

# Reflections from the Chinese perspective on Sino-Brazilian cooperation in the twenty-first century<sup>1</sup>

Nan Zhou and Jing Li

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## Abstract

Sino-Brazilian cooperation has advanced rapidly in the twenty-first century. Although its successes have made it a model for South-South cooperation, the relationship also faces many challenges. This study focuses on the trade imbalance and the resultant risk of “deindustrialization” for Brazil, proposing that fostering technology transfer in the context of investments and situating Chinese companies in Brazil are two ways to mitigate its negative effects. However, the main response to these challenges is well-defined, comprehensive development planning by the Brazilian State with a strong commitment to reindustrialization. Since South-South cooperation is often more complex than North-South or North-North cooperation and few relevant academic studies exist on cooperation between developing countries, this article also advocates for a rational and holistic vision of Sino-Brazilian cooperation.

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## Keywords

Economic relations, foreign relations, economic cooperation, international trade, technology transfer, investments, industrial location, economic development, development planning, China, Brazil

## JEL classification

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## Authors

Nan Zhou is a professor in the Spanish department and a researcher at the Institute for Global and Regional Studies of Renmin University of China. Email: rosazhounan@ruc.edu.cn.

Jing Li is a professor at the School of International Studies of Renmin University of China. Email: lijing2016@ruc.edu.cn.

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## I. Introduction

Amid the deepening of relationships in this era of economic globalization, cooperation is stronger not only among developed countries, but also among developing countries. Given scant prior contact and a dearth of academic studies, advances in cooperation between developing countries are more complex, with a series of problems that have not been adequately addressed. The marked differences between the economic and business structures of countries in the developing world mean that trade flows between these countries have given rise to asymmetrical ties. In many Latin American countries, raw material exports to Asia are more common than in the past, and the degree to which those revenues offset manufacturing deficits varies. They have even contributed to the trade surplus in the region. Accordingly, some countries in East and South-East Asia have undergone rapid industrialization,<sup>2</sup> while many countries in Latin America are at risk of “premature deindustrialization”. Because of its size and rapid development, China has played a significant role in this process.

Specific cases of South-South cooperation have been discussed in academia and in the media, with stances ranging from a stringent critique of the win-win model to a resolute celebration of the successes of these ties that contest the political and economic hegemony of the global North. In any case, in a globalized world, no country can sustain long-term development without exchange, meaning that disengaging is not a solution. As such, the time is ripe to once again focus the discussion on cooperation and for rigorous academic reflection on the causes and possible solutions to the problems that it occasions.

This article discusses cooperation between Brazil and China as two emerging global powers. Within the complexities of this link, it focuses on the socioeconomic dimension, refraining from addressing political and ideological aspects. The two countries established diplomatic relations in 1974 and their strategic partnership in 1993. However, there were no major advances in bilateral trade until the early twenty-first century. With strong support from both governments, relations grew steadily, branching out into new areas, such as high tech, through joint projects on Earth observation satellites. This was accompanied by significant friction, which is understandable in the early stages of relations. As such, neither blind optimism nor a refusal to deepen this link is warranted in attempting to understand Sino-Brazilian cooperation. In view of the critiques and extreme stances, it is essential to take a rational approach to the issue and analyse the difficulties to foster mutual benefit.

Although this study aims to present an impartial and objective assessment, possible constraints exist and must be mentioned. The authors reside in China, which could lead to some bias in the study, based on the public opinion and culture of that country. In fact, although the article carefully considers both the cultural differences that underpin the economic problems as well as dissimilarities in social aspects, its comments and conclusions could unconsciously reflect the national interests of China. The authors are also more familiar with China than with Brazil, and consequently could be presenting an incomplete view of Brazilian politics and society. Despite these factors, this analysis of the subject should foster discussion to arrive at a robust academic approach that makes real contributions to South-South cooperation.

## II. Methodology

In this study, South-South cooperation is understood as an intergovernmental mechanism that aims to foster constructive agendas among developing countries through the exchange of goods (primary, semi-manufactured and manufactured), capital and technological know-how for mutual progress and

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<sup>2</sup> In this study, industrialization is defined on the basis of growth in the industry share of gross domestic product (GDP), growth in value added, and the technological sophistication of output.

shared development. Although its original purpose was to establish equitable horizontal interactions, developing countries vary widely in their economic development, social structures, political systems, values and ideologies. Most countries also face domestic problems, such as weak rule of law and governance, economic imbalances and a lack of social cohesion. All these factors affect companies' behaviour in cross-border operations and in the business environments of host countries. According to some segments of the Brazilian population, the rapid advance of cooperation jeopardizes their material interests. However, this perspective provides only a simplistic and limited vision of a link with innumerable facets. In reality, these complaints or questions, rather than being purely underpinned by concrete issues, also reflect other factors, such as a lack of a sense of identity, worries about Brazil's own development model, stereotypical impressions of China or a combination thereof. As such, when Jair Bolsonaro was President of Brazil, his position on trade with China was largely a reflection of the sentiments of his supporters.

### III. The Bolsonaro government's ambivalence regarding the relationship with China

In October 2018, during his presidential campaign, Jair Bolsonaro began to express misgivings about developing partnerships with Beijing, going so far as to say that the Chinese were not only buying in Brazil, but were "buying Brazil" (Reuters, 2018), a statement that foreshadowed the possibility of tension in the two countries' relations if he were elected. Although Bolsonaro moderated his discourse after taking office, he kept a distance from the Chinese presence in Brazil in a bid to establish closer ties with the administration of Donald Trump. For example, with regard to the implementation of fifth-generation (5G) mobile networks, the President of Brazil, in an address broadcast over the Internet on 11 June 2020, said that sovereignty, data security and foreign policy would be taken into account in that process (Paulino, 2020, p. 162). He then, however, decided to accept a US\$ 1 billion loan from the United States to procure equipment from Telefonaktiebolaget LM Ericsson and Nokia (Martello and Mazui, 2020) and excluded Huawei, a Chinese company that has been operating in Brazil for more than 20 years and owns 35% of the country's telecommunications infrastructure (Trevisan, 2020). The decision contrasted with that of Brazil's neighbour, Argentina, which decided to include Huawei in its own 5G project owing to the company's competitive prices (Garrison, 2019).

On the trade front, Ernesto Araújo, Minister for Foreign Affairs in the Bolsonaro government, was in favour of disengaging from China, claiming that there would be no repercussions for Brazil from the change of stance. From his perspective, given that China's main food suppliers were the United States, Brazil and Australia, if all three united to support Donald Trump, the Chinese would have no choice but to continue importing from those countries (Paulino, 2020, p. 162). Even the coronavirus disease (COVID-19) pandemic created diplomatic incidents. Federal congressman Eduardo Bolsonaro, son of the then President of Brazil, who was a key member of the Foreign Affairs and National Defence Committee of the Brazilian Congress, blamed China for the crisis in a social media post on 18 March 2020 (Phillips, 2020).<sup>3</sup> Ernesto Araújo also said in his blog that addressing the coronavirus was not enough, and that the "virus of communism" would also have to be confronted (Araújo, 2020).

<sup>3</sup> That same day, Yang Wanming, China's ambassador to Brazil, responded in a social media post that China vehemently condemned the congressman's remarks and demanded that he immediately withdraw them and apologize to the Chinese people. In response, Rodrigo Maia, President of the lower house of Brazil's Congress, swiftly posted an apology to China and to the ambassador on behalf of the lower house, on the same social media platform. China condemned the remarks of Ernesto Araújo and demanded a personal apology from Eduardo Bolsonaro to the Chinese people (see BRICS, "Brazilian President's son creates diplomatic crisis between Brazil and China", 24 March 2020 [online] <https://infobrics.org/post/30605>).

Despite the hostile rhetoric, there was rather more continuity than rupture with China during the Bolsonaro government, as seen in its indecisive and moderate policies. In March 2019, just two months after taking office, Bolsonaro announced a trade mission to China. He said that he was looking forward to the visit, since China was his country's main trading partner and he was interested in strengthening relations and exploring new horizons. He added that, to a great degree, Brazil and China were mutually dependent (Verdélío, 2019). In spite of his remarks on the campaign trail, during his meeting with Chinese President Xi Jinping, the President of Brazil invited Chinese companies to participate in an auction of oil and gas concessions the following month (Verdélío, 2019; Vidal Ly and Gortázar, 2019). In the end, China National Offshore Oil Corporation and China National Oil and Gas Exploration and Development Company were the only foreign bidders. During the trip, Bolsonaro also visited several firms to seek investment and signed 25 agreements and memorandums of understanding in the areas of technology, education, commerce, energy and agriculture, among others. At the eleventh summit of the countries in the BRICS group (Brazil, the Russian Federation, India, China and South Africa), held in Brasília in November 2019, Bolsonaro welcomed Xi Jinping and remarked that China was an ever greater part of Brazil's future (Mazui, Barbiéri and Rodrigues, 2019). The two leaders signed a series of agreements on infrastructure, agriculture, livestock and energy (Mendes and Zaia, 2019). During the China-Brazil Economic Development Strategic Dialogue held the same year in July, Brazilian Foreign Minister Ernesto Araújo had said in a meeting with his Chinese counterpart Wang Yi that he expected China to have a greater presence in infrastructure tenders in Brazil, through both bilateral investments and initiatives financed by the New Development Bank of the BRICS countries (*EFE*, 2019). In addition to these visits, in 2019, the two countries re-established the Sino-Brazilian High Level Commission for Coordination and Cooperation (COSBAN), co-chaired by their vice-presidents, with six meetings having been held by 2022. Following the election of Joe Biden as President of the United States, disputes between Brazil and the United States on climate change and environmental issues prompted the Government of Brazil to seek closer ties with Beijing.

The Bolsonaro government actively promoted the formalization of exchange with China, while simultaneously speaking critically of the Chinese presence in Brazil. In a *Global Times* article published on 20 March 2020, Zhou Zhiwei, Executive Director of the Latin American Institute of the Chinese Academy of Social Sciences, said "the current Brazilian government is a close follower of the Trump government ideologically, but they are opportunistic and a double dealer in terms of cooperation in the field of economy and trade with China" (Wang and Lu, 2020). The ambivalence of the Government of Brazil appears to reflect the country's dilemma over the growth of trade with China: it sought to develop through its interactions with China but was struggling to find an appropriate way to benefit.

## IV. Achievements and challenges of Sino-Brazilian cooperation in the twenty-first century

In the twenty-first century, a series of government protocols have formed the programme of action for Sino-Brazilian cooperation. The main drivers of rapprochement were economic necessity, complementary comparative advantages and a desire for equitable exchange between developing countries.

### 1. A brief overview of Sino-Brazilian relations and the successes of the twenty-first century

By the twenty-first century, China's membership in the World Trade Organization, which it joined in 2001, and the policies set by the Workers' Party in Brazil had established a solid foundation for the rapid development of trade between these two emerging powers. Fostered by both governments,

bilateral trade grew by an annual average of 30% in the 2000s, and by 2009, China had displaced the United States to become the number one destination of Brazilian exports. Although conditions were less favourable in the second decade of the century, bilateral trade continued to grow. According to a World Bank report, the value of Brazil's exports to China grew from US\$ 35.608 billion in 2015 to US\$ 63.358 billion in 2019 (WITS, n/d a). Between 2000 and 2021, Brazil registered a trade surplus with China 17 times and deficits were only recorded in four years: 2000, 2007, 2008 and 2011. In 2019, the Brazilian surplus topped US\$ 28.1 billion, a gap that continued to widen until exports to China became one of the main sources of income for the country amid a full-blown economic recession (WITS, n/d b).

Foreign direct investment also reflected unprecedented growth, especially after 2015, when Brazil became the region's main destination for cooperation projects following the establishment of the China-LAC Industrial Cooperation Investment Fund. That year also marked the beginning of a period in which tough economic conditions prompted the sale of assets by Brazilian companies, an opportunity that some Chinese companies seized to accelerate their entry into the local market. In 2016, Chinese mergers and acquisitions in Brazil amounted to US\$ 4 billion (Zhou, 2019). Investments were increasingly diversified into areas ranging from minerals to manufacturing, especially in the machinery and automotive sector, later progressing to the services sector, mainly through Chinese banks' presence in electricity production, generation and distribution. In 2019, rising protectionism around the world and growing trade tensions between China and the United States triggered a drop of 8.2% in non-financial foreign investment by China compared to 2018 (Reuters, 2020), but the value of Chinese investments in Brazil grew substantially and, for the first time, the northeastern part of the country became the top destination for projects (34%). The following year, investment plummeted, owing mainly to the outbreak of COVID-19. By 2022, more than 200 Chinese companies were operating in Brazil. In contrast, Brazilian manufacturing companies entered China mainly through joint public-private ownership, seeking to explore the global market with Chinese partners, as in the case of refrigeration equipment produced by Embraco, airplanes manufactured by Embraer and the steel products of Vale do Rio Doce, for example.

One of the most important strategic areas for Sino-Brazilian cooperation, other than economic affairs, has been science and technology, in an example of South-South cooperation which, to date, has no equal in any similar project between developing countries. Cooperation in this area dates back to 1982 when China and Brazil signed the Intergovernmental Science and Technology Cooperation Agreement, but there was no real progress until the signing in 1998 of the Protocol on approval of research and production of the earth resources satellite (for the launch of the China-Brazil Earth Resources Satellite (CBERS) programme), under which it was agreed that the first satellite would be launched a year later. Since then, the study of space has been a priority for scientific cooperation between Brazil and China. The successful launch of five satellites (CBERS-1, -2, -2B, -2C and -4) ended the dependence on developed countries in the domain of aerospace and conclusively demonstrated the potential of high-tech cooperation among developing countries (Zhou, 2019).

Fruitful exchanges also took place in the areas of hydropower, transport, agriculture, livestock and biomedicine, among others. In 2012, both countries signed the 2012–2021 Ten-Year Cooperation Plan, which expanded on the 2010–2014 Brazil-China Joint Action Plan. Under the Ten-Year Cooperation Plan, research centres and laboratories would be created to study climate change, energy, agriculture and nanotechnology. Cooperation on projects involving satellites, hydropower construction and the services supply chain meets a real need and implies that the parties have complementary resources. In that regard, the Brazilian ambassador to China at the time, Sérgio Serra, said that science and technology cooperation was essential for a strategic partnership between Brazil and China (Zhou, 2019). In his opinion, Brazil was truly demanding that relations go beyond mere trade to encompass the possibility of cooperation in areas such as space, hydropower construction and service provision (Zhou, 2019).

As a model for South-South cooperation, Sino-Brazilian exchanges advanced under the framework of intergovernmental agreements with staunch support from both countries for their measures. When the Prime Minister of China, Wen Jiabao, visited Rio de Janeiro in 2012, the two governments agreed to establish a strategic global partnership. Two years later, while visiting the country, President Xi Jinping proposed in Brasilia that China and Latin America and the Caribbean build a community with a shared future. In 2015, the first Ministerial Meeting of the Forum of China and the Community of Latin American and Caribbean States (CELAC) was held in Beijing, at which China proposed the 1+3+6 mechanism<sup>4</sup> for comprehensive cooperation. It included a series of financial support policies and institutions, such as the China-LAC Cooperation Fund and the Special Loan Program for China-Latin America Infrastructure. Brazil, the largest country in the region, is undoubtedly a key partner in advancing these projects.

## 2. Perception of the imbalance in bilateral relations

As in many cases of South-South cooperation, trade between China and Brazil is shaped by the comparative advantages of each country: Brazil's abundance of natural resources and China's relative leadership in the manufacturing sector, by their nature, have led to a trade imbalance. Currency appreciation and the clearly widening trade surplus prompted a fear in Brazilian society of the possibility of "Dutch disease".<sup>5</sup>

Complementarity in commodities, based on China's huge demand and Brazil's large supply, has driven trade. Between 2000 and 2020, the share of Chinese agribusiness imports grew from 2% to 35% of the Brazilian export basket (Jank, Guo and Miranda, 2020). In 2013, China displaced the European Union as the number one buyer of Brazilian agricultural products, although other products were also traded. The top products were soybeans, iron, oil, beef and pork, wood pulp, chicken, cotton and copper, so much so that in 2018, the first three accounted for 81.8% of Brazilian exports to China (Paulino, 2020, p. 169).

The soybean trade illustrates this trend of concentration. In 2002, purchases from Brazil accounted for 35% of China's soybean imports, a share that had reached 77% by 2019, almost two decades later (Gale, Valdes and Ash, 2019, p. 19). While this increase was partially driven by external factors, such as the reduction in China's purchases from the United States owing to trade tensions, the rise in commodity prices boosted Brazilian exports (Duarte, 2018). In the technology sectors, China has a clear comparative advantage. Almost 100% of Brazilian imports from China are manufactures. The top products include telecommunications equipment, valves and thermionic tubes, platforms and floating structures, organic and inorganic compounds, electronic and circuit protection devices, accessories for data-processing machines, and drugs and pharmaceuticals (Varejão, 2021).

Chinese companies are also gaining ground in high-tech sectors such as artificial intelligence, value chain digitalization and live streaming. Like trade, investment is also concentrated in specific sectors (although diversification is gradually increasing) and two-way exchanges are extremely unbalanced. Until 2020, the six largest Chinese corporations operating in Brazil were all State-owned and active in the energy and infrastructure sectors: State Grid Corporation of China, China Petroleum and Chemical Corporation, China Three Gorges Corporation, China National Petroleum Corporation, China National Offshore Oil Corporation and Sinochem International Corporation (Zhou, 2019). Between 2007 and 2020, the Brazilian electricity sector attracted 48% of Chinese investments in the country, followed by oil extraction (28%) and mining (7%) (Cariello, 2021). Looking at the number of projects, Chinese

<sup>4</sup> In the naming of the 1+3+6 mechanism, 1 stands for an inclusive growth and sustainable development programme; 3 refers to the three drivers comprising the promotion of cooperation, trade, and financial investment and partnerships; and 6 alludes to the six priority areas: energy, infrastructure, agriculture, manufacturing, scientific innovation, and computer technology (Cui and Zhou, 2019).

<sup>5</sup> In the 1960s, foreign currency flooded into the Netherlands following the discovery of large deposits of natural gas. The Dutch currency appreciated, making exports from other sectors less competitive. Ever since, the term "Dutch disease" has been used to refer to a crisis created, paradoxically, by a large influx of foreign currency.

investments are more evenly distributed, with 31% in the electricity sector and 28% in manufacturing, followed by areas such as information technology and agriculture, at 7% each, and financial services, at 6% (Cariello, 2021). Conversely, investment is relatively limited: the Brazilian Association of Chinese Enterprises has approximately 60 members and almost a dozen companies have industrial units in China (Paulino, 2020, p. 166).

With cooperation, the benefits to the population vary (somewhat) based on the relationship between the sector in question and the exchanges with China. For example, agriculture, in which mostly low-income groups and owners participate, probably reaps the greatest benefits from exports to China, which is why this population has a good understanding of the importance of protecting the partnership and customer relationship with the Asian country. Indeed, the Brazilian Minister of Agriculture at the time, Tereza Cristina, actively promoted the normalization of relations with China, aiming to introduce greater nuance into the discourse of President Bolsonaro. From her perspective, any provocation related to issues such as 5G or COVID-19 would harm agricultural productivity, a major source of revenue during the pandemic. In an interview with Xinhua, the main news agency in China, she said that Brazil would remain a trustworthy partner for China (*Xinhua*, 2019). Her attitude contrasted with the ambivalence expressed by those in some sectors, mostly manufacturing or technology-related, who felt threatened by the competition.

In turn, the redistributive policies of the Workers' Party government have also complicated the public's perception of the effects of the trade imbalance with China. Under the win-win model, China would get the resources it needs for its development, while the income flowing to Brazil could reduce external constraints and stimulate growth. However, in practice, that goal has only been partially achieved. In the first 15 years of the twenty-first century, a period of unprecedented growth, the presidents of Brazil, who belonged to the Workers' Party, implemented a series of social projects to benefit low-income groups, using national income as a source of public investment.<sup>6</sup> They achieved steady economic development and managed to reduce poverty from 30% to 15%.

However, new social problems emerged. Between 2001 and 2015, although the cumulative per capita income of the Brazilian population grew by 56%, distribution was uneven: low-income groups and the top 1% reflected remarkable increases of 72% and 69%, respectively, in contrast with the middle-income segments, who reaped relatively lower gains from development dividends and whose income grew by only 42% (Alvaredo and others, 2018, pp. 143–144). A sense of deprivation gave rise to the idea of an “exclusive populism” in Brazil, which culminated in the election of Bolsonaro as president (Gethin and Morgan, 2018, p. 7).<sup>7</sup> This partially explains Bolsonaro's rhetoric of mistrust regarding cooperation between Brasilia and Beijing.

Another notable aspect from the perspective of China is the social psychology of the Brazilian people: there is a relative lack of identity among social groups owing to factors such as a wide social gap, the corporatist tradition and a low level of racial integration. In other words, each sector's understanding of cooperation with China tends to spring from its own circumstances and interests rather than from a collective, integrated perspective. In this regard, the benefits derived by certain ethnic groups or sectors do not necessarily translate into greater approval by others, unlike in Chinese society, where consensus between social groups is easier to attain, perhaps because of a relatively monocultural tradition and cohesive national identity. This difference is a cultural barrier that makes it difficult for Chinese people and their South American partners to understand each other, regarding the dissatisfaction over trade, despite the surplus.

<sup>6</sup> Examples include the *Bolsa Família* programme and the Growth Acceleration Programme.

<sup>7</sup> A survey conducted in the context of the 2018 presidential election showed a lack of consensus on the country's future. Voters' demands were closely tied to their socioeconomic position: most low-income segments continued to support the left, with 53% of people expressing concern over a number of issues, especially jobs and medicines. In contrast, 55% of middle-income voters and the elite felt that issues such as education, security and corruption were more pressing, and expressed a desire for change in the country (Gethin and Morgan, 2018).

## V. Possible solutions to the current dilemma

Since the lack of balance in Sino-Brazilian cooperation reflects a multidimensional structural problem that extends to both countries and is even shaped by international factors, the likelihood of overcoming it over the short to medium term is slim. This paper advocates for increasing technology transfer and situating more Chinese companies in Brazil as two possible solutions, while acknowledging that they are insufficient to address the problem in its entirety.

### 1. Fostering technology transfer within investments

The most important step towards balancing trade between the two countries is to enhance Brazil's comparative advantages in the manufacturing and high-tech sectors. However, success will mainly hinge on domestic industrial policy and support measures. In other words, as an independent cooperation stakeholder, Brazil must plan and implement measures to make optimal use of cooperation resources, in keeping with its interests.

Promoting technology transfer can contribute to collective development through the pooling of stakeholders' resources (such as capital, personnel, technology and market knowledge), as shown by the fact that many pioneering companies have entered Brazil through joint ventures to compete in the market. In 2016, Chinese company TCL and SEMP, a leading Brazilian appliance company with more than 70 years of experience in the local market, established TCL Brasil. For five consecutive years following its establishment, this joint venture held one of the top three spots in the Brazilian market for televisions. The company's market share continued to expand even through the lean years of the COVID-19 pandemic, rising to 15% in the first seven months of 2021, while running the gauntlet of integrated circuit and screen supply shortages, insufficient sea cargo capacity and a fickle Brazilian consumer market (Luo, 2021). In May 2022, the company opened its third factory, a 34,000 m<sup>2</sup> plant located in Manaus (in the State of Amazonas) that produces air conditioners and employs more than 1,000 local workers (Fórum Macao, 2022). According to the company's Vice-President, Felipe Hennel Fay, the outstanding performance of this joint venture can be attributed to many factors, including technological advantages, the transnational corporation's supply chain, and above all, knowledge of and integration into the local market, which enabled it to offer economical manufactures to Brazilian consumers (Luo, 2021). The presence of TCL in Brazil is not a one-off. Many Chinese manufacturers, including Jialing Motorcycle, Sany Heavy Industry, Gree Electric Appliances and JAC Motors, launched production in Brazil over the same period.

In 2015, with funding from the China-LAC Cooperation Fund, China Three Gorges Corporation placed the winning bid in the auction for a 30-year concession to operate the Ilha Solteira and Jubia hydroelectric power stations. Under the agreement, all production in 2016 would be sold to the regulated market, with projected revenue of 2.38 billion reais for the year (Jiang, 2016). From 2017 onward, 30% would be sold on the free market at a price adjusted for annual inflation. With the technology of the Chinese company, both power stations began recovering, and in 2019, four new units were installed following a series of tests. Notwithstanding the disputes that arose during their construction and operation, these projects have proven essential in a country where infrastructure deficits continue to shape local economic development.

The Government of Brazil has also embarked on a process of reindustrialization in recent years. In a 2022 interview, Paulo Alvim, Minister of Science, Technology and Innovation of Brazil, said that devising a new reindustrialization policy, through a new strategy and by repositioning the country as a global competitor, was its greatest challenge (*Xinhua*, 2022). Fostering high-quality investment and

promoting technology transfer must now be deemed essential to achieve this objective. Discussing the subject could create new opportunities for trade between the two nations, which, as developing countries, have similar experiences and shared development objectives.

Chinese executives with experience in the Brazilian market agree on the importance of adapting to local management practices and understanding the cultural context of their partners, and on the need to overcome the obstacles arising from an unfavourable political environment. For Brazil, further reducing political barriers and guiding Chinese companies in transnational operations is key for securing investment and high-quality technology transfer. Chery, a well-known Chinese automobile manufacturer, entered the Brazilian market in 2009 and established its production base in the country. In September 2011, the government announced a 30% tax hike on automobile imports (Lu, 2012). Under the new policy, Chery had to lower its 2013 sales target from 80,000 to 50,000 units, and it faced significant challenges in the ensuing years owing to the economic and political crisis. In 2015, it sold 5,400 vehicles in Brazil, a year-on-year decline of 42%, and in 2016, sales fell to 2,160 units, down 63% from the year-earlier period (Yang, 2017). In addition to the company's operational deficiencies, the director commented that taxes on automobiles in Brazil, including those on costs, tariffs and VAT, consumed up to 40% or even 50% of the profits from sales, a situation compounded by the company's limited access to financing and high infrastructure and logistics costs (Yan, 2013). In 2017, Chery partnered with Grupo CAOA (the country's largest vehicle manufacturer and dealer), selling 50% of its Brazilian operations to the group and placing its plant in São Paulo under joint administration to manage local risks.

In other cases, companies' failures forced them to leave Brazil. China Communications Construction Company began operations in November 2016, with plans to implement a series of large projects, such as the construction of a megaport in São Luís with export capacity of 10 million tons per year; a railway line in the State of Pará, which would connect the iron ore-producing areas of the Amazon with the country's ports; and the 12-km-long Salvador-Itaparica bridge. Half a decade later, none of the projects had been completed. In a 2019 press release, the company cited labour laws, a complex tax structure and cultural challenges as the likely main obstacles (Grisotto, 2022). In 2021, the Chinese State-owned company announced that it was withdrawing from the megaport project and selling its stake to a Brazilian company, and it showed no interest in other large tenders in the country that year. Speaking with the newspaper *Valor Econômico*, Helder Dantas, then Managing Director of the corporation, mentioned how difficult it was to explain the excessive red tape in Brazil to his Chinese colleagues (Grisotto, 2022).

## 2. Situating more Chinese companies in Brazil

Another viable solution is to encourage Chinese companies to integrate into local communities, or in other words, to establish operations there. In this area, business gain is obviously the main incentive for transnational companies to operate in a socially responsible way. In fact, some Chinese companies with a long-term vision for their operations in Brazil are already establishing contact with local communities, despite the difficulties and differences that can arise in those interactions.

At the end of the twentieth century, Jialing Motorcycle entered the Brazilian market with its own brand, TRAXX Motos, and in 2006, established a factory in Manaus. The initial contact between Chinese and Brazilian colleagues revealed some discord in their working methods, owing to a lack of awareness and cultural differences. Chinese workers, who were more accustomed to an intense pace and collective action, had to work with local colleagues who, in their view, were more individualistic and relaxed in the workplace. However, the company improved its management practices, and following intense outreach campaigns, managed to get local workers on board. By 2021, the factory had more than 500 employees, with only 3% from China (Zhang, 2021). According to Jiang Yonghong, the chief

engineer of TRAXX, unlike the Chinese workers, who were in direct communication with the technical department of the head office in China, the Brazilian workers focused on logistics, sales and procurement owing to their familiarity with the local culture (Yan, 2013). He said that since the company had local partners in many outward-facing roles, such as after-sales service, cultural barriers had to be overcome strategically, with sensitivity to the local context, in addition to seeking professional support from consultants. As part of its localization process, the Chinese company also had to learn a lesson, after paying for its lack of awareness during the annual union- and government-led evaluation of workplace conditions and safety. Following a number of disputes, the company understood the importance of obtaining the certificate to avoid the fines levied because of health issues that could be attributed to working conditions (Yan, 2013).

Another notable case is the experience of Gree, a company that had been operating successfully in Brazil for 20 years and had production facilities in 24 States. The head office of the conglomerate, which is China's largest manufacturer of air conditioners, is located in Zhuhai, a city in the province of Guangdong. It entered the Brazilian market as a company with a wholly-owned subsidiary, and after setting up its first factory in Brazil, faced union protests because it was unfamiliar with local laws and failed to adjust salaries for annual inflation (Duan, 2021). To foster integration, the company set out to create an inclusive work culture that aligned with local customs. In a break with Chinese tradition, which prizes individual sacrifice for collective benefit, the administrative rules were amended to grant holidays on certain dates, including for football matches, visits to the head office in China, birthday celebrations and language lessons. The company also tried to address the concerns of the local population on issues such as energy and environmental conservation and the company's contribution to local government. All efforts sought to strengthen mutual understanding so that both parties could settle their differences and work together. Different needs were also coordinated to meet trade objectives, the business priority. The company also explored different ways of boosting productivity to stay competitive: at the Manaus factory, qualified workers were offered an attractive salary and quality of life, while strict compliance with labour requirements was also demanded. In an interview, the company's General Manager, Xie Dongbo, said that in addition to technology, localization was another recipe for breaking into the Brazilian market, noting that while his company was doing business in Brazil, it also sought to benefit the local economy and people (Zhang, 2017).

## VI. Conclusion

Grounded in the benefits for both parties, Sino-Brazilian cooperation has advanced considerably in the twenty-first century, strongly supported by both governments. Its achievements should not be underestimated. The realization of projects met the needs of both parties, not only generating profits and jobs but also modernizing infrastructure. As bilateral trade progressed, the interdependence of China and Brazil increased, in line with the inexorable trend of global convergence. According to the 2021 annual report of the Central Bank of Brazil, more subdued economic growth in China and higher domestic interest rates stemming from inflation were detrimental for exports (BCB, 2022, p. 10). However, on the science front, five satellites were launched, an achievement for cooperation among developing countries.

While trade and communication are progressing rapidly, there have also been frictions and disputes between the two partners. A trade imbalance and the consequent risk of economic "reprimarization" in Brazil became a worrying trend. In that regard, the Bolsonaro government's bias against China reflected a frustrated desire to restore Brazil's global competitiveness. These concerns can be addressed, but furthering cooperation essentially depends on the economic structures of

each country, their own economic planning and the State's industrial policies. Accordingly, the risk of “premature deindustrialization” in Brazil cannot be attributed to trade with China, but rather reflects a broader decline in the global economic competitiveness of Brazil's industrial sector.

Although cultural differences, the potential obstacles to mutual understanding and the imbalance in comparative advantages are problems that have no short-term solutions, development plans and industrial and trade policies depend on the will of those who formulate them. Each State, with full autonomy and sovereignty over its domestic affairs, must take responsibility for its own development, regardless of other stakeholders. Well-defined strategic development plans, well-designed and complementary industrial policies<sup>8</sup> and a programme to execute them will be determining factors in the process of industrialization (Salama, 2012, p. 22).

In the short and medium term, both the governments and companies of each country can take steps to mitigate the negative effects of the problems that have arisen. Case studies have shown that the intergovernmental agreement has established a cooperative framework within which companies operate. Trade benefits have also been the greatest incentive for companies to continuously reform their cross-border operations. With almost 212 million people, the Brazilian market is attractive enough to motivate Chinese companies to find ways to overcome difficulties and seek good relations with the State and the local population. In fact, as they look to the future, many Chinese companies are attempting to gain a foothold in the Brazilian market, although not all have succeeded. From the Brazilian side, the government must determine how to lead cooperation, through policies that can guide transnational companies in meeting strategic national objectives (e.g. economic restructuring and reform of the development model). Although the task is complex, Brazil must rely on its own strengths to accomplish it. For Brazilian firms, a key challenge will be to strategically leverage their competitive advantages to strengthen their presence in the Chinese market, and where relative disadvantages exist, efforts must focus on enhancing competitiveness through technology transfer or other mechanisms.

Optimism should prevail over the questions regarding Sino-Brazilian relations. South-South cooperation is more complex than North-South or North-North cooperation, insofar as the countries of the South have domestic problems, such as unbalanced economic development, an imperfect rule of law, weak governance and deep-seated social conflicts, which hamper the smooth flow of trade. This is compounded by stereotypes and a lack of mutual understanding, the result of scant prior contact and the lower status of developing economies in global cultural communication. Historical knowledge gaps and cultural differences may intensify conflicts that emerge at the operational level. In that regard, as a precursor of South-South cooperation, Sino-Brazilian relations are still in a “trial and error” phase, and bilateral trade friction should therefore be approached with calm and rationality. The desire of both countries for development will provide a strong foundation for dialogue and understanding: emerging from the periphery of the global economy, achieving an equal voice on the international political stage and promoting equity and social justice at home are shared objectives.

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<sup>8</sup> For example, monetary policy, interest rates, quotas and subsidies are all extremely important for achieving growth that is compatible with industrialization.

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