Chinese Investments in Brazil
A new phase in the China-Brazil relationship

MAY / 2011
About the research of CBBC

This publication is the first of a series which is part of the research program developed by the China-Brazil Business Council (CBBC) which will deal with relevant issues of economic exchange between the two countries. The intention is to provide updated information and analysis that can support the formulation of policies and strategies for companies and governments departments. CBBC hopes to contribute to closer ties between business communities of both countries, as well as signalize ways and tendencies that can then be further developed by research institutes and think tanks. The monitoring of investments between the two countries is part of the CBBC works plan for 2011.
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Executive Summary

This summary presents the main data and conclusions of the research study on Chinese investments in Brazil.
PART I – BRAZIL AS THE LAST FRONTIER FOR CHINESE INVESTMENTS

China began to operate as a large foreign investor mainly from 2007. As the first map shows, Foreign Direct Investment (FDI) by China had been relatively scarce until then.

The second map from January 2010 shows the real jump in Chinese investments around the world.
The third map shows clearly that the entry of Chinese investments to Brazil was not an isolated event. It was part of a movement that had occurred practically all over the world although it came later in Brazil’s case. The reader can see the strong change that was already apparent in June and not in December 2010.

The CBBC estimates that the amount invested by Chinese companies in operations in Brazil in 2010 came to US$ 12.690 billion. This figure highlights China’s interest in Brazil to a good extent. Obviously it does not represent the macroeconomic impact of the investments on the Brazilian economy, as most of this US$ 12.690 billion refers to the change of control between foreign companies. If we subtract this change of control\(^1\), we find a surprisingly lower number: US$ 1.522 billion. However, we believe that the amount that best represents what has occurred in China-Brazil relations, with all the implications that these could have from here on, is the 12.690 billion dollars. This amount marks the consolidation of the Chinese presence in Brazil through Foreign Direct Investment.

\(^1\) These change of control refers to three investments: the acquisition of the Spanish oil company Repsol Brazil by Sinopec; the acquisition of 40% of the exploitation of an oil field by Sinopec from the Norwegian Statoil; the acquisition of seven Spanish power concession holders by State Grid.
PART II – FEATURES OF CHINESE INVESTMENTS IN BRAZIL

The main conclusion of this part of the study is that the Chinese investments in Brazil announced in 2010 followed two patterns. The first was the inclusion of Brazil in the international base of suppliers of raw materials for China. The second was the entry of the Chinese into the consumer market and the Brazilian industrial arena.

As China does not have the diversity and volume of natural resources it needs to maintain its growth rate, it has been consolidating an international base of suppliers of raw materials for some years, starting with Australia, Indonesia and African countries. The new phase in the bilateral relationship is marked by the inclusion of Brazil in this international base of suppliers of raw materials to China.

Ninety-three percent of the capital of Chinese investments in Brazil in 2010 came from Central State-Owned Enterprises, known simply as Central SOEs. It is reasonable to assume that the predominance of state-owned companies not only reflects one of the fundamental features of the Chinese economy but also indicates that China’s interest in these investments is not a temporary matter, nor will be easily reversed.

The Central SOEs represent a group of 123 large corporations belonging to strategic sectors of the Chinese economy which come under the direct supervision of the central government. This supervision is carried out through the Stated-Owned Assets Supervision and Administration Commission (SASAC). This body has the status of a ministry and is authorized by the State Council to assume responsibility for investing the state’s assets in Central SOEs.
Most Chinese investments announced in Brazil enter through partial mergers and acquisitions.

**CHINESE INVESTMENTS IN BRAZIL BY MEANS OF ENTRY**

1. Mergers & Acquisitions (partial) $16.579 46%
2. Greenfield $8.094 23%
3. Mergers & Acquisitions (Complete) $7.579 21%
4. Joint-Venture $3.500 10%

Source: News items Production: CBBIC.

Most of the investments announced refer to oil and gas, agribusiness and mining.

**CHINESE INVESTMENTS IN BRAZIL ANNOUNCED IN 2010 BY SECTOR OF THE ECONOMY**

1. Energy (oil and gas) 45%
2. Agribusiness 20%
3. Mining 20%
4. Steel 10%
5. Electrical energy 3%
6. Auto 2%

Source: News items Production: CBBIC.

At the same time, the recent growth of the Brazilian consumer market has increased small and medium-sized Chinese investments in the manufacturing area. One of the highlights in this area is the entry of Chinese car makers. The auto sector in Brazil, which is at the heart of the country’s industrial structure, will probably be affected by the arrival of these auto makers which are entering Brazil to compete in the popular car segment, the model which is the hallmark of the auto industry in Brazil. Should the entry of Chinese car makers come about in the ways being considered in 2010, the Brazilian auto makers and, in turn, the whole auto chain could be severely impacted.

The Chinese investments announced to date in 2011 have different features from those of 2010. They have been directed more towards industry and sectors with higher technology content. Nevertheless, this does not conflict with the patterns seen in Chinese interest in 2010.
## Chinese Investments Announced in the Media in 2011

<table>
<thead>
<tr>
<th>MONTH</th>
<th>COMPANY OF ORIGIN</th>
<th>COMPANY OF DESTINATION</th>
<th>AMOUNT</th>
<th>AIM</th>
<th>STATUS</th>
<th>LOCATION</th>
<th>SECTOR</th>
<th>STATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>Lenovo</td>
<td>-</td>
<td>Not reported</td>
<td>The computer manufacturer aims to create a vast distribution network for &quot;total coverage&quot; of rural areas in Indonesia, Brazil, Mexico, India and Turkey in the coming three years, said Chen Shaoqin, chairman of Lenovo's emerging countries business group.</td>
<td>Announced</td>
<td>N/A</td>
<td>Electro electronic</td>
<td>Rural area</td>
</tr>
<tr>
<td>April</td>
<td>Huawei</td>
<td>-</td>
<td>US$ 300 million</td>
<td>Installation of R&amp;D Center</td>
<td>Decided</td>
<td>Campinas</td>
<td>Telecommunications</td>
<td>São Paulo</td>
</tr>
<tr>
<td>April</td>
<td>ZTE</td>
<td>-</td>
<td>US$ 200 million</td>
<td>Construction of an industrial plant in Hortolândia (SP), the first of this type outside China. It plans to hire another 2,000 employees to work in its new plant in upstate São Paulo, in an area measuring 670,000 square meters. Production will begin within six months.</td>
<td>Decided</td>
<td>Hortolândia</td>
<td>Telecommunications</td>
<td>São Paulo</td>
</tr>
<tr>
<td>April</td>
<td>Anhui Longping High-Tech Seeds</td>
<td>Not decided</td>
<td>N/A</td>
<td>Two business models. The first is more conventional and provides the genes of the rice seeds dominated over the last three decades of existence by the local partner, which increases the seeds for sale, paying royalties to the Chinese group. The second possibility is the creation of a joint venture, the conditions of which would be discussed at a later day.</td>
<td>Announced</td>
<td>N/A</td>
<td>Agribusiness</td>
<td>N/A</td>
</tr>
<tr>
<td>January</td>
<td>CR Zengshen</td>
<td>-</td>
<td>N/A</td>
<td>“To bring a group of suppliers to operate in a modular system. Three companies in China have already confirmed units to produce chassis, seats and plastic items. Manufacturers of other parts are holding negotiations. The group expects to acquire 45% of the parts used in production locally.”</td>
<td>Announced</td>
<td>Manaus</td>
<td>Auto</td>
<td>Amazônia</td>
</tr>
<tr>
<td>May</td>
<td>Changxing Polycomp International Corporation (CPIC)</td>
<td>Owens Corning Plant</td>
<td>Not reported</td>
<td>To operate directly in the Brazilian fiber glass market reinforcement area, producing in Brazil, selling these products, providing technical support and encouraging innovation with clients as well as encouraging new uses for the product.</td>
<td>Decided</td>
<td>Caipiras</td>
<td>Fiber glass</td>
<td>São Paulo</td>
</tr>
<tr>
<td>May</td>
<td>Foxconn</td>
<td>-</td>
<td>US$ 3 - 7 billion (screen plant)</td>
<td>The first will be the production of Apple, the second will combine the plants which the company has in Brazil in one location and the third will produce screens in the country. The investment in the screen plant could amount to US$ 3 billion to US$ 7 billion, according to Almeida.</td>
<td>Under negotiation</td>
<td>Juírazy</td>
<td>Electro electronic</td>
<td>São Paulo</td>
</tr>
<tr>
<td>May</td>
<td>Xuzhou Construction Machinery Group (XCMG)</td>
<td>-</td>
<td>US$ 200 million</td>
<td>Construction of an industrial plant in the town of Pouso Alegre (MG) in an area measuring 600,000 m², where the company intends to invest in the construction of its first plant in Latin America, as well as a research and development center. XCMG intends to produce cranes, compacting rollers, graders, excavators and wheel loaders and plans to turn Brazil into an export platform for Latin America.</td>
<td>Announced</td>
<td>Pouso Alegre (MG)</td>
<td>Heavy machinery</td>
<td>Minas Gerais</td>
</tr>
<tr>
<td>March</td>
<td>Hangzhou Cogeneration</td>
<td>-</td>
<td>Up to US$ 3 Billion</td>
<td>Production of steam turbines, machines, metallurgy, energy etc.</td>
<td>Announced</td>
<td>-</td>
<td>Heavy machinery</td>
<td>Minas Gerais</td>
</tr>
<tr>
<td>March</td>
<td>Changing Grain Group</td>
<td>-</td>
<td>US$ 4 billion</td>
<td>Construction of an industrial complex to process soybeans in Barreiras, a processor and fertilizer and a system of storage and logistics for grains.</td>
<td>Decided</td>
<td>Barreiras</td>
<td>Agribusiness</td>
<td>Bahia</td>
</tr>
</tbody>
</table>

Source: News items. Production: CBBC.
PART III – CASE STUDY: CHERY AUTOMOTIVE

There are two possible routes for the entry of the Chinese auto producer Chery to Brazil (the largest investment announced to date in the sector): to set up a CKD plant or a plant with local suppliers, which Chery claims to prefer.

The CEO, Luis Curi, expressed interest in creating an operation connected to the Brazilian industrial base in an interview. In all its previous operations, including in the BRIC member Russia, the company has set up a CKD operation. (This stands for Completely Knocked-Down and is an operation in which all the components are sent from the headquarters, the subsidiary only carries out the assembly work and the CKD plant stands apart from the local industrial base). Obviously, just buying seats and tires would not mean any change to this model.

The final decision will be conditional on the capacity of local suppliers and, in particular, their prices, Mr. Curi said in the interview which appears later in this study.

These two scenarios are not necessarily exclusive and the company could migrate from one to another. In principle, the transition is facilitated by the fact that Chery has acquired a plot of land measuring 1 million m² – half the size of its headquarters. However, it is worth noting that the expected appreciation of the land alone could justify the investment in financial terms.

Chery is a state-owned company belonging to the municipal government of Wuhu city in Anhui province. Although Anhui is close to Shanghai, it is one of the poorest provinces in China. To meet its needs and overcome local challenges, Chery adopted a global vision right from the very beginning and began exporting in 2001 when it received the first authorization from the central government to produce cars bearing the Chery brand.
1 Introduction

1.1 BACKGROUND AND OBJECTIVES
This publication is the first of a series which is part of the research program developed by the China-Brazil Business Council (CBBC) which will deal with important questions for the formulation of policies and strategies by companies or government bodies.

The aim of the series which begins here is to carry out a study of important questions which arise or become significant and which may be subsequently examined in greater depth and with more resources by research institutes and think tanks.

One of the issues most discussed in China-Brazil relations in 2010 was the leap that was occurring in terms of Chinese investments in Brazil. We have decided, therefore, to begin with an investigation on this theme.

As with other analyses, we soon discovered that it was very difficult to quantify with certainty the data in this area. Although the CBBC has made its own estimate of the amount of Chinese investments in Brazil in 2010, the difficulties and uncertainties intrinsic to this kind of effort must be underscored.

We would draw the reader’s attention to the fact that we have not published various pieces of information collected by analysts here because of the uncertainties that hang over them to a certain extent. As a result, assumptions on the decision-making process of the companies will also be reassessed to allow us to reach a more realistic position.

The CBBC will counterbalance this study on Chinese investments in Brazil with an analysis of Brazilian investments in China in the coming months. To do so, we will once again take advantage of the Council’s proximity to the players in the bilateral relationship to discuss and seek more accurate information on the investments. The constant monitoring of mutual investments is part of the CBBC working plan in 2011.

Antonio Barros de Castro
CBBC Editorial Consultant

Édison Renato da Silva
CBBC Analysis Coordinator

André Soares
CBBC International Analyst
1.2 OUTLINE

The present text is split into three parts. The first deals with the entry of investments in Brazil as part of a broader process which is marked by an increase in the importance of China as an international foreign investor.

The second part features only investments which have been announced and those ongoing in Brazil. We carried out analyses of the reasons, form of entry and ownership features of the investors and the destination of the investments in Brazil based on an organized state-of-the-art classification system, using publications on investments. Two patterns of Chinese investment in Brazil emerge: on one hand, there is the desire to participate in the broad and growing Brazilian consumer market with higher added value products; and on the other, the need to incorporate Brazil into China’s international base of suppliers of raw materials, a process that has been increasing as a result of the greater bilateral trade chain in recent years.

In terms of the potential consequences of the entry of large Chinese companies to the Brazilian industrial structure, the CBBC analysis team has examined the auto sector in this first article of a series of studies on bilateral investments. The third section of this survey presents an in-depth look at the largest investment in the sector: the entry of independent car maker Chery. After presenting a profile and the history of the company, we feature an interview with the CEO of Chery in Brazil, Luis Curi, followed by some considerations on the possible strategic movements Chery will make in Brazil and their consequences.

1.3 INTRINSIC DIFFICULTIES IN DEALING WITH CHINESE INVESTMENTS

Although the aim of this study is not to quantify Chinese investments in 2010 but to explore the features of this new stage, it is worthwhile considering the official statistics on the subject. Therefore it is important to recognize the methodological challenges which are intrinsic to the official figures.

The source of primary and systemic data to evaluate Chinese investments in the world is the Ministry of Commerce (MOFCOM). However, the MOFCOM figures do not allow any quantification to be made of the investments directed at a particular country as they include what is known as round tripping, i.e. the outflow and return of resources to Hong Kong. The Brazilian Embassy in China said conversations with MOFCOM technicians confirmed that the Chinese themselves also face the same difficulty in tracking these numbers. Alternative sources of statistics – such as the United Nations Conference on Trade and Development (UNCTAD) – face the same problem as they are also based on the MOFCOM.

To cope with this, the CBBC survey used three approaches. The first was a systematic consultation of news items in the Brazilian media which usually announces the main largest investments. However, this source does not cover some smaller investments which could become significant when taken together. The second approach was through direct interviews with companies and the Brazilian government to find information on investments. The third was to examine the financial statements of Brazilian and Chinese companies and other kind of documents which confirm, or at least indicate, direct investments in the country.

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2 For a detailed explanation of the mechanisms of round tripping, see GengXiao (2004).

3 Problems related to measuring Chinese FDI throughout the world, as well as related alternatives, can be found at: OECD (2003) and Morck, Yeung & Zhao (2008).
As far as the first source of information is concerned – the news items – it should be pointed out that the numbers presented in this study refer to the announcements of investments which should be followed by a schedule for their implementation. Therefore, a reduction in the announcements from one year to another should not be seen as meaning any decline in the flow of investments but would only be a transitional phase from the actual announcement to the gradually execution of the investments.

Finally, it is worth recalling that some investments are really only a transfer of ownership which means that they do not have any initial impact on the Brazilian economy. Despite this, they still represent an increase in China’s presence in Brazil and, therefore, fall within the remit of this study. This is the case with the purchase by the Chinese group SINOPEC of 40% of the Brazilian operations of the Spanish conglomerate Repsol, as well as the purchase of seven energy transmission concession holders by State Grid.

1.4 LEVELS OF IMPLEMENTATION

Attention should be drawn to the different levels of the actual implementation of investments among the foreign investments reported in the media in 2010. Some of the first groups of investments were announced without any details. For example, Dongfeng Motors, one of the largest Chinese car makers, announced that it would build a plant in São Paulo state without revealing the amount of the investments or the timetable. Other investments were described as being under negotiation, such as that of Sinopec/Cnooc with OGX, an oil company from the EBX group. This contrasts with investments where a final decision has been made and even carried out in some cases. State Grid, for example, invested US$ 989 million in buying seven transmission concession holders and began its operations at the start of 2011. Graph 1 shows the volume of Chinese investments in Brazil in 2010, according to the level of implementation.

The CBBC estimates that the amount invested by Chinese companies in operations in Brazil in 2010 came to US$ 12.690 billion. This figure highlights to a good extent China’s interest in Brazil. Obviously it does not represent the macroeconomic impact of the investments on the Brazilian economy, as most of this US$ 12.690 billion refers to the change of control between foreign companies. If we subtract this change of control, we find a surprisingly lower number: US$ 1.522 billion. However, we believe that the amount that best represents what has occurred in the China-Brazil relations, with all the implications that these could have from here on, is the 12.690 billion dollars. This amount marks the consolidation of the Chinese presence in Brazil through Foreign Direct Investment.

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**Graph 1 – Chinese Investments in Brazil by Stage of Negotiation**

- **Announced**: US$ 22,062 million (65%)
- **Confirmed**: US$ 12,690 million (35%)

Source: News item and interviews. Production: CBBC.

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4 Appendix 2 presents details of all the investments mentioned here.

5 These exchanges of control refer to the following three investments: the acquisition of the Spanish oil company Repsol Brasil by Sinopec, the acquisition of 40% of the exploration rights to an oilfield by Sinochem from the Norwegian company Statoil, and the acquisition of seven Spanish energy concessions by State Grid.
2 Part I – Brazil as the last frontier for Chinese investments

2.1 CHINA AS A SOURCE OF FOREIGN DIRECT INVESTMENT

The news that China had become Brazil’s largest trade partner in 2009 was given great coverage. Now China is becoming a large investor in the country, marking a historic moment in the relations between the two economies.

However, this large breakthrough for the Brazilian economy has already occurred in other countries. Graph 2 shows that China has been a source of foreign direct investment since the 1990s and has increased its volume significantly since 2004.

In an attempt to obtain a better understanding of the expansion of Chinese investments in the world, the researcher Pater Buckley carried out a historic analysis of the role of China as a source of Foreign Direct Investment (FDI).

This movement began with the “open doors” policy when state-owned Chinese companies began to carry out their first international operations after they were given authorization to invest. Buckley believes the government adopted a cautious approach which favored investments in know-how and physical assets in order to avoid excessive outflows of capital. He points out that there was no legislation on foreign direct investment prior to 1984 when the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) created two guidelines to examine and approve...
proposals to establish companies outside China. This marked the beginning of China’s engagement in foreign initiatives through the establishment of representative offices by companies such as Shanghai Machinery Export Company, China Petrochemical Import-Export Corporation and China Wukuang Import-Export Company.

This was followed, in a second stage, by a Chinese government decision to encourage international expansion by liberalizing restrictive policies. This allowed more companies to apply to set up subsidiaries in other countries providing they had sufficient capital, technical and operating knowledge and suitable partnerships for joint ventures. Standardized regulations were drawn up as part of the approval process.

From 1992 to 1998, the authorities at regional level concentrated on speculative operations on the financial and housing markets, encouraged by the domestic liberalization promoted by Deng Xiaoping. This movement was only reduced by the Asian crisis of 1997. As Peter Buckley’s survey shows, concerns over the loss of control of state assets, capital flight and problems in commercial exchanges led to tighter approval processes and a stricter way of monitoring the international expansion of Chinese companies. China’s total Foreign Direct Investment (FDI) throughout the world was approximately US$1.2 billion during this period.

This was followed by the “go global” policy, i.e. the expansion of investments at global level. This introduced measures to control the illicit transfer of capital and direct the FDI to genuinely productive proposals. At the same time, FDI in specific industries was actively encouraged through fiscal benefits, help in foreign trade matters and direct financial support, particularly exports of raw materials, textiles and electronic equipment.

When China entered the WTO in 2001, the Chinese government began to reinforce the importance of the “go global” policy for the economy, which was later incorporated into the 11th Five-year Plan. However, the direct and pro-active support by the government in increasing FDI remained limited, mainly to prevent the illegal outflow of capital and the loss of control of state resources. Buckley points out that private companies were officially authorized to apply for approval to make investment projects in other countries from 2003 when the competitive pressures on the domestic market led some Chinese companies to search for new markets abroad. The latest investments indicate that the Chinese authorities are moving from a process of pre-investment approval to a system of post-investment registration, according to Buckley.

Buckley believes very little attention has been given to China’s position as a global investor due to its enormous importance as a recipient of investments. China received almost US$29 billion in investments in the 1990s, more than 7% of the global total. However, this was not the case with some countries, (Australia in particular). In Brazil’s case, the stock of Chinese capital did not begin to gain any relative weight until 2010.
2.2 THE ENTRY OF CHINESE INVESTMENTS TO BRAZIL

The Heritage Foundation research institute carried out a survey of the main Chinese investment projects in the world from 2005 to 2010. Figure 1 shows the geographical distribution of Chinese investments.

Chinese investments around the world seem to be aimed at finding assets that meet the demands of the fast-growing Chinese economy. One of China’s best-known structural problems is its lack of raw materials to meet the needs of production and consumption of its population. This problem has recently become the main determining factor in the choice of Chinese investments and the main destination has been Africa. The reason, as we have already noted, is the search for raw materials.

One third of China’s energy supplies currently come from Africa. A survey from 2008\(^6\) indicates that China has started a series of agreements with different African countries over the last five years. This has led to investments of US 938 million by the China

\[6\] Brown (2008: 158-159)
International Trade and Investment Corporation (CITIC) to set up an aluminum plant in Egypt and US$ 230 million in a ferrochrome mine in South Africa. During the China-Africa Forum, which was held in 2006 and attended by 47 of the 53 African heads of state, China created a fund of more than US$ 5 billion to invest in infrastructure and industrial zones in Africa.

Investments in the Asian countries that are closer to China are overwhelmingly directed at the construction of Chinese companies’ plants. Surveys show that Malaysia is in a favorable position as it has low-cost labor, is culturally close to China, and provides room for Chinese companies to produce in an efficient way and gain scale7.

Chinese investments in Europe have been different to what we have seen until now. They have concentrated on electronic and telecommunications8 equipment in France, the machinery and electronics industries in Germany and the auto industry in the UK. At the same time, large Chinese companies, such as Haier, Lenovo, Huawei, have set up research centers in Europe. It can be said that Chinese investments in European countries are directed at the pursuit of strategic assets and knowledge.

Investments in the US are split between the search for markets and technology. Globerman & Shapiro (2009) state that Chinese companies tend to carry out acquisition in the US in order to benefit from the training provided by their American partners. Santiso (2008) claims that Latin America is one of the regions which complements China most in terms of natural resources9. The Chinese are seeking nickel in Cuba, copper in Chile and Peru, and oil in Venezuela and Ecuador.

The following map highlights the Chinese advance around the world from January 2005 to January 2010. It shows clearly that Brazil did not figure in China’s investment at that time although the rest of Latin America was already a target for the investments.

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8 For the figures related to the countries, see: France – Nicolas (2010); Germany – Hardtke (2009); UK - Nicolas & Thomsen (2008); Europe - Zeng & Williamson (2007).
9 For more on this, see also Holland & Barbi (2010).

Figure 2

Source: Heritage Foundation.
The Economic Commission for Latin America (ECLA) issued the statistics for Chinese investments in Latin America in a recent study. As Table 1 shows, Brazil, which represented 3.5% of Chinese investments from 1990 to 2009, expanded to 62.7% in 2010 and was responsible for 43.4% of the investments to be carried out from 2011. The study also highlighted the increased announcements of Chinese investments in Peru.

**CHINESE FOREIGN DIRECT INVESTMENTS IN SELECTED ECONOMIES**

**Table 1**

<table>
<thead>
<tr>
<th>Country</th>
<th>CONFIRMED</th>
<th></th>
<th>ANNOUNCED (FROM)</th>
<th></th>
</tr>
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<tbody>
<tr>
<td></td>
<td>1990-2009</td>
<td>2010</td>
<td>2011</td>
<td></td>
</tr>
<tr>
<td></td>
<td>US$ MILLION</td>
<td>%</td>
<td>US$ MILLION</td>
<td>%</td>
</tr>
<tr>
<td>Argentina</td>
<td>143</td>
<td>1.9%</td>
<td>5550</td>
<td>36.4%</td>
</tr>
<tr>
<td>Brazil</td>
<td>255</td>
<td>3.5%</td>
<td>9563</td>
<td>62.7%</td>
</tr>
<tr>
<td>Colombia</td>
<td>1677</td>
<td>22.9%</td>
<td>3</td>
<td>0.0%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>13</td>
<td>0.2%</td>
<td>5</td>
<td>0.0%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>1619</td>
<td>22.1%</td>
<td>41</td>
<td>0.3%</td>
</tr>
<tr>
<td>Guyana</td>
<td>1000</td>
<td>13.6%</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Mexico</td>
<td>127</td>
<td>1.7%</td>
<td>5</td>
<td>0.0%</td>
</tr>
<tr>
<td>Peru</td>
<td>2262</td>
<td>30.8%</td>
<td>84</td>
<td>0.6%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>240</td>
<td>3.3%</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Total</td>
<td>7336</td>
<td>100.0%</td>
<td>15251</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Adapted from ECLA (2011)
3 Part II – Features of Chinese investments in Brazil

Chinese investments in Brazil did not have much significance in the period before 2005 and consisted of small amounts related to temporary strategic planning needs of Chinese companies. At that time Brazil was a frontier that China needed to cross in its economic interests.

This frontier was finally crossed in 2010 when there was a big increase in announcements of Chinese investments in Brazil and China began to incorporate trade with Brazil to the needs of its economy.

The leap seen in this volume of Chinese investments in Brazil reported by the media is an important indicator of the rise of a new stage in the bilateral relationship. Besides an increase of 52% in the trade chain between the countries in the 2009-2010 period, the change highlights a new and important component: the arrival of a large volume of foreign direct investment.

As China does not have the diversity and volume of natural resources it needs to maintain its growth rate, it has been consolidating an international base of suppliers of raw materials for some years, starting with Australia, Indonesia and African countries. The new phase in the bilateral relationship is marked by the inclusion of Brazil in this international base of suppliers of raw materials to China.

As Figure 3 shows, the entry of Chinese investments to Brazil was not an isolated event. On the contrary, the investments in Brazil occurred later than in other countries throughout the world.
The signs of this movement have already been seen in the explosive increase in the volume of exports to China since 2004, as shown in graph 3. The main change consists of an expansion of new, large Chinese investments. As we will show, these are concentrated in the mining, oil and gas and infrastructure (railroads and port) sectors and will lead to higher gains and lower costs according to the projections. At the same time, the recent growth of the Brazilian consumer market has led to an increase in investments by small and medium-sized Chinese companies in the manufacturing area.
It is worth highlighting the fact that 93% of the capital invested by Chinese companies which announced their entry in Brazil last year, originated from a kind of a company classified as a Central SOE.

The Central SOEs represent a group of 123 large corporations belonging to strategic sectors of the Chinese economy which come under the direct supervision of the central government. This supervision is carried out through the Stated-Owned Assets Supervision and Administration Commission (SASAC). This body has the status of a ministry and is authorized by the State Council to assume responsibility for investing the state’s assets in Central SOEs.

At the same time, the Chinese government has made a distinction between these 123 companies and selected a group of 23 which it classified as the “Dorsal Fin of China”. These 23 companies are regarded as the pillars of the Chinese economy and eight have announced investments in Brazil: COFCO, CNOOC, Dongfeng Motors, State Grid, China Railway Construction, Baosteel, Sinopec and Sinochem. This group of companies announced investments of US$ 21.560 billion in Brazil in 2010.
The rest of the amount invested in 2010 is related to companies classified as SOEs (state-owned enterprises) or private companies. The state capital is generally represented by a provincial or municipal government. Some of their ownership structure can be traded on the stock market, as they also have greater managerial independence. This is the case with companies such as JAC, Chery, Xuzhou Construction Machinery Group and Chongqing Grain Group.

3.2 THE ENTRY MODE OF CHINESE INVESTMENTS IN BRAZIL

Countries have traditionally experienced three different kinds of entry of foreign investment: a) Mergers and Acquisitions – the total or partial purchase of companies located in a country by a foreign investor, b) Joint Ventures – strategic partnerships between companies involving an equity participation in the creation of a new company with a specific end; and c) Greenfield – the construction of completely new installations in the country of destination by the foreign investor which has total control of construction and operation of the assets.

Most of Chinese investments announced in Brazil have been made through partial Mergers and Acquisitions, as the following graph shows. One of the reasons for this preference for partial acquisitions, generally as a minority shareholder, is to overcome the difficulties arising from cultural differences between the two countries. This also explains why there are so few Greenfield investments. French and Italian studies reinforce this view and show that Chinese investments in France and Italy are also mainly made through Mergers and Acquisitions. In these cases, the acquisitions were facilitated by the national impacts of the recent world economic crisis.

Within the Mergers and Acquisitions model, it is worth highlighting the purchase of 40% of the shares of Repsol Brasil by Sinopec for US$ 7.1 billion which led to the creation of Repsol Sinopec Brasil. Wuhan Iron Steel Group announced the creation of a Joint Venture with the EBX group for the installation of a steel plant in the northern part of Rio de Janeiro state for US$ 3.5 billion. There has been a lower volume of Greenfield investments, e.g. Chery has invested US$ 400 million to build a plant in upstate São Paulo.

12 NICOLAS (2010).
14 The percentages refer to the amount of the investments and not the quantity of investments realized in each entry mode.
3.3 CHINESE INVESTMENTS BY ECONOMIC SECTOR

In the debate on the impact of the Chinese investments in the Brazilian economy, it is important to distinguish between investments which directly and immediately reflect the exceptional Chinese demand and those which enter to compete with the Brazilian industrial system.

3.3.1 CHINESE INVESTMENTS AND PROSPECTS FOR BRAZILIAN EXPORT DIVERSIFICATION

Graph 6 shows that Chinese investments are mainly directed at the ongoing integration between the two economies which is now also being done through investments. This graph shows the distribution of total Chinese investments announced in 2010 by sectors of the economy. It can be seen that the only heavyweight manufacturing sector, steel, represents industrial production and the processing of raw materials at the same time.

The graph shows that the agribusiness, energy and mining sectors are being given absolute priority in terms of Chinese investments. The increases of 70% and 202% in exports of iron ore and oil and gas to China, respectively, last year also show there is no doubt that the Chinese are making Brazil part of their international supply base for natural resources.

This combination is raising some concern among business leaders and the government and some rebalancing may be forthcoming in favor of industry in the near future. In this context, a line of credit amounting to US$ 3 billion by Hanzhou Cogeneration was announced in Minas Gerais in March 2011. The company may also decide that the investments to be carried out will include the production of steam turbines, machinery and railroad terminals amongst others. This would increase the relative weight of the industrial processing of raw materials by Chinese companies in Brazil.

The overwhelming pattern of current investments shows China’s interest in expanding and increasing Brazil’s primary exporting complex. There are two kinds of investment that contribute to this aim.

On one hand, the Chinese takeover of control, total or partial, of Brazilian companies which exploit natural resources, highlights a strategy to expand the volume of production in order to increase the supply of these raw materials to China. This is the case with Sinopec, which acquired Repsol Brasil, and WISCO, which acquired Passagem Mineração, thereby obtaining the right to exploit the Morro de Santana mine.
Other investments point to a strengthening of the Brazilian exporting complex by improving infrastructure and making it more efficient. Examples include a loan of US$ 1 billion by China Development Bank to LLX to finance part of the equipment for the Southeast Superport project and the purchase of the “Salinas Project” by Honbridge Holdings from Votorantim Novos Negócios. This latter project includes iron ore mining and the construction of a 500-kilometer ore pipeline and port in Ilhéus (BA).

### 3.3.2 IMPACT OF CHINESE INVESTMENTS ON BRAZILIAN INDUSTRIAL POLICY

Besides the investments presented in Brazil’s exporting complex, a second type of Chinese investment was announced in 2010 which is worth paying attention to. Although these investments were less significant in terms of volume than the first group, they could have a strong effect on the development of Brazilian industry. The highlight of this group was the entry of Chinese car makers to compete in the popular segment which is the hallmark of the Brazilian car industry. The Chinese competitors have extremely challenging competitive features, such as advanced technological resources typical of luxury models, and even lower prices than the Brazilian producers in the same category. Should the Chinese manufacturers really enter in the ways they were considering in 2010, the impact on the Brazilian car sector and, in turn, the whole auto chain could be very severe indeed.

Three of the largest Chinese auto makers announced investments of at least US$ 620 million: JAC, Chery and Dongfeng. The auto sector is at the heart of Brazil’s industrial structure and is likely to be affected by these entrants.
3.4 GEOGRAPHIC DISTRIBUTION OF CHINESE INVESTMENTS IN BRAZIL

The states of Rio de Janeiro and Minas Gerais are among the main destinations for investments by Chinese companies, as shown in Graph 7. This presence is linked to the concentration of large investments in oil and iron ore extraction in these states. The smaller Chinese investments in the auto, electro-electronic and other manufacturing sectors are more dispersed throughout the country and should remain so.

The direct or indirect purchase of Brazilian land for agriculture by foreign companies, which appears to be concentrated mainly in the states of Bahia and Goiás, is an extremely sensitive political issue. The subject was raised for discussion following the revelation of large acquisitions of land, such as 100,000 hectares in Bahia bought by Chongqing Grain Group for US$ 300 million. This issue is controversial in Brazil and other countries (Canada and Australia, particularly) and has led governments to take action. In this respect, it seems that a consensus is being formed: countries need strong legislation and institutions which can clearly distinguish and characterize opportunities and threats arising from the sale of land to foreign groups.

CHINESE INVESTMENTS BY STATE (US$ MILLION)

Source: News items. Production: CBBC.
4 Part III – Case Study: Chery Automotive

The aim of this part is to present a group of cases within sectors that best represent the investments. In addition to the recent rise in Chinese automobile companies, we will also present an example from the mining sector. An important issue will also be examined, which concerns the production of grains to be sent directly to China. We will also analyze the significance of investment in electricity distribution carried out by State Grid. The three aforementioned points have not achieved significant results for various reasons. In more than one case, there has merely been a transfer of assets; there has not been investment in the strict sense. In other cases, they only amount to intentions to invest. As a result, we decided to focus our study on an area that has attracted a new, interesting, and active entrant to the Brazilian landscape: the automobile sector.

Chinese automobile makers such as Chery and JAC announced investments in the Brazilian market in 2010. Chery already has 73 dealers and has announced a project to construct a plant. JAC also has a wide range of dealers amounting to over 50 in total. Therefore, independent Chinese companies have undoubtedly turned their eyes toward the Brazilian auto market.

The following text presents an overview of the Chinese automobile sector, followed by a description of the rise of Chery. The entry of Chery into Brazil will then be considered, along with an interview with the company’s Chief Executive Officer (CEO). The text concludes with some brief reflections on the significance of the arrival of Chinese auto companies for Brazil.
4.1 FEATURES OF THE CHINESE AUTOMOBILE SECTOR

According to China’s State Statistical Bureau, China’s vehicle registration exceeded 70 million cars in 2010, in comparison to only five million registered in 1990, with an annual vehicle production level reaching an all-time high of 18 million cars per year. Up to the 1990s, the country lacked the technological resources needed for vehicle production as well as an insufficient network of suppliers to provide the necessary components for vehicle assembly. The start-up of the automobile manufacturing sector in China, also known as the “modernization” period, was supported by a combination of central government policies, carried out from 1988 through 1994 that consolidated assets, acquired technological know-how and encouraged Foreign Direct Investment (FDI). All foreign automobile companies which wished to enter the Chinese market were required to partner with a domestic Chinese firm as well as ensure distribution capacity and technology transfer. This approach, focused on international partnerships, led to the formation of a web of joint ventures in China.
Large state-owned Chinese companies such as First Automobile Works (FAW), Shanghai Automotive Industrial Company (SAIC), Changan (Chana), Dongfeng and Beijing Automotive Industrial Company (BAIC) in partnership with their foreign counterparts – Volkswagen, GM, Ford and Toyota, comprise the major share of the Chinese automobile domestic market (86% in 2010). Figure 5 shows the main auto production clusters in China.

However, some Chinese companies—including Chery—have not partnered with a foreign company. These are known as the “independent” companies. Although they are not considered independent of the state; companies like Chery and JAC are also state-owned. “Independent” label refers to two issues: brand and project product technology.

Regarding the first issue, the large Chinese auto makers FAW and SAIC sell their cars with the branding of their international partners. The independents, however, have their own brands, with important accompanying consequences to be discussed later. These features allow the independents to enjoy some strategic options such as producing cars with low added market value or to focus on segments with lower purchasing power. The independents have been gradually gaining domestic market share, with sales jumping from approximately 5% in 2004 to over 14% last year. Table 2 shows the main auto makers and their domestic sales volume; Chery has the highest market share among the independents.
Attention should be drawn to two important aspects of the independents: their freedom to pursue markets abroad and their inclination towards markets with lower purchasing power. Although the independents’ market share in China is not very significant, this is not the case when their aggregate sales volume is compared with that of other countries. For example, the market share of Chinese independents alone came to 2.4 million vehicles, almost the entire Brazilian market in 2010.

Many of these independent companies adopted a strategy of international expansion at an early stage as they were free to sell their cars in other markets. JAC and Chery for example, have a 10-year track record and their products can be found in over 50 countries. A middle term example is BYD which has an international partner but maintains its independence through its control over battery technology which explains why it is much better positioned for the launch of electric cars.

### 4.2 CHERY AUTOMOTIVE

#### 4.2.1 COMPANY PROFILE

Founded in 1997, Chery Automobile Co., Ltd. is the largest independent automobile manufacturer in China. The company headquarters is located in the city of Wuhu, in Anhui province, and is present in 80 countries with 15 production plants, employing approximately 25,000 workers around the world. With its strong foundation, Chery Automobile Co., Ltd. has been successful in the international market. In fact, it is the only automobile manufacturer to earn the title as one of China’s top 200 largest exporters, distinguishing itself as a national champion within the export sector for eight consecutive years.

#### LOCALIZATION OF ANHUI PROVINCE

Source: CBBC
Chery began as an automotive project of the Wuhu city government in Anhui province. Although Anhui is located near Shanghai, it is considered one of China’s poorest provinces and is not characterized as having large industrial companies. In the 1990s, which was a time when China’s automobile industry experienced high profits due to new measures being implemented by the central government in order to develop the sector, the municipal government sought opportunities to develop the local economy.

The first big opportunity arose in 1995 during a visit to a trade fair in Europe when the Wuhu government learned that Ford UK had an assembly line for sale. The line was bought in 1996 for US$ 25 million and transferred to China. Another breakthrough in Chery’s rise was the arrival of Yin Tongyao, its current CEO. Yin came from Anhui but had spent 12 years away as an engineer for FAW and line manager for the assembly of FAW-VW Jetta. Along with his knowledge of car production, Yin also brought a highly qualified team from FAW to Chery. At that time when FAW was only producing cars for Volkswagen, Chery’s proposal was daring: to produce native Chinese cars, a very attractive objective in terms of challenge for local engineers.

The industrial policy measures of 1994, which aimed to reduce the number of companies in the sector, meant that Chery was unable to obtain a license to produce cars. As a result, it decided in March 1997 to create a group of companies to produce car components and founded Anhui Automotive Part Industrial Company (AAPIC). Although the development project for the automotive industry in Wuhu was not in line with the central government’s guidelines, the new company had the total backing of Anhui province. Xialai Zhan – the main aide to the mayor of Wuhu and later mayor himself – was the first CEO of AAPIC. The company began producing its first model project for the Qirui (Chery) sedan even though it did not have a license to produce cars from the central government.

Over 2,000 cars were produced in 2000 and, as they could not be sold to the general public, the Wuhu municipal government decided that the city’s taxi companies could only use the Chery model.

When the central government discovered that year that AAPIC was producing unlicensed cars it ordered it to shut down the plant. In order to get round the requirements, the Wuhu municipal government held negotiations with the central government and offered a 20% ownership stake of AAPIC to SAIC (the largest Chinese automaker at that time). This led to the founding of the SAIC-Chery Automobile Company. As a result, Chery obtained the license to produce cars and also maintained its managerial independence. On the other hand, it gave 20% of its profits to SAIC. Another immediate effect of the merger with SAIC was to raise awareness of the Chery brand on the Chinese market. Selling cars bearing the SAIC brand led clients to believe that the cars had the same quality as those of the large manufacturers in Shanghai.

China’s entry into the WTO in 2001 was a very important breakthrough in Chery’s upward path as the Chinese government had to relax regulations to meet the needs of membership. State control of the Chinese automobile market was against the practices needed to enter the WTO and had to be reduced gradually. As a result, Chery obtained a license in 2001 to produce cars independently from SAIC.

The decisive event that led to this separation occurred in 2003 when Chery launched its sub-compact, the Chery QQ, six months before GM launched the Spark model. GM claimed that the Chery QQ was a copy of the Spark, an allegation that led to a heated row with SAIC, GM’s main partner in China. As a result, the American company put pressure on SAIC to prevent the launch of the Chery QQ. However, this pressure brought few results as SAIC had no say in the Chery management. In a bid to smooth the row with GM, SAIC sold its stake back to Chery. As a result, in September 2004, Chery became an independent company once again owned by the Anhui government.
4.2.3 CHERY AUTOMOTIVE’S INTERNATIONAL EXPANSION

Chery declared its global vision right from the very beginning and began to export in 2001 when it was first authorized by the central government to produce cars.

The retraction of the Chinese market in 2004 led Chery to strengthen its export operations. This can be seen in the jump in the volume of its export which soared from 1,100 units in 2003 to 50,000 in 2006. Last year it was responsible for 50% of China’s car exports. Its products go to countries like Iraq, Iran, Egypt, Algeria, Libya, Bangladesh, Cuba and Malaysia, smaller and less sophisticated markets where Chery cars are well accepted as they have an accessible price.

The choice of CKD plants (Completely Knocked Down) abroad complements its international expansion strategy. A CKD plants is a production line in which all the components needed to assemble the product are supplied by the company’s headquarters. This method allows it to maintain quality control over the components, as well as the costs and prices. On the other hand, countries like Iran, Egypt and Algeria, which have no developed automotive sector, have no network of components suppliers needed to meet the demand for the production of a car. This is one of the reasons why Chery chose to set up CKD plants abroad.

The strategy began in 2003 when Chery reached agreement with the Iranian company SKT Co. to set up a CKD plant with productive capacity of around 50,000 cars. Chery provided the product technology and set up the production line. The company currently has 11 CKD plants abroad in countries such as Iran, Malaysia, Ukraine, Russia, Egypt, Indonesia, Thailand and Uruguay.

4.3 CHERY’S PLANS IN BRAZIL

4.3.1 ANNOUNCEMENT OF CHERY’S INVESTMENT IN BRAZIL

Chery Brasil has 73 dealers in Brazil and is rapidly expanding its network to the west, south and north of the country. The constant growth in demand for Chery vehicles in Brazil has led the company to announce that it intends investing in a plant at Jacareí (SP). In-depth studies were held in six states and took into consideration a number of macroeconomic variables which influenced the decision on where to locate the plant and its operation.

Chery’s decision took into account the fact that São Paulo and Jacareí were located in the center of the Brazilian auto consumer market and the region had a supply chain for the auto industry in place. The project to establish the plant will be financed entirely by Chery at a total investment of US$ 400 million, according to its global plan. The plant will be set up in an industrial park and cover an area of 1,000,000 m².

The project is scheduled to be built in two phases. The first, at an investment cost of US$ 130 million, will establish the manufacturing unit with annual production capacity of 50,000 vehicles in 2013 and two operating shifts. The second, at an investment of US$ 270 million, will have an annual production capacity of 150,000 vehicles and introduce Chinese suppliers to the Brazilian industrial scene.

The models to be produced in the initial phase will be the S12 (A1) and A13 (Fulwin 2) and will be flex fuelled to meet the requirements of the Brazilian market.
4.3.2 INTERVIEW WITH LUIS CURI, CEO, CHERY AUTOMOTIVE BRAZIL

Antonio Barros de Castro: Against the current background, we would like to know the next step Chery is considering. We know you are going beyond the dealers’ network and are considering setting up a plant in Jacareí in an area of approximately one million square meters and intend investing 400 million dollars. This would fit in neatly with a step forward in the company’s strategy. The first main question is why are you taking this step and what are your intentions and aims?

Luis Curi: First of all, we would like to position Chery in Brazil which Chery has been looking at for some time. I have been involved in this project since 2007 and Brazil has always been an interesting and priority market for Chery. At a certain moment during the negotiations with the partners from the local retail partners, Chery decided to enter Brazil on its own account. This idea was put aside for a while due to the American crisis in 2008 as nobody knew its size and how it would affect countries. It proved to be very harmful at first in the rest of the world, with some exceptions such as China and Brazil.

We then decided to enter as all the new commerce companies enter new and unknown markets, which was through a local partner, as JAC is doing. We entered through the company which is called Vengue. However, it had been established right from the beginning that this would be a period of transition until Chery could absorb enough knowledge and culture to begin to walk on its own feet.

The investment in the plant has been part of Chery’s plan since 2007. This is a project for 2013 and has been approved by the National Development Reform Commission, the Chinese federal government and is linked directly to the office of China’s prime minister. Chery is a state-owned company from a province called Anhui.

So what is the reason for a plant in Brazil considering that there is a great advantage in producing in China? This advantage does not apply to Chery because, as it is an assembler, it buys the main parts to put the auto together from the same companies that supply FIAT, Ford or GM. I am referring to Bosch, Magneti Marelli, Visteon and Johnson Controls. There is no reason to believe that a Bosch part in China will cost 10% of what it costs in Brazil. In fact, it is 20%-25% cheaper and not 90%. Chery does this with more than 75% of the parts; it only assembles the car.

We have a punitive tax system in Brazil, with a 35% duty on imports. At the same time, we have a very large lead-time of four months between the order and the receipt of the merchandise. During this period we are exposed to the currency variation, financial cost and supply issues. Logistics can add up to greater costs, given the worsening of the situation in the Middle East, Africa or even Asia.

On the other hand, as Chery has the mission of being a global brand, it has a program called “foreign abroad”. Many countries have no tradition in terms of cars whereas in Brazil, we have almost 200 million experts in cars. Therefore, our company will have to acquire experience here. We are personally helping Chery in this sense, as the cultures are different. For example, the white interior which is typical in China is not accepted here. We are learning. A plant in Brazil with a research and development center will give a more western air to the Chery car.

This is been a natural process by the Korean companies. China is following the same steps in terms of autos, only much faster than the Koreans. Brazil is a priority in this process of international expansion of the brand as it is the fourth-largest market for cars in the world.

China is first, followed by the US, Japan and Brazil. As Chery does not yet have the breathing space and productive capacity to confront the American and Japanese markets, and also because they are not markets that interest Chery, the company chose to focus on the BRICs. We are doing well in Russia and have plans to make a strong entry to India. The company is currently constructing three new plants in China and one in Brazil.
I would like to go into a little depth in your last statement: “three new plants in China and one in Brazil”. What is the difference for Chery between a plant in China and one in Brazil?

The Brazil plant is a new experience for Chery. Although the company has 11 plants, they are all actually CKDs. The first great undertaking Chery has made outside China is in Brazil. Therefore, the big difference is this unparalleled situation - dealing with the labor legislation, environmental laws, negotiating with suppliers, etc. Negotiations with Bosch in China are different from negotiations in Brazil.

Chery is an assembler, supplied by Bosch, Visteon, etc. As Bosch is in China and in Brazil, we imagine there could be a great similarity in the operations. If the negotiations are successful, you will receive components from Bosch and Visteon here and if that does not work out, will you import from China?

Last week, I was invited to get to know Benteler, a supplier of air suspension axles, which has signed a large order with Chery. This is a point I mentioned before. Everything for Chery is supplied by Benteler China and since I do not believe that Benteler China can offer products for half the price of Benteler Brazil, why not get supplies here?

Therefore the difference in Brazil compared with Uruguay, for example, is that there is no chance of doing this in Uruguay. There are no local suppliers with the level of competitiveness of the Chinese, whereas here there is a chance of assembling locally. Is this the case?

This is the great difference. There is no autoparts industry in Uruguay and the Chery plant is a CKD.

Is it a CKD in the strictest sense, i.e. when the unassembled car comes in a container? Exactly. A kit comes with the car to be assembled.

Does this mean that the plant in Brazil will be the first Chery plant outside China which will not follow the pattern of the CKD? As I said before, it will be a production plant.

What more would be done here besides the pressing work?

Everything will depend on the price but, in principle, the power train would come from China and we are open to negotiations for the rest.

I am interested in your emphasis to the power train. Why is that? Technology. This is our great differential in relation to most of the independent Chinese assemblers. Chery has its own technology for engines and transmission system called ACTECO. Many Chinese brands depend on engines from Mitsubishi, Suzuki but these are old engines. Chery has its own technology. We do not depend on anyone to supply the heart of the car, i.e. the engine plus the transmission system.

“Do not depend on anyone”. Someone hearing this for the first time, might be a bit skeptical. What do you mean by independent?

Chery is a state-owned company. When we refer to “independent” it is because the company has its own brand. All the global auto brands
are present in China. SAIC will not be exporting to Brazil. What would it be exporting? The products of GM and VW? JAC has its own brand; GreatWall, BYD, HAFEI and also LIFAN.

And is the great criteria the power train, or are there other differences? Could it only be design? We know that the heart of the car is yours, and this defines the technology, but is this the only thing that defines being independent?

No, on the contrary. Look at CHANA which buys a second generation, “second line” engine, i.e. it buys the technology which is available. But if and when Mitsubishi, Suzuki or Hyundai stop selling this line of engines, the situation will become complicated for Chana. An independent company is not limited to one international partnership.

Are the technology for the heart of the car and the freedom of markets what defines the independency? That is correct and Chery is the largest independent company in China. Although SAIC is much larger, it sells VW and GM.

Are the independent companies gaining more weight in the Chinese market? Currently they are. In the large cities, obviously, you see more western, Japanese or Koreans brands. However, the independents, such as GreatWall, BYD and Chery, are present in the interior of China. The Chinese passed directly from bicycles to cars. Currently we have a market of 18 million vehicles which represents nothing in comparison with China’s potential. It means that 2% of the population bought vehicles in China in one year.

Why there is a strong prevalence of independent companies in the interior? This is because the license to sell and register cars in Shanghai is expensive, which is not the case in Wuhu.

Is this not a local attitude, a provincial nationalism of Anhui with Chery?
Yes, there is no doubt that this is also the case.

The Brazilian public is unsure whether Chery will buy from Brazilian suppliers, based purely on costs, and there is a suspicion that it will import everything. This would be a backward step for Brazil’s industrial structure. I have the feeling that this is a question on which you will have to have a strong and clear positioning.

Our fight is to break this stigma related to Chinese products and companies. For example, when we announced that Chery was arriving, it was said that we would be coming in with poor quality products and leaving quickly. It was said that we would not set up a plant here. We signed a contract with the municipal government of Jacarei and the São Paulo state government. I visited the two auto industrial centers and have had meetings with labor unions to catch up with suppliers and the business to be done here. I have also had meetings with more than 10 companies: Benteler, Visteon, Bosch, Johnson Controls, Magneti Marelli, etc. Chery is coming to stay. We now face a commercial question and have to find the buying price here. We constantly have to prove in this fight that we are part of the world trade with the same conditions to operate as an American, European, Australian or Asian company.

Does the Chery Holding company produce autoparts?
No but we have joint ventures for autoparts. We have, for example, one for air conditioning and another with Johnson Controls but few autoparts.
It is said that Hyundai will bring its own suppliers from Korea to be based around the plant. Would you do the same? This could happen in some specific cases of components, particularly if they are not available here. Chery could convince some of its partners to come to Brazil. This will depend on the negotiations.

You mentioned setting up a Research and Development Center in Brazil. What kind of R&D do you intend carrying out?

A center to make adaptations for the Latin America market. Brazil is going to be an export center, without any doubt. One of the secrets of having a product with a highly competitive price is to have heavy production from one model. If we follow this strategic line, Brazil will not absorb the production of this single model on a large scale and we will have to supply other markets.

Would the question of the flex car come within this group of R&D adaptations?

The flex car has already been developed in China and is arriving among the next wave of cars. It was developed by the Brazilian operations of Delphi and we received three totally flex car models in July.

4.4 THE CEBC’S ANALYSIS OF THE CHERY CASE

As the previous interview showed, Chery foresees the possibility of a turnaround in its international strategy in Brazil. The Chinese company already has 11 operations in different countries, all of which share the same feature, i.e. they are CKD plants.

Should the plant be set up in Brazil, it would be a milestone in the company’s international expansion.

The interview also makes it clear that the company is in a negotiation stage on this project which could be carried out directly or postponed due to difficulties in making the undertaking commercially viable. Chery’s CEO gives the strong impression that the entry into Brazil is the beginning of a long-term project involving the establishment of the brand in Latin America. If this is the case then it seems reasonable to reach the conclusion that this project is not directed at short-term profitability.

There are two possible scenarios for Chery in Brazil. In the first, the company will carry out its investment but maintain the feature of a CKD plant while the second scenario foresees Chery setting up a plant and using a network of Brazilian suppliers, some which are also suppliers in China. We present some comments on these two scenarios below.
4.4.1 PATH 1 - CDK PLANT

Path 1 assumes Chery deciding to create an operation in Brazil similar to that it has already carried out in its international expansion project. In this case, the operation would be identical to Chery’s plant in Uruguay with its headquarters in China operating as the single supplier of parts and components.

It is also worth noting that the time spent between the order and the arrival of the imported parts – said to be four months – represents a serious operational obstacle to this strategy. The Brazilian import tax of 35% is another disadvantage. On the other hand, the purchase of a plot of land measuring approximately one million square meters raises other questions. One of these is whether the company has exaggerated the amount of land needed for this kind of operation, bearing in mind that its headquarters in China cover two million square meters.

On the other hand, the purchase of the land in itself does not mean that the company has committed itself in terms of the form or the volume of the operations. The acquisition of the land is a financial investment which gives the company great freedom in relation to its future. Another factor is that interest rates for investments in China are very low in nominal terms and are actually negative in real terms in some cases.

The degree of freedom the company would have from the sheer size of the plot gives it different strategic options and could even result in a cluster of suppliers being formed around Chery.

However, if the first path is chosen – bearing in mind the Brazilian industrial base – the likeliest outcome is that Chery will set up a quasi-CKD operation with components such as seats, windows, batteries and tires coming from a local chain of suppliers.

Path 1 could also be seen as a cautious start, with the company awaiting possibilities and building up sufficient scale to move on to the next strategy – a plant with a high local content. Two factors should be taken into consideration in the decision to move on to strategy 2 or not: the success of the first stage and the degree of commitment to the layout of the operation. In short, if the company succeeds with the CKD plant and the cost to structure a new plant is not high, Chery would tend to go for path 2.
Path 2 would be marked by a decision to set up a supply operation in Brazil. Obviously some parts could be imported but these would be few and the most important components. This would be a different course from pursued by Chery in all the other countries where it has expanded internationally.

As the interview shows, there is at least one factor in favor of this option: the fact that the large important autoparts producers in Brazil are also Chery’s suppliers in China. There would be no great difficulties in principle for these suppliers to include Chery’s Brazilian subsidiary among their clients, given the great scale of their operation in relation to the demand at the start of Chery’s operations, with annual production of 150,000 vehicles foreseen. These companies would have to “dedicate” some parts to specific features of Chery’s demand to some extent but this would be well within the ability of the large Brazilian autoparts suppliers. Therefore, the problem consists in knowing whether the large local autoparts suppliers would be able to provide their products at competitive prices in Brazil, compared with their subsidiaries in Asia.

These points to the existence of two kinds of problems: a) the creation of a local network or alliance of suppliers; and b) production costs.

In terms of costs, it could be extremely difficult for Chery to maintain the competitive advantage it has in China. This is not only due to the cost of labor or the lack of incentives provided by the government of Anhui but also to questions of scale, as well as the lack of a cluster around the company in Brazil. The difficulty in this case is not because of the so-called Brazil cost but in creating a competitive cluster as the government of Anhui did in order to develop the area around Chery’s plant in Wuhu.

Should the company opt for path 2, its investments could be seen, in theory, as an opportunity for the autoparts and components supply chain in Brazil as the company’s long-term prospects point to annual production of 150,000 vehicles, as already mentioned. On the other hand, this would be consistent with the choice of the BRICS in its international expansion process and, in this case, Brazil would be a production platform, at least for South America.

Chinese cars are currently been quoted in Brazil at prices similar to the competitors in their category. This differs from Chery’s typical approach in China, as can be seen in Graph 8.
Caution is needed when it comes to price comparison. It should be taken into account, for example, the fact that a car like the Chery QQ is being offered in Brazil with items such as ABS brakes, airbag, hydraulic steering and air conditioning. From this viewpoint, these vehicles may be regarded as modern and cheap. The greatest impact of the entry of Chery to Brazil could come from a change in the expectations and lead consumers to become more demanding. If this comes about, then consumers could buy a car with more resources for the price of a popular model. This simple change seems to touch the heart of the auto sector in Brazil which is concentrated on popular compact cars, as is well known. Oddly enough, this kind of effect does not exist in China where cheap cars are relatively few in the large cities on the coastal region and are only found in large numbers in the interior and west of the country.

In short, Chery’s proposal for Brazil should speed up the competition for popular cars. Should this occur, the company would have to maintain its aggressive policy in terms of prices and, to do so, bring low-cost parts from China and/or obtain contracts at low cost from suppliers in Brazil.
5 Outlook for 2011

Chinese investments announced in 2011 to date have different features from those in 2010. There has been a rearrangement in favor of the industry and the more advanced technological sectors.

This change is evident in a sector analysis of the projects. Among 10 projects which have been announced, only one is related to agribusiness and there are still no big projects in the Oil & Gas, Mining and Steel sectors, which were responsible for 75% of the volume of the investment announced in 2010. Table 3 sums up the investments monitored.

It is still too early to reach any conclusion on the investment profile but an outstanding feature is the prevalence of new investments through Greenfield projects. Eight of the 10 projects announced refer to the establishment of a plant or a research center. It is also worth noting, for example, the investment announced by ZTE (Telecommunications) to build an industrial park in Hortolândia (SP) in an area covering 470,000 square meters and with the potential to create 2,000 new jobs. It is also worth mentioning the announcement by Huawei that it intends investing US$ 350 million in setting up a research and development center in Campinas.

Another possible change in the outlook for 2011 refers to the reason for the investment. Whereas most investments announced in 2010 favored natural resources, there was a strong move toward the consumer market in 2011. For example, Lenovo announced that it aimed to create a large distribution network to give “total cover” to rural areas in Brazil in the coming three years. Despite this, the reader should note that the very nature of investments aimed at raw material means they cannot be split and involve large amounts whereas investments in manufacturing tend to be greater in quantity although they rarely reach enormous volumes of resources.
## Chinese Investments in Brazil Announced in 2011

<table>
<thead>
<tr>
<th>MONTH</th>
<th>COMPANY OF ORIGIN</th>
<th>COMPANY OF DESTINATION</th>
<th>AMOUNT</th>
<th>AIM</th>
<th>STATUS</th>
<th>LOCATION</th>
<th>SECTOR</th>
<th>STATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>Lenovo</td>
<td>-</td>
<td>Not reported</td>
<td>The computer manufacturer aims to create a vast distribution network for &quot;total coverage&quot; of rural areas in Indonesia, Brazil, Mexico, India, and Turkey in the coming three years, said Chen Shaopeng, chairman of Lenovo's emerging countries business group.</td>
<td>Announced</td>
<td>N/A</td>
<td>Electro electronic</td>
<td>Rural area</td>
</tr>
<tr>
<td>April</td>
<td>Huawei</td>
<td>-</td>
<td>US$ 300 million</td>
<td>Installation of R&amp;D Center</td>
<td>Decided</td>
<td>Campinas</td>
<td>Telecommunications</td>
<td>São Paulo</td>
</tr>
<tr>
<td>April</td>
<td>ZTE</td>
<td>-</td>
<td>US$ 200 million</td>
<td>Construction of an industrial plant in Hortolândia (SP), the first of this type outside China. It plans to hire another 3,000 employees to work in its new plant in upstate São Paulo, in an area measuring 670,000 square meters. Production will begin within six months.</td>
<td>Decided</td>
<td>Hortolândia</td>
<td>Telecommunications</td>
<td>São Paulo</td>
</tr>
<tr>
<td>April</td>
<td>Anhui Longping High-Tech Seeds</td>
<td>Not decided</td>
<td>N/A</td>
<td>Two business models. The first is more conventional and provides the genes of the rice seeds dominated over the last three decades of existence by the local partner, which increases the seeds for sale, paying royalties to the Chinese group. The second possibility is the creation of a joint venture, the conditions of which were discussed at a later day.</td>
<td>Announced</td>
<td>N/A</td>
<td>Agribusiness</td>
<td>N/A</td>
</tr>
<tr>
<td>January</td>
<td>CR Zengshen</td>
<td>-</td>
<td>N/A</td>
<td>To bring a group of suppliers to operate in a modular system. Three companies in China have already confirmed units to produce chassis, seats, and items. Manufacturers of other parts are holding negotiations. The group expects to acquire 63% of the parts used in production locally.</td>
<td>Announced</td>
<td>Manaus</td>
<td>Auto</td>
<td>Amazônia</td>
</tr>
<tr>
<td>May</td>
<td>Changan Polycomp International Corporation (CPIC)</td>
<td>Owens Carining Plant</td>
<td>Not reported</td>
<td>To operate directly in the Brazilian fiber glass market reinforcement area, producing in Brazil, selling these products, providing technical support and encouraging innovation with clients as well as encouraging new uses for the product.</td>
<td>Decided</td>
<td>Capivari</td>
<td>Fiber glass</td>
<td>São Paulo</td>
</tr>
<tr>
<td>May</td>
<td>Foxconn</td>
<td>-</td>
<td>US$ 3 - 7 billion (screen plant)</td>
<td>The first will be the production of Apple, the second will combine the plants which the company has in Brazil in one location and the third will produce screens in the country. The investment in the screen plant could amount to US$ 3 billion to US$ 7 billion, according to Almeida.</td>
<td>Under Negotiation</td>
<td>Jundial</td>
<td>Electro electronic</td>
<td>São Paulo</td>
</tr>
<tr>
<td>May</td>
<td>Xuzhou Construction Machinery Group (XCMGI)</td>
<td>-</td>
<td>US$ 200 million</td>
<td>Construction of an industrial plant in the town of Paua Alegre (MG) in an area measuring 800,000 m², where the company intends to invest in the construction of its first plant in Latin America, as well as a research and development center. XCMG intends to produce cranes, compacting rollers, graders, excavators and wheel loaders and plans to turn Brazil into an export platform for Latin America.</td>
<td>Announced</td>
<td>-</td>
<td>Heavy machinery</td>
<td>Minas Gerais</td>
</tr>
<tr>
<td>March</td>
<td>Hangzhou Cogeneration</td>
<td>-</td>
<td>Up to US$ 3 billion</td>
<td>Production of steam turbines, machines, metallurgy, energy etc.</td>
<td>Announced</td>
<td>-</td>
<td>Heavy machinery</td>
<td>Minas Gerais</td>
</tr>
<tr>
<td>March</td>
<td>Changzhou Grain Group</td>
<td>-</td>
<td>US$ 4 billion</td>
<td>Construction of an industrial complex to process soybeans in Barreiras, a processor and fertilizer and a system of storage and logistics for grains.</td>
<td>Decided</td>
<td>Barreiras</td>
<td>Agribusiness</td>
<td>Bahia</td>
</tr>
</tbody>
</table>

Source: News items. Production: CBBC.
6 Bibliographical References


MORCK, R; YEUNG, B; ZHAO, M (2008). Perspectives on China’s outward foreign direct investment.


7 Appendices

7.1 APPENDIX 1: METHODOLOGICAL DETAILS

In relation to the method of measuring FDI, Zhan (2006) presents three approaches: balance of payments, administrative coverage or survey.

The first approach suggests using the balance of payment transactions to obtain statistics on Foreign Direct Investment (FDI). However, the writer warns that a significant portion of the investments abroad are not linked to cross-border capital transactions, such as reinvested profits, capital transferred in the form of machinery, and inter-company debts. Another point which does not favor the use of the balance of payments is the lack of transparency of the information available on the investments. The balance does not allow information to be obtained on the geographic distribution and allocation by sector of the investments. China’s National Bureau of Statistics publishes its Balance of Payments but, as has already been pointed out, this source is not reliable as it includes a series of data that is not precise.

The administrative approach involves using the official sources of the investor country which analyzes supports and approves foreign investment projects. China’s Ministry of Commerce (MOFCOM) is responsible for raising this data and creating the statistics. The problem with this source is the method it uses. Many writers have highlighted the lack of precision of the MOFCOM figures. The OECD report (2003), shown in Table 4, highlights the discrepancy in the methodology used by MOFCOM compared with international standards. The OECD published reports in Chinese FDI in 2006 and 2008 which referred to the 2003 report and pointed out that these restrictions remain.
Rosen & Hanemann (2009) discussed the directions and policies of China’s FDI and commented on a series of factors which distort the MOFCOM data:

“Several factors distort the accuracy of China’s aggregate data on OFDI. First, MOFCOM does not rely on direct enterprise surveys to compile data but rather on information collected by local commerce bureaus, where firms must register their overseas investments. This can result in significant underreporting by firms that wish to side-step approval procedures for a variety of reasons, thus dragging down the aggregate figures. Another major problem, resulting in undercounting, is that many Chinese firms do not report foreign earnings that are reinvested abroad as OFDI as required by international standards. While these factors suggest that actual outflows could be much higher, there are also reasons to suspect that China’s official statistics are too high.” (ROSEN & HANEMANN, 2009: 3).
Brown (2008) states: In relation to China’s statistics, the brave, the wise, the coward and the fool are treated equally. “Faced with this lack of trust in relation to the statistics by administrative institutions in China, an alternative method is to carry out a survey presented by Zhan (2006) which says that the use of surveys or field studies is a favorable way of collecting data that is not included within the Balance of Payments or is outside the scope of the administrative units, e.g. reinvested capital, revaluation of capital in the face of depreciation of assets and loan between companies. At the same time, these studies allow us to obtain data which is more accurate in tracking the investment (sector, geographical location and type of operation).

**Round-Tripping**

Another subject that has been widely discussed in relation to the quantitative aspect of Chinese FDI is the so-called Round-Tripping. This term is used to describe the process of sending capital from China to Hong Kong and the return of this “investment” to China.

The subject has been widely discussed15. Xiao says (2004) Round-Tripping can lead to an exaggeration of 25% to 50% in China’s FDI. Xiao (2004) carried out a detailed study on the quantitative impact of Round-Tripping in the volume of FDI calculated by MOFCOM, and sought the main reasons for handling capital through Hong Kong which are:

- Advantages and fiscal incentives: China has preferential policies to attract FDI including low taxes, land rights use, administrative support and preferred financial services provided through domestic financial institutions.
- Protection of property rights: Continental China has a different legal and institutional system from Hong Kong. The basic infrastructure to comply with property rights in China is weak. Many Chinese companies leave their capital in a location with stricter regulations and when they foresee an opportunity for an improvement in property rights by the Chinese government, they direct their investments to this region.
- Expectations on currency control and the exchange rate. International pressure has expanded in recent years to reassess the value of the RMB. China has also been gradually relaxing controls over capital accounts. Although activities related to speculation with interest rates are difficult to track, there is a view that investments enter and leave China according to the monetary readjustments.
- The competitiveness of Hong Kong in relation to financial services. Many Chinese companies have a close relationship with companies in Hong Kong where they also have offices and subsidiaries. The main attraction of Hong Kong for Chinese companies is the stock market and many Chinese companies are also listed in the Hong Kong Stock Market.

15 About this subject, see Huang (2005); OECD (2003); Brown (2005), Zhang (2006), OECD (2008); Rosen & Hanemann (2009); Sutherland (2010).
## APPENDIX 2: OVERVIEW OF CHINESE INVESTMENTS IN BRAZIL

<table>
<thead>
<tr>
<th>COMPANY OF ORIGIN</th>
<th>COMPANY OF DESTINATION</th>
<th>LEVEL OF IMPLEMENTATION</th>
<th>AMOUNT US$</th>
<th>AIM</th>
<th>LOCATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sinopec</td>
<td>Repsol Brasil</td>
<td>Confirmed</td>
<td>$7,109,000,000</td>
<td>Purchase of 60% of the Brazilian operations of the Spanish company Repsol</td>
<td>Not announced</td>
</tr>
<tr>
<td>Sinachem</td>
<td>Statoil ASA</td>
<td>Confirmed</td>
<td>$3,070,000,000</td>
<td>Acquisition of 60% of the exploration rights of the Peregrino offshore oilfield</td>
<td>Campes Basin - RJ</td>
</tr>
<tr>
<td>State Grid</td>
<td>Eleonor SA, Abengoa SA, Isolux Ingeniería SA e Cobra Instalaciones y Servicios SA</td>
<td>Confirmed</td>
<td>$983,000,000</td>
<td>Purchase of seven energy transmission concession holders</td>
<td>Conceição beduíns: Ribeirão Preto, Serra Paracatu, Paçus de Caldas, Itumbiara, Serra da Mesa, Expansión Transmisión de Energía (Electrica - which operates in the Federal Energy Grid) and Expansión Transmisión Riumbiara Marumbi</td>
</tr>
<tr>
<td>Wuhan Iron and SteelGroup Co. (Wisco)</td>
<td>MMX</td>
<td>Confirmed</td>
<td>$600,000,000</td>
<td>Purchase and sale of iron ore, with 50% of production from the Serra Azul unit for Wisco*</td>
<td>Minas Gerais</td>
</tr>
<tr>
<td>Chery</td>
<td>São Paulo government</td>
<td>Confirmed</td>
<td>$400,000,000</td>
<td>Installation of plant</td>
<td>Juazeirí - SP</td>
</tr>
<tr>
<td>Hanbridge Holdings</td>
<td>Veteranis New Business</td>
<td>Confirmed</td>
<td>$30,000,000</td>
<td>Purchase of &quot;Salinas Project&quot;, which includes iron ore mining, construction of an iron ore pipeline measuring 500 kilometers and a port in Itbiúna - BA</td>
<td>Bahia and Minas Gerais</td>
</tr>
<tr>
<td>Jianhual Automotive Co. (JAC)</td>
<td>-</td>
<td>Confirmed</td>
<td>$500,000,000</td>
<td>Network of concession holders</td>
<td>São Paulo</td>
</tr>
<tr>
<td>Sany Heavy Industry</td>
<td>-</td>
<td>Confirmed</td>
<td>$100,000,000</td>
<td>Installation of plant</td>
<td>São José dos Campos - SP</td>
</tr>
<tr>
<td>CR Zengshen</td>
<td>-</td>
<td>Confirmed</td>
<td>$20,000,000</td>
<td>Installation of plant using Kosinsky brand</td>
<td>Rio de Janeiro state</td>
</tr>
<tr>
<td>Xuzhou Construction Machinery Group</td>
<td>-</td>
<td>Confirmed</td>
<td>$12,000,000</td>
<td>Installation of a distribution center and an assembly plant for loader and excavator equipment</td>
<td>Suzao Complex - PE</td>
</tr>
<tr>
<td>China National Agricultural Development Group Corporation (CNADIC)</td>
<td>-</td>
<td>Confirmed</td>
<td>$7,000,000,000</td>
<td>Participation in expansion projects of grain plantations and investment in the construction of North-south railroad (in Goiás). Soybeans produced in this area measuring 2.4 million hectares will be exported to China.</td>
<td>Goiás</td>
</tr>
<tr>
<td>Sinopec/China National Offshore Oil Corp (CNOOC)</td>
<td>GOX Petróleo e Gás Participações</td>
<td>Announced</td>
<td>$6,000,000,000</td>
<td>Separate negotiations to acquire 20% of the offshore oilfield and participation in GOX assets</td>
<td>Campos Basin - RJ</td>
</tr>
<tr>
<td>Wuhan Iron and SteelGroup Co. (Wisco)</td>
<td>EFX</td>
<td>Announced</td>
<td>$3,100,000,000</td>
<td>Installation of steel plant, with 70% stake by Wisco in the joint venture</td>
<td>Aja Superpet - São João da Barra - RJ</td>
</tr>
<tr>
<td>Wuhan Iron and SteelGroup Co. (Wisco)</td>
<td>EFX</td>
<td>Announced</td>
<td>$5,000,000,000</td>
<td>Company acquisition</td>
<td>Mariana – MG (Jardim de Morro de Santana)</td>
</tr>
<tr>
<td>East China Mineral Exploration and Development Bureau (ECE)</td>
<td>Itaminas Comércio de Minérios S.A.</td>
<td>Announced</td>
<td>$1,200,000,000</td>
<td>Acquisition of Itaminas</td>
<td>Minas Gerais</td>
</tr>
<tr>
<td>Chenggong Grain Group</td>
<td>-</td>
<td>Announced</td>
<td>$300,000,000</td>
<td>Purchase of 100,000 hectares for soybean production; Installation of a soybean crushing plant</td>
<td>Barreiras - BA</td>
</tr>
<tr>
<td>Bank of China</td>
<td>-</td>
<td>Announced</td>
<td>$60,000,000</td>
<td>Bilateral trade operations</td>
<td>Office in São Paulo - SP</td>
</tr>
<tr>
<td>ZTE</td>
<td>Instituto Nacional de Telecomunicações (Intel)</td>
<td>Announced</td>
<td>$2,000,000</td>
<td>Education installations</td>
<td>Santa Rita de Sapucaí - MG</td>
</tr>
<tr>
<td>China Rail Construction Company</td>
<td>Mato Grosso Government</td>
<td>Announced</td>
<td>Not announced</td>
<td>Partnership for the construction of 6 railroad stretches: Rondônia (MT), Cruzeiro (MT), Rondônia (RO), Porto Velho (RO), Cuiabá (MT) and Alto Araguaia (MT) to Araguari (MG)</td>
<td>Government of Mato Grosso</td>
</tr>
<tr>
<td>Cofco Ltd</td>
<td>Companhia Nacional de Açúcar e Álcool (CNAA)</td>
<td>Announced</td>
<td>Not announced</td>
<td>Purchase of two plants from Companhia Nacional de Açúcar e Álcool (CNAA)</td>
<td>Goiás and Minas Gerais</td>
</tr>
<tr>
<td>Sinopec</td>
<td>Petrobras</td>
<td>Announced</td>
<td>Not announced</td>
<td>Purchase of two exploration blocks from Petrobras (PAMA-3 and PAMA-4)</td>
<td>Pard Basin - Maranhão</td>
</tr>
<tr>
<td>Sinopec</td>
<td>Petrobras</td>
<td>Announced</td>
<td>Not announced</td>
<td>Equity stake in the Steel Complex of Rio de Janeiro (Camper)</td>
<td>Rio de Janeiro - RJ</td>
</tr>
<tr>
<td>Industrial &amp; Commercial Bank of China (SCBC)</td>
<td>-</td>
<td>Announced</td>
<td>Not announced</td>
<td>Operate directly in Brazil in a the form that has not yet been defined</td>
<td>Not announced</td>
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<tr>
<td>Dangfeng Motor Corporation</td>
<td>-</td>
<td>Announced</td>
<td>Not announced</td>
<td>Cooperation agreement with representative of the brand in Brazil, possibility of setting up a plant in the future</td>
<td>São Paulo</td>
</tr>
<tr>
<td>Grupe Pallas International</td>
<td>Bahia government</td>
<td>Announced</td>
<td>Not announced</td>
<td>Acquisition of land to produce grains for exports and operations in bioenergy</td>
<td>West of Bahia / Maputo</td>
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<td>STATE</td>
<td>MEANS OF ENTRY</td>
<td>SECTOR</td>
<td>OWNERSHIP STRUCTURE</td>
<td>DETERMINING FACTORS OF INVESTMENT</td>
<td></td>
</tr>
<tr>
<td>---------------------</td>
<td>-----------------------------------------</td>
<td>-------------------------</td>
<td>---------------------</td>
<td>-----------------------------------</td>
<td></td>
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<tr>
<td>Rio de Janeiro</td>
<td>Mergers &amp; Acquisitions (partial)</td>
<td>Energy (oil and gas)</td>
<td>Central SOE</td>
<td>Resource seeking</td>
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<tr>
<td>São Paulo</td>
<td>Mergers &amp; Acquisitions (partial)</td>
<td>Energy (oil and gas)</td>
<td>Central SOE</td>
<td>Resource seeking</td>
<td></td>
</tr>
<tr>
<td>São Paulo</td>
<td>Mergers &amp; Acquisitions (complete)</td>
<td>Electrical energy</td>
<td>Central SOE</td>
<td>Market-seeking</td>
<td></td>
</tr>
<tr>
<td>Minas Gerais</td>
<td>Mergers &amp; Acquisitions (partial)</td>
<td>Mining</td>
<td>Central SOE</td>
<td>Resource seeking</td>
<td></td>
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<tr>
<td>São Paulo</td>
<td>Greenfield</td>
<td>Auto</td>
<td>SOE</td>
<td>Market-seeking</td>
<td></td>
</tr>
<tr>
<td>Bahia and Minas Gerais</td>
<td>Mergers &amp; Acquisitions (complete)</td>
<td>Mining</td>
<td>Private</td>
<td>Strategic Asset Seeking</td>
<td></td>
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<td>Greenfield</td>
<td>Auto</td>
<td>SOE</td>
<td>Market-seeking</td>
<td></td>
</tr>
<tr>
<td>São Paulo</td>
<td>Greenfield</td>
<td>Construction Machinery</td>
<td>Private</td>
<td>Market-seeking</td>
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<td>Greenfield</td>
<td>Auto</td>
<td>Private</td>
<td>Market-seeking</td>
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<td>Construction Machinery</td>
<td>SOE</td>
<td>Market-seeking</td>
<td></td>
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<tr>
<td>Goiás</td>
<td>Greenfield</td>
<td>Agribusiness</td>
<td>Central SOE</td>
<td>Resource seeking</td>
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<td>Rio de Janeiro</td>
<td>Mergers &amp; Acquisitions (partial)</td>
<td>Energy (oil and gas)</td>
<td>Central SOE</td>
<td>Resource seeking</td>
<td></td>
</tr>
<tr>
<td>Minas Gerais</td>
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7.3 Appendix 3: News Reports

Consulted


Chinese Investments in Brazil


ABOUT CBBC

The China-Brazil Business Council is a bilateral not-for-profit organization with two independent sections, in Brazil and in China. The CBBC focuses on Sino-Brazilian relations and aims to promote dialogue between businesses in both countries and improve the business and investment environment between China and Brazil. The CBBC members include some of the most important Brazilian and Chinese businesses and organizations that do business and invest in both countries.

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Provides information about the main activities and projects developed by the Executive Secretariat of the CBBC.

CONTACT OF EXECUTIVE SECRETARIAT
cebc@cebc.org.br
+55 21 3212-4350
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