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<td>Author(s)</td>
<td>Alves, Ana Cristina</td>
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28  CHINA’S RESOURCE QUEST IN BRAZIL: THE CHANGING ROLE OF ECONOMIC STATECRAFT
Ana Cristina Alves
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- Community of Portuguese Speaking Countries (CPLP)
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- EU and Cape Verde
- Macau after 1999
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3. The author’s name, institutional affiliation, and full contact details (postal, phone, fax, and email) should be provided on a separate sheet.
4. Endnotes should be avoided, or kept to a minimum. Authors should pay particular attention to the accuracy and correct presentation of endnotes. Examples:
   Articles in newspapers: Paulo Gorjão, “UN needs coherent strategy to exit from East Timor” (Jakarta Post, 19 May 2004), p. 25.
5. Diagrams and tables should be avoided, or kept to a minimum.
Economic incentives play a central role in Chinese foreign policy. In particular, infrastructure loans seem to be a prominent tool in China’s quest to secure access to resources in developing regions. This is most evident in Africa.

It is interesting to note that, even though the necessary conditions are present in Brazil, (depleted infrastructure and abundant resources) China’s financial inducements have struggled to facilitate Chinese companies deep access to sectors of Brazilian resources. This is even more striking considering that both parties have repeatedly expressed strong willingness to expand Chinese investments in Brazil’s mining, oil and infrastructure sectors over the last decade.

This article reviews China’s attempts to implement its infrastructure-for-resources loans in Brazil in the period 2000-2011, and analyses the reasons behind its failure and the significant adjustments that surfaced in the midst of the financial crisis.

China’s economic statecraft and the making of infrastructure-for-resources deals

A significant part of Chinese positive economic statecraft falls under the category that Beijing officially designates as foreign aid. Chinese foreign aid dates back to the early days of the People’s Republic of China (PRC) in the 1950s, when Beijing started channeling economic aid and technical assistance to communist countries – first Vietnam and North Korea – and then newly independent African countries, in search of political allegiance.

In 1995 China started providing medium- and long-term low interest loans to developing countries. Unlike North-South cooperation, Chinese aid has a very distinctive economic and pragmatic nature, ultimately justified by its developing economy status. Rooted in the core principles of equality, non-conditional and particularly common development and mutual benefit, the aid was designed to benefit both China and the aid recipient. In this context, while providing assistance, China’s contemporary foreign aid is also an instrument to pursue economic goals overseas.

In concept, economic statecraft can be defined as “the use of economic instruments by a government to influence the behavior of another state” and often involves the use of
sanctions and inducements. Negative economic statecraft involves the use of economic sanctions, coercion or punishment (sticks, i.e. trade or investment restrictions, financial sanctions, assets seizure) to interfere with the economy of the target, so as force a change in its behavior. Positive economic statecraft, on the other hand, involves the extension of economic incentives or rewards (carrots, i.e. trade and investment promotion, financial incentives, and technology transfer) in return for compliance with the extender foreign policy goals.

The People’s Republic of China (PRC) does not have a record of making use of negative economic statecraft tools, either in bilateral or multilateral relations. Since its accession to United Nations (UN) Security Council in 1971, it has typically abstained from voting on economic sanctions resolutions. On the other hand, Beijing has made frequent use of economic inducements in pursuing its foreign policy goals since the founding of the PRC. Chinese aid assumes many different forms: technical cooperation, human resource development, medical aid, emergency humanitarian aid, overseas volunteer programmes, debt relief and financial aid. Chinese authorities distinguish between three types of financial aid: grants, interest free loans and concessional loans. While the first two are sourced from China’s state finances, the last one is provided by the Export-Import Bank of China (EXIM).

In the absence of a proper cooperation agency, the ministry of Commerce (MOFCOM) sits at a centre of a complex web that integrates several state institutions. MOFCOM is responsible for the formulation, approval, implementation, management and oversight of foreign aid projects. EXIM is responsible for the management of projects involving concessional loans; and the embassies and consulates responsible for local coordination and management of projects in the receiving country. Concessional loans for infrastructure have been used in the past by China as foreign policy instrument (i.e. the Tazara railway), with generally positive results for China’s political aims in Africa in the 1960s and 1970s. After a long break, the use of concessional loans as a foreign policy instrument resurfaced in the late 1990s. Unlike in the 1970s though, the goals behind this type of economic inducement are now primarily economic. Although unconditioned, these credit lines are tied to the procurement of services, goods and labor in China, leaving in general only a small margin for local content in the target country. Even though EXIM Bank concessional loans also target industry, resources development and agriculture, they are primarily earmarked for infrastructure construction. Evidence suggests that a substantial part of concessional loans have been used by China as a positive economic statecraft vehicle to access resources (oil, minerals and other commodities), hence the name ‘infrastructure-for-resources’ deals.

The first attempt to fully conceptualize the term was made in a World Bank Report in 2008. Reflecting the general perception, this study underlines two major features of Chinese infrastructure-for-resources package deals: (1) the extension of concessional loans is largely aimed at infrastructure development; and (2) repayment is to be done
in kind, to which the author adds a third one: (3) favored access to resources equity as collateral to the loan.

Chinese resource companies’ penetration in developing regions appears indeed to be closely associated with the extension of this type of loans in a number of cases. The massive financial resources at the disposal of China and the need to turn these into valuable hard assets overseas, combined with China’s spiking resources demand in the 2000s, accounts to a great extent for the emergence of this ‘infrastructure-for-resources’ formula as a key instrument of positive economic statecraft in its quest for resources overseas.

China-Brazil relations in the 2000s

China and Brazil undoubtedly have one of the most prosperous alliances in the developing world at present. This outcome, however, was a long time in the works. Although diplomatic ties were established in 1974 bilateral relations lingered throughout three decades and only took off in the early 2000s. This resulted mostly from the convergence of Brazil’s gradual economic stabilization and the start of China’s quest for new markets and commodities supply sources overseas. China assumed an increasingly critical role in Brazil’s foreign relations under Fernando Henrique Cardoso (1995-2002) and his successor, Luiz Inácio Lula da Silva (2003-2010). This phase of bilateral relations was accompanied by the intensification of high ranking bilateral exchanges, the institutionalization of bilateral dialogue mechanisms and instruments, and a dramatic expansion in the volume of trade.

Prompted by China’s accession to the World Trade Organization (WTO) and the stabilization of the Brazilian economy, bilateral trade grew dramatically, from US$2 billion in 2000 to US$77 billion in 2011. China became Brazil’s biggest trade partner in 2009, and China now accounts for 16% of Brazil’s total foreign trade.

Table 1: China-Brazil trade (2000-2010)

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
<th>Balance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>1.1</td>
<td>1.2</td>
<td>0.136</td>
<td>2.3</td>
</tr>
<tr>
<td>2001</td>
<td>1.9</td>
<td>1.3</td>
<td>-0.573</td>
<td>3.2</td>
</tr>
<tr>
<td>2002</td>
<td>2.5</td>
<td>1.6</td>
<td>-0.967</td>
<td>4.1</td>
</tr>
<tr>
<td>2003</td>
<td>4.5</td>
<td>2.2</td>
<td>-2.385</td>
<td>6.7</td>
</tr>
<tr>
<td>2004</td>
<td>5.4</td>
<td>3.7</td>
<td>-1.731</td>
<td>9.1</td>
</tr>
<tr>
<td>2005</td>
<td>6.8</td>
<td>5.4</td>
<td>-1.481</td>
<td>12.2</td>
</tr>
<tr>
<td>2006</td>
<td>8.4</td>
<td>8.0</td>
<td>-0.412</td>
<td>16.4</td>
</tr>
<tr>
<td>2007</td>
<td>10.8</td>
<td>12.6</td>
<td>1.873</td>
<td>23.4</td>
</tr>
<tr>
<td>2008</td>
<td>16.4</td>
<td>20.1</td>
<td>3.641</td>
<td>36.5</td>
</tr>
<tr>
<td>2009</td>
<td>21.0</td>
<td>15.9</td>
<td>-5.093</td>
<td>36.1</td>
</tr>
<tr>
<td>2010</td>
<td>30.8</td>
<td>25.6</td>
<td>-5.193</td>
<td>56.4</td>
</tr>
</tbody>
</table>

Source: SECEX/MDIC.
Brazil’s exports to China are increasingly concentrated in primary goods. Three commodities alone – soya, iron ore and oil – accounted for 75% of export flows to China in 2010, up from 48% in 2004.  

This is a sharp contrast with Brazilian imports from China, which have gradually evolved into a diversified group of manufactured goods.

Brazil’s expanding trade with Asia, and China in particular, is causing critical shifts in a short time period, not only regarding the expansion of primary goods share in Brazil’s exports, but also regarding Brazil’s economic partnerships. The most meaningful change in this regard, was the replacement of its long-standing top trade partner, the United States. This implies a geopolitical change, not only for Brazil, but for South America in general, since Brazil is the largest economy of the region.

Another significant shift in bilateral trade over this period was the addition of a third commodity to the Brazil-China exports chart: oil. Representing only 0.5% of total Brazilian exports value to China in 2003, the oil share expanded to 13% in 2010 (US$4 billion), making it the third largest export category to China. Having become the world’s second largest oil consumer and importer, China’s interest in Brazil’s oil industry increased substantially towards the end of the decade owing to Brazil’s rising profile as an oil producer in the wake of the pre-salt discoveries.

### Table 2: Brazil oil exports to China (2000-2010)

<table>
<thead>
<tr>
<th>Year</th>
<th>US$ Million</th>
<th>% of total</th>
<th>Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>36.1</td>
<td>3.33</td>
<td>227,867</td>
</tr>
<tr>
<td>2002</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2003</td>
<td>22.3</td>
<td>0.49</td>
<td>123,997</td>
</tr>
<tr>
<td>2004</td>
<td>210.1</td>
<td>3.86</td>
<td>939,624</td>
</tr>
<tr>
<td>2005</td>
<td>541.6</td>
<td>7.93</td>
<td>1,859,420</td>
</tr>
<tr>
<td>2006</td>
<td>835.9</td>
<td>9.95</td>
<td>2,333,408</td>
</tr>
<tr>
<td>2007</td>
<td>839.9</td>
<td>7.81</td>
<td>2,185,109</td>
</tr>
<tr>
<td>2008</td>
<td>1,702.5</td>
<td>10.38</td>
<td>2,900,324</td>
</tr>
<tr>
<td>2009</td>
<td>1,338.3</td>
<td>6.37</td>
<td>3,843,263</td>
</tr>
<tr>
<td>2010</td>
<td>4,053.5</td>
<td>13.17</td>
<td>8,294,694</td>
</tr>
</tbody>
</table>

Source: SECEX/MDIC.

In 2010 China temporarily overcame the United States as Brazil’s major oil export destination, which had occupied that position unchallenged since the early 2000s.

As Brazil consolidates its position as a major non-OPEC oil exporter, the sharp increase in the volume of Brazil’s oil exports to China from 2009 to 2010 hints at a new dimension in bilateral trade likely to expand significantly in coming years as China attempts to diversify its supply sources. The potential of the pre-salt reservoirs will soon place Brazil amongst the world largest oil producers.
Struggling to enter resources sectors in Brazil (2000-2009)

In sharp contrast with the overall bright picture of bilateral trade, China’s investment in Brazil has lagged throughout most of the past decade. Indeed, in spite all the framework agreements signed and official calls for Beijing to engage in infrastructure construction, and the announcement of several multibillion dollar deals targeting the mining and oil industry in Brazil, Chinese investment stock remained small throughout most of the decade.

In fact, since the 1970s China has shown interest in investing in the mineral sector in Brazil; and Brasília has over the past decade shown a strong interest in Beijing’s participation in much needed infrastructure development in the country. This is evidenced by Minmetal’s willingness in the 1980s to explore iron ore in Brazil and the more recent Baosteel’s venture with Vale (2001-2008) to build a steel plant in Maranhão – all of which failed to materialise.

During Lula’s first visit to China in 2004, important cooperation was drafted, envisaging closer cooperation in the hydrocarbons sector involving their respective national oil companies (NOCs). In addition to a short-term supply contract, Petrobras and Sinopec signed a ‘Strategic Cooperation Agreement’ to identify and develop downstream, upstream and midstream opportunities. A compromise was also worked out with CNOOC to explore opportunities for closer cooperation in offshore oil exploration on the Chinese and Brazilian coasts, but nothing has come of it.

Furthermore, just before President Lula’s first official mission to China, major deals were announced in the mining industry, involving Vale and some of the major Chinese parastatals of the sector – China Alumina Corporation (US$1 billion to built a alumina factory to export to China), Minmetals (US$2 billion pig iron plant) and Baosteel (US$1-2 billion to build a steel plates factory in Maranhão to export to the North American market). All projects were to be funded by Chinese policy banks. In this context, Brazil’s development minister estimated that Chinese investment in Brazil would reach US$5-8 billion over the following three years. Heavy investments in infrastructure by Chinese consortia were also announced after that, namely the North-South railway and the rehabilitation of Itaqui Port [in Maranhão by a Chinese consortium headed by China International Trust and Investment Corporation, CITIC, a project valued at US$4 billion]. All these projects had in common the purpose of facilitating the outflow of commodities from inland areas. None of these projects, however, materialized.

This reality is even more striking if one considers that, contrasting with the constant postponement of Chinese investment in resources in Brazilian soil, Chinese private investments in other sectors have materialized more swiftly (car assembly, telecommunications, etc.).

Throughout Lula’s second term, Brazil actively courted Chinese investment as part of a massive infrastructure development plan (PAC R$504 billion, 2007-2010). Several official missions were dispatched to China to present the infrastructure projects,
including 25-year concessions to potential Chinese funding institutions. The Brazilian National Development Bank (BNDES, responsible since its creation in the early 1950s for domestic infrastructure development) has been working since 2008 with major Chinese funding institutions, namely EXIM, CDB and Sinosure (China export and credit insurance company), in order to identify and develop joint projects. Additionally, BNDES has been particularly interested in getting China’s sovereign wealth fund, China Investment Corporation (CIC) to invest in Brazil’s oil and gas industry.

In spite of Brazil’s apparently ripe conditions – lack of infrastructure and abundance of resources – and repeated overtures by local government, evidence suggests that China’s infrastructure-for-resources formula did not succeed in that country.

The one exception: Gasene project

Sinopec was the only Chinese resource state-owned enterprise to succeed in entering the hydrocarbons sector in Brazil in this period. This happened through the construction of a natural gas pipeline: the Southeast-Northeast Interconnection Gas Pipeline Project, or Gasene.

Gasene was pitched to a delegation from China’s commerce ministry visited Brazil in April 2004. Backed by a strategic cooperation agreement signed with Petrobras and an inter-governmental agreement to expand infrastructure cooperation, Sinopec bid on the project. It was supported in this endeavor by a credit line from China EXIm Bank to BNDES, which required Sinopec to be the contractor for the project.

During Hu Jintao’s visit to Brazil in November 2004, Dilma Rousseff, then Brazil’s mining minister, announced China won the proposal. Cooperation on Gasene was part of Hu Jintao’s official agenda in Brazil. Negotiations between BNDES and EXIm Bank for the loan concession, however, stalled in early 2005. According to BNDES, this was because EXIm Bank wanted to include in the contract a large share of labor, services and goods procured in China. Having a large industrial base, a thriving services sector, a massive labor force and very strict labor and import laws, BNDES was in no position to make concessions. With powerful labor unions, the importation of Chinese workers was untenable.

Still, Petrobras kept Sinopec ahead of the first phase of the project (Cabiúnas-Vitória, 300 km) and the US$239 million engineering, procurement and construction (EPC) contract was finally signed in April 2006. Construction started almost a year behind schedule. Despite the problematic start, construction went smoothly thereafter with only residual Chinese content. The first phase of Gasene was completed in February 2008.

With no signs of progress in negotiations with EXIm Bank, in February 2007 Petrobras cancelled Sinopec’s contract for the second phase of Gasene (Cacimbas-Catu, 946 km). New bids were considered and a handful of Brazilian companies had already been pre-selected when, following government contacts, China Development Bank (CDB) was authorized to replace EXIm Bank. CDB signed a US$750 million loan with
BNDES to fund the second phase of the project, with a total estimated cost of US$2.6 billion. BNDES to fund the second phase of the project, with a total estimated cost of US$2.6 billion. Construction officially started in May 2008, after domestic companies were subcontracted. The pipeline was successfully completed on schedule, just before Hu Jintao’s visit to Brazil in April 2010.

The inter-governmental framework, the actors and the procedures of this deal, point to the fact that China was indeed trying to implement in Brazil, a pattern consistent with its infrastructure-for-resources formula that had proved so successful in Africa. Although the project was successfully completed, from the point of view of China’s energy security concerns, Sinopec’s engagement in the Gasene project failed to produce meaningful results, as it did not facilitate China’s access to oil equity, nor secured any long term oil contracts.

The onset of the financial crisis, however, produced structural changes. Ultimately, these played into China’s favor.

Accessing resources in the financial crisis context (2009-2011)

Despite failing to facilitate China’s access to oil supply or assets, Gasene secured a good foundation in Brazil, not only for Sinopec, but also for CDB. This certainly played a role when the Brazilian oil company approached CDB in late 2008 for another batch of funding, this time to develop the ‘golden eggs’ – Brazil’s pre-salt oil reserves.

One year after the announcement of the pre-salt deposits in 2007, Petrobras started searching for funding overseas. However, 2008 turned out to be a bad year for this endeavor, due to the global credit crunch. In November 2008, on his return from Japan, Petrobras’ CEO did a stopover in Beijing to meet with the president of CDB. Although the global economy was very unfavorable (with freefall in oil prices the sustainability of pre-salt exploration was hardly profitable), the CDB was receptive, offering a US$10 billion loan, to be taken as a first batch depending on its performance. In the following months the details of the contract were negotiated between both parties while the respective governments were brought in to give political backup.

The US$10 billion-loan agreement was formally signed by CDB and Petrobras in May 2009 during Lula’s visit to China. According to Petrobras’ CEO, the loan was to be repaid in cash over ten years. In addition, a memorandum of understanding was signed with Sinopec regarding cooperation in exploration, refining, petrochemicals and the supply of related goods and services. Allegedly, the loan agreement states that US$3 billion should be earmarked for the procurement of machinery and equipment from China. This, however, might not be that straightforward in practice, given that Brazilian law requires high levels of local content and public tenders to be undertaken. As collateral to the US$10 billion loan, Petrobras signed a ten-year oil supply contract with Sinopec’s trading company, UNIPEC, to provide 150,000 barrels of oil per day (bpd) in the first year and 200,000 bpd in the following nine years.

Furthermore, shortly after the loan extension, Petrobras offered Sinopec partnership in two oil blocks located off the coast of Northern Brazil (Pará-Maranhão basin: BM-PAMA-3...
and BM-PAMA-8). However, Sinopec couldn’t immediately access these blocks. It took a year of negotiations between the two companies before final agreement was signed during Hu Jintao’s visit to Brazil in April 2010, whereby Sinopec formally given access to 20% stakes in each block. The amount China paid for the stakes was not disclosed.

Chinese interests in Brazil’s oil industry increased further in 2010. In addition to the equity acquired in association with Petrobras, Chinese national oil companies (NOCs) also accessed important oil acreage in Brazil during the global financial crisis. Notably, this long cherished goal materialized not in the framework of intergovernmental loans extension but through mergers and acquisitions during severe liquidity contraction of other players active in the Brazilian oil industry.

In May 2010, Sinochem farmed in a 40% stake for US$3 billion from Statoil’s Peregrino field in Campos basin (BM-C-7 block). Peregrino, in which Statoil retained a 60% operatorship stake, is estimated to have recoverable reserves of between 300-600 million barrels of heavy crude oil and its output to increase up to 100,000 bpd by early 2012, with a life span of 30 years.

China accessed its first stake in Brazil’s pre-salt flats in October 2010, when Sinopec acquired a 40% share of Repsol’s Brazil unit for US$7.1 billion. Its recoverable reserves were then estimated at 1.2 billion barrels. The deal gave birth to Repsol Sinopec Brazil in December, one of the largest energy companies in Latin America. Repsol’s Brazil Unit is the second largest holder of exploratory rights after Petrobras in Santos, Campos and the Espirito Santo basins, which cover the pre-salt area. Albacora Leste – estimated reserves of 565 million – is one of top three oil producers in Campos basin which accounts for 80% of Brazil’s oil output. Production started in 2006 and current output is 180,000 bpd.

In 2009-2010, major Chinese investments were also announced in the mining sector. This time, however, most actually materialized. Chinese investments in oil and mining sectors announced in 2010 totaled nearly US$30 billion.

In February 2010, Chinese state owned Wuhan Iron and Steel (Group) Corporation (WISCO) acquired 21.5% of a private Brazilian mining company, MMX (Mineração e Metálicos S.A., part of the Eike Batista Group, EBX) for US$ 400 million. During Hu Jintao’s visit to Brazil in April 2010, WISCO formalized a joint venture with the logistics arm of the same group (LLX), to build a steel mill in Açu port (Rio de Janeiro). The project in which WISCO retains a 70% stake is estimated at US$4.7 billion. Earlier in 2010, a Chinese company registered in the Cayman Islands and listed in Hong Kong, Honbridge Holdings, bought an iron ore project in Northern Minas Gerais state from Votorantim for US$430 million. The Chinese company is also expected to invest an additional US$3.5 billion to develop the project (mine, 470 km mining duct, mining port at north Ilhéus, Bahia state, and a pellets production plant). In mid March 2010, another Chinese company, ECE, acquired a private Brazilian iron ore company, Itaminas, for US$1.2 billion. Among other infrastructure investments announced in this period also figure the West-East railway and the port of Sul-Ilhéus in Bahia state.
More recently, in the hydrocarbons sector, in November 2011 Sinopec signed a US$5.2 billion deal to acquire 30% stake in Galp Energia’s (Portuguese oil company) Brazil unit. Galp has stakes in 33 blocks in Brazil, four of which located in the pre-salt Santos basin. It’s most valuable asset is a 10% stake in Lula field (former Tupi, or BM-S-11), the most promising in the pre-salt flats, with recoverable reserves estimated at 8.3 billion barrels of oil and gas. Although at very early stages of production it is expected to reach 100,000 bpd this year.

Furthermore, Chinese NOCs are also eyeing other oil assets in Brazil, including BG (British Gas) and OGX’s (hydrocarbons arm of Brazilian billionaire Eike Batista Group, EBX). With this in mind, and taking into account Chinese NOCs’ willingness to participate in the next oil auction (still to be scheduled) there is much potential for China’s equity in Brazil oil industry to expand further in coming years.

Although these deals are yet to be fully disbursed, they clearly point to a massive Chinese investment in Brazil over the past two years, potentially making China the largest foreign investor in the country. To a great extent this was prompted by the mounting financial needs of Brazil to fund the pre-salt development and its massive infrastructure plan against the backdrop of the global financial crisis.

The way Sinopec gained oil stakes in 2010-2011 is, however, raising some eyebrows in Brazil. This is mostly explained by the fact that in a very short period of time, Chinese state-owned companies snapped significant acreage. This is outside legal norms in Brazil, which relies on competitive bidding for oil auctions. The equity accessed as collateral (in association with Petrobras) has fed into the common perception in the oil industry in Brazil that Chinese NOCs prefer to do business on a government to government level and directly with Petrobras, as in their view that increases their chances of being favored in accessing oil equity. In the words of a former president of the Brazilian National Agency of Petroleum, Natural Gas and Biofuels (ANP): “the Chinese want concessions, they do not enter bidding processes”.

Conclusions
This analysis points to the underperformance of China’s infrastructure-for-resources deals in Brazil. First, the Gasene project materialized on very different terms of what was originally conceptualized by China. In order to secure the gas pipeline construction contract for Sinopec, Beijing was forced to sacrifice the fundamentals of its infrastructure-funding model, dropping protocol on Chinese content to accommodate the complexities of local institutional constraints. Second, the deal did not produce long-term supply contracts or any oil equity as collateral. In sharp contrast with Africa, this state of affairs exposes the unsuitability of this specific instrument of Beijing’s positive economic statecraft towards Brazil’s more liberal and regulated institutional framework.

The advent of the financial crisis, however, seems to have facilitated the adjustment of Chinese economic incentives to the local context. The economic crisis placed China in a favorable position vis-à-vis Petrobras, which was then in need of money to develop
newly found pre-salt reserves. The revised formula is, nonetheless, largely rooted on the original template and devised to pursue the same oil security goals (long term supply and access to oil equity). The US$10 billion loan extended by CDB to Petrobras in 2009 has an oil supply contract attached covering the duration of the loan repayment. Also, Petrobras offered Sinopec partnership in energy and petroleum (E&P) activities in two deep-water blocks as collateral.

On the other hand, there are shifts that reveal some degree of adjustment to the specificities of the local institutional structure. First, the loan was directly negotiated and extended to Petrobras and not to the Brazilian government, and although lower than commercial rates, the interest rate was higher than Chinese concessional loans. Second, the deal was not aimed at infrastructure but rather to finance development of the pre-salt reservoirs. Third, the loan is not to be repaid in oil. Lastly, building on the experience with the Gasene credit line, the Chinese content was reduced to a minority parcel, in order to cope with the local content restrictions imposed by Brazil. In sum, China’s economic statecraft can be very resilient.

Even though Chinese economic incentives performed better in the crisis context, the collateral oil equity accessed in Brazil fell below expectations, since these were minority stakes in shallow water blocks. Furthermore, these blocks are yet to start producing and took long to materialize. In sharp contrast, Chinese NOCs venturing on their own managed to secure much better assets through farming in deals.

The international economic crisis context opened a window of opportunity for Chinese companies to grab oil and mining equity in Brazil without any inter-governmental supporting platform. With most international oil companies (IOCs) facing serious liquidity shortages in a setting where large investments needed to be made to develop pre-salt acreage, many assets were placed in the market in 2010 and 2011. It was in this framework that Chinese NOC’s accessed important acreage in the much sought after pre-salt reservoirs and that its resources companies struck major deals in the mining sector and related infrastructure as discussed above. Similar developments surfaced in other South American countries.

The signing of a number of infrastructure loans in 2009-2011 (i.e. Ecuador, Colombia, Argentina) alongside direct acquisitions and mergers, suggests though that the revised infrastructure-for-oil formula remains a resourceful instrument for China in pursuing its resources interests in South America. According to available information on these new infrastructure loans, and although Chinese engineers are to oversee operations, the labor is largely local and so is the bulk of local content (contractors and equipment).

In the same way, South American governments tend to retain the majority stake in resources joint ventures with Chinese State companies, a trend mostly explained by the nationalistic nature of a significant number of regimes in the region. Like in Brazil, and Venezuela excepted, none of these loans are to be repaid in oil, although some of them entail supply contracts as collateral covering the repayment period (Brazil and Ecuador).
Interestingly, unlike in Africa, this type of Chinese positive economic statecraft seems to be privileging oil-producing countries in South America, having left out until now major mining producers such as Chile and Peru. The swift acquisitions in 2010-2011 suggest, however, that the expansion of Chinese resources equity in the region is becoming increasingly rooted in market rules.

In sum, China had to adjust its infrastructure-for-oil formula to the institutional constraints of South America and in that process, to a great deal pushed by the global financial downturn context, the debut of its resources companies became less dependent on Beijing’s financial inducements to the targeted country.

[Endnotes]

1  “China’s Foreign Aid” (Information Office of the State Council of the People’s Republic of China, White Paper issued in April 2011).
3  “China’s Foreign Aid” (Information Office of the State Council of the People’s Republic of China).
4  The Export-Import Bank of China was created in 1994. It is fully owned by the Chinese government, and is under the direct leadership of the State Council. It plays an important role in promoting foreign trade and economic cooperation, acting as a key channel of policy that finances the Chinese import and export of mechanical and electronic products, equipment and technologies, and in undertaking offshore construction contracts and overseas investment projects by Chinese companies.
5  For a detailed account of China’s administration of foreign cooperation, see Penny Davies, China and the End of Poverty in Africa: Towards Mutual Benefit? (Sundbyberg, Sweden: Diakonia, July 2007).
6  “China’s Foreign Aid” (Information Office of the State Council of the People’s Republic of China).
10 Secretaria de Comércio Exterior, Ministério do Desenvolvimento, Indústria e Comércio Exterior (SECEX/MDIC).
11 idem.
12 idem.
13 idem.
14 “Petroleiro vai quase triplicar a venda de petróleo à China” (Folha de S. Paulo, 25 March 2004).
15 Denise Baccocina, “Com dinheiro em caixa, Chineses investem no Brazil” (BBC Brasil, 4 February 2004).
16 “China investe de forma significativa no Brasil” (Observatório de Política Externa Brasileira, No. 3, 24-30 April 2004).
20 In just one decade, the positions of Brazil and China have inverted significantly. The first cooperation project with a Chinese funding institution was made in 1996, when BNDES extended a credit line to CDB (then State Development Bank) to fund three turbines for the Three Gorges Dam.
21 Interview, BNDES/International Relations Division, Rio de Janeiro, Brazil, 23 July 2009.
22 Gasene pipeline network intends to ensure supply from the southern basins’ gas fields by connecting southeastern gas pipeline with the northeastern network. With a transport capacity of 20 million cubic metres per day, Gasene project has a total extension of nearly 1,400 km, crossing three coastal states: Rio de Janeiro (RJ), Espírito Santo (ES) and Bahia (BA).
23 Interview, BNDES.
25 Interview, BNDES.
26 “Petrobras assina contrato de US$239 mi com Sinopec para Gasene” (Reuters, 17 April 2006).
Interview, BNDES/International Relations Division, Rio de Janeiro, Brazil, 23 July 2009.
Marina Wentzel, "Chineses querem investir mais em projectos do PAC" (BBC Brasil, 11 July 2008).
Around this same time, another inter-governmental deal of the same kind was being negotiated in the mining sector, involving a partnership between Baosteel and Vale for the construction of a Steel plant valued at US$5.5 billion, and to be mostly funded by CDB. The project never took off.

Interview, Petrobras, Beijing, China, 1 September 2009.

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"Statoil closes in at Peregrino" (Upstream, 10 December 2010).
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"Rrepol ties up $7.1bn Sinopec deal" (Upstream, 29 December 2010).
"Rrepol and Sinopec form alliance in Brazil" [Repsol, Press Release, 10 October 2010].
"Vazamento de gás suspende temporariamente produção de plataforma da Petrobras" (Portugal Digital, 7 February 2011).
Henrique Altemani, "Sintese de atualidade economica e empresarial Brasil-Asia-Pacífico" [Observatório Iberoamericano de Asia-Pacífico, April-May 2010], p. 2.
Idem., p. 4.
Landau, "Brazil-China".
"Os novos colonizadores e a corrida do ferro" (Associação Ação Ilhéus, 3 July 2009).
Interview, BNDES.