China-Brazil Economic and Trade Cooperation Takes a New Leap Forward

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Since the beginning of this century, China-Brazil economic and trade cooperation has seen two leaps, completing the accumulation of the quantity of China-Brazil economic and trade cooperation and realizing local qualitative improvement. Now, China-Brazil economic and trade cooperation is facing a new leap. To this end, China and Brazil should focus on the construction of trade and investment liberalization and facilitation mechanisms, strengthen policy coordination, and make up for the shortcomings of cooperation.

Since the beginning of this century, there have been two leaps in economic and trade cooperation between China and Brazil. The first leap has expanded bilateral trade volume, with China becoming Brazil’s top trading partner for 14 consecutive years after 2009. The second leap has boosted bilateral investment, and since 2016, China has been one of the largest and fastest-growing sources of foreign investment in Brazil. At present, China-Brazil economic and trade cooperation is facing new opportunities and needs to create new complementarities to welcome the new leap.

At the critical period of upgrading and transformation of China-Brazil cooperation, Brazilian President Lula kicked off his visit to China on April 12, and the two largest developing countries in the East and West hemispheres shook hands again. This will be a new starting point for China and Brazil to take the initiative to build future cooperation, and both the countries are expected to usher in a new period of simultaneous enhancement of the depth and breadth of cooperation.

**Deepening Cooperation**

The first leap in China-Brazil economic and trade cooperation stems from the complementary trade structures created by the differences in endowments, which satisfies the basic needs of both sides for dual circulation. Since Brazilian President Lula’s first visit to China in 2004, China-Brazil trade has grown at an average annual rate of 19%, higher than the 17.4% and 11.8% average annual growth rates of China-Latin America trade and China’s foreign trade. Currently, Brazil is China’s seventh largest trading partner, with imports from Brazil accounting for 4.1% of China’s total imports, and are extremely prominent in imports of foodstuffs and raw materials, such as raw sugar cane, which accounts for 93% of the total imports of the same products, soybeans, which accounts for 61.9%, meat, which accounts for 24.7%, pulp, which accounts for 21.5%, and mineral sands, which accounts for 14.8%. Meanwhile, exports to China accounted for 39.1% of Brazil’s total exports, and exports of the above products to China accounted for 19.4%, 84.6%, 42.8%, 64.5% and 82.7% of Brazil’s exports of the same kind, in that order. China is Brazil’s largest trading partner and number one source of export revenues, as well as a major partner in helping it to resolve its economic difficulties.

The second leap in China-Brazil economic and trade cooperation stems from complementary economic structures driven by political mutual trust, which meets the development needs of both sides to expand internal and external circulation. Since Chinese Chairman Xi Jinping’s visit to Brazil in 2014, China and Brazil have continued to deepen their comprehensive strategic partnership. China’s cooperation with Brazil has led to the “going out” of production capacity and the rise of overseas investment and financing. Brazil, on the other hand, has reaped tangible benefits, as China has become the largest source of investment in Brazil, with a cumulative investment of more than US$ 80 billion, which has not only created more than 40,000 local jobs, but also promoted the modernization of infrastructure, and injected more momentum into the recovery of Brazil during the decade-long economic downturn.

The two leaps have completed the accumulation of the quantity of China-Brazil economic and trade cooperation, and also realized the local quality improvement, so that both sides have completed the initial embedding of the value chain and production chain.

**Brewing New Breakthroughs**

China and Brazil are large developing countries and important emerging market countries with global influence, and they are comprehensive strategic partners of each other, sharing broad common interests and common development responsibilities. At present, some structural problems in China-Brazil economic and trade cooperation are brewing a new breakthrough.

In terms of import and export categories, agriculture currently features prominently in China-Brazil cooperation, with six of the top ten categories of Chinese imports from Brazil in 2022 being agricultural and processed products, accounting for a combined total of 44.5%, while such products account for only 28.3% of Brazil’s total exports. Export diversification is a long-term goal of Brazil and its expectation of cooperation with China. Brazilian data from the United Nations Commodity Trade Statistics Database (UN Comtrade) show that in 2022 it exported 4,701 products globally (HS 6-digit code), but only 1,907 products to China, with four products - iron ore, soybeans, crude oil and animal protein - continuing to hold a combined share of nearly 85%.

From the perspective of cooperation mechanisms and institutional arrangements, Brazil is the largest economy in Latin America, but Chinese enterprises are currently facing pre- and post-access difficulties in investing in Brazil. Just take taxation as an example, the statistics of the Organization for Economic Cooperation and Development show that the Composite Effective Average Tax Rate of Brazil in 2021 is 31.8%, ranking third among the 78 countries examined, much higher than the average value of 20.2%, which creates a greater pressure on the operation of enterprises. In addition, Brazil has not yet signed a “Belt and Road” cooperation document or a “Bilateral Investment Agreement” with China, and because of the lack of preferential trade arrangements between China and Brazil, the average tariff on Brazilian imports is as high as 22.8%, higher than the 14% average tariff of developing countries, and even higher than the 7.4% average tariff of China. The lack of liberalization and facilitation mechanisms increases the cost of China-Brazil cooperation, and objectively inhibits the expansion of trade and economic cooperation.

As Brazil is committed to promoting “re-industrialization”, while China is promoting high-quality development and high-level opening up, China-Brazil economic and trade cooperation possesses a lot of space and potential. Currently, the main problem lies in that the level of trade and investment liberalization and facilitation is lagging behind the rapid expansion of the scale of cooperation, and the institutional safeguards are unable to meet the “security” needs of the cooperation entities, thus inhibiting the spillover space of the benefits of cooperation. Therefore, China-Brazil economic and trade cooperation is facing a new leap forward, which requires both sides to take the initiative to “build” new breakthrough points.

**Constructing "New Complementarities"**

The external conditions for the third leap are ripe. In terms of the demand for cooperation, in the face of the plight of weakened global growth in the post-pandemic era, and the common development challenges of developing countries in particular, China has put forward a timely global development initiative and a global security initiative, pointing out the direction of cooperation in building a shared and win-win approach to security. After the return of President Lula, Brazil is facing a series of difficult challenges, and the first task is to revitalize the economy internally and rebuild the image of a great country externally under the global uncertainty. China’s program is undoubtedly a good medicine of “timely help for urgent situation”. On the support of cooperation, Lula Government resumed Brazil’s activities in the Community of Latin American and Caribbean (CELAC) at the multilateral level, which facilitates the upgrading of the China-CELAC Forum (CCF) into a summit, and also facilitates the development of economic and trade activities under the Forum’s cooperation mechanism; at the bilateral level, it signed a memorandum of cooperation with China to establish RMB clearing arrangements in Brazil, and reached an agreement on trade settlements in the local currency, which creates new possibilities for the two countries to deeply cooperate with each other.

China-Brazil economic and trade cooperation is facing a major opportunity for a third leap forward. After the completion of the first two complementary upgrades, the way forward for China-Brazil economic and trade cooperation lies in the creation of “new complementarities” under the improvement of mechanisms, so as to promote the overall qualitative improvement of cooperation. To this end, China and Brazil should focus on the construction of mechanisms for the liberalization and facilitation of trade and investment, strengthen policy coordination and make up for the shortcomings of cooperation.

In the field of cooperation, the construction of “commodities+” value chain cooperation should be the focus of development. Based on the existing cooperation in agriculture, energy and mining, China and Brazil should promote the cooperation between traditional infrastructure, such as logistics and payment, and new digital infrastructure, expand technical exchanges to form the adhesion of interests between both sides, and guarantee the security of China’s supply chain, so as to provide industrial support for Brazil’s “re-industrialization” and export diversification.

In terms of cooperation and innovation, the construction of synergistic development of digital economy should become a new highlight. China has the advantages of 5G, artificial intelligence, etc., while Brazil has a large population and vast area, with application scenarios and market advantages, thus China and Brazil can form a project matching. At the same time, both sides also have the basis for cooperation in digital currency, and there is also technical suitability and common interests in cooperation in the field of digital security, so that both sides can collaborate to explore the path of digital security in line with the interests of the development of emerging economies.

In terms of win-win cooperation, building cooperation on clean energy and green development should become a new area. As Brazil and China have set targets to achieve carbon neutrality by 2050 and 2060 respectively, with China having a leading edge in new energy manufacturing and Brazil possessing relatively mature technologies in the use of clean energy, the two sides should strengthen technological exchanges on energy transformation and seek cooperation in carbon trading, addressing global climate change and other areas of international economic governance to expand common interests.

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