# Chinese firms make inroads in Brazil

## 'Complimentary' economies embrace greater cooperation despite challenges

By TUO YANNAN in Sao Paulo, Brazil
*tuoyannan@chinadaily.com.cn*


TUO YANNAN / CHINA DAILY

**An employee of the telecommunications provider Vivo Participacoes SA with a ZTE Corp tablet. Chinese high-tech companies have invested heavily in Brazil in recent years. ZTE set up an industrial park in Hortolandia, near Sao Paulo, and Huawei Technologies Co has more than 4,000 employees in Brazil.**

**INVESTMENT**

Eric Zhang, the previous general manager in Brazil of China's largest air conditioner maker Zhuhai Gree Electric Appliances Inc, never worried about customer figures. Rather he was worried about whether his factory would be able to cope with the flood of orders.

Zhang was sent to Brazil about four years ago, and returned to China this year. According to him, despite the high price tags, Gree products are popular with Brazilians, especially high-end clients like Brazilian soccer legend Pele.

Gree was among the first set of Chinese companies to enter the country in 1998. It decided to make the move because the two countries are in different hemispheres and sales of air conditioners are seasonal.

The company is now ranked second in Brazil. It sold 500,000 air conditioners there worth $200 million in 2011.

Gree's fast growth is an indication of how Chinese companies have made considerable inroads in Brazil and the overall growth in bilateral trade.

In recent years, more and more Chinese manufacturing companies have set up offices in Brazil. A big part of them are technology companies.

Chinese high-tech companies — such as telecom equipment makers ZTE Corp and Huawei Technologies Co — have invested heavily in the country in recent years.

Huawei has more than 4,000 employees in Brazil, and more than 90 percent are local hires. In the first half of 2011, the company's sales revenue there reached more than $1 billion.

ZTE set up an industrial park in Hortolandia, near Sao Paulo. Products from the industrial park will be shipped to other Latin American countries.

"The Brazilian market accounts for about 9 percent of ZTE's overseas revenue. The country is crucial for our company's development in Latin America," said Yuan Lei, president of ZTE South America Region.

Brazil accounts for more than 40 percent of the Latin American economy, with a market size as big as the United States.

Alessandro Teixeira, Brazil's deputy minister of development, industry and foreign trade, said that he predicts that the percentage will increase to 50 percent in the next 10 years, and Brazil's economic role in Latin America will be even more significant.

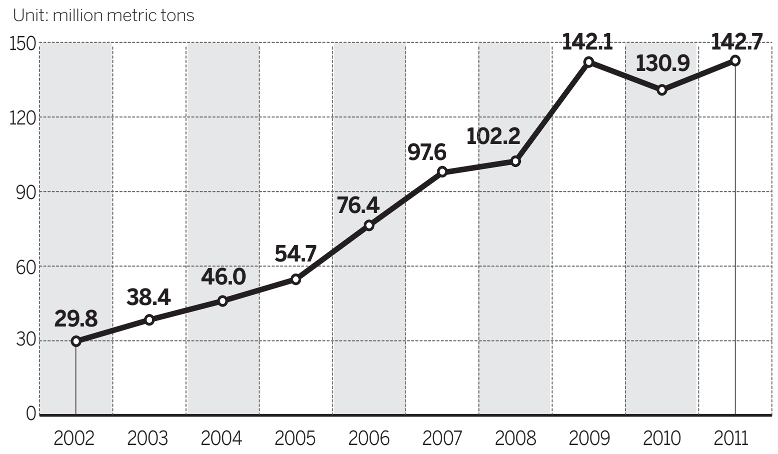
### Economic partners

Brazil, the most distant country from China among the BRICS — Brazil, Russia, India, China and South Africa, has emerged as the closest partner to China economically.

China has been Brazil's largest trade partner since 2009, a position previously held by the US, as a result of massive exports in the energy and agricultural goods sectors.

**CHINESE IMPORTS OF BRAZILIAN IRON ORE**

Unit: million metric tons




Source: Wind Information Co Ltd

LI YI / CHINA DAILY

China's investment in Brazil was less than $300 million in 2009, but increased to $17 billion in 2010, making it the largest foreign investor in Brazil.

And because the two economies are complementary, bilateral trade continues to see double-digit growth, said Clodoaldo Hugueney, Brazil's ambassador to China.

During Brazilian President Dilma Rousseff's visit to China last year, she said that Brazil is seeking to diversify trade and investment ties beyond raw materials to include more value-added goods.

Marcos Almeida, a partner at Ernst & Young Terco, said that foreign direct investment in energy and mining will continue to rise because the Brazilian government is increasingly sensitive to the purchase of agricultural land by foreign investors in general, not only Chinese.

According to data from Brazil's Ministry of Development, Industry and Foreign Trade, 44 percent of Brazil's exports in 2010 were raw materials including iron ore, coffee beans and soybeans.

The deal between China Petrochemical Corporation, known as Sinopec Group, and oil company Repsol SA was the biggest FDI deal in Brazil in 2010.

The Chinese company bought 40 percent of the Spanish oil giant Repsol's Brazilian business for $7.1 billion. Sinopec has also been undertaking a natural gas project named Gasene in Brazil since 2004.

Iron ore is another big investment target for Chinese companies. Vale SA, the Rio de Janeiro-based miner, is the world's biggest producer of iron ore and one of Brazil's largest companies.

In 2011, Brazil's iron ore represented about 20.8 percent of China's total imported iron ore, dropping about 4 percentage points from 24.84 percent in 2007.

The surge in raw material prices also led to the diversification of bilateral trade. In 2011, when China spent $25.7 billion on 143 million tons of iron ore, the price per ton was about 1.8 times more than 2007.

In the first quarter of 2011, China accounted for about 29.7 percent of Vale's revenues — more than half of the company's revenues in Asia. In 2004, Vale signed a contract with China's Sinosteel Corp to supply 600,000 tons of iron ore pellets every year from 2005 to 2011 at a price of $32.76 per ton.

### Diversification

Meanwhile, Brazil is seeking to diversify the categories of imports and investment in the Latin American nation to bring more win-win benefits, said Hugueney.

The ambassador said that China should "diversify its imports" from Brazil, by buying more high-tech goods, such as airplanes, automotive and mechanical equipment, high-end manufacturing goods, such as luxury shoes, and agricultural goods, such as beef and pork, rather than merely soybeans, iron ore and oil that traditionally have been the major Chinese imports from Brazil.

The ambassador's remarks echoed the words of Minister of Commerce Chen Deming during a visit to Brazil in May 2011.

"China is willing to promote the diversification of Brazilian exports to China and to add more value to Brazilian exports," he said.

An estimated 84 percent of China's imports from Brazil are raw materials and agricultural goods, including iron ore and soybeans. The huge Chinese demand for the commodities led to an 18-fold increase in Brazil's exports to China between 2000 and 2009.

H Stern, the biggest gem company in Brazil, is getting attention from an increasing number of Chinese customers and is seeking the opportunity to open stores in China, said Ronaldo Stern, vice-president of H Stern, in an interview with China Daily.

Stern said that in recent years, his store has more and more Chinese customers, and he has started to hire people who understand Chinese culture to work with him.

"To find a good location and local partners is not easy in China," he said.

The company has been researching the Chinese market for more than five years, but hasn't made a decision yet. H Stern is already present in more than 30 countries, including the US and Japan.

### Trade barriers

Sao Paulo, the biggest city in Brazil, represents more than 25 percent of the taxes of the country. The city, which has a population of 19 million, ranked No 7 of the top 10 biggest cities in 2010. The economic center of the country is also the place where most of the Chinese companies are setting up their headquarters.

However, its interstate tax rate of up to 18 percent increases the cost of business for many Chinese companies. And red tape also causes problems for companies, from hiring employees to transferring cargo across different Brazilian states.

"The tax system here is very complicated," said Jack Lu, Brazilian market chief representative of the Chinese automaker Chery. "We spent about three years researching and learning about the market before we entered it in 2009."

Trade investigations are emerging as another headache for Chinese companies in the country. There has been an increase in the number of trade complaints filed by Brazil against China. More than 100 anti-dumping investigations were launched by Brazil in 2010 — nearly 50 were against China.

According to Hugueney, the Brazilian ambassador, increased investment in local production is the key to improving trade relations.

"Brazil is seeking more Chinese investment in the manufacturing sector to avoid trade conflicts between the two nations," he said.

# CNOOC, Shell pact to diversify country's energy supply

By DU JUAN
*dujuan@chinadaily.com.cn*

China National Offshore Oil Corp has signed contracts with Royal Dutch Shell Plc to explore for oil and gas in the South China Sea and off the coast of Gabon in West Africa, marking the latest step taken by a Chinese company to diversify its energy supply.

**OIL**

CNOOC, which produces more offshore oil than any other Chinese company, agreed on Wednesday to explore two offshore oil blocks — 62/02 and 62/17 — which lie in the Yinggehai basin off South China's Hainan island.

Shell has agreed to shoulder the project's exploration costs. CNOOC, for its part, will be able to claim an equity interest of up to 51 percent of any commercial oil and gas discovered in the blocks.

"The decision is highly significant for China's strategic energy reserves while (the country) remains highly dependent on oil imports," said Zhang Jing, an oil analyst at JYD Online Co Ltd, a Beijing-based bulk commodity consultant.

She said CNOOC's decision to work with Shell in West Africa will help China diversify its future oil imports and secure its energy supplies.

In June, the company issued a request seeking partners for the exploration of nine offshore blocks in the South China Sea.

The nine blocks occupy more than 160,000 square kilometers and are between 300 and 4,000 meters deep.

The two blocks that Shell will help explore are not part of those projects, said Liu Xiaobiao, head of CNOOC's media relations.

An industrial insider who declined to be named said it would be hard to accurately predict how much it will cost to explore the two blocks, saying neither Shell nor CNOOC has published data showing how large and deep the areas are.

"The exploration will take at least four to five years before there are any commercial discoveries," the insider said.

In Gabon, CNOOC will acquire a 25 percent stake in a pair of offshore exploration blocks — BC9 and BCD10.

It will pay Shell a quarter of what that company has spent on exploration in those two areas, as well as for future exploration.

The blocks are in water that is between 1,200 and 2,100 meters deep and are considered to be deepwater assets.

"China's technology that can be used in exploring for deepwater oil still lags behind what's found internationally," said Liao Na, information director at the energy consultancy ICIS C1 Energy.

"This cooperation with Shell in the South China Sea and West Africa can help Chinese companies learn from foreign companies."

She said the country needs foreign companies to take part in its South China Sea exploration.

"As the biggest foreign gas station brand in China, it is important for Shell to have more upstream support," Liao said.

"The recent cooperation between Shell and Chinese giant players — CNOOC and China National Petroleum Corp — has shown its ambitions in China."

On Wednesday, Shell said it had signed an agreement with China National Petroleum Corp to develop a new phase of the Changbei gas field in China.

That will be the latest phase in the development of the existing Changbei block, which occupies 1,700 square kilometers in the Ordos Basin, according to a statement by Shell.

The project, to move forward, must still win government approval.

# Argentine companies expect to grow in China

By ZHOU SIYU in Buenos Aires
*zhousiyu@chinadaily.com.cn*

Argentine agricultural companies in China are expressing confidence about their ability to expand their presence and have more sales in the world's second-largest economy.

"China has great potential for our business and we are looking forward to selling more processed food and farm products to China," said Rafael Paz, head of Aceitera General Deheza SA's trading department, an agribusiness company in Argentina.

Aceitera General Deheza, which is among the companies that crush the largest amounts of soybeans in Argentina, said it now goes through trading companies to sell soy oil to China. Paz said he believes diversifying China's imports from Argentina will be the best way to develop trade between the two countries.

Argentina sells much of its soybeans and soy oil to China. No less than 80 percent of the South American country's soybeans were sold to China in recent years.

In 2011, China's total imports from Argentina stood at $6.2 billion and its exports to Argentina at $10.6 billion, Argentine official data showed.

In February, China and Argentina signed an agreement on corn trade, a pact that was to take effect on April 20. But China prohibits the imports of some varieties of genetically modified crops that are popular among South American farmers, and the shipments therefore have yet to start.

During a trip to four South American countries in June, Premier Wen Jiabao signed several trade and cooperation agreements with Argentina President Cristina Fernandez de Kirchner, including accords pertaining to nuclear energy, to Chinese imports of Argentine horses and livestock and to some farm products. The two countries also agreed to a $2 billion loan that will finance improvements to Argentina's Belgrano Cargas railway.

Chinese analysts believe enhanced trade relations between the two countries will lead to Argentine farm products being sold at more attractive prices in Chinese markets.

"Argentina's export tariff has raised the price of its farm products," said Gao Yanbin, a senior industry analyst with SWS Research Co Ltd. "But they can still compete with products from Brazil and the United States.

"If the tariff can be reduced through closer cooperation between the countries, Argentina's products will be very popular in China."

Some Argentine companies, to make use of this opportunity, have decided to invest in the Chinese market. Molino Canuelas SA, another agribusiness group in Argentina, is in talks with Chongqing Grain Group Co Ltd, a State-owned grain company, about making investments together.

The two companies plan to start by putting $10 million into a soybean farm and dairy farms in the South American country and then opening several flour mills in Southwest China's Chongqing municipality, said Claudio Canepa, industrial manager of the Argentine company.

"China's market is the future of our business," he said.