Asian Journal of Latin American Studies (2011) Vol. 24 No. 2: 69-89

China's Natural Resource Appetite in Brazil*

Sigfrido Burgos Cáceres**
United Nations, Italy

Sophal Ear
U.S. Naval Postgraduate School, USA

Burgos, Sigfrido and Sophal Ear (2011) "China's Natural Resource Appetite in Brazil"

ABSTRACT

This essay deals with the many connections between Brazil and China, as it examines the fundamental drivers of this accretive friendship. Brazil, like China, is a rapidly growing economic giant with a large resource base. Brazil has experienced an average growth of 7 per cent and China of 10 per cent. These growth rates require large amounts of energy sources, natural resources and raw materials. Both countries are positioned to benefit from increased rapprochement: China needs Brazil to supplement its rising commodities needs, and Brazil needs China to finance its industrial and manufacturing investments. Today, China is Brazil's leading trade partner, replacing the United States and emerging as a viable ally at a time of waning hegemonic control. As large oil deposits lie 150 miles off the Brazilian coast, China is attentive to Brazil's wishes, as well as to its desires to rightly develop the trillion dollar oil boom that is currently taking place.

Key Words: Brazil, China, resources, oil, international relations

INTRODUCTION

China is currently the world's biggest energy user, the world's fastest growing market for automobiles, and the world's second-largest consumer of oil, having emerged as America's strategic competitor in its search for natural gas, crude oil, and minerals throughout the world, most notably in Africa,

---

* The views expressed herewith are those of the authors and do not reflect the views of the Food and Agriculture Organization of the United Nations, nor do they reflect the views of the Department of the Navy or the United States Government.

** Sigfrido Burgos Cáceres is unit coordinator of the Food and Agriculture Organization of the United Nations. Sophal Ear is assistant professor of national security affairs at U.S. Naval Postgraduate School. Direct correspondence to Sigfrido Burgos Cáceres (sigfrido.burgos@fao.org).

Central Asia, the Middle East, and Latin America (Jaffe and Lewis 2002; Zweig and Jianhai 2005; Kreft 2006; Lo 2008). Beijing seeks to increase its access to vast reserves of natural resources to feed its rapidly growing manufacturing and industrial sectors. In particular, China has been on a worldwide search to secure more iron-ore mines and mineral supply channels (Downs 2006; Kreft 2006).

For a decade, China's economy has grown at around 10 per cent annually based on low-cost labour, an undervalued currency, protected state-owned companies, and successful penetration of consumption-oriented Western markets (Naughton 2007; Friedman 2008). The figures speak for themselves: the gross domestic product (GDP) growth in the last seven years was 10.1 per cent; 9.9 per cent; 11.1 per cent; 11.4 per cent; 9.0 per cent; 8.7 per cent from 2004 to 2009 respectively, and an estimated 9.5 per cent in 2010 (National Bureau of Statistics of China 2010; Editorial 2009; 2010a; 2010b; 2010c). China accounts for 40 per cent of global growth in oil demand in the last six years, and its consumption is projected to rise from five million barrels per day in 2009 to 13 million barrels a day in 2015. Most of this oil demand will need to be imported given that indigenous sources are not sufficient to support the level growth experienced (United States Department of Energy 2010).

In view of this evolving situation, Beijing tries to outwit big international resource companies by aggressively seeking out potential deals in countries that, for the most part, would benefit greatly from a steady and long-term demand for their commodity exports. Furthermore, Chinese resource-oriented companies enjoy government help that, when needed, can tap into government aid in the form of grants and low-interest loans to secure major deals (Forero 2005). These companies pursue a combination of market and strategic objectives, rather than relying solely on commercial ones (Delamer et al. 2004; Downs 2006).

Latin American countries, in recognition of Chinese needs and of Beijing's explicit interests in the region, are exploring cooperative arrangements with China in the fields of agriculture, energy, infrastructure, manufacture, mining, and science and technology. According to the most recent report by the Economic Commission for Latin America and the Caribbean (ECLAC), by the middle of 2011, China will displace the European Union as Latin America's second-largest trading partner. Today, in early 2011, China has replaced the United States as Brazil's leading trade partner. Specifically, within Latin America, Brazil is playing not only a regionally but also a more globally assertive role, and this demeanour, some observers say, is nothing new given its economic and social growth (Williamson 2003).

Throughout the first decade of the twenty-first century, Brazil has continued to consolidate its position as the most influential actor in South America without raising any sort of hegemonic suspicions. This assertiveness and influence is partly explained by Brazil's young, vibrant, multicultural, and reasonably educated population (Skidmore 2009) that offers perennial promises for economic development and social progress; as does the country's vast deposits of oil, gas and minerals, forests, and soybean plantations.

The foreign perception is that Brazil is emerging as the "country of the future", a nation-state that, if it continues on the steady improvement track, is poised to replace Germany as the world's fifth largest economy by 2016 (Editorial 2010d). Former President Luiz Inácio Lula da Silva certainly believed this to be possible. He travelled around the country inaugurating projects and giving talks at conferences, forums, symposiums, and political gatherings telling constituencies that this was indeed so. To Brazil, at this moment, successfully managing the ongoing economic boom is a priority, as in the past it has unintentionally squandered its vast potential to grow and reach great-power status.

In general, South America has a history of producing and exporting oil for more than a century, with most of its shipments flowing north, to the United States; but as globalization strengthened in the 80s, shipments started to find other destinations. As international energy markets homogenized the range of players buying and selling resources, countries like Brazil were able to place their oil at the disposal of China, or India, or any other country willing to buy oil (House International Relations Subcommittee on the Western Hemisphere 2005). It is for this reason that, in recent years, China's voracious economy has brought it to Brazil and much of South America – searching energy sources, raw materials and vast natural resources.

China, though, is not just interested in Brazil. According to Inter-American Development Bank officials, China's foreign direct investments in the region include Argentina, Bolivia, Brazil, Chile, Ecuador, Mexico, Peru, and Venezuela. To be sure, in Beijing there is no such thing as rapprochement 'exclusivity'. Much of South America has become crucial to China's need for additional natural resources, raw materials, and more markets for its products. This focused interest can be partly explained given that the region hosts 560 million consumers and a combined gross domestic product of US$4 trillion. For example, China is interested in copper, nickel and tin from Chile, natural gas from Bolivia, oil from Ecuador and Venezuela, and precious woods from Colombia. As a sub-sector, mining is among China's top priorities. In fact, so relevant is China's nascent presence in the region that in response to Beijing's direct requests, Argentina, Brazil, Chile, Peru, and Venezuela have conferred on China the status of 'free-market economy' thereby strategically decreasing the potential impact that anti-dumping measures may have on inexpensive Chinese imports (Thompson 2004; Coatsworth and Williamson 2004; Editorial 2005).

To give an idea of China's strategic interests in the region, between 2000 and 2007, China's trade with Latin America grew tenfold and reached US$142 billion in 2008. This amount is 4.7 times less than America's trade with the region, which in 2008 reached US$667 billion. Moreover, in 2008, the Chinese President Hu Jintao visited South America as part of a country-hopping travel schedule with a dozen government minister and hundreds of businessmen and industry representatives to offer, negotiate, and sign a total of 39 trade agreements and memorandums of understanding related to energy, minerals, and agricultural commodities. This tactical attention is not at all surprising: China's annual regional trade is over US$140 billion, and because Beijing's economic priorities have nothing to do with the promotion of democracy and human rights, heads of South American states are lured in by this "no strings attached" approach to doing business (Forero 2005; Brookes 2008).

Moreover, China's foreign direct investment in Latin America reached roughly US$25 billion in 2008-2009, making up 14.6 per cent of China's total foreign investments (Chinese Ministry of Commerce 2010). In 2010 alone, China invested about US$17 billion in Brazil in areas from mines to oil to manufacturing. However, Brazilian manufacturers have complained that waves of cheap imports have decimated some export sectors (Colitt 2011).

LITERATURE REVIEW AND STUDY APPROACH

Through an extensive literature review that covers an array of books, reports, working papers, essays, scholarly articles, and media sources, this paper examines some of the most contemporarily relevant Sino-Brazilian linkages and the mutual benefits that arise from them.

A number of keywords such as Brazil, China, Copper, Economic Diplomacy, Energy, Gas, International Relations, Capital Investments, Iron-Ore, Latin America, Minerals, Natural Resources, Petroleum, Raw Materials, Sino-Brazilian, and Oil were typed into Google Scholar and JSTOR to identify and select the most pertinent and robust writings on the subject from academics, commentators, doyens, experts, journalists, observers, and scholars.

The headings were carefully chosen to guide readers through the different issues explored. It asks: How is China liaising with Brazil to secure long-term purveyance of natural resources? This question guides the discussion throughout, as well as seeking to make selected linkages to issues arising in political, economic, cultural, demographic, diplomatic, social, technological, legal, regulatory, and ecological and environmental domains.

This research contributes to an increasing body of work in modern energy diplomacy from authors such as Bobo Lo, Heinrich Kreft, David Zweig, Erica Downs, Amy Jaffe, Ian Taylor, and Andrew Monaghan, among many others. This paper differs from previous studies by its take on multidimensional linkages, and how these are likely to be perceived by Europe and the United States.

The paper begins by listing accords, agreements, pacts, and treaties between Brazil and China. These details are meant to provide a sense of the depth and breadth of their mutual interests, as well as the incentives behind interstate rapprochements. This is followed by a pragmatic analysis of the numerous mechanisms and tools used to accomplish goals and objectives. A conclusion offers summary findings and tries to make sense of the contributions of this work to the understanding of interstate relations in Latin American scholarly studies.

THE BRAZIL-CHINA CONNECTION: FROM ACTIONS TO RESULTS

First, and foremost, China is Brazil's largest trading partner and biggest export market, replacing the United States. China imports large quantities of beef, chicken, coffee, orange juice, sugar, and tobacco, for all of which Brazil is the world's leading exporter. Hinged by this economic reciprocity, a strategic partnership began to take shape between China and Brazil on the basis of strong bilateral trade and other shared interests, such as energy security. Brazil is currently experiencing China's "outward strategy", as Beijing's coffers overflow with more than US$2 trillion in foreign exchange reserves. China has directed its state-owned companies to scavenge the Brazilian territory for opportunities.

In fact, according to Brazil's Central Bank, Chinese direct investment in Brazil increased to US$367 million in the first half of 2010 from US$73 million in the same period of 2009. This represents over 50 per cent rise in investments. As 2011 unfolds, there are indications that China is leveraging the protracted economic recovery around the world to 'pick and choose' energy companies at discounted prices. In an environment where foreign firms, conglomerates, and multinational corporations are starving for cash and credit market tightness, the countries with the most space to benefit are those that are sitting on piles of foreign currency reserves.

In addition to natural gas and oil exploration, Chinese investments involve a factory to manufacture oil and gas equipment, an automobile plant, a steel mill, a shipyard, and port infrastructure development. In Beijing, government officials push aggressively to invest in foreign manufacturing and the industrial sector to bolster the country's presence, its image, and its political influence. It is noteworthy that, in 2010 and 2011, Chinese companies from Sinochem

Group to State Grid Corporation of China announced deals or possible acquisitions in Latin American agriculture, natural gas, mining, petroleum, and electrical power as the nation seeks to secure commodity supplies to feed its rapidly expanding economy.

Today's China-Brazil picture differs completely from that of merely seven years ago. In 2004, China's imports from and exports to Brazil amounted to US$8.7 billion and US$3.7 billion, respectively. But even then, Beijing was already making announcements of tens of billions of dollars in energy-related deals and investments (Dumbaugh and Sullivan 2005). To place the magnitude of current Chinese investments in Brazil into context, in the first eight months of 2010, Beijing invested over US$20 billion in Brazil, ten times more than all of China's previous investment in the country. Chinese technocrats and industrialists have developed a deep understanding of Brazilian political economy. They have quickly learned the strong links between authority, people, money, respect, and political power. Armed with this knowledge –and with plenty of cash to spend- many Chinese state and non-state companies have arrived in Brazil to negotiate a modern high-speed rail construction contract, to buy huge tracts of land in order to plant soybeans and other crops, to build modern vehicle motor manufacturing plants, to realize telecommunications infrastructure, to construct high-volume steel mills, and to purchase a stake in Brazil's electrical grid system. If this continues, China is on track to become Brazil's number one investor for 2010 and 2011 (Lyons 2009).

The following examples illustrate some of the Chinese transactions in Brazil that so far have been reported by national and international sources. The East China Mineral Exploration and Development Bureau, a quasigovernmental mining entity backed by the Jiangsu province in China, signed in early March 2010 an agreement with Itaminas Comercio de Minérios SA to acquire the company along with its iron-ore mining operations in the Brazilian eastern state of Minas Gerais for US$1.2 billion. This company buyout was driven by the Itaminas mine which has an estimated 1.3 billion tons of iron-ore reserves, with mineral outputs flowing via direct railway to Rio de Janeiro's port (Mayner 2010). To place the situation in its current context, it is relevant to underscore that Brazil is a leading producer of iron-ore for regional and international markets. In fact, Brazilian mining giant Vale Minerals China Co., a competitor of Itaminas mines, expects to produce 450 million tons of very high quality iron-ore annually by 2015 (Editorial 2011).

Also, in Porto do Açu, 175 miles north of Rio de Janeiro, port workers are busy building a two-mile long pier to accommodate the mega-tankers to transport crude oil and the monumental vessels that will transport iron-ore and other minerals to China's ravenous metallurgic industries. However, the Sao Paulo State Industrial Federation claims 'unfairness' and has called on the

Brazilian government to take serious steps to stop the wave of purchases of local mining assets by Chinese companies (Editorial 2010e). This is not surprising since it is well known in foreign investment circles that Chinese state-owned companies have an edge over American and other multinational energy companies bound by internationally-mandated restrictions related to anti-corruption, accountability, bidding, and transparency that are intended to promote fair competition. It seems that, when it comes down to overseas investments, China plays by its own rules (Lyons 2009; Pomfret 2010), and this is a fact that local industrialist are holding on to press their claims with the government.

From mining we shift our focus to oil. One of the most important Chinese firms in international crude oil exploration, production, and distribution is the Beijing-based China Petroleum and Chemical Corporation, also known as Sinopec. It controls dozens of subsidiaries around the world, including the US-listed Sinopec Corp., with principal businesses in exploration, production, and trading of petroleum and natural gas, refining, and sales of petroleum products, and sales of chemicals. With production levels of 296.8 million barrels of crude oil and 293.06 billion cubic feet of natural gas in 2008, Sinopec is the second largest producer of crude oil and natural gas in China (Sinopec 2010). The other behemoth is CNOOC, that is, the China National Offshore Oil Corporation (CNOOC Limited 2010). These two corporations are active and operational in Brazil, seeking and securing as many natural resource deals as possible. More precisely, their presence in Brazilian territories is justified by the rapidly-developing trillion dollar story around oil that is estimated to raise Brazil's production levels to over 6 million barrels per day. At this level of output Brazil could easily become the third or fourth producer of crude oil in the world and a massive exporter. In the below paragraphs, we will take a closer look at these evolving dynamics.

As noted above, part of the reason for Sinopec and CNOOC presence is that Brazil's most substantial crude oil reserves lie 150 miles off the coast and a few miles beneath ocean, rock, and unstable layers of salts and geological formations. Reaching it requires the creativity and expertise of the oil industry's top companies. In fact, Brazil's national oil company, Petroleo Brasileiro SA, or Petrobras, recently discovered a colossal reserve (arguably the largest discovery of oil reserves in the past 35 years, according to preliminary estimates) of crude oil buried seven thousand metres beneath a thick layer of salt on the Atlantic Ocean floor that sparked an internecine strife among Brazilian provinces competing for their fair share of royalties (Editorial 2010f). Petrobras –Brazil's main oil producer- along with Sinopec and CNOOC have studied the feasibility and viability of joint operations in exploration, processing, and distribution of this and other oil reserves in their respective countries, and also in other regions of the world too.

Aside from direct investments by China Petroleum and Chemical Corporation and China National Offshore Oil Corporation, Petrobras received US$10 billion from the China Development Bank as a down payment on future business: both the private and public sectors are active in Brazil's investment landscapes. Also, to give a dimension of China's recent investments, both CNOOC and Sinopec offered at least US$7 billion for Brazilian oil assets and a stake in OGX Petroleo & Gas Participacoes SA of Rio de Janeiro (Editorial 2010g).

Furthermore, in the first quarter of 2010, the Brazilian government reached a binding agreement on the order of US$1 billion with Sinopec to build a natural gas pipeline that will cross Brazil. In addition to this agreement, Chinese officials are intently listening to rumours of plans to build a cross-country pipeline to transport crude oil to the Pacific where it would be loaded onto mega-tankers that are too big to use the Panama Canal. Another speculative proposal involves Colombia laying a pipeline to carry hydrocarbons to Colombia's Pacific ports for shipments to Asia (Lyons 2009; Pomfret 2010; Slater 2010). All these ideas seem favourable under a climate of high gas and crude oil prices. Whether these rumours and project proposals are true or not, for its part, Beijing prefers to deal directly with governments in oil-producing countries and to use its vast wealth to reduce the role of big foreign oil companies that have long been the traditional intermediaries (and price inflators) between oil producers and oil consumers.

To further consolidate bilateral relations and future investments, in April 2010, Brazil and China signed a joint action plan for 2010-2014 and reached agreements in several economic sectors. However, foreign investments and bilateral trade are not always smooth. For instance, in Brazil, manufacturers and industrialists have accused Beijing of dumping products in their domestic markets and this has caused an avalanche of calls to the Brazilian government to levy new tariffs on some Chinese imports. These selective demands are particularly worrisome to some Brazilian businessmen as they intend to make the most of a non-commodity boom precipitated by free and open access to old and new markets coupled with a sustained global economic recovery. Also, it must not be forgotten that Brazil has both a solid manufacturing base and a large auto industry. In fact, aviation giant Embraer, the world's third largest aircraft manufacturer, has sizeable operations in Brazil.

Additionally, several neighbouring countries (i.e. Argentina, Chile, Peru, Colombia, and others) have voiced their concerns about Beijing's conspicuously aggressive efforts to win vast access to energy reserves and mineral deposits in the region. These countries worry that China's rising presence could lead to economic manacling and neo-colonialism (Moxley 2010). More specifically, China's entry to Brazil (and Venezuela) raises anxiety among South American countries because of the fear of becoming less attractive markets to local oil-producers and, thus, more dependent on foreign oil imports at a time when international reserves remain relatively tight. On a more individual level, energy experts suspect that Chinese engineers and resource officials will use accords, agreements, deals, and pacts as a tool to learn as much as possible from Brazilian and Venezuelan heavy-oil refining technologies that for years have been adapted to local conditions: access to confidential operational information grants China more leverage and therefore more negotiation powers.

In addition to accords with Brazil, Beijing has signed investment deals with Venezuela and Peru (Erikson 2006; Romero 2010), both of which represent largely untapped markets, and is also exploring possible arrangements with Bolivia and Colombia (Lum 2009). One example can illustrate that Brazil is not unique in sealing multibillion dollar deals: in early 2010 the CNOOC, eager to expand its crude oil reserves to meet increasing domestic demand, paid US$3 billion for a 50 per cent stake in an Argentinean privately-owned oil and gas group called Bridas (Editorial 2010h). From a strictly geopolitical point of view, and in our expressed attempt to link Sino-Brazilian relations beyond economic and energy diplomacy, it is relevant to note that China supports Venezuela's military and Cuba's air defence systems, two meretricious actions that the United States is following closely.

In summary, China is driven towards Brazil by its need for privileged access to raw materials, minerals (especially of iron-ore), and hydrocarbons. Obviously, Brazil and China are both emerging market economies that share similar challenges in international markets, and these similarities inexorably link the two countries' interests. But still, some hesitation lingers. After studying the actions, behaviours, interventions, and consequences of some overseas investments by the China National Petroleum Co. and Sinopec, Brazil and others are quickly realizing that Chinese private and public companies are competing in their own turf for natural resources and market shares. And the rules of Chinese game-playing are quite different (i.e. less predatory) from the ones traditionally practiced in Latin America.

As a side note, in recent past Sinopec has been mired with allegations of unethical activity. In response, since 2007, the company requires employees to sign anti-corruption pledges, inserts anti-bribery clauses into legal contracts, and implemented an online-based corporate procurement program (Areddy 2010).

ECONOMIC DIPLOMACY IN A CHANGED WORLD: SO FAR, SO GOOD

The previous section notes that, from the repertoire of world regions tapped, Latin America is rapidly becoming a recurrent destination for China in its global hunt for energy and resources. Beijing's strategic interests in Latin America in general and Brazil in particular also highlight Washington's lack of attention towards the region. In fact, it is often said that this geopolitical disregard was further exacerbated after the terrorist attacks on the United States' soil on 11 September 2001. This benign neglect is all the more disconcerting if one looks at the region as a potential market block that has increased its purchasing power: from 2003 to 2008 Latin America enjoyed a prolonged period of healthy growth averaging 4.3 per cent with low inflation and a balance-of-payments surplus (ECLAC 2008). Moreover, in the second decade of this still young millennium, Latin America is positioned to rise as a vibrant international market and as a suitable destination for more foreign investments.

Regionally, as well as globally, the balance of power is starting to shift to countries like Brazil whose political clout and economic weight has grown considerably in recent years. For example, the 2014 World Cup and the 2016 Olympics will be held in Brazil. These "political victories" can be seen as announcing the country's arrival as an accountable and respectable international player. For its part, the European Union has taken note of these commercial and diplomatic overtures. This is not surprising given that Europe is still Latin America's biggest foreign investor and aid donor; however, Chinese trade with the region has grown much faster than Europe's over the past decade (Pomfret 2010; Editorial 2010i).

In addition to the above, Brasília has been clever in raising its diplomatic game, acting the part of an influential regional power with a significant global impact. This comes in part because it is the "B" in the vibrant economic club of Brazil, India, Russia, and China, or "BRIC", thus garnering the country leverage and high visibility. Furthermore, it has successfully integrated into the global economy by boosting exports, stabilizing its currency, and polishing its international image. Furthermore, some other facts about Brazil's reputation and evolving prestige include the world's largest cattle industry, the world's greenest economy, a sophisticated biofuel industry, a modern financial hub (in San Paolo), deriving 80 per cent of energy needs from hydropower, hosting 14 per cent of fresh water in the world, a privileged abundance on natural resources, nutrient-rich arable farmlands, and a sustained average GDP growth of around 7 per cent, which is three times that of the United States.

During the Cold War, countries like Brazil –as well as China and India-tiptoed and carefully aligned themselves according to the prevailing balance of power in the bipolar competition between the Soviet Union and the United States. This is no longer the case. New patterns and habits of international coordination and cooperation are emerging in place of deference to US leadership. China is becoming a partner of choice. Another reason for preferring China over the United States is that relations between Brazil and the US have lost momentum as a result of growing differences over policies and trade imbalances. These differences threaten to upset the delicate balance with a country that is pivotal to American interests in its closest region (Hakim 2004; Slater 2010). Also, several instances of strategic marginalization are taking place. The rationale behind this is that, by excluding the United States, smaller groups of Latin American countries are learning to operate within deepening patterns of regional economic cooperation and political coordination. These groups of countries are either seeking stronger cohesion among them or welcoming economic and diplomatic overtures from China (also from India and Russia).

Commentators believe that in adopting a low-key approach and tactically managing relations, confrontations within the Western Hemisphere can be largely avoided (Li 2007; Editorial 2010j). Some other nations around the world have also demonstrated their explicit preference for Chinese investments by acceding to Beijing's whims and desires, while others have been more conservative while remaining active in bilateral trade (Burgos and Ear 2010; 2011a; 2011b). One of the reasons for this sustained bilateral trade is that China's official trade barriers are lower than those in other big emerging economies. For example, in 2008, the average applied tariff was 9.6 per cent in China compared to 13 per cent in India and 13.6 per cent in Brazil. On the other hand, according to estimates from the United Nations Conference on Trade and Development (UNCTAD), non-tariff barriers such as import quotas or restrictions on foreign involvement in government tenders were equivalent to an added tax of 9.4 per cent on imports into China (UNCTAD 2010; Editorial 2010k; OECD/IDB 2010).

So, one may ask, how is it possible that China is received with open arms and able to invest wherever it goes? The answer to this question lies in straightforward arithmetic. Given that financing can often account for two-fifths of the cost of an entire project, exceedingly low-interest rate credit lines are attractive to any foreign investor, regardless of geographical location. Knowing this key fact, China expertly uses low-interest rate financing. It furnishes credit accords and loans in the order of billions of dollars at incredibly low-interest rates that can stretch beyond twenty years. In some cases, China has extended credit lines and billions of dollars in loans at less than one per cent interest rate; with some loans originating at the China Development Bank Corporation, the state-run bank for public works projects.

The size of Chinese banks is so large that such banks have the financial capacity not only to administratively handle these loans but to also support a major investment expansion of Chinese firms overseas. All this underscores China's importance as an emerging lender of last resort rivalling the International Monetary Fund (IMF), and to a certain extent the World Bank. At a disadvantage, however, are the member countries of the Organization for Economic Cooperation and Development (OECD), which agreed long ago not to use low rate financing as a competitive tool to secure deals (OECD

2010). This is because, over the years, the OECD Competition Committee has done significant and relevant work in the areas of abuse, dominance and monopolisation, cartels and bid rigging, mergers, prosecutions and laws, and regulation of industry sectors, based on specific demands from member countries.

The confluence of global financial markets on the verge of collapse and a tight credit environment has enabled China to seal enviable deals and secure its future. Evidently, in the usual pragmatic utilitarianism that often characterizes emerging powers, Brazil and China play down areas of bilateral disagreements, and focus on shared commitments to economic stability, trade promotion, and energy security – two countries with long roads ahead of them.

A key component of China's strategy to guarantee access to Brazilian resources is to build close ties with top officials via high-level visits of Chinese leaders leading to pronouncements of strategic partnerships between countries. Moreover, a government change in Brasília could lead to a reduced reliance on the US as sole guarantor of Brazil's security and offer China a more expanded role. Western analysts believe that China's continued penetration into the Western Hemisphere could have profound economic and political implications for the US. With less oil available to the American market, the US could be forced to start seeking oil elsewhere, primarily in the Middle East, hence becoming more dependent on an already belligerently volatile region (Mitchell 2001; Luft 2009; Colitt 2011).

The Hu administration, with its rapid growth and widespread tentacles, now has the opportunity to serve as an 'enabler' of initiatives for deeper cooperation beyond energy in a number of regions of the world where this is still weak, from Africa to Latin America to Southeast Asia (Luxner 2005; Lai 2010). At the same time, the Brazilian government can use its nascent leadership and diplomatic arsenal to tackle global climate change which is borderless (i.e. transnational) and involves a multiplicity of private and public stakeholders.

Furthermore, Brazil is eyeing improvements in its public sector to climb closer to the levels attained in rich, industrialized nations. The coherent utilization of gas, minerals, and oil is assisting in fulfilling those dreams given that high commodity prices can strengthen government finances and allow for a big increase in social spending. The Lula governments' platform to win the elections back in 2002 focused much on social programmes (Hall 2006) that reached out to the poor and rural populations at the margin of society, and these projects and programmes are positioned to be strengthened, in light of the spill-over effects of China's incoming and rapidly increasing economic and energy diplomacy (Samuels 2004).

The impact of populist actions by governments to garner condescendence and favour from constituencies should not be underestimated. For example, Lula da Silva –formerly a metal worker- is said to have turned to country around. His policies included an infusion of cash (US$115 per household) to the lowest social strata that resulted in lifting 21 million people out of poverty and into the middle class. The aggregate rise in disposable incomes precipitated an expansion of sales in refrigerators, air conditioners, automobiles, motorcycles, electronics, and household items.

To sum up, there are numerous countries with which China can establish commercial relationships, but not all of them carry tactical relevance or strategic interest. As a whole, China adapts the style and substance of its energy and foreign policy to the emergence of a more interconnected and multipolar world order (Meidan et al. 2009). Beijing uses its huge foreign reserves and low-interest rate loans to muscle its way through Brazil and other South American countries. Big economies in Latin America are aware of the opportunities that a long-lasting relationship with China can bring and most of them are snatching them on the spot. China's capital investments mean job creation, increased trade, and sustained economic growth. In a way, Brazil follows a path similar to its neighbours but, at the same, differs from them. The government of Lula da Silva sought more than just economic benefits. Now that it is part of BRIC, the elite group of emerging market economies, it has much bigger ambitions.

Brazil, in fact, seeks a more mature, steady, and solid relationship with Beijing, based on a mutually beneficial partnership, instead of the last five decades of imposed leadership from Washington (Wesson 1981). The deepening cooperation between Brazil and China also serves as a further catalyst to the process of growing transcontinental consultation on addressing common global challenges. These challenges are related to climate change, the collective management of the global economy, non-proliferation of nuclear weapons, and the UN within an international legal framework. A careful allocation of attention between novel and traditional powers (i.e. China, India, and the USA) along with judicious distribution of economic diplomacy may very well guide the necessary policy adjustments that might offer Brazil the best chance to play a positive role in the areas meaningful for the Lula/Rousseff administration. As for China, intercourse with Brazil not only staves off criticism stemming from its dealing with kleptocratic regimes in Africa and fundamentalists in Central Asia, but also anchors an ally in a hemisphere that is ripe to boom with consumption and production.

CONCLUSIONS

For two decades, the Chinese Communist Party has attained an impressive list of achievements, such as double-digit growth rates under authoritarian capitalism, pragmatic foreign policies, confrontation avoidance with the

Europe and the United States, and a systematic and methodical gaining of international prestige and influence. Most palpably, China has experienced and continues to experience tremendous (and enviable) economic growth. To sustain this growth, it must keep the wheels of its manufacturing and industrial sectors turning. As a result, it is driven by the need for privileged access to raw materials and hydrocarbons. In this global search it has found Brazil, a country with vast lands and natural resources. But it turns out that Brazil has found China too, also a fellow member of BRIC.

Obviously, for these countries to establish a cordial working relationship they must want something from each other. In general, these interests can be diplomatic, economic, political, military, social, physical, strategic, and/or technological, among many others. From their actions and policies one can try to comprehend their incentives and motivations. For example, the Sino-Brazilian connection appears to be grounded on diplomatic, economic, physical, and strategic interests. Below follows a brief examination of these specific interests.

Diplomatically, Beijing is bolstering China's diplomatic presence in the Southern cone as a manoeuvre to limit –or at least make difficult- Taiwan's relations with Latin American countries with whom it has active relations (Watson 2004; Erikson and Chen 2007). A reunified China is a paramount ambition. Beijing does not give up the idea of bringing together of all of the territories controlled by the People's Republic of China (PRC) and the Republic of China (ROC) under a single political entity. For its part, Brazil feels no compunction to verbalise its global ambitions. One of these revolves around a permanent seat on the United Nations Security Council (UNSC). To this end, in early 2010, China hinted that it might support Brazil's dream of becoming a permanent UNSC member (Pomfret 2010). Also, to make public display of its solidified credentials, Brazil views the discourse of anthropogenic global warming as an opportunity to exploit its comparative advantages as premier exporter of sugarcane-based ethanol and, arguably, a defender of the Amazon forest. Most passionately, like China, Brazil wants to be regarded and treated as an equally important, responsible, and consultable player in international affairs (Bulmer-Thomas 2010).

Economically, both Brazil and China are strategically and structurally well positioned to emerge vibrant and strong from the current economic slowdown and, as a consequence, to continue to underpin their long-term potential for shared global leadership. As of this writing, China is Brazil's largest trading partner and biggest export market. Furthermore, by the mid 2011, China will displace the European Union as Latin America's second-largest trading partner. Moreover, what has been seen in the last decade is that the Chinese economic model is based on heavy importation of commodities, including agricultural items, and using those commodities very efficiently in manufacturing and industrial processes to produce goods. These goods –which were produced by paying low wages- are then exported to rich countries. This has proved a very lucrative business for the Chinese. However, for the system to work smoothly into the future, it must have unrestricted access to commodities. In this context, disruptions to raw material supplies are viewed as vulnerabilities, so part of the reason for Beijing's convenient marriage of economic, foreign, and energy policies and strategies is to buy into the supply channels of critical commodities all around the world. It would be wrong, however, to believe that everyone thinks that China will survive the ongoing crisis. Minxin Pei, a senior associate at the Carnegie Endowment for International Peace, claims that slow growth and rising unemployment will test Beijing's resilience (Pei 2009).

Physically, China's global resource quest emphasizes securing energy sources (natural gas and crude oil), natural resources (agricultural commodities, rubber, and timber) and raw materials (minerals such as copper, gold, iron-ore, nickel, silver, and tin). In moving ahead with plans for resource-related investments, the Chinese sit at South American negotiation tables without human rights or good governance demands. They arrive ready to invest billions of dollars and to negotiate the best possible terms-of-transactions. In Brazil, Beijing has landed accords and deals on natural gas and crude oil explorations, railways, soybean farming, manufacturing plants, telecommunications infrastructure, steel mills, and electricity generation projects. International commentators and scholars critical of China's global resources quest fail to realize that Chinese funding of gas and oil projects around the globe ultimately means cheap energy for the global commons. This is because most of the world's natural gas and crude oil are sold on the international spot markets to the highest available bidder and China's largesse of extending preferential credit lines to gas and oil producing countries should keep gas and oil prices from increasing simply by the mere fact that global supply of gas and oil will rise (especially once Brazil starts pumping 6 million barrels daily).

Strategically, Beijing is allocating monies cautiously in a broad range of diversified investments, with larger ambitions in mind. As per Chinese work style, these are well-thought out steps that are prerequisites for a longer term relationship yet at the same time they are small enough (in comparison to other project elsewhere, e.g. in Nigeria) to easily be called-up should the economic, political, or social conditions dramatically change in a region that has not had a history of deep rapprochement with East Asia (Woodard 1981; Jaffe and Lewis 2002). Geopolitical interests also fit under the umbrella of strategic ones. China, being communist, identifies easily with leftist approaches to governance. In relation to this, commentators note that in essence there are two lefts in Latin America. The first is a moderate left once led by Luiz Inácio Lula da Silva (and now by Dilma Rousseff, a former Chief of Staff), and the second is a radical left led by Hugo Chávez in Venezuela (Reid 2007; Castañeda 2008). Most importantly, Brazil and Venezuela are not hostile to each other. In fact, at Brazil's insistence, Venezuela was invited to join MERCOSUR (Spanish for Mercado Común del Sur – Common Market of the South). The two countries are the driving force behind a plan for regional defence, a project for political integration, and a new development bank for South America. The ability of Chávez and Lula to work together across a broad range of interests signals South American leaders' desire to reduce US influence and to enhance the latent capacity of the sub-region to diligently resolve its own problems without disruptive interferences from external sources (Brookes 2005; Bulmer-Thomas 2010).

Although geographically speaking the countries south of the Rio Bravo (part of the Mexico–US border) are still in the United States sphere of influence, by itself geography no longer determines destiny. This is most vividly evidenced by China's rapprochement with Brazil, and other Latin American countries, which acted assertively on opportunities to build bridges in areas where US influence had for long been on the decline, or, to a point, not existent. Indeed, the Sino-Brazilian relationship goes beyond economics: there is talk that Brazil could train Chinese pilots on its aircraft carriers. This signals mutual collaborative desires in military and geostrategic spheres that pose threat to regional hegemonies. Where does this leave Europe and the United States? Few would disagree that classical hegemonic powers are adapting, albeit slowly, to a new tripartite world order. We sincerely believe that Washington must design and implement fresh strategies that will still allow the United States to thrive in a multivectoral world where past roles are increasing being contested. Otherwise, the US risks becoming the next cranky Britain or the next Old Europe.

From afar it all looks and sounds good, positive, and rosy but a closer examination of information sources reveals that there are a few kinks in the narratives that have surfaced in response to Chinese presence in the region related to dumping of products, loss of market share, unfair competition, and corruption allegations. Also, critics of this newfound strategic union are finding ways to spread the notion that China is more of a strategic competitor than a strategic partner. Luckily for critics, this sentiment is gaining traction through region-wide access to radio, online blogging, newspapers, and a growing range of satellite television channels that help shape opinions and reactions to Chinese investments in Brazil and South America. The United States is also raising sensitive issues. In addition to concerns over energy security, American analysts and US officials have expressed anxiety regarding Brazilian-Chinese cooperation in satellite and rocket technology (Salameh 2010). Moreover, the West, in general, has grown tired of China's currency value suppression –that is, the undervaluation of the Yuan- and has repeatedly asked China to revalue its currency to little avail. On this matter, the Chinese government finds itself in a quandary. If the officialdom in Beijing allows its currency to appreciate rapidly to reduce inflation and quench Western demands it could drive down exports and speed unemployment. If it fails to control inflation, social unrest and popular revolt will quickly unfold.

The narrowing of the relative levels of economic, military, and political power between America and the rest of the world has created a more levelled arena for Brazil and China to reassert their newfound confidence and international influence. At least, in the near future, there is little likelihood that Sino-Brazilian relations are going to cease. There is hope, however, that this alliance will be beneficial to the world at large. In the end, this essay places the Brazil-China connection in terms of expediency, pragmatism, and utilitarianism that reflect the mutually beneficial outcomes of rapprochement. The body of scholarly work in Latin American studies benefits from clearer pictures in non-traditional interstate intercourse.

ANNEX

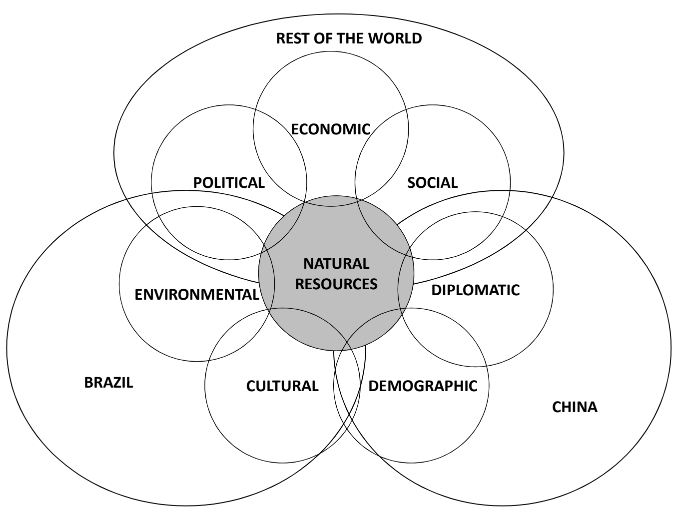

Diagram: Sino-Brazilian relations centred on natural resources linking to other realms

REFERENCES

Areddy, J. T.(2010), "Sinopec is Linked to Daimler," *The Wall Street Journal*, 27-28 March 2010, p. A8.

Brookes, P.(2005), "China's Influence in the Western Hemisphere," *Heritage Lectures*, No. 873, Washington, D.C.: The Heritage Foundation.

______(2008), "Russia, China, Move in on Latin America," *Institutional Report*, Washington, D.C.: The Heritage Foundation.

Bulmer-Thomas, V.(2010), "Latin America: Forging Partnerships in a Transformed Region," in Robin Niblett(ed.), *America and a Changed World: A Question of Leadership*, New Jersey and London: Wiley-Blackwell and Chatham House.

Burgos, S. and Sophal Ear(2010), "China's Strategic Interests in Cambodia: Influence and Resources," *Asian Survey*, Vol. 50, No. 3, pp. 615-639.

______(2011a), "The Geopolitics of China's Global Resources Quest," *Geopolitics*, accepted and forthcoming.

______(2011b), "China's Oil Hunger in Angola: History and Perspective," *Journal of Contemporary China*, accepted and forthcoming.

Castañeda, J. G.(2008), "Morning in Latin America," *Foreign Affairs*, Vol. 87, No. 5.

Chinese Ministry of Commerce(2010), "Country Statistics," accessed on 13 November 2010, http://english.mofcom.gov.cn/

CNOOC Limited(2010), "About Us," accessed 3 September 2010, http://www.cnoocltd.com/encnoocltd/default.shtml

Coatsworth, J. and J. Williamson(2004), "Always Protectionist? Latin American Tariffs from Independence to Great Depression," *Journal of Latin American Studies*, Vol. 36, No. 2, pp. 205-232.

Colitt, R(2011), "Analysis: China Eases Brazil's Concerns with Investments," *Reuters* (Brasilia), 20 April 2011.

Delamer, G. R. et al.(2004), "Chinese Interests in Latin America," in Paul D. Taylor(ed.), *Latin American Security Challenges*, Naval War College.

Downs, E. S.(2006), *China's Quest for Energy Security*, California: RAND Corporation.

Dumbaugh, K. and M. P. Sullivan(2005), "China's Growing Interest in Latin America," Report 22119, Washington, D.C.: Congressional Research Service (CRS).

ECLAC – Economic Commission for Latin America and the Caribbean(2008), *Preliminary Overview of the Latin American Economies*, Santiago, Chile: ECLAC Institutional Press.

Editorial(2005), "Chinese Vice President's Visit Promote Ties with Latin America," *BBC Monitoring International Reports* (London), 5 February 2005.

______(2009), "China's GDP Grows by Seven-Year Low of 9% in 2008," *Xinhua* (Beijing), 22 January 2009.

______(2010a), "China GDP Grows by 8.7% in 2009," *CNN* (Atlanta), 21 January 2010.

______(2010b), "World Bank sees China GDP up 9.5% in 2010," *China Daily* (Beijing), 17 March 2010.

______(2010c), "Watching China Whizz by," *The Economist*, 19 August 2010.
______(2010d), "Brazil to be the Fifth Largest Economy by 2016 – president says," *Agence France-Presse*, 29 December 2010.
______(2010e), "Brazil CSN CEO Calls for China Mining Investment Restrictions," *Dow Jones Newswires*, 22 August 2010.
______(2010f), "Oil Policy in Brazil: Raining on Rio's Parade," *The Economist*, 8 April 2010.
______(2010g), "CNOOC Interest in Brazil Assets Driven by China Need for Energy, Chemicals," *Bloomberg News*, 15 September 2010.
______(2010h), "Business: The World this Week," *The Economist*, 20-26 March 2010, p. 10.
______(2010i), "The EU-Latin America Summit: Plus ça Change," *The Economist*, 13 May 2010.
______(2010j), "Rethinking the Third World: Seeing the World Differently," *The Economist*, 10 June 2010.
______(2010k), "China and America: Repelling Borders," *The Economist*, 8 April 2010.
______(2011), "Vale Sees Iron-Ore Output Up 50% by 2015," *Reuters*, 18 January 2011.

Erikson, D.(2006), "A Dragon in the Andes: China, Venezuela, and US Energy Security," *Military Review*, pp. 83-89.

Erikson, D. P. and J. Chen(2007), "China, Taiwan, and the Battle for Latin America," *The Fletcher Forum of World Affairs*, Vol. 31, No. 2, pp. 69-89.

Forero, J.(2005), "China's Oil Diplomacy in Latin America," *The New York Times*, 1 March 2005.

Friedman, T. L.(2008), *Hot, Flat and Crowded: Why We Need a Green Revolution and How It Can Renew America*, New York: Farrar, Straus and Giroux.

Hakim, P.(2004), "The Reluctant Partner," *Foreign Affairs*, Vol. 83, No. 1, pp. 114-123.

Hall, A.(2006), "From Fome Zero to Bolsa Família: Social Policies and Poverty Alleviation under Lula," *Journal of Latin American Studies*, Vol. 38, No. 4, pp. 689-709.

House International Relations Subcommittee on the Western Hemisphere(2005), *China's Influence in the Western Hemisphere*, Noted from 109th Congress, First Session, 6 April 2005.

Jaffe, A. M. and S. W. Lewis(2002), "Beijing's Oil Diplomacy," *Survival*, Vol. 44, No. 1.

Kreft, H(2006), "China's Quest for Energy," *Hoover Policy Review*, Issue 139.

Lai, H. H.(2010), "China Builds Bridges to Fuel Its Engine Room," *Financial Times*, 4 July 2010.

Li, H.(2007), "China's Growing Interest in Latin America and Its Implications," *Journal of Strategic Studies*, Vol. 30, No. 4-5.

Lo, B.(2008), *Axis of Convenience: Moscow, Beijing, and the New Geopolitics*, Washington, D.C.: Brookings Institution Press.

Luft, G.(2009), "Fuelling the Dragon: China's Race into the Oil Market," Washington, D.C.: IAGS.

Lum, T.(2009), "China's Assistance and Government Sponsored Investments Activities in Africa, Latin America, and Southeast Asia," Washington, D.C.: Congressional Research Service (CRS).

Luxner, L.(2005), "In Caribbean and Latin America, Chinese Dragon Wakes Up," *Seis Continentes*, Summer Issue.
Lyons, J.(2009), "Brazil Turns to China to Help Finance Oil Projects," *The Wall Street Journal* (Asia), 18 May 2009.
Mayner, S.(2010), "Chinese Firm Agrees to Buy Brazilian Iron-Ore Mine," *The Wall Street Journal*, 27-28 March 2010.
Meidan, M., P. Andrews-Speed and M. Xin(2009), "Shaping China's Energy Policy: Actors and Process," *Journal of Contemporary China*, Vol. 18, No. 61.
Mitchell, J.(2001), *The New Oil Economy: Impacts on Business, Geopolitics, and Society*, London: Earthscan.
Moxley, M.(2010), "Beijing Strengthens Links with Latin America," *Asia Times Online*, 20 August 2010.
National Bureau of Statistics of China(2010), "China's Economy," accessed 23 December 2010, www.stats.gov.cn/english/
Naughton, B.(2007), *The Chinese Economy: Transitions and Growth*, Boston, M.A.: MIT Press.
OECD – Organization for Economic Cooperation and Development(2010), "Organization's Website," accessed 23 December 2010, http://www.oecd.org
OECD-IDB – Organization for Economic Cooperation and Development and Inter-American Development Bank(2010), *Competition Law and Policy in Brazil: A Peer Review*, Paris, France: OECD/IDB.
Pei, M.(2009), "Will the Chinese Communist Party Survive the Crisis? How Beijing's Shrinking Economy May Threaten One-Party Rule," *Foreign Affairs*, 12 March 2009.
Pomfret, J.(2010), "China Invests Heavily in Brazil, Elsewhere in Pursuit of Political Heft," *The Washington Post*, 26 July 2010.
Reid, M.(2007), *Forgotten Continent: The Battle for Latin America's Soul*, New Haven, Connecticut: Yale University Press.
Romero, S.(2010), "Chavez says China to lend Venezuela $20 billion," *The New York Times*, 18 April 2010.
Salameh, M. G.(2010), "China's Global Oil Diplomacy: Benign or Hostile?," *Policy Brief*, Cleveland, O.H.: International Association for Energy Economics, pp. 21-25.
Samuels, D.(2004), "From Socialism to Social Democracy: Party Organization and the Transformation of the Workers' Party in Brazil," *Comparative Political Studies*, Vol. 37, No. 9, pp. 999-1024.
Sinopec(2010), "Our Company," accessed on 3 September 2010, http://english.sinopec.com/about_sinopec/
Skidmore, T. E.(2009), "Bi-racial USA vs. Multi-racial Brazil: Is the Contrast Still Valid?," *Journal of Latin American Studies*, Vol. 25, No. 2, pp. 373-386.
Slater, R.(2010), *Seizing Power: The Grab for Global Oil Wealth*, New York: John Wiley & Sons.
Thomson, A.(2004), "Granting of Market Economy Status to China Opens Argentina's Door to Investments," *Financial Times* (London), 18 November 2004.
UNCTAD – United Nations Conference on Trade and Development(2010), "Main

Publications," accessed on 23 December 2010, http://www.unctad.org/Templates/Page.asp? intItemID=1717&lang=1

United States Department of Energy(2010), "China," accessed on 23 December 2010, www.energy.gov

Watson, C.(2004), "Adios Taipei, Hola Beijing: Taiwan's Relations with Latin America," *China Brief*, Vol. 4, No. 11.

Wesson, R.(1981), *The United States and Brazil: Limits of Influence*, California: Praeger and the Hoover Institution.

Williamson, J.(2003), "Lula's Brazil," *Foreign Affairs*, Vol. 82, No. 105, pp. 105-107.

Woodard, K.(1981), *International Energy Relations of China*, Stanford, C.A.: Stanford University Press.

Zweig, D. and B. Jianhai(2005), "China's Global Hunt for Energy," *Foreign Affairs*, Vol. 84, No. 5.

Article Received: 2011. 01. 23
Accepted: 2011. 05. 15