result of investments made over the past few years, Chinese companies now own 16 percent of Brazil's wind power capacity and 21 percent of its solar capacity. Brazil needs to prioritize further foreign engagement in these sectors to attract even more investment from Chinese firms and firms from other countries.

China's commitments to addressing climate change also could be a factor leading Beijing to embrace enhanced sustainability collaboration with Brazil. Speaking to the United Nations in September 2020, Chinese President Xi Jinping signaled that China is increasingly interested in and indeed prepared to play a prominent role in addressing global climate change.[4] When investing abroad, China's companies should be encouraged to take these pronouncements into account. In a best-case scenario, China's own practical steps toward greening its economy may even shape these firms' overseas activities. China's rhetorical commitment to sustainability pre-dated Xi's often-referenced UN speech, however. In fact, Xi noted the importance of sustainable environmental policy during the 2017 19th Party Congress, referencing the point 89 times, compared with 70 references to China's economy. Some of China's more recent green policies at home have included a commitment to restricting coal-fired power production, providing state support for the largest solar panel factory in the world, and remaking Hainan Island into an ecological development pilot zone. Sustainability is also a key area of focus in China's 14th Five-Year Plan with likely effects on the shape of China's overseas engagement.

What's more, Chinese activities in Latin America, whether in science and technology or in a range of development-related issues, are viewed by many in both countries as genuine opportunities to advance South-South cooperation. Brazil and China have a unique opportunity to promote a cutting-edge and exemplary South-South climate change and sustainability agenda. Doing so will require Chinese companies and banks to consider the extensive effects of proposed infrastructure, agricultural investment, and commodities-focused trade on Brazil's natural capital, however. Given the ballooning impact of Chinese demand on soy and cattle production in Brazil, China should at the very least be called upon to help address related externalities, whether by shifting its investment into increasingly sustainable sectors, in support of a green recovery, or through scientific cooperation, technical assistance, or grants in support of acceptable farming practices that take less of a toll on Brazilian natural resources.

Conclusion

With the election of Jair Bolsonaro as president in 2018, Brazil placed a strong bet on strengthening trade and financial relations with the United States and promoting further commercial and financial opening, market flexibility, private investment, and retrenchment of the state. The Bolsonaro administration initially deemed environmentally-friendly policies and international climate diplomacy undesirable and even antagonistic to Brazil's long-term development objectives. But

[4] China is already acting on UN pronouncements to at least some degree, and plans to attend and was integral in organizing a sustainability-centered meeting of the G77 in Guyana at the end of October 2020. However, it's unclear what that particular forum will achieve.

this strategy has faltered as the United States has become more protectionist, and as the pandemic has further weakened trade.

With few other options on the table, a sustainable development strategy will be critical to addressing Brazil's environmental crisis and reaping the benefits that a low-carbon, high-productivity economy can generate. Reorienting China-Brazil relations could help Brazil achieve these objectives, especially considering that China's long-term economic also depends in part on finding new markets for Chinese technologies, including in green areas like clean energy. China-Brazil cooperation in sustainable development will of course require Brazil to put forth a clear and effective strategy, prioritizing and incentivizing green investment and finance on its terms. Much also depends on whether China's government upholds the various climate-related commitments it has put forth to other countries.

As it stands, the economic crisis sparked by the global pandemic may help launch a new chapter in China-Brazil cooperation and broader green diplomacy, for at least three reasons:

1. The pandemic has raised awareness in Brazil, and in the world, of the problems associated with a failure to address global risks in an appropriate, collaborative way. Simultaneously, an increase in the number and intensity of extreme climate events has renewed international efforts to mitigate climate change and adapt to its consequences. Not surprisingly, many industrial nations—particularly members of the European Union, Japan, and South Korea—have launched economic recovery plans focused in part on green energy and other types of sustainable development.
2. China's leadership seems determined to assume a prominent role in addressing the many concurrent global crises today, including the global pandemic, the deep global economic downturn, and the already serious risks related to climate change.
3. In a new Biden administration, the United States may be inclined to pursue an ambitious climate-focused agenda, placing pressure on other countries to adopt sustainability-oriented policies. A more extensive commitment to the environment, whether in cooperation with China or not, would position Brazil to work more effectively with the United States under a Biden administration.

The political conditions for advancing a new China-Brazil economic diplomacy anchored on promoting sustainable development are not optimal at the moment. Bolsonaro has not in any way prioritized sustainability during his time in office. However, there is considerable imperative for a rethink of how to produce economic recovery in Brazil, including by prioritizing climate diplomacy. Domestically, a group of 17 former ministers of the environment have positioned themselves against deforestation, along with Brazil's three largest private banks. Also notable is the military's involvement, led by vice-president Mourao himself, in coordinating efforts to stop deforestation and create a deforestation-free development strategy for the Amazon.

A reorientation of the relationship would also do much for China and Brazil's broader cooperation, just as vaccine cooperation between China and Brazil has been a promising development in South-South cooperation. Both countries would have much to gain by adopting a shared commitment to a common goal of environmental sustainability. Doing so also would help Brazil take on a larger global leadership role on climate issues.

Finally, a revamped China-Brazil relationship would not only pave the way to more prosperity for both nations, but also would advance solutions on the global stage to deal with one of the greatest threats ever faced by humanity: climate change. And if done the right way, it could even help address a second one: persistent unequal growth and development in Brazil.