



Brazilian Companies in China: Presence and Experience

October 2012

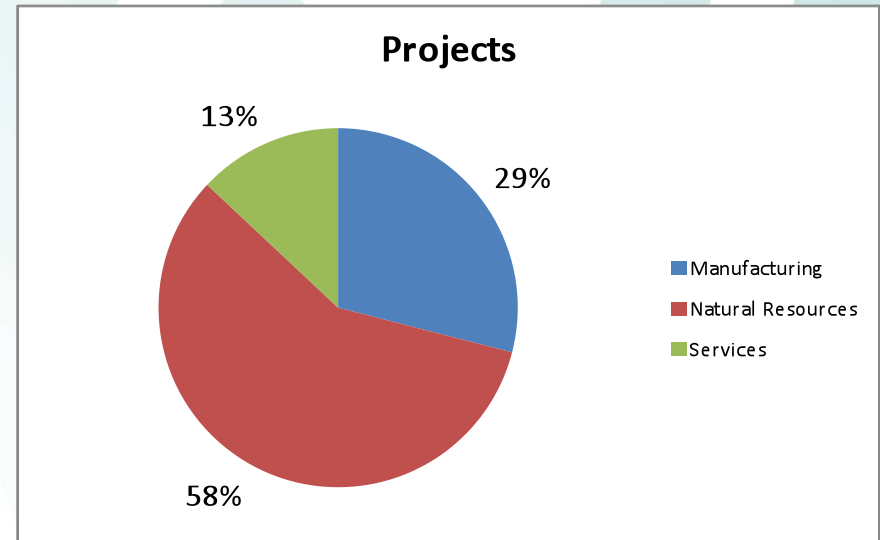
Claudio Frischtak, CBBC Consultant
André Soares, Research Coordinator

Context: CBBC's Research Program



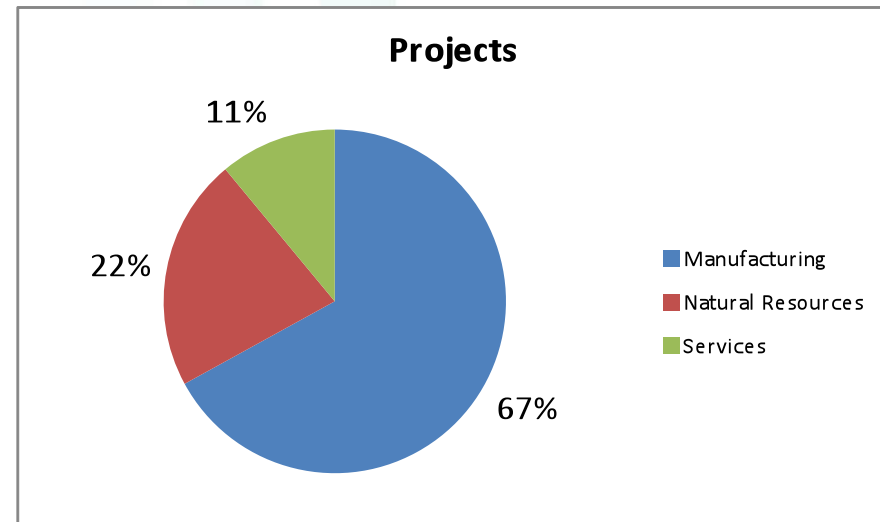
24 Projects
 US\$ 12,67 billion

Chinese Investments in Brazil (2010)



19 Projects
 US\$ 10,89 billion

Chinese Investments in Brazil (2011)



Agenda

- I. Foreign Direct Investment in China: History and Recent Dynamics
- II. The Presence of Brazilian Companies in China
- III. The Experience of Brazilian Companies in China
- IV. Strategic Challenges for Brazilian Investments in China



Part I: FDI in China

- Recent History
- Established Business Sectors
- Emerging Business Sectors
- Major Investors
- Chinese Government Priorities and Waves of FDI in China

The Chinese government's strategic guideline for foreign direct investment



DENG, Xiaoping.
1984 - 'Building Socialism with a
Specifically Chinese Character.'
in *The People's Daily*.

"We welcome foreign investment and advanced techniques. Will they undermine our socialism? Not likely, because the socialist sector is the mainstay of our economy.

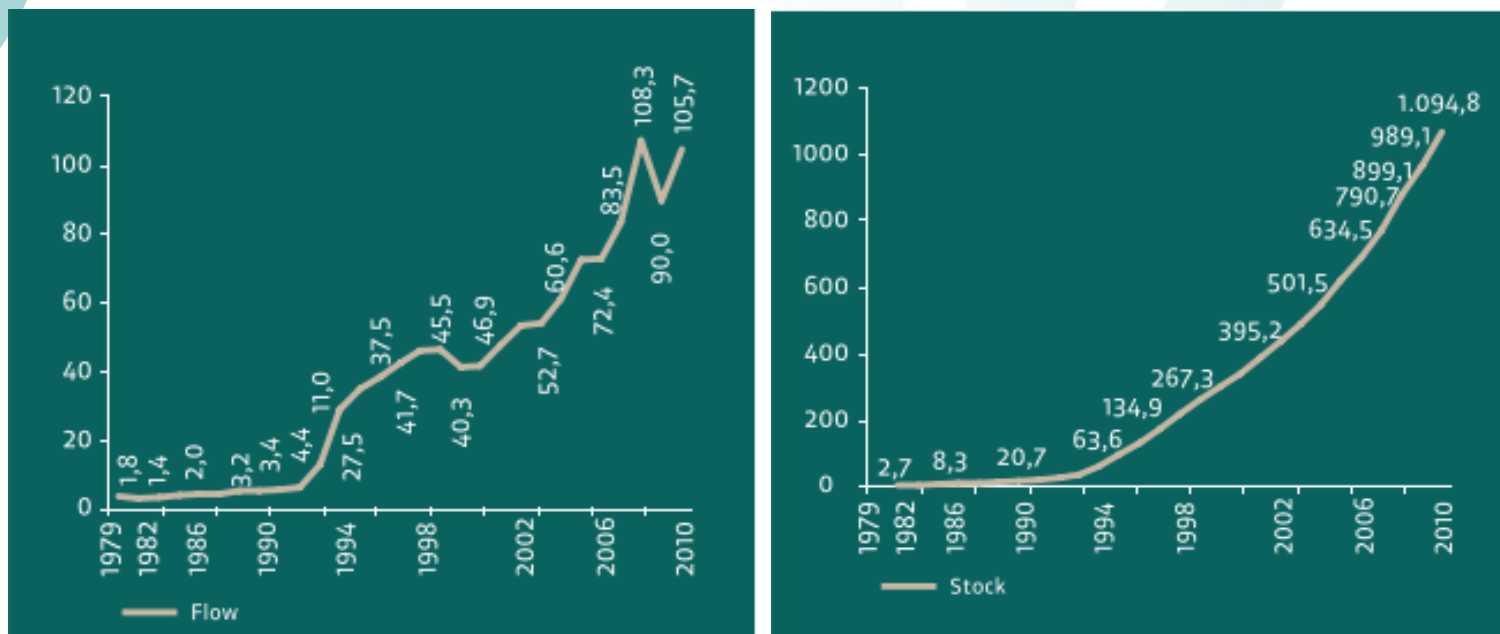
Our socialist economic base is so huge that it can absorb tens and hundreds of billions of dollars' worth of foreign funds without being shaken. Foreign investment will doubtless serve as a major supplement in the building of socialism in our country.

And as things stand now, that supplement is indispensable. Naturally, some problems will arise in the wake of foreign investment. But its negative impact will be far less significant than the positive use we can make of it to accelerate our development. It may entail a slight risk, but not much."

Foreign direct investment in China has risen sharply in the last three decades

- Opening in 1978
- One of the major features of the economic liberalization
- Currently the country is the world's second largest recipient of FDI.

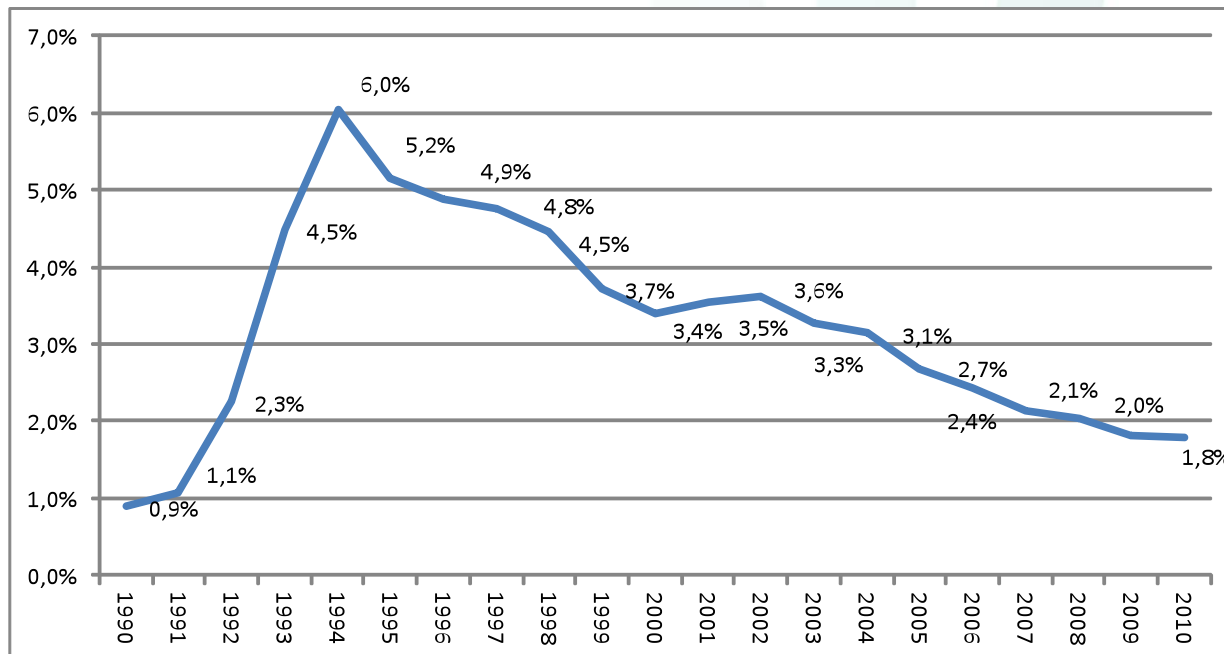
Graph 1 - Flow and stock of FDI in China - 1979-2011 (US\$ Billions)



Foreign investment was a determinant factor in shaping the Chinese development model

- At one point accounted for 6% of the GDP and 10% of the total investment in the country (1994),
- Was instrumental to the economy's modernization (and more recently to trade, distribution and logistics), the development of advanced industrial sectors in capital goods and consumer durables, and the creation of the largest and globally most efficient manufacturing export base.

Graph 2 – Foreign Direct investment in China as (%) of GDP

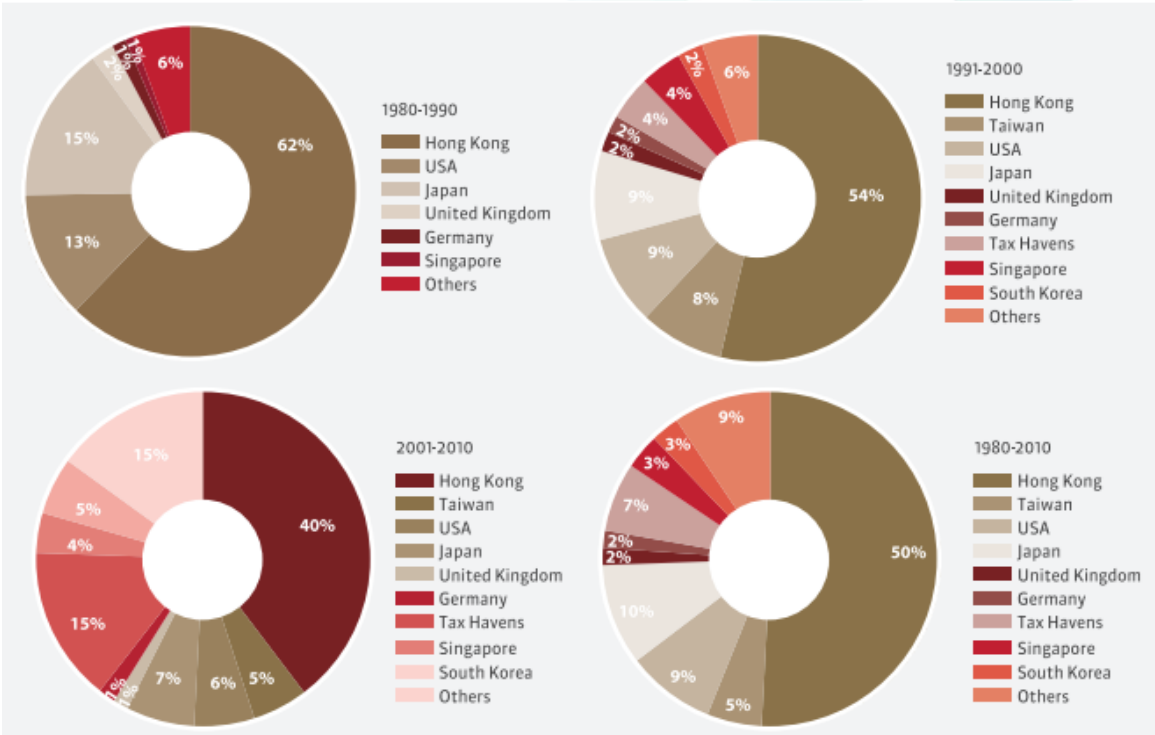


Source: Dragonomics
Prepared by CBBC

400 out of 500 of the world's largest companies listed by Fortune have invested directly in China

➤ Over the past 30 years, the diversity of countries investing in China has increased significantly.

Graph 5 – Main countries Investing in China over different periods - (%) of total received

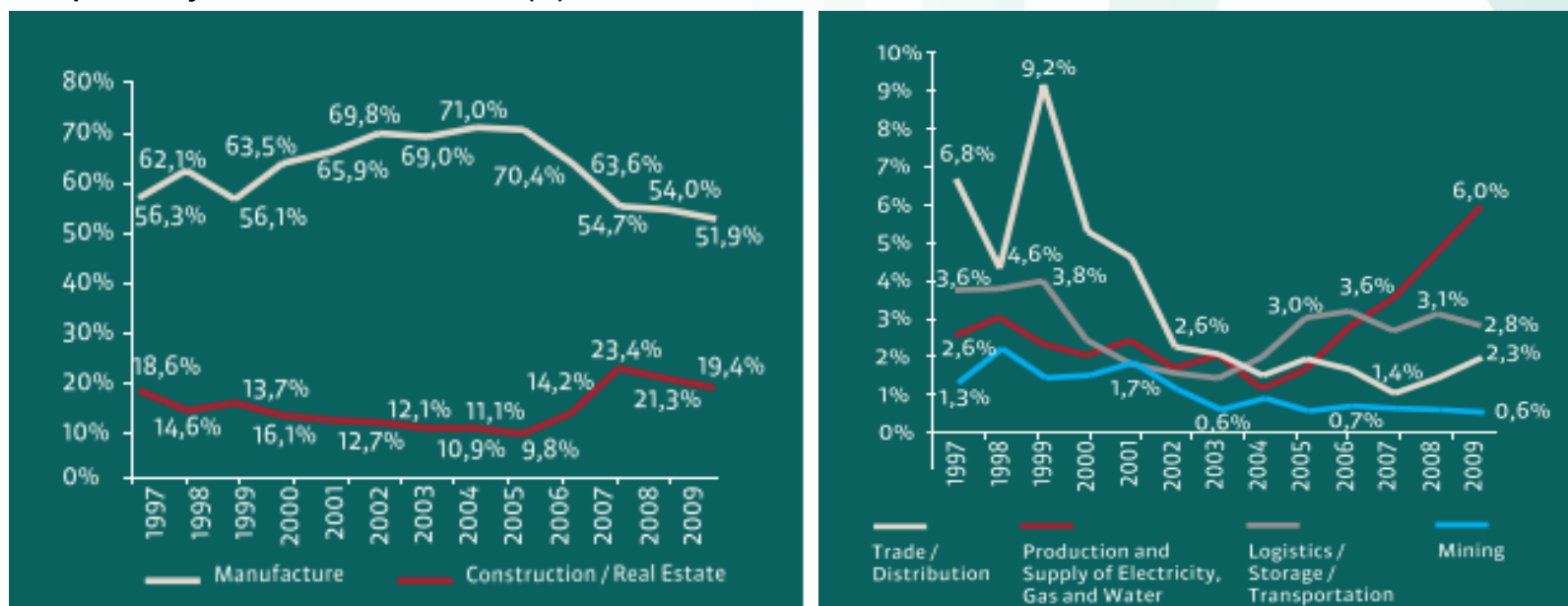


Source: China FDI
Prepared by CBBC

Manufacturing and construction account for over 70% of FDI ...

- Manufacturing peaks in the last decade, with a strong presence in Special Economic Zones (SEZ),
- The construction sector accounts for about one-fifth of investment flows,
- With the accession to the WTO, trade and distribution sectors are opened and modernized.

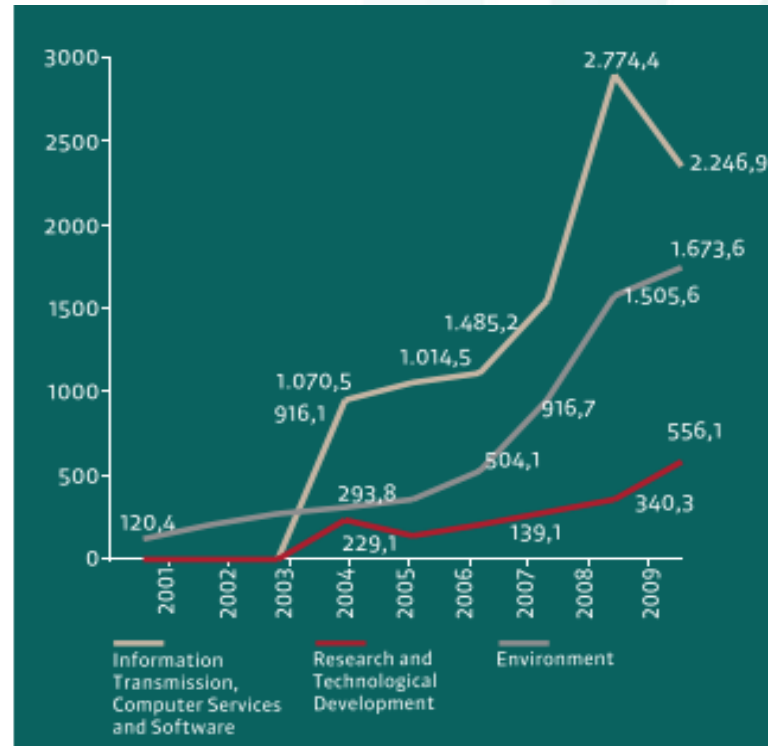
Graph 3 – Key sectors for FDI in China - (%) of Total Received



...with the shifting pattern of investment conforming itself to the objectives of the central government

- New Catalog for Investments - Revised in 2011
- "Strategic Emerging Industries" - 12th Five Year Plan.

Graph 4 - Investments in new sectors in China (U.S. \$ Million)

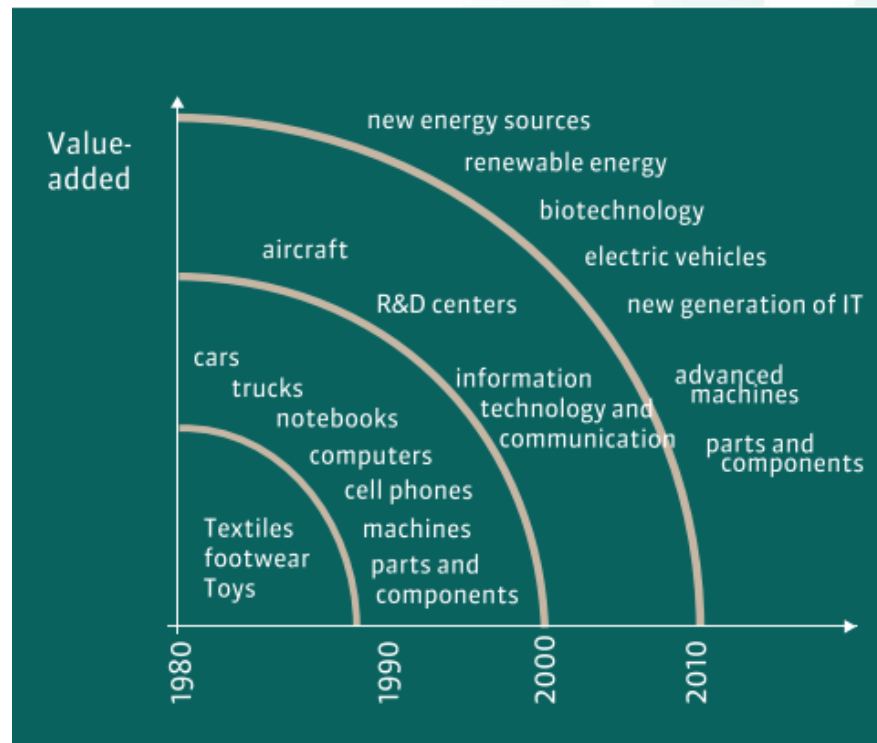


Source: NBS
Prepared by CBBC

At the Core: Using FDI to Learn and Move up the Knowledge Ladder...

- Companies used to seek cost efficient platforms and access to the internal market
- Nowadays they are moving their core business activities, such as centers for research, development and engineering in cutting-edge technological sectors.

Figure 1 – Different waves of inflow of foreign investments



Source: Investment Catalogs: 1995, 2002, 2004, 2007, 2011, Naughton (2007), Brown (2008)
Prepared by CBBC



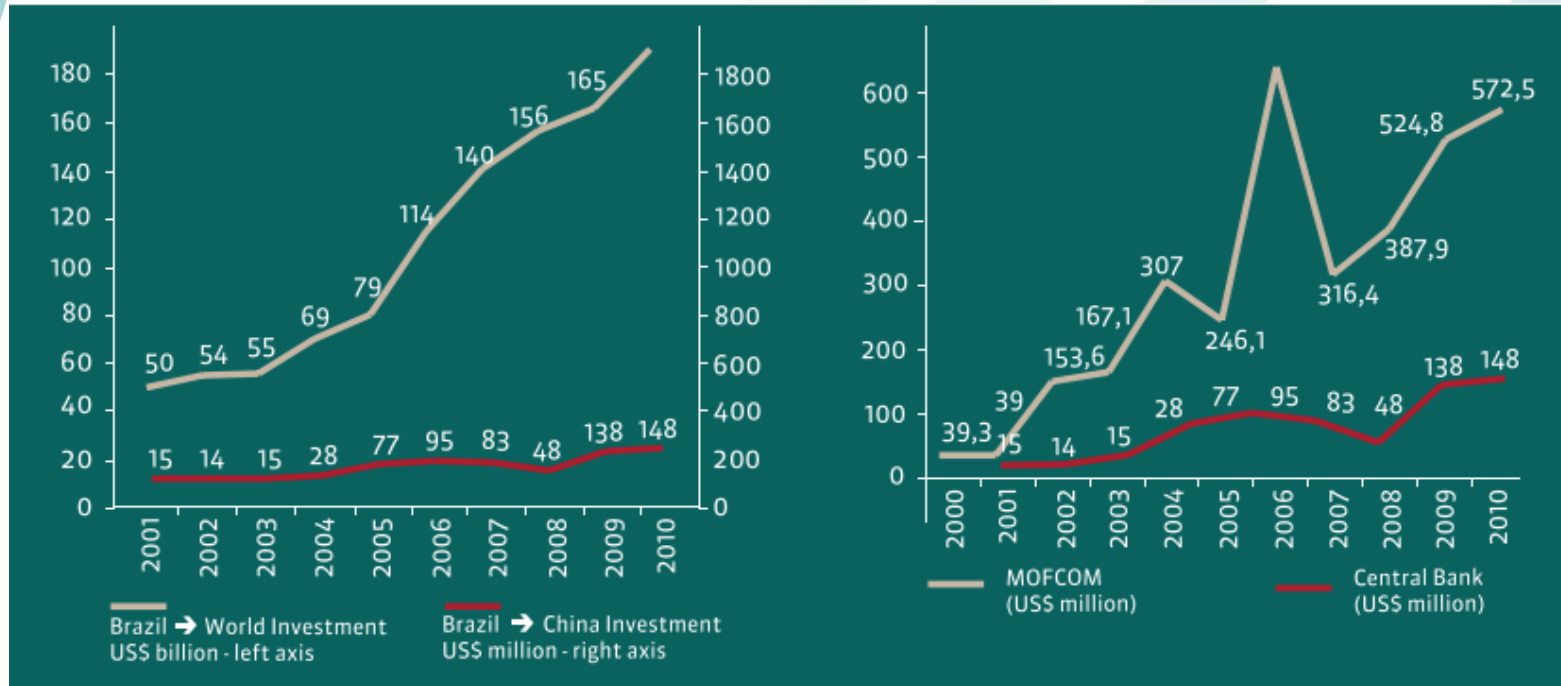
Part II: The Presence of Brazilian Companies in China

- Sectoral Distribution
 - Geographic Location
 - How Companies Become Established
 - Business Activities
 - Main Segments
- 

Brazilian investments in China are still modest ...

- Small volume and a slow dynamic
- China is the target of 0.06% of investments outflows from Brazil (last decade)
- Just 0.04% of investments entering China (last decade) originate from Brazil.

Graph 6 - Stock of Brazilian Investments in China (US\$)

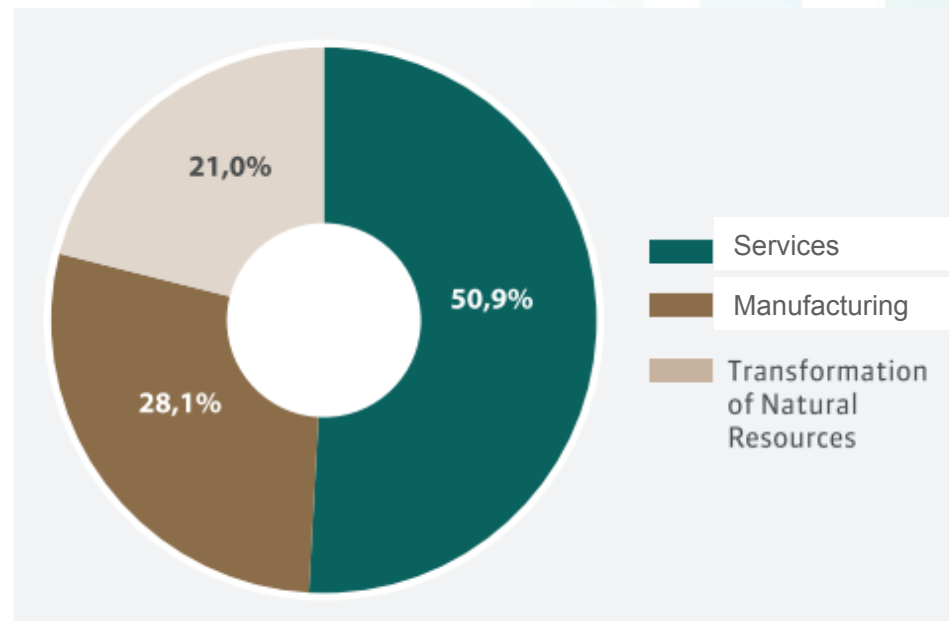


Source: Brazilian Central Bank, MOFCOM
Prepared by CBBC

... and the presence of Brazilian companies limited ...

- Only 57 companies have been identified as currently operating in China:
 - 51% are service providers (ex. Felsberg, Bank of Brazil)
 - 28% are manufacturing companies (ex. Weg, Embraer)
 - 21% are related to natural resources sectors - mining, energy and agribusiness (ex. Vale, Petrobrás, Marfrig).

Graph 7 - Composition of Brazilian companies present in China (% of firms)

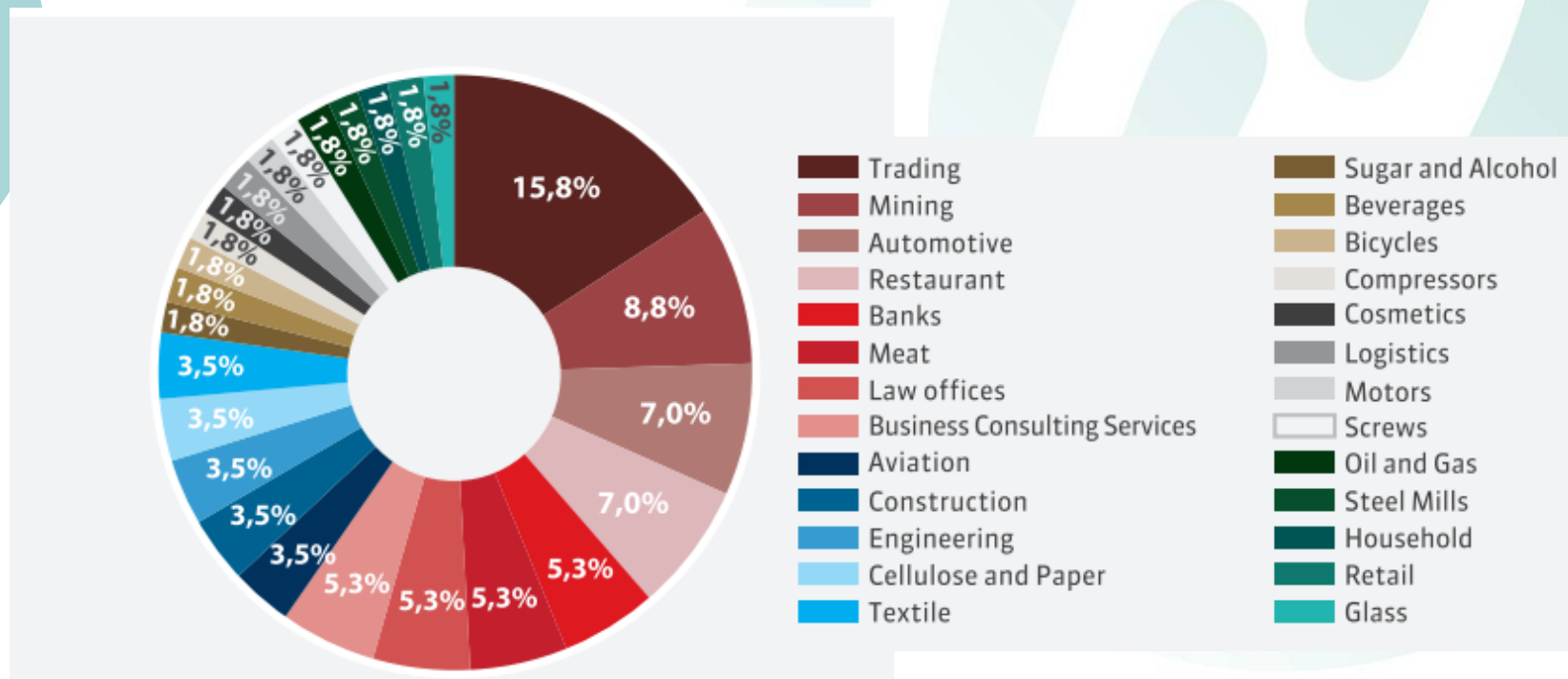


Source: Consolidated CBBC's List (based in Brazil Forum, MRE, Associated Companies)
Prepared by CBBC

...albeit quite diverse.

➤ Present in 26 different segments:

Graph 14 – Business segments (% of firms)

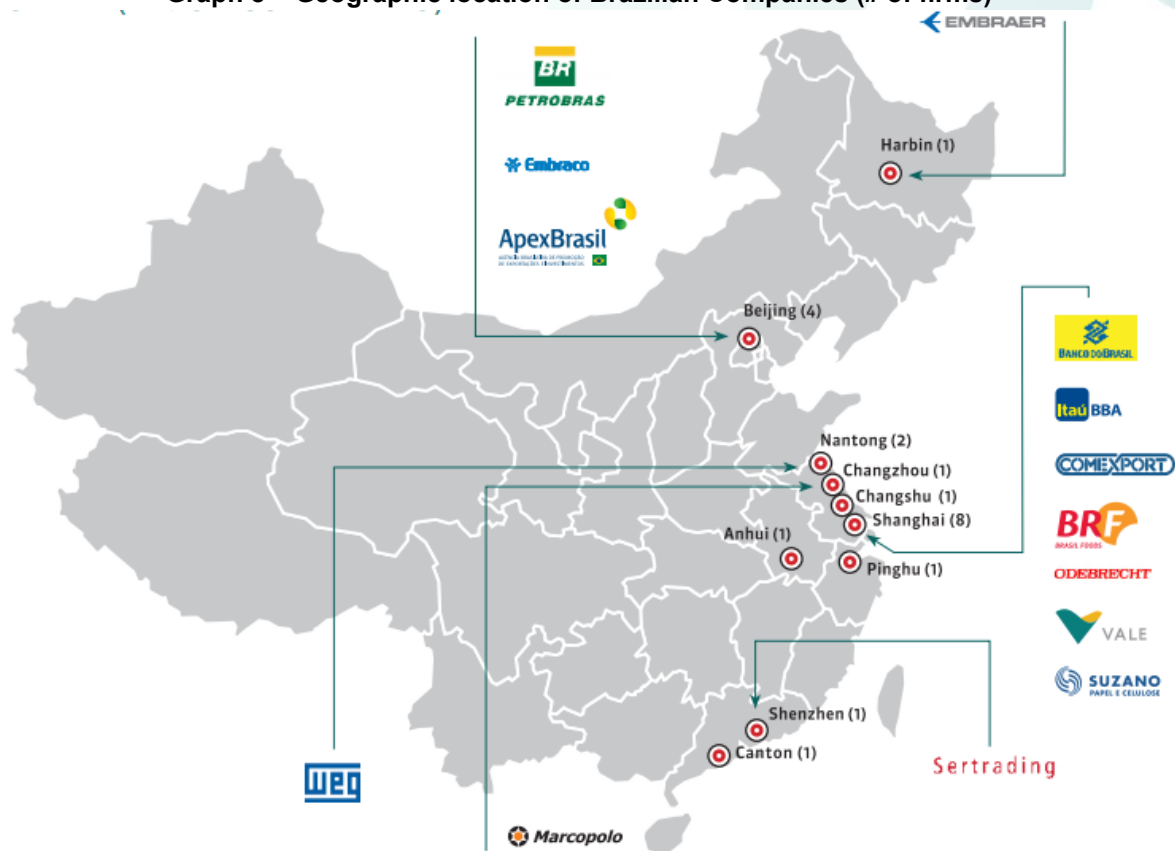


Source: Consolidated CBBC's List (based in Brazil Forum, MRE, Associated Companies)
Prepared by CBBC

The majority of Brazilian firms are located in the urban centers of China's east coast

- More than 80% of Brazilian companies are located in cities such as Shanghai, Beijing, Guangzhou and Shenzhen.

Graph 8 – Geographic location of Brazilian Companies (# of firms)

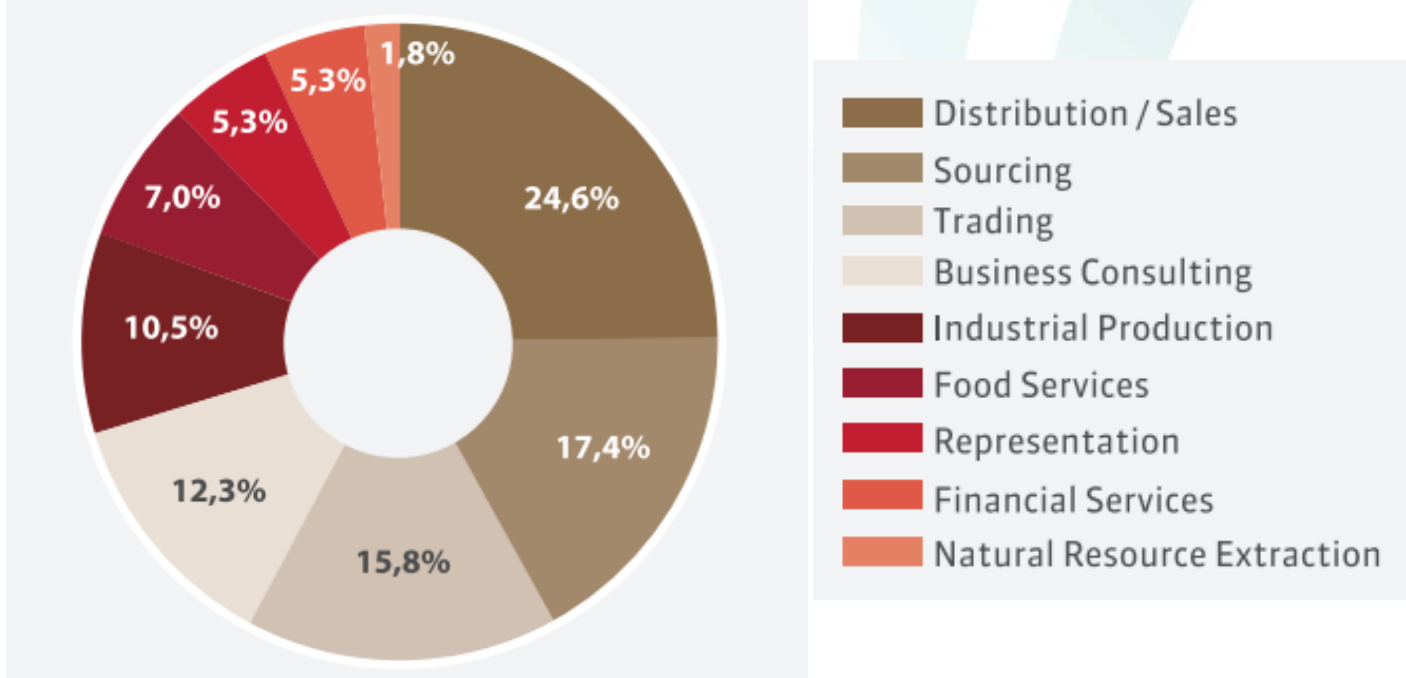


Source: Consolidated CBBC's List (based in Brazil Forum, MRE, Associated Companies)
Prepared by CBBC

The main business activity is the provision of services, sales and sourcing

➤ Major business activities conducted by Brazilian companies in China:

Graph 10 – Business activities of Brazilian Companies (% of firms)

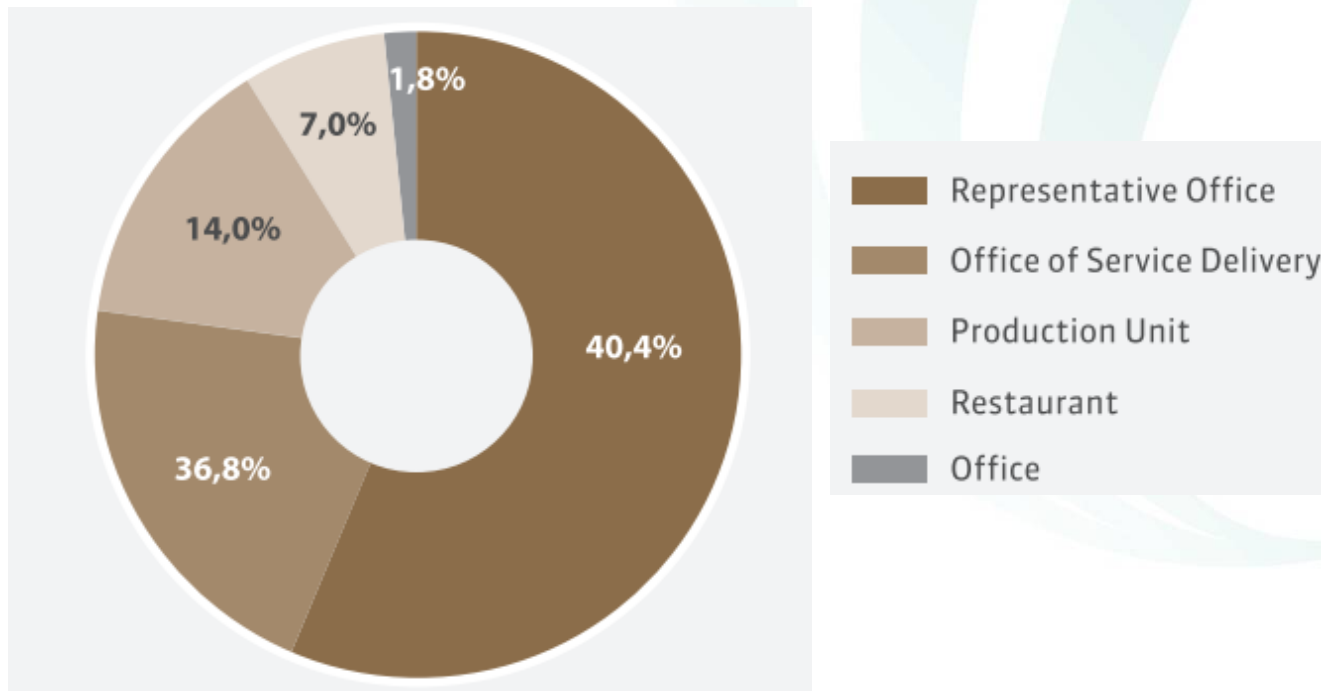


Source: Consolidated CBBC's List (based in Brazil Forum, MRE, Associated Companies)
Prepared by CBBC

Most Brazilian companies establish themselves in China through sales offices and the provision of services

➤ The number of Brazilian production units in China is still low, 14% of total

Graph 9 – Brazilian Companies in China (% of firms)

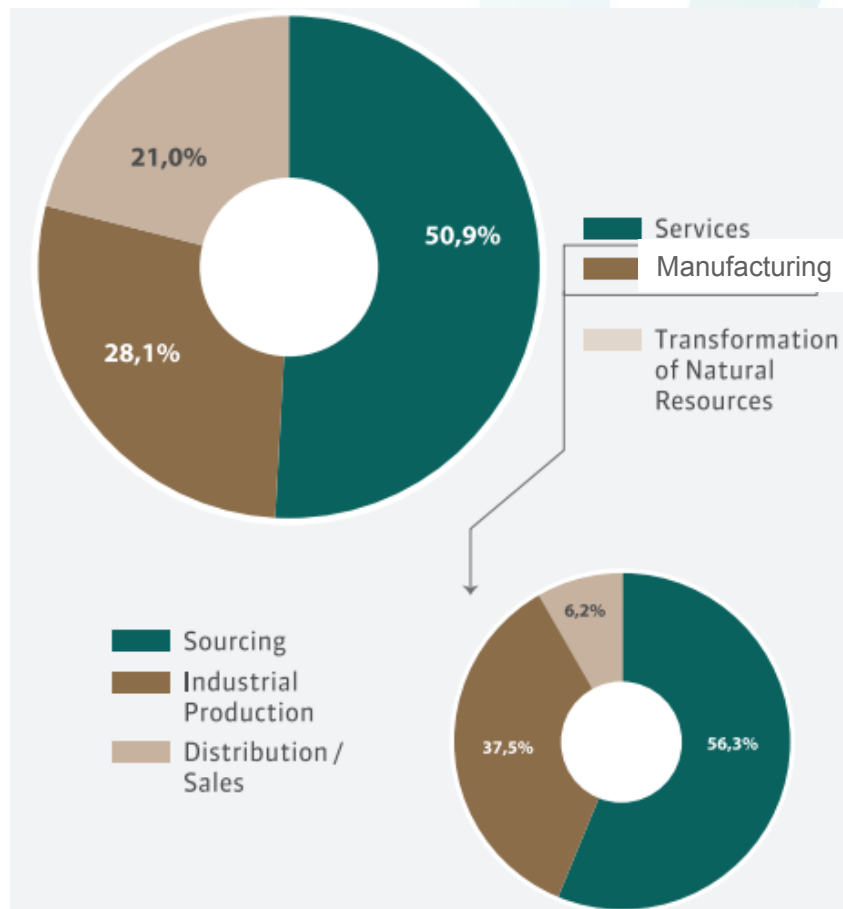


Source: Consolidated CBBC's List (based in Brazil Forum, MRE, Associated Companies)
Prepared by CBBC

while most industrial companies source in China...

➤ Among the 16 Brazilian manufacturing companies in China, most are engaged in services (including procurement):

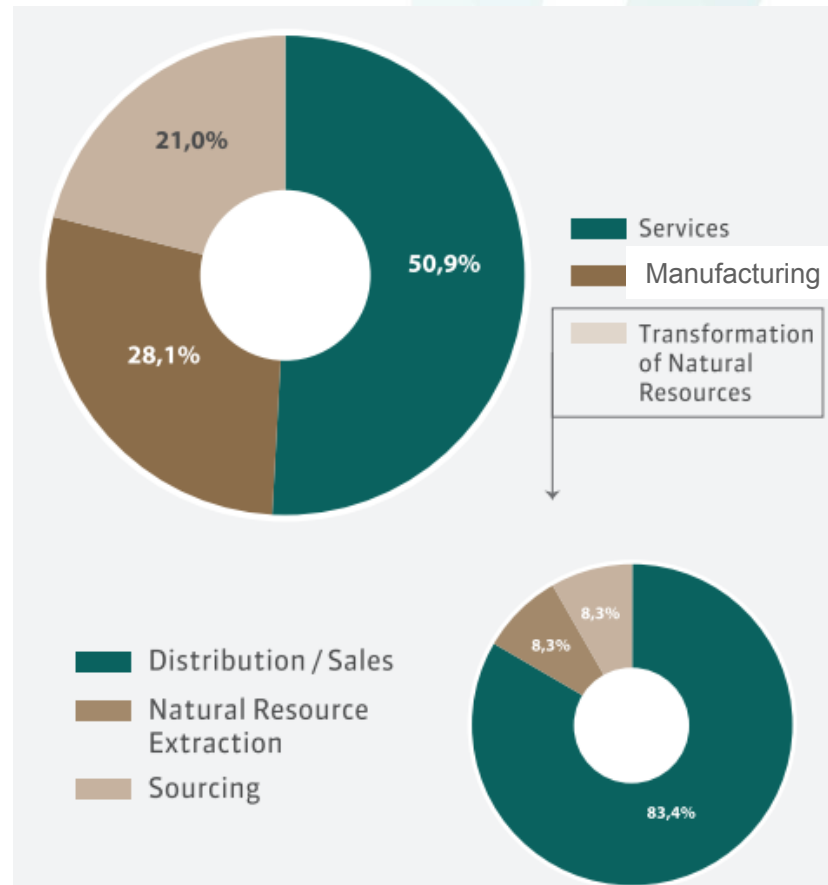
Graph 12 - Operations of Brazilian manufacturing companies (% of firms)



Source: Consolidated CBBC's List (based in Brazil Forum, MRE, Associated Companies)
Prepared by CBBC

...with companies in natural resources - energy, mining and agribusiness - engaged in the sale and distribution of their products

Graph 13 - Operations of Brazilian companies based on Natural Resources (% of firms)



Source: Consolidated CBBC's List (based in Brazil Forum, MRE, Associated Companies)
Prepared by CBBC



Part III: Experience of Brazilian Companies in China

In order to better understand the experience of Brazilian companies, the Council held a series of 12 interviews with executives of key companies regarding their:

- Entry
- Operations
- Perspectives and challenges

The entry of Brazilian companies in China:

Key Barriers

1. Geographical and cultural distance. The Chinese business environment has a number of particularities and idiosyncrasies.
2. Lack of information and knowledge about the priorities of the Chinese government, how to enter China and how to deal with the various government bodies.
3. Authorizations and approvals from the Chinese government for projects in regulated business sectors.
4. Misalignment between the strategic objectives of Brazilian companies and their Chinese partners.
5. Non-recognition by the Chinese judiciary of international practices related to intellectual property rights, which ultimately benefits the Chinese side.

The entry of Brazilian companies in China:

Initiatives:

- Establishment of a "Guanxi" network.
- Association with a Chinese company.
- Offer products according to government priorities and to the new consumption patterns of the population.
- Consult service providers and government agencies such as the Brazilian Embassy, the Brazilian Agency for Export and Investment Promotion (APEX), Foro Brasil and Brazilian Professionals in China (PBC).

Operation of Brazilian companies in China:

Key Barriers

1. Establishing a network of reliable suppliers
2. Establishing and maintaining a sales channel to meet the needs of the local market
3. Limits imposed by the Chinese government to establish direct market channels to third-party countries, hindering the creation of independent export platforms (requiring the participation of domestic firms)
4. Moderate level of education and qualification of the Chinese workforce
5. High level of employee turnover
6. Significantly lower productivity levels of Chinese partners in relation to Brazilian manufacturing companies
7. Limited number of Brazilian companies performing innovative activities and engaged in technological partnerships in China.

Operation of Brazilian companies in China:

Initiatives

- Establishing a network of suppliers with a preference for companies with a global reach
- To avoid issues related to intellectual property rights, companies can react by limiting local suppliers' access to information on product specification
- Establishing jointly managed sales channels while building long-term relationships based on trust with Chinese partners and associates
- Offering quality, differentiated and customized products, in order to gain local market share
- Extensive training of local employees in order to reduce the skill gap of the workforce
- Progressively integrate corporate planning and programming systems to help close the performance gap between operations in Brazil and China.



CBBC asked the companies to offer suggestions which could lead to an increase in Brazilian investments in China, among which we highlight:

- The need for the Brazilian Government to treat China as de facto priority
- The effective mobilization of government institutions in order to deal with different aspects which permeate Brazilian business in China
- The search for greater symmetry in investment-related rules and practices, given that Chinese companies have greater freedom to invest in Brazil than Brazilians in China
- The urgency for defining a strategy and a policy framework to guide the discussion among Brazilian companies, Chinese companies and the Chinese government
- The need for a more effective dialogue between Brazilian companies and the Brazilian government, so as to increase the alignment of the public and private sectors. This would propitiate a more coherent position and action plans to promote Brazilian investments in China, serving the interests of both countries
- Greater coordination among Brazilian government bodies.



Part IV: Strategic challenges for Brazilian investments in China

The CBBC conducted interviews with key actors in government, discussing possible areas of intersection with respect to the issues raised by Brazilian companies. In particular:

- Government positioning
- Initiatives to increase Brazilian investments in China



Initiatives and courses of action for Brazilian investments in China:

First, raise the profile of the Brazil-China relationship, in order to allocate more resources to the formulation, design and implementation of policies, reflecting the actual importance of China now, and in the medium and long term;

Second, improve interagency coordination. It is possible that the cleavage between the attitude and actions of the two governments is not the result of the competence or effectiveness of a specific institution, but the limited degree of coordination on the Brazilian side.

Finally, an effective strategy to face the challenges and opportunities brought on by China's ascent will depend on mobilizing people, resources and institutions to generate knowledge, stimulate debate and promote a continuous dialogue between government, firms and civil society. Ultimately this can lead to more balanced and sustainable bilateral economic relations between the two countries.



Thank you

