The New Trade Routes
BRAZIL & CHINA

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Drawn into an ever closer embrace

To a large extent, it is a relationship of opposites, fraught with challenges and misunderstandings, writes **Joe Leahy**

Shoulder to shoulder: Dilma Rousseff and Hu Jintao meet in Beijing
Reuters

This month the vessel that will come to define early 21st century trade between Latin America and Asia arrived in Guanabara Bay, the picturesque harbour of Rio de Janeiro.

The Vale Brasil, commissioned by Vale, the Brazilian miner and the world's largest exporter of iron ore, is the first of a new breed of bulk carrier, known as the Chinamax. With a capacity of 400,000 tonnes and measuring 362m in length and 65m in width, this goliath can carry twice as much iron ore as most vessels now plying the route between Brazil and China.

Just as the caravel symbolised the age of discovery and early colonial trade between Portugal and Brazil, the Chinamax encapsulates China's growing hunger for the natural resources of Latin America's largest economy.

As these two leading emerging economies draw each other into an ever closer embrace – one of the first overseas trips by Brazil's new president, Dilma Rousseff, was to China – few doubt that the world is witnessing the birth of one of the great commercial relationships of the future.

"Brazil will export a lot of the strategic commodities that China needs and China will export manufactured goods and invest in assembly plans in Brazil," says Charles Tang, head of the Brazil-China chamber of trade and industry.

But far from being a smooth passage, it is a relationship that will be fraught with challenges and misunderstandings along the way. It would be difficult to find two large countries in the modern world that are less familiar with each other than China and Brazil or that are more different socially, politically and culturally. Already there are growing tensions, with most of them originating from the Brazilian side.

While Brazil welcomes Chinese demand for its commodities, it is angry at an influx of cheap Chinese manufactured imports that it says undermine Brazilian industry. Brazilia also accuses Beijing of closing its market to imports from Brazil and of maintaining an artificially cheap currency to make its exports more competitive.

"China has a clear position on what it wants from Brazil," says Geert Albers, general manager for Brazil of Control Risks, a consultancy. "But Brazil needs to clarify somehow what it wants from China."

The speed with which this relationship has developed has meant that most potential flashpoints are only emerging now.

Between 2000 and 2009, Brazil's exports to China rose 18-fold, driven by commodities such as iron ore and soya beans. In 2009, China surpassed the US as Brazil's biggest trading partner, accounting for 12.5 per cent of the Latin American country's exports.

Bilateral trade rose a further 53 per cent last year to $56bn, while Brazil's trade with the US increased 30 per cent to $45bn.

When it comes to commodities, Beijing has discovered that Brazil offers something of a one-stop shop. Latin America's biggest economy is the world's largest exporter of iron ore and of a host of agricultural products, including coffee, sugar and – of special interest to China – the "soya complex" of beans, oil and meal.

Brazil's discovery of vast offshore oilfields, which are set to catapult it into the top ranks of the world's oil producers, are also of increasing interest to China.

"The economic benefits of Brazil's and China's trade relationship remain high," wrote Standard & Poor's, the credit rating agency, in a paper late last year.

The trading relationship is rapidly being duplicated in investment. Last year, China became Brazil's largest foreign direct investor for the first time.

China accounted for about $17bn of Brazil's total foreign direct investment inflows of $48.46bn in 2010, up from less than $300m in 2009, according to Sobeet, a Brazilian think-tank on transnational companies.

This FDI, much of which

> Brazil's discovery of vast offshore oilfields is also of increasing interest to China

was channelled through tax havens such as Luxembourg, was related to commodities and energy. The biggest transaction was Chinese oil major Sinopec's $7.1bn purchase of a 40 per cent stake in Repsol Brazil.

The growing commercial relationship with China was fostered by Brazil's previous president, Luiz Inácio Lula da Silva, a proponent of the rise of the so-called Bric nations, which aside from Brazil and China comprise India and Russia.

For Mr Lula, the rise of trade with China provided the economic tailwind that helped him win re-election in 2006 after this first four-year term and then to propel his protégée, Ms Rousseff, to office last year.

With billions of dollars rolling in from commodities exports and Chinese investments, Mr Lula was able to start a credit-fuelled economic boom in 2009 and 2010 without having to worry about the current account deficit.

For the first time, the lower middle classes had money to spend. At the same time, they could suddenly afford to buy household goods thanks to a flood of cheap imports from China. For Mr Lula's Workers Party, trade with China provided a seductive formula for staying in power.

"The long Chinese boom has affected virtually every part of the world. But Brazil is arguably the country where it has made the greatest difference," wrote Perry Anderson in an essay, "Lula's Brazil", in the London Review of Books.

Today, there are growing signs that the honeymoon is over. While Brazil reported a trade surplus with China of $5.2bn last year, this was because of commodity exports, according to industry lobby Fiesp.

On the industrial front, imports of manufactured goods from China rose by what Fiesp called a "devastating" 60 per cent last year. The deficit in manufactured goods was a record $23.5bn, up from only $600m seven years ago.

Today, it can be hard to find something made in Brazil. About 80 per cent of costumes used at Brazil's carnival festival this year were imported, nearly all of them from China: from the more traditional creations flaunted by competing samba schools to the less traditional Osama bin Laden masks. And it is not only textiles that are being made in China. Brazilian steel producers suffered a sharp fall in prices last year, which they blamed on a sharp rise in cheap imports, mainly from China.

Brazilian manufacturers warn the country faces "deindustrialisation" if it does not introduce more protection measures in the face of what they call the dumping of artificially cheap Chinese products in Latin America. Of 144 anti-dumping investigations started by Brazil in the fourth quarter of last year, 50 were against China.

During her recent trip to China, president Rousseff urged Beijing to accept more Brazilian industrial goods. Beijing agreed to buy more regional jets from Brazil's Embraer, while a Taiwanese company with extensive operations in China, Foxconn, said it would invest $12bn in a manufacturing complex in Brazil to make iPods.

Like the US before it, which became addicted to Chinese credit and cheap manufactured goods, some are arguing that Brazil is on course for a full-blown economic crisis if it does not rein in an excessive spending spree driven by its new-found commodity wealth. The IMF calculates that if commodity prices were to moderate to 2005 levels, Brazil's current account deficit could double from a comfortable 2.3 per cent today to a worrying 5 per cent.

China also represents other challenges for Brazil. The people of both countries are painfully ignorant of each others' customs. Unlike most cities in Europe and North America, it is difficult to find one Chinese restaurant on the streets of São Paulo.

While Brazil and China often see eye-to-eye in international forums on issues such as the unrest in the Middle East, it is unclear how long this will last. Brazil is a liberal democracy that increasingly wants to uphold human rights, while China is authoritarian and brutally repressive of dissent. Brazil wants to be the dominant power in Latin America, while China's increasing trade with the region is turning it into a competitor. But others say it may be too soon for Brazil to press the panic button on its relationship with China. While trade between the two has grown fast, it has been from a minimal base. Today, it comprises 15 per cent of Brazil's international trade.

"Brazil has diversified its exports – it is also a big supplier to Europe. It isn't as if it's only dependent on China," says Pamela Cox, vice-president for Latin America and the Caribbean at the World Bank.

That may be so, but with every new shipload of resources that leaves Brazil for China, this dependence is set to increase.

Vale says that, while its first seven Chinamaxes will come from South Korea, it has ordered the next 12 from China. The vessel of early 21st century trade will carry Brazilian natural resources, but the ship itself will be made in China.

For Brazil, the message from the metaphor is clear. China is at the helm of the global economic supertanker of the future. It is up to Brazil to decide what role it will play in the voyage and how it wants to pay for the ride.

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Poor logistics present a problem for partnership

Infrastructure

Private companies are trying to improve the transport system, says **Samantha Pearson**

Insatiable demand: trucks carrying soyabeans line up on the highway to the port of Paranagua Reuters

With its towering red *torii* gate and graffiti of girls in kimonos, the neighbourhood of Liberdade in São Paulo looks like most Japanese outposts around the world.

But over the past few years, packets of seaweed have been pushed aside to make room for Chinese noodles on supermarket shelves, and Mandarin voices now fill the crowded streets.

"It was mostly just the Japanese here before, but then the Chinese came and starting buying everything," says Jessica Chen, a Taiwanese shopkeeper in the district who moved to Brazil in 1982. "It won't be long before China dominates the world," she says, laughing.

It is not uncommon to hear people in Brazil talking about the growing Chinese presence in the country as an invasion. Looking at the government's foreign trade data, it is easy to understand why.

Brazil sent $30.79bn of exports to China in 2010, almost 30 times as much as a decade earlier, when it exported only $1.09bn worth of goods. Over that 10-year period, imports from China also surged more than 20-fold to $25.60bn.

Once a relatively obscure force in Brazil, China is now its biggest trading partner after knocking the US off the top spot in 2009.

The speed at which trade between Brazil and China has grown is even more remarkable, considering the long journey those Chinese noodles had to undertake to reach São Paulo's supermarkets.

More than 10,000 miles apart, China and Brazil are separated by the Pacific Ocean and the Andes, one of the longest mountain ranges in the world.

Brazil's infrastructure is also creaking under the strain of the country's rapid economic growth, presenting further difficulties for importers and exporters.

"The cost of logistics is huge in Brazil," says Richard Dubois, infrastructure partner at PwC in São Paulo. For example, it is more than three times as expensive to transport soyabeans, Brazil's second-biggest export to China, overland in Brazil than it is in the US, he says.

"It is the same for almost every other commodity," he says, adding that the main problem is the lack of rail networks and the poor quality of roads.

Brazil's railways have seen some improvement since the national system was privatised in the late 1990s, but still only about a quarter of the country's cargo transport went by rail last year, forcing exporters on to the roads.

"There is also the question of the bottlenecks at the ports," says Otávio Nese of the Project Management Institute's Brazil division. "There has been a lack of investment as well as a lack of long-term planning."

However, there are some exceptions to the poor state of Brazil's transport infrastructure. China's insatiable demand for commodities has led some of the country's more enterprising companies, and even the Chinese themselves, to take matters into their own hands.

> 'There is also the question of the bottlenecks at the ports'

As a result, a handful of ambitious construction and infrastructure projects have sprung up across the country over the years, increasing pressure on the public sector to catch up.

"The exception to the high transport costs is iron ore, because Vale created its own railway and port infrastructure," says PwC's Mr Dubois.

Vale, the world's largest iron ore miner, has laid about 10,000km of track across nine of Brazil's 26 states, and is now responsible for transporting about 16 per cent of Brazil's total rail cargo.

The Rio de Janeiro-based company has also built nine port terminals. Its Tubarão port complex in the south-east of the country is capable of moving 43,000 tons of iron ore an hour.

This month, Vale also announced that it had received delivery of the world's largest iron ore carrier, a ship the length of about four football pitches, costing the company $748m and made in South Korea.

Eike Batista, Brazil's richest man, together with China's Wuhan Iron & Steel and South Korea's Hyundai Heavy Industries, are also building Açu superport, which is set to be the largest in the Americas on completion.

The project, off Rio de Janeiro, is expected to attract up to $40bn in total investment and should serve both miners and oil companies.

Efforts are also being made to improve road networks.

The inter-oceanic highway traversing Latin America east to west is expected to be completed this year, giving Brazil access for the first time to Pacific ports and helping to link the country closer to China and other Asian economies such as South Korea and India.

Meanwhile, one of the favourite points of entry for Chinese goods coming into Brazil remains Manaus, the Amazonian city whose duty-free status helps keep costs low.

"The product arrives in pieces and then it's assembled in the free-trade zone in Manaus to make the most of the tax exemptions," says Raphael Martello, an economist at Tendencias Consultoria in São Paulo.

"Most of the goods from China come in bits and then they're assembled there."

However, economists and environmentalists warn of the dangers of making too many sacrifices, as Brazil opens the doors to its new top trading partner.

The low cost of many Chinese imported goods has been blamed for crushing some parts of Brazil's domestic industry, while the new highway across Peru risks encouraging deforestation as it gives ranchers access to more of the forest.

The challenge now for Brazil's president, Dilma Rousseff, is to find ways of making the most of China's demand for commodities while leaving a positive legacy for the country.

"Brazil has to watch carefully how this evolves," says Sérgio Amaral, former minister of development, industry and foreign commerce.

"It's important we understand the contribution China is making to Brazil."

Mining giant must keep government onside

Profile
Vale

The new chief will have to steer a difficult course, says **Samantha Pearson**

Murila Ferreira: new man at the helm of Vale Bloomberg

With its own 10,000km railway network, nine private port terminals and revenue last year that was bigger than the gross domestic product of Bulgaria, Vale appears more like an empire than a company.

The Rio de Janeiro-based miner is the world's biggest producer of iron ore and one of Brazil's largest companies. If it were not for Vale's exports, the Latin American country would have run a trade deficit last year rather than its $20.3bn surplus.

However, the sheer size of Vale has proved to be the company's biggest challenge. The miner's American depositary receipts are trading at up to a 30 per cent discount to its peers, partly because of concerns that Brazil's government will not sit by and let such a strategically important company follow its own path.

Murilo Ferreira took over this month as Vale's chief executive, replacing Roger Agnelli, who was in effect forced out by the government. Investors are waiting to see if the company's loyalty remains with its shareholders or is shifting to the state.

"It's too early to tell for sure, but I don't think much will change. They have so many big investment projects on the go that will double the size of Vale. I'll think they'll just get on with it," says Pedro Galdi, a mining analyst at SLW Corretora.

The government retained a majority stake in Vale after it was privatised in 1997, but grew increasingly frustrated at how the company was run under Mr Agnelli and earlier this year put enough pressure on the remaining shareholders that his contract was not renewed.

One of the government's main complaints has been that Vale is turning its back on Brazil by exporting ever more iron ore to China rather than developing a domestic steel industry.

In the first quarter of this year, Asia accounted for about half of Vale's revenues, with 29.7 per cent coming from China.

The company's insistence on building many of its cargo ships in Asia rather than Brazil also made Mr Agnelli few friends in the government.

This month, Vale announced that it had received delivery of the world's largest iron ore carrier. Despite its tactfully nationalist name, Vale Brasil, the ship was made in South Korea and will help shift even more chunks of Brazil to China.

However, analysts have taken a relatively relaxed approach to the

> One of the government's main complaints has been that Vale is turning its back on Brazil

management shake-up, partly because the shares are cheap and the fundamentals of the iron ore market remain very attractive.

The choice of Mr Ferreira, a discreet and technically minded former executive of Vale, also came as a relief to most investors, who had feared someone directly linked to the government might be put up for the job.

In fact, Vale's real problem with politics lies across the Atlantic Ocean in Africa, where the company competes with Chinese groups to tap some of the world's highest-quality iron ore and copper reserves.

"The problem, like with all projects in Africa, is the political risk they face – not only with the local government, but also with the tribes," says Bernardo Lobão, an analyst at Studio Investimentos.

In April last year, Vale bought a mining concession in Guinea for $2.5bn, giving it access to Simandou, which is considered the world's richest undeveloped deposit of iron ore.

However, the project was thrown into uncertainty after Guinea's transition to civil rule late last year.

Vale also faces the challenge of building the ports and railways to access the reserves, as it has done in Brazil.

Geographically, it would make more sense to build a railway through Liberia to the coast but that could prove difficult because of political instability.

For this reason, analysts believe the mining giant will focus on exploiting Brazil's reserves first, such as the south side of the Carajás mine in the Amazon region.

But Vale's empire is likely to keep expanding, says Mr Galdi at SLW. "Vale has huge cash reserves, so it could look for acquisitions to reinforce its position in the world, perhaps in the area of fertilisers," he says.

"It depends what comes up, but with the crisis in the eurozone, there are some interesting opportunities around," Mr Galdi says.

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Commodities are central to defining the relationship

Financial flows

Ties between the two are only going to strengthen, says **Joe Leahy**

When Repsol sold a 40 per cent stake in its Brazilian arm to Chinese rival Sinopec last year, the Spanish oil producer says the deal would create one of Latin America's largest energy companies. The deal was a sign of things to come, as Brazil began the exploitation of the recently discovered oil and gas reserves in the basins off its south-eastern coast.

"Brazil's offshore boasts one of the world's fastest-growing oil and gas reserves," Repsol said at the time. "The deal highlights the enormous international interest in this historic moment for Brazil."

Repsol could have just as easily have swapped the words "international interest" for Chinese interest.

While every country in the world wants to invest in Brazil's natural resources and agricultural industry, few are keener than energy-deficient and food-hungry China.

This interest led China to become Brazil's biggest foreign direct investor last year, a position that is only expected to grow. But like other aspects of the Brazil-China relationship, the two countries will have to agree on what form this new partnership will take – in particular, how far Brazil will be willing to let China invest in its strategic resources and agricultural land.

"There is a big interest among Chinese executives in investing more in Brazil. There has to be an environment favourable for foreign investment. That way we can create more jobs in Brazil," said Chen Deming, China's trade minister, during a visit to Latin America's biggest economy in May.

China accounted for about $17bn of Brazil's total foreign direct investment of $48.46bn in 2010, up from about $300m in 2009, according to analysis by Sobeet, a Brazilian think-tank on multinational companies.

Mergers and acquisitions contributed $12.53bn of this total, Dealogic, the data company said. Aside from the Repsol deal, these included a $3.07bn investment by Sinochem, a Chinese state-run group, in oil and gas assets in Brazil's Peregrino Field.

Another Chinese group, East China Mineral Exploration and Development Bureau, invested $1.22bn in Itaminas Comercio de Minerais, a mining company, while State Grid Corp of China spent $1bn in an electricity grid deal.

Investments by Chinese companies in previous years include a $362m anchor investment by Wuhan Iron & Steel in MMX Mineracao e Metalicos a Brazilian miner.

For Brazil, these investments were at first welcome. But increasingly, they have become a source of concern for policymakers. When rumours surfaced last year that Chinese government-backed companies were looking at buying up tracts of Brazilian farmland, the government drew the line. Reinterpreting an existing law, it introduced restrictions on FDI investment in farms.

These laws were ostensibly not directed at China. Brazil was also concerned that sovereign wealth funds or companies backed by other governments were buying farmland. But the main target is believed to have been China.

"I am not the minister of external affairs. I do not want to create an incident," the minister of agriculture, Wagner Rossi, told the FT in an interview earlier this year. "Some of these countries are great partners in other areas, but having them buying land in Brazil creates some sort of sovereign risk for us. This is not part of our plan and we are not going to allow that."

In recent months, China has indicated it is prepared to diversify its investments into Brazil beyond the resources and agriculture sectors. During a visit to China by President Dilma Rousseff in April, Foxconn,

> Having countries buying land in Brazil creates some sort of sovereign risk for us
> **Wagner Rossi, Minister of agriculture**

a Taiwanese company with extensive operations in mainland China, promised to invest $12bn in Brazil in a facility to make Apple products.

Mr Chen's delegation sought to strengthen this impression with promises that Geely, a Chinese small car maker, might build a plant in Brazil. But he stressed that Brazil must keep its side of the bargain by reducing the cost of doing business in the country, such as by streamlining its notoriously sluggish ports and improving its logistics.

While Brazil might be suspicious of Chinese investment, it needs additional inflows of longer term financing to help fund its growing current account deficit.

At about 2.3 per cent of gross domestic product, this is not yet alarming. But if commodity prices were to ease, the current account deficit could deteriorate rapidly, leaving Brazil on the verge of a debt crisis.

Many believe that for this reason, financial relations between Brazil and China are only going to strengthen.

A key part of this could be achieved through increasing the use of China's currency, the renminbi, in trade with Latin American economies. This could be done by replacing the dollar with a basket of currencies that would include the renminbi.

Fernando Pimentel, Brazil's trade minister, said after meeting Mr Chen: "We mentioned to the minister the importance of beginning a discussion in international forums about the necessity to change the international monetary standard."

Many analysts believe that the sooner Brazil realises that its financial destiny is tied to China's, the better. Once Brazil starts producing oil from its offshore "pre-salt" fields, its currency will become even more linked to commodities and energy prices.

China will be one of the main buyers of these products, meaning that it will make sense for Brazilian and Chinese companies to trade in renminbi and eventually to save in renminbi.

Brazil will become part of a "renminbi block" of countries that use the Chinese currency to trade.

Tony Volpon, head of Latin America research at Nomura, says: "Pre-salt oil is one big thing that is going to happen in Brazil in the next few years and it's going to double down on the China bet:

"If you think the Brazilian real is a commodity currency right now, wait a couple of years – it's going to be much worse."

Deep well: China wants access to Brazil's oil Getty

Manufacturing at risk from global shift to Asia

Martin Wolf

The centre of the global economy is shifting towards Asia. This presents both new opportunities and new challenges for established high-income countries and for emerging economies, such as Brazil.

In Brazil's case, the opportunities are evident, because China's comparative advantage in manufacturing is complementary to Brazil's relative advantage in commodities.

But the challenges to Brazil are quite as big as the opportunities. The dynamic source of demand for Brazilian commodities is a good thing, but deindustrialisation is not.

The speed and scale of China's rise is breathtaking. In 1990, its share in world merchandise trade (the sum of exports and imports) was just 2 per cent. In 2000, it was below 4 per cent. By 2010, it had reached 10 per cent.

Its share of world exports had risen even faster than this, from below 2 per cent of world merchandise exports in 1990 to close to 11 per cent in 2010.

Amazingly, China is already a far more important market for Brazil than the US. The share of the Chinese market in Brazil's merchandise exports jumped from 2 per cent in 1990, to 5 per cent in the middle of the last decade and 15 per cent in 2010.

In 2002, the US market absorbed as much as 26 per cent of Brazil's exports. By 2010, the US market share was down to a mere 10 per cent. The share of the Chinese market in Brazil's exports is not so far below that of the entire European Union, which absorbed 21 per cent of Brazil's exports in 2010, down from close to 25 per cent in 2007.

The US and the European Union have dominated global trade negotiations for decades because their markets were far bigger than those of other economic powers. This is true no longer.

Yet the impact of China on Brazil is not just a matter of scale, important though that is, but also of composition.

China has an open, large and fast-growing economy. But it is also a middle-income country with a huge supply of cheap labour. Its arrival as a global economic power has been shifting the pattern of global trade and production: in particular, it lowers the prices of relatively labour-intensive manufactures and raises those of commodities.

These twin effects of China's entry into the world economy are also of huge importance for Brazil.

Thus the most striking feature of Brazilian trade is the shift in its composition towards a pattern one would normally associate with a rather less advanced economy. The share of primary commodities in the country's exports has soared from 22 per cent at the beginning of the last decade to 46 per cent in the 12 months up to and including April 2011. If one adds in semi-manufactured products, the share reached 60 per cent. Meanwhile, the share of manufactures has tumbled from 58 per cent of exports at the beginning of the 2000s to just 38 per cent in the 12 months to April 2011.

The shift in the composition of Brazil's

> China's rise has already had a big impact on Brazil and is likely to have an even bigger one

exports went hand in hand with a big improvement in the country's terms of trade – the price of its exports relative to its imports.

Thus, in March 2011, its terms of trade were 30 per cent above their average level since the beginning of the 1990s, and 34 per cent higher than in early 2003.

The final impact of China on Brazil's trade comes via its role in what Guido Mantega, Brazil's finance minister, described last year as an "international currency war". With advanced economies experiencing low interest rates and financial worries, money is pouring into emerging economies that have bright prospects. China's massive currency interventions deflect the impact of that flow towards other countries, including Brazil.

The swings in the real value of Brazil's currency have certainly been large.

Between May 2004 and April 2011, Brazil's trade-weighted real exchange rate calculated by JPMorgan rose by 119 per cent, while China's real exchange rate appreciated by just 20 per cent over the same period.

Brazil has been losing external competitiveness to a startling and disturbing degree.

In short, China's rise has already had a big impact on Brazil and is likely to have an even bigger one in the years ahead: it has shifted the direction and composition of Brazil's trade; it has played a role in improving the country's terms of trade; and it has probably played a significant role in the appreciation of the Brazilian real exchange rate, as well.

For Brazilian policymakers the challenge ahead is to position their country to benefit from the much improved trading opportunities, while preventing excessive shrinkage of the country's manufacturing industry.

Brazil is never going to be competitive in exports of labour-intensive manufactures. But, being a large middle income country, it must manage to expand its presence in sophisticated manufacturing.

The pressure from a rising China is bound to become more ferocious.

Nor is China the end of the story. India is also likely to become a growing source of competition for Brazilian companies.

But this is a challenge Brazil has to meet if it is to generate the sustained rise in incomes its population needs.

Eastern approaches: China is a far more important market for Brazil than the US *Reuters*

Lender with a global reach

Profile
CDB

Jamil Anderlini on the bank's role in the drive overseas

When the Chinese government agreed in May 2009 to lend $10bn to Petrobras in exchange for a guaranteed supply of oil over the next decade, China Development Bank was in charge of handing over the cash.

In almost every large deal involving preferential Chinese loans to foreign governments or companies, CDB is at the top of the list of Chinese financial institutions distributing the funds.

While CDB is theoretically supposed to lend money based on commercial considerations, these often seem to come second when it extends mega-loans to the likes of Russia, Venezuela and Brazil in exchange for guaranteed supplies of oil.

Other favoured recipients of CDB funding are such

Under Chen Yuan, CDB is one of the world's most powerful banks

state-owned groups as PetroChina and Chinalco, which are attempting to "go global" by acquiring overseas companies and assets.

China's outbound foreign direct investment reached $220bn in the five years between 2006 and 2010, according to government figures.

That is close to 10 times the total cumulative $26bn that Chinese companies had invested in 150 countries at any time up until the end of 2005.

Most of the new investment was funded by preferential loans from state-owned Chinese banks with CDB leading the way.

Under the charismatic leadership of Chen Yuan, the CDB's chairman – the "princeling" son of a Communist Party founding father – the bank has morphed from a piggy bank for state construction projects such as the Three Gorges dam into one of the world's most powerful financial institutions.

Together with the much smaller China Export-Import Bank, CDB has lent more to developing countries over the past two years than the World Bank, according to Financial Times research.

The two "policy banks" – as they are called in China – signed loans of at least $110bn to other developing governments and companies in 2009 and 2010, compared with $100.3bn lent by the equivalent arms of the World Bank from mid-2008 to mid-2010.

Unlike most of its state-owned financial institution peers, CDB does not answer to the country's banking regulator, but reports directly to the state council, or cabinet.

This special status, combined with the personal political power wielded by Mr Chen has allowed the bank to do things that other Chinese lenders can only dream of.

In mid-2007, CDB took a 3.1 per cent stake in Barclays Bank as part of an even more ambitious plan to fund Barclays' unsuccessful takeover bid for much of ABN Amro and take a nearly 10 per cent stake in the combined entity.

Even as the global financial crisis gathered pace in mid-2008, CDB made another aggressive attempt to buy Germany's Dresdner Bank, although that plan fell through when China's top leaders became worried about spreading financial contagion.

Similar concerns stopped CDB from taking a huge stake in Citigroup, as the US financial group desperately sought fresh sources of funds.

While it did not achieve its goal of global domination through offshore acquisition, the bank has become an integral part of China's increasingly influential foreign policy strategy, particularly in developing countries in Africa, Asia and Latin America.

The CDB is not publicly listed and rarely releases any figures, but some analysts believe it has also served as a conduit for some of the country's $3,000bn in foreign exchange reserves to be lent out to state companies that are expanding abroad.

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I AM A GLOBAL LATIN AMERICAN

Paloma Herrera. One of the premier ballet dancers of the new century. Dancing is by far the most important part of my life. It's been like this ever since I was a little girl growing up in Argentina. I was invited to join the American Ballet Theatre in New York in 1991 and, in less than four years, I'd already become a principal dancer. I've been named one of 30 artists most likely to change the world of culture during the next 30 years. And my continent is already changing the whole world. My name is Paloma Herrera. I'm a global Latin American. And Itaú is the global Latin American bank.

Invest with a bank that knows Latin America. Itaú. The Global Latin American Bank.

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Telecoms manufacturer makes move to Latin America

Profile
ZTE

The HK-listed group finds it makes sense to have a local factory, writes **Kathrin Hille**

When Dilma Rousseff, Brazil's president, visited China last month, she signed 20 bilateral trade and investment deals.

Among the big-ticket items was a commitment by ZTE, China's second-largest telecom equipment maker, to build an industrial park in Hortolândia, close to São Paulo.

Although ZTE, a state-controlled company listed in Hong Kong, refuses to put a figure on its planned total investment, sources familiar with the situation put it at several hundred million US dollars.

"Our plant will serve as ZTE's base for Latin America and will employ more than 2,000 people," says Eliandro Avila, chief executive of ZTE Brazil.

That is a big expansion from the company's current presence in South America. So far, ZTE has only got a sales force on the ground, and has some local contract manufacturing done by Evadin, a Brazilian company.

However, "Brazil represents 50 per cent of the South American market," says Mr Avila.

ZTE is one of the world's leading makers of telecom infrastructure gear and devices such as handsets and data cards. Last year, its turnover was Rmb70.3bn.

Analysts emphasise that despite the distances involved, manufacturing in China for the South American market would still be more cost-effective for most technology products. However, Brazil's high import tariffs are starting to force Chinese companies to expand in the country.

"Basically, our products cost an average 70 per cent more when imported," says Mr Avila. He adds that the main advantages of setting up shop locally include incentives provided by the government which allow the company to avoid high import taxes.

Construction of ZTE's facility is well under way, and the company plans to have the first part of the factory, which will focus on handsets, ready to start production within six months.

Our plant will serve as ZTE's base for Latin America and will employ more than 2,000 people

Eliandro Avila, ZTE Brazil

A second phase is planned to become operational in late 2012 or early 2013. That part will produce network infrastructure gear such as routers.

Apart from production, ZTE's industrial park will also include research and development. Some 200 of the Brazil-based employees are to work in a new R&D centre, one of 15 worldwide, with a total headcount of 30,000.

For the time being, ZTE's Brazilian operations are likely to rely heavily on Chinese staff. Twenty per cent of the 2,000 are expected to come from Shenzhen, the company's headquarters in southern China.

ZTE also intends to continue its co-operation with Evadin, its contract manufacturing partner, for certain devices even as its own factory begins operations.

Strong demand is driving the expansion in Brazil. This year, the company said its standing in the country had been raised considerably, following a "significant sales boost" driven by large-scale contracts for wave-length-division multiplexing, a technology that combines different carrier signals on to one optical fibre.

Last year, the company launched a low-cost cell phone with digital television through Vivo, the Brazilian operator, in the Latin-American market.

Therefore, ZTE has big ambitions. "Our goal is to be among the top three companies in terms of networks and terminals," says Mr Avila.

Worldwide, ZTE ranks fifth among network infrastructure vendors behind Ericsson of Sweden, its Chinese peer Huawei, Nokia-Siemens Networks, and Cisco. It is also one of the world's top five handset vendors.

Like Huawei before, it has been outgrowing some of its western rivals such as Nortel and Alcatel-Lucent and steadily rising through the global industry's ranks.

If ZTE's ambitious Brazilian plans work out, there might be space for other manufacturers to follow.

Although the Chinese company says its own factory will be the only one in its facility for now, it is setting up an entire industrial park.

Generation game: Joao Havelange, Fifa honorary president, is shown a model of the Olympic Village for Rio 2016 Getty

Olympics and World Cup require a robust approach

Sport

There are lessons to be learnt from Beijing's hosting of the 2008 Games, reports **Jamil Anderlini**

In the centre of Beijing's spectacular "bird's nest" Olympic stadium four or five Chinese tourists beetle slowly along the running track on rented imitation Segway scooters or negotiate small obstacle courses set up next to the long-jump pit.

The forlorn scene on a recent Monday afternoon is a far cry from the images of the 2008 Olympic Games playing out on giant screens 100m above the tourists' heads.

The footage of Usain Bolt smashing the world 100m record is proof to the trickle of people willing to pay Rmb50 to step inside the stadium that the place really has been filled to its 91,000 capacity at least once since it was completed early in 2008.

Today, the stadium is home to a procession of increasingly eccentric attempts to recoup some of the $423m it cost to build – most recently an equestrian riding display that drew little interest from the public.

As Brazil gears up to hold the 2014 football World Cup and the 2016 Olympic Games, officials are no doubt studying the experience of Beijing's Olympics and trying to work out how to recreate the successes and avoid the pitfalls of the 2008 extravaganza.

The Brazilian committees will almost certainly conclude that only an authoritarian undemocratic country such as China could pull off the kind of spectacle it did, while managing to ignore the colossal waste and upheaval that went with it.

Tens of thousands of people were relocated just to make way for the Olympic green and stadium complex and countless more were shifted from their homes in the complete makeover of Beijing that preceded the Games.

While many were content to move to modern apartments and accepted the compensation given by the government, many others were unhappy at being evicted but were given little choice and in some cases were even removed by force.

The city went into overdrive in the years leading up to the Games, which were viewed by the Communist Party as the ultimate international coming-out party and an unparalleled propaganda opportunity to convince its subjects of the benefits of one-party rule.

Beijing budgeted more than Rmb280bn ($43bn) for the building of Olympic venues, as well as upgrades for urban transport, energy and water infrastructure and widespread tree and flower planting to turn the dusty capital green.

Without a free press or any kind of electoral oversight, the government faced little outside scrutiny over the enormous expenditure and the demolition of most of the ancient neighbourhoods that gave the city its unique character.

But the greening of the city and the improvement in public transport and other infrastructure were clearly appreciated by many of the city's residents.

"This type of infrastructure construction is what Beijing wanted to provide to benefit the residents and the citizens of the whole nation and the whole world," says Wang Haiping, deputy director of Beijing's city planning department, who was speaking at a press conference just before the Games kicked off.

"Even if we did not host the Olympic Games, we would still do this. We can only say that the preparations for the Olympic Games have sped up our pace of city planning, development and construction."

The pace of construction in the run-up to the August 8 2008 opening ceremony was indeed frenetic and with the full might of the state behind it, the programme was completed well ahead of schedule.

Just ensuring that the core venues are ready on time and within budget will be a hard enough task

But many of the auxiliary facilities – such as apartment blocks, shopping malls, subway lines and hotels – that were supposed to be finished in time for the Games were not completed until well after the opening ceremony.

Some are still not ready even now.

The iconic China Central Television building, designed by Rem Koolhaas, a Dutch architect, was supposed to be operational in time for the Games, but it was still under construction in February 2009, when a fire gutted an adjacent structure, built to house the Mandarin Oriental hotel.

Reconstruction on the blackened shell has only just begun and the CCTV building next door remains largely empty to this day.

The lesson for Brazil will be not to get too ambitious with the "optional extras" when it comes to preparing for the World Cup and Olympics.

Just ensuring that the core venues are ready on time and within budget will be a hard enough task and, in a democratic country with a relatively free media, any extravagant and expensive plans that fail to meet expectations will prove far more politically costly than they did in China.

Another lesson from Beijing is the problem of rampant corruption.

Right next to the Olympic green and the bird's nest stadium is a row of tall white towers culminating in one taller building, shaped at the top like an Olympic torch with a gravity-defying lick of flame protruding into space.

This row of buildings was also empty when the Games kicked off and today houses a "seven-star hotel" that appears not to have any occupants.

The contract to develop this project on the choicest bit of real estate available in the run-up to the Olympics was originally granted by Liu Zhihua, the vice-mayor of Beijing in charge of Olympic construction, who was detained in 2006 in a corruption scandal.

Mr Liu was found guilty of taking bribes and handing huge construction projects to his numerous mistresses and was given a suspended death sentence in 2008, later commuted to life in prison.

Given the scale of investment and the opportunities for corruption presented by Brazil's big coming events, the government of Dilma Rousseff would do well to heed the lesson of the corrupt Mr Liu and his construction concubines.

Material demand shaped economy of regional giant

Guest Column
RICHARD LAPPER

Brazil's growing consumer markets and resource-rich economy make it impossible to ignore at the high tables of international business. Yet the country's dynamic image hides an uncomfortable truth. None of its economic transformation of the past decade or so would have been possible without the rise of China.

Brazil's democratic consolidation, social progress, and consensual commitment to economic stability may be deep-rooted and home-grown, but, without the turbo-charged economic expansion of China, its economic fortunes could not have improved as quickly. China matters to Brazil for two reasons.

First, its demand for iron ore and soya is fuelling the development of Brazil's two biggest export sectors. The same could happen also with oil, as Brazil organises the exploitation of its giant offshore reserves.

Second, Chinese – and Asian demand more generally – is the fundamental reason for the sharp upward movement in commodity prices in recent years.

Octavio de Barros, the research director of Bradesco, Brazil's second largest bank, says that the shift in the terms of trade has been the foundation stone of the transformation. It provided a $100bn windfall that has "saved the country" from the debt crisis at the beginning of the century and made possible the social spending – on the *bolsa familia* social plan and the minimum-wage legislation that have underpinned social improvement.

Brazil's dependency has – in Mr De Barros' words – been "chemical". Yet the danger is that it could also become corrosive. Of late, policymakers have begun to worry about the impact of Chinese imports and manufacturing investment on local industry.

They fear it could be contributing to a hollowing out of the industrial infrastructure and accelerating a reorientation of the economy back towards raw materials.

Chinese imports are still significantly less than Brazil's exports to China. Last year, Brazil recorded a positive trade balance of about $5bn after registering a surplus of about $4bn in 2009. But its exports are heavily biased towards commodity products.

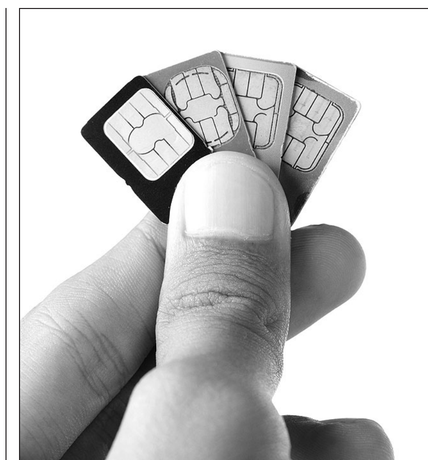
The installations at giant open-pit mines in the Amazon state of Pará, railway lines to Atlantic ports and the ore carriers that ship the metal constitute nothing less than a giant conveyor belt between Brazil and China. So do the clogged roads that link the soya fields of the centre-west with Paranagua port: two-thirds of all Brazilian soya went to China in 2010.

By contrast, Chinese exports to Brazil tend to be manufactured items. Low value-added items such as footwear and clothing all figure prominently. Overall, Chinese exports grew from a few hundred million dollars in 2000 to $20bn in 2008. Between 2006 and 2008, the number of pairs of Chinese shoes imported into Brazil more than doubled to 34m pairs, for example.

But Chinese companies are also exporting more complex products such as machine tools and equipment, often competing directly with local manufacturers. For example, China supplied 12.9 per cent of THE machines and equipment imported in 2010, a rise from only 2.1 per cent in 2004, according to Brazil's capital goods industry association.

The strength of the real in the past two years has added to concerns, because it has made Chinese products much cheaper relatively than their Brazilian counterparts. The number of Brazilian companies importing from China rose by 24 per cent from 9,267 in January-February 2010 to 11,469 in the same period of 2011.

This has prompted alarm. Tariffs have been imposed on items ranging from shoes and textiles to loudspeakers. But the results have been mixed. For example, tariffs were imposed on shoe imports in 2009. But although the import numbers have subsequently fallen, the Brazilian Footwear Association says that the rise in imports from other Asian countries reflects the fact that Chinese exporters are simply rerouting sales through third countries.



'Ching lings' can take many sim cards

There are concerns, too, that considerable quantities of cheaper Chinese products are being smuggled in through neighbouring Paraguay. Giant semi-formalised markets in Brazilian cities are stuffed full of counterfeit telephones, fashion items, DVDs and watches, the vast majority of which are made in China.

In a recent survey of 300 mobile telephone users, Brazil Confidential, the Financial Times's premium news and analysis service, found that one in 10 Brazilians had bought so-called *ching lings* – pirate phones that can be fitted with up to four SIM cards (a facility that allows consumers to benefit from discounts offered by multiple operators and therefore reduces overall costs).

Brazilian manufacturers face additional challenges on another front, as China channels growing quantities of direct investment into the country. A good deal of this capital is earmarked to guarantee supplies of raw materials and is frequently in partnership with local operators.

There are concerns that quantities of cheaper Chinese products are being smuggled in through neighbouring Paraguay

Wuhan Iron and Steel plans to work with Eike Batista, the entrepreneur, on plans to produce steel. China's development bank has loaned $10bn to Petrobras, the state oil concern, while two Chinese groups – Sinochem and Sinopec – have agreed joint ventures to exploit offshore fields.

However, in other areas, Chinese businesses are potentially competing with local companies.

For example, machinery manufacturers, such as Sany Heavy Industries, car companies and motorbike makers have all set up operations in Brazil.

Not surprisingly, perhaps, industrialists want tougher action. Paulo Skaf, the head of the São Paulo Federation of Industries, goes as far as to argue that China "benefits much more" than Brazil from the relationship and that for Brazil the "risks are much greater than the opportunities".

And even within the government there is a recognition that despite its broader benefits, Brazil's engagement with China has an unpalatable dimension.

Fernando Pimentel, the minister of development, industry and commerce, is heading a working group looking at the issue. But he has been quick to recognise that China inflicts "harm on Brazilian manufacturing".

The writer is editor of Brazil Confidential.

A strong currency is government's best friend

Interest rates

Jonathan Wheatley asks whether a muscular real may not be beneficial to the country's economy after all

Another day, another macro-prudential measure from Brazil. In early April, Guido Mantega, finance minister, announced a doubling in the tax due on personal loans, from 1.5 to 3 per cent a year. Measures like this have let Brazil reduce its reliance on high interest rates, formerly its only weapon against inflation.

The trouble with high rates is they drive the currency higher and that hurts competitiveness – hence the whole currency war. But you cannot have everything and, with inflation pushing higher, Brazil appears to have decided that the strong real is its friend, after all.

With consumers paying 238.3 per cent a year for credit card debt, it is hard to see how an extra 1.5 points will make much difference. But as Tony Volpon at Nomura points out, the measure may curb supply of credit (rather than demand) because wider spreads provoke more defaults, so banks may lend less.

In any event, it does not look like this will slam the brakes on consumer credit, currently expanding at a rate of 22 per cent a year – the government reckons 12 to 15 per cent would be "adequate".

And what about inflation? The central bank's weekly survey of about 100 market economists has it above six per cent by year-end. The survey's five top-rated economists say it will be 6.4 per cent. Not only is inflation way above the government's 4.5 per cent target. It is threatening to breach the upper limit of its two percentage point tolerance.

The government has been right to look beyond interest rates for ways to fight inflation. Now, it seems, its reach has embraced the currency itself. The day after the surprisingly weak "currency measures" – the real burst through the R$1.60 barrier against the US dollar and kept right on going. It now looks likely to settle into a new band of R$1.55 to R$1.60 – not far from where it was in pre-crisis days. So far, the government has not reacted.

What is the pay-off? The government has three macro priorities: low inflation, investment, and competitiveness. All of those can be addressed by micro-prudential measures: overhauling the tax system and the labour code, improving public education, and so on. Fat chance.

If you limit yourself to monetary policy and macro-prudential measures, you cannot have all three. Give up the fight against inflation, and you have a popular revolt. Give up on investment, and the World Cup and the Olympics will be disasters for a start – and never mind all the other infrastructure needed irrespectively.

Give up on competitiveness – well . . . Who will be hurt? What commodities exporters lose on the currency, they regain in part from rising prices. What manufacturers lose in competitiveness, they regain in part on the components they import.

A stronger real will hurt, no doubt about that. But perhaps not that much. In the fight against inflation, it is the government's friend. And right now, the government needs all the friends it can get.

Possible U-turn over price controls

Commodities

Jonathan Wheatley looks at the meaning behind a statement from Brazil's finance minister about commodity regulation

One of the few points of substance to come out of the Brics summit was a statement calling for regulation of commodities prices.

This is odd.

Earlier this year, Guido Mantega, Brazil's finance minister, specifically ruled out the idea of regulating commodities prices, saying to do so would stand in the way of growth and production. What is going on?

Here is part of paragraph 17 of the Sanya declaration: "Excessive volatility in commodity prices, particularly those for food and energy, poses new risks for the continuing recovery of the world economy.

"We support the international community in strengthening co-operation to ensure stability and strong development of [the] physical market by reducing distortion and further regulate financial markets."

Guido Mantega: excessive volatility in commodity prices poses risks for the world economy

And here is what Mr Mantega said in the run-up to a G20 meeting in Paris in February: "If there's one thing that has to be done, it's to encourage growth and production and not hinder it."

Amado Boudou, Argentina's finance minister, was in accord: "We agree to increase supply in our countries or transfer technology to other countries . . . But the discussion can in no way look at regulating commodities prices."

What does this tell us?

Mr Mantega was not in Hainan, so it may just be that the right hand does not know what the left hand is doing.

Or it may be that those in Hainan did not really mean what they were saying.

But there was certainly no need to talk about regulating commodities markets.

And if anyone would benefit from such a thing, it is not likely to be the producers. It looks as if China has been exercising its persuasive powers.

As ever, its actions rather than words that count.

But the words seem to suggest that Brazil has been heavily leant on.

Scramble for oil in its old backyard

US relations

Joe Leahy says Brazil's reserves are likely to make it the setting for a tussle over resources

So why did President Barack Obama make a beeline for Brazil within the first 100 days in office of the country's new president, Dilma Rousseff?

The obvious answer is because he wanted to get in early to build a more constructive relationship between the US and Brazil than existed under Ms Rousseff's predecessor, Luiz Inácio Lula da Silva.

But why the rush? The answer might lie in this passage from Mr Obama's remarks during a joint press statement with Ms Rousseff after their mid-March meeting.

"We're creating a new strategic energy dialogue to make sure that the highest levels of our governments are working together to seize new opportunities. In particular, with the new oil finds off Brazil, President Rousseff has said that Brazil wants to be a major supplier of new stable sources of energy, and I've told her that the United States wants to be a major customer, which would be a win-win for both our countries."

US President Barak Obama would like a strong relationship with Brazil's Dilma Rousseff

So it was about oil – Brazil's "pre-salt" finds, which are just starting to come on stream. And not just any oil but one the biggest offshore discoveries in history and all of it located in a stable democracy in the western hemisphere, not the Middle East.

Fast forward to April and Ms Rousseff is visiting China. Among the corporate deals on the sidelines of the trip, a proposal by Foxconn, the Taiwanese-owned electronics group with large operations in China, to invest $12bn in Brazil caught the headlines.

But perhaps more important in the long run was the courting during the visit of Petrobras, the Brazilian oil major, by Chinese peer Sinopec. Petrobras already has a deal to supply oil to Sinopec from the pre-salt fields. But Sinopec has gone further by finalising a joint venture with Petrobras to explore off the coast of northern Brazil.

The US is realising that strategic competition with China for scarce resources is no longer something it does far from home. Latin America, once the backyard of the US, is shaping up to become the stage for the next tussle between these two giants.

Renminbi revaluation cannot solve nation's woes

Commodities

Joe Leahy asks if a spat over imports and exports could derail the relationship with China

If the old marketing cliché "the customer is always right" was true in all situations, then Brazil's latest moves regarding China would look like madness.

When a country is your biggest trading partner, is it really a good idea to complain?

That is what Brazil is doing. Even though China's purchases of its iron ore, soy meal and other commodities helped Brazil weather the global economic crisis, Latin America's biggest economy is now crying foul as cheap Chinese imports flood its markets, undercutting domestic producers.

If Brazil makes public its concerns at an international forum, it will mark a shift in the world order. Until now, few countries other than the US have had the confidence to complain about China for fear that Beijing might simply pull up stumps and leave if it gets upset.

Only a country such as Brazil, which has enough agricultural and mineral wealth to satisfy China's thirst for resources for decades, is so indispensable to Beijing that it can dare to have a voice.

"I think in the past there hasn't been a unified global voice on these issues," says Eric Farnsworth, vice-president of the Council of the Americas. "Nobody wants to upset the Chinese."

But even if Brazil does join the US in taking a stand on China's allegedly undervalued currency, what is next?

Brazil has already taken numerous trade-related actions in line with World Trade Organisation rules against Chinese goods, such as increasing tariffs on footwear and launching anti-dumping actions. Brazil would be unlikely to take more radical action against such an important business partner, and is particularly likely to avoid any moves that might violate global trading rules.

Empty bluster is unlikely to bother China. But even if China did allow some appreciation of the renminbi, would this really help soften Brazil's currency, the real, against the dollar and result in lower levels of cheap imports flooding into Brazil?

The answer is probably no. Brazil has homegrown problems that have contributed to the currency's strength.

Balancing act: China's purchases of commodities helped Brazil weather the economic crisis

> Latin America's biggest economy is now crying foul as cheap imports flood its markets

While China's purchase of commodities has strengthened the real, Brazil's real interest rates (nominal rates adjusted for inflation) are the highest of any large economy.

This, together with breakneck economic growth fuelled last year by government spending, has drawn in overseas investors, adding further pressure on the real to appreciate.

Whichever way you look at it, the solution to Brazil's problems always seems to be the same.

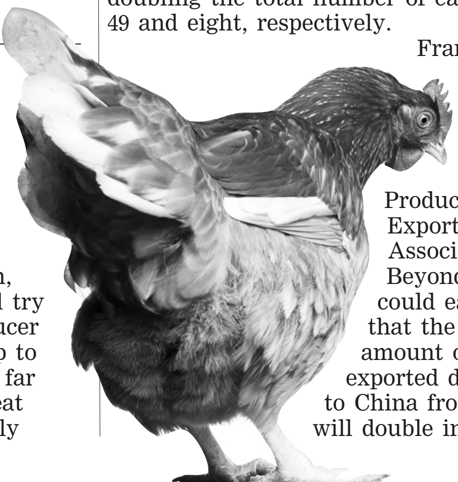
Cut government spending and reduce the role of the state in hogging national savings and many of Brazil's industrial ills will cure themselves.

Blaming the customer may go down well with the public in the near term, but it will only be a matter of time before people realise that more fundamental reforms are needed if Brazilian industry is to become more competitive.

Appetite for meat grows in Asia

Food exports

Diet changes are giving a boost to Brazil's food producers, writes **Vincent Bevins**



When Dilma Rousseff, Brazil's president, visited China recently she said she would be pressuring Brazil's largest trading partner to import more than just iron ore and soya.

In response, China seems to have said: "Sure, we'll have more chicken, and a little more beef. Oh, and we'll try the pork." Apart from aircraft producer Embraer, which scored a deal for up to $1.4bn, the big Brazilian winners so far seem to have been the country's meat producers, which are growing quickly along with the world's appetite.

Agriculture minister Wagner Rossi announced China had approved 25 new chicken processing plants and five new beef refrigerators for export, more than doubling the total number of each to 49 and eight, respectively.

Francisco Turra, president of the Brazilian Chicken Producers and Exporters Association, told Beyondbrics this could easily mean that the total amount of chicken exported directly to China from Brazil will double in 2011, up from 134,000 tonnes in 2010.

Behind iron ore, soya, and oil, chicken meat competes with coffee to be Brazil's fourth-largest commodity export.

Beef trails a bit behind, while pork does not play a large role at the moment.

Scoring deals for meat producers in a way achieves some of the diversification of the China-Brazil trade connection that Ms Dilma was aiming for.

It does not, however, provide the lifeline for her country's manufacturing sector, battered by the overvalued real, that the Embraer deal does.

Brazil's agricultural sector is enjoying the benefits of the current high food prices that are also contributing to inflation worries, but animals have to eat too: the price of corn and soy used to raise chickens is cutting into margins.

At the very least, Brazil is increasing its share in the huge Chinese meat market, which is not likely to go away soon.

Knock-off rings and posh frocks fill the shelves

Royal wedding

Iona Stevens says São Paulo's streets have been flooded with imitation products

Britain's royal wedding has done its part, however small, to increase Brazil's trade deficit with China. Cheap Chinese versions of Kate Middleton's engagement ring were sold by the dozen in the week before the marriage ceremony.

It is another sign of the ability of Chinese manufacturers to respond rapidly even to individual events and turn their factories to mass production of the most varied items. It makes you wonder what cheap Chinese imports will flood shopping streets around Brazil during the World Cup in 2014.

On Rua 25 de Março, one of the busiest mass-market shopping streets in São Paulo, you can buy an imitation of the sapphire and diamond ring for about R$10 ($6.30) and imagine yourself for a while as the new Duchess of Cambridge.

But the Royal wedding has also turned the world's eyes to another end of the Brazilian business spectrum: its increasingly haute couture fashion industry. With the São Paulo Fashion Week becoming a bigger and more international event each year, the new Duchess of Cornwall's blue engagement dress came in good time. It was created by Daniella Helayel, a Brazilian designer who owns the brand Issa London.

The dress has been sold out since last year. So for now, Brazilian girls will have to indulge their romanticism with cheap imitation rings.

Engaging: a rack of fake rings

Carnival: celebrated in Brazil but made in China

Textiles

Samantha Pearson reveals that costumes for Mardi Gras are manufactured overseas

Ask anyone what comes to mind when they think of Brazil and they will probably tell you it's Pelé, the footballer, or carnival.

So it may come as some surprise to learn that up to 80 per cent of costumes worn during Brazil's festival have actually been imported, almost exclusively from China.

Others may just be surprised that it is worth shipping the skimpy outfits they see on television, some of which are barely more than a string of sequins, thousands of miles.

But for those familiar with Brazil's textile industry, this is not news. It has been suffering for years, both as a result of internal problems and external pressures. The sector is comprised of a small number of companies, which have failed to keep up with booming demand from the country's ever-richer consumers. The government has made things more difficult through a lack of investment. And, to top it off, the rapid appreciation of Brazil's currency means that it makes more sense for retailers or distributors to get what they need from abroad.

The government worries about trying to control the exchange rate, but the bigger picture is that Brazilian companies need to concentrate on producing high-value goods rather than cheap stuff.

But the party must go on and, for the next few carnivals at least, it looks like China is going to steal the show.

China doll: Brazil's domestic textile industry has failed to keep up with demand from customers

Getty

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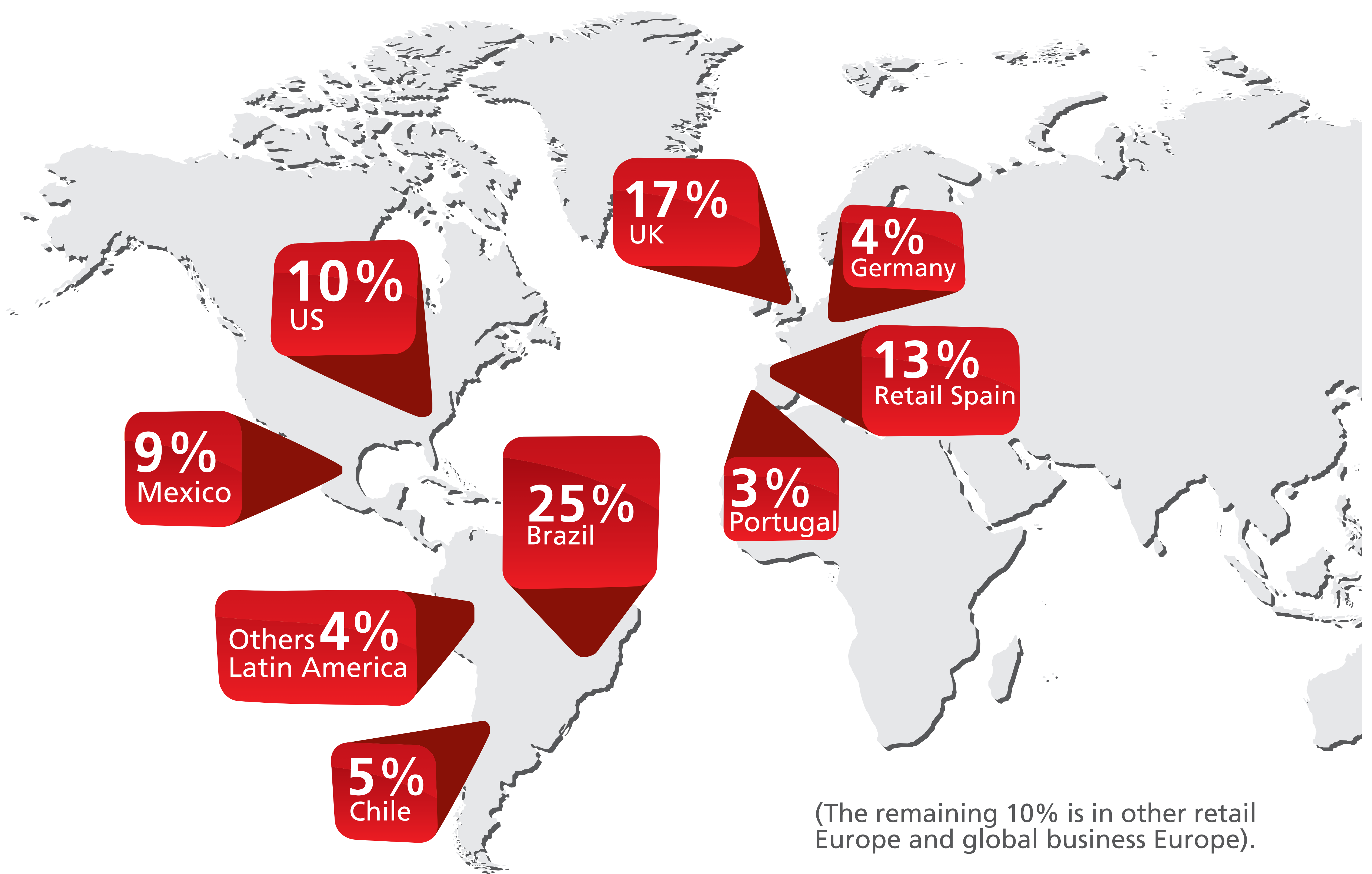
Geographical distribution of 2011 Q1 profit:



(The remaining 10% is in other retail Europe and global business Europe).

This strength is based on our diversified business model and the results we've achieved.

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