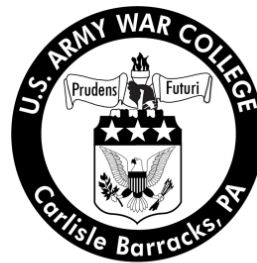


Is China's Engagement with Brazil, an Opportunity or Threat?

by

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United States Army War College
Class of 2012

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by

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IS CHINA'S ENGAGEMENT WITH BRAZIL, AN OPPORTUNITY OR THREAT?

Brazil Aspires to Big League in More Than Soccer

—New York Times¹

Brazil's aspiration to become a member of the global elite has led to increased economic and military engagement with China. China increased Brazilian investment in 2010 by over 5000% to 17 billion dollars.² China has supplanted the United States as the number one trading partner to Brazil. While the United States struggles to recover from the global financial crisis and continue to engage world wide it cannot take its eye off of the Americas. Every investment by China is a missed opportunity for the United States. Stronger international relations between the United States and Brazil are required. But before developing any policy the United States must gain an appreciation of Brazil's global interests. Brazil will pursue these interests with or without the United States. Left unchecked China's continued engagement will diminish the United States prestige in South America. If the United States desires a role in shaping the future of the Americas it is necessary to change its engagement policy with Brazil or prepare for a much different backyard.

Why does Brazil matter? It ranks fifth worldwide in square kilometers and population. Brazil's oil production is ranked 9th, putting that in perspective Brazil out produces both Nigeria and Kuwait. Its Gross National Product, (GDP) is ranked 9th worldwide including a cumulative 11% growth in 2010 and 2011³. But most importantly it is a democracy, second only in scope to the United States in the Western Hemisphere.

Brazil's economic growth and maturing democracy have been occurring while the United States has been engaged for ten years in multiple armed conflicts and suffering through the global financial crisis. These conditions became China's opportunity. China's ability to use soft power in Latin America and specifically Brazil has increased exponentially in recent years.⁴ Unhindered by the global financial crisis, China was able to capitalize on the lack of traditional foreign investments. China's investment model facilitates large investments that can incorporate both private and governmental agencies, something United States investors cannot do.⁵ The result is staggering, from 1998-2008 trade between the two countries grew by 1,838%.⁶ The trade growth has allowed China to surpass the United States in early 2010 as Brazil's largest trading partner.⁷

The United States and Brazil have had strong relations in the past, relations that cost Brazil in blood and treasury. Brazil was the only Latin American country to send forces to Europe in WWII and the only Latin American country of significance to declare war against Germany in WWI.⁸ At the peak, 1960, the United States was Brazil's largest consumer accounting for 45% of all Brazilian exports.⁹ So what happened? The United States failed to see Brazil's importance and treated it simply as one of the other 20 Latin American countries.¹⁰ Changes emerged as the Cold War ended and the world moved into a new political and economic world order.¹¹ Brazil seized the possibilities of the 'New World Order' and began a steady economic and international rise.

In 2001 Goldman Sachs analyst Jim O'Neil saw the potential in four evolving markets and coined the acronym BRIC (Brazil, Russia, India and China).¹² Initial observations were that Brazil was the laggard in the group; the same cannot be said

today.¹³ In addition to its standing as a strong BRIC economy, Brazil is also a leader in the Group of Twenty Finance Ministers and Central Bank Governors also known as G-20. The G-20 has been recognized by the United States, and many other Group of Eight leading industrialized nations (G-8) members, as the premier forum for international cooperation. It was the G-20 that President Bush called to meet after the global financial crisis in 2008, not the G-8. President Obama concurs and focuses more international efforts through the G-20 because of its greater potential for the future than the limited and sometimes “elitist” G-8. Brazil’s growth has built a wealth of international capital. It uses this capital in international forums such as the United Nations, World Trade organization and G-20.

United States and Brazil relations have drifted apart from the United States lack of attention and maintenance. Brazil sees itself as a developed nation worthy of global status. Their economic power and international clout is real, the United States missed the opportunity to partner with Brazil as they began their ascent. However, China saw the opportunity and has reaped the benefits.

Chinese Interests and Engagement

China’s actions in the international arena are tied directly to their interests. This is a fact that they do not hide. Their objective is the full independent economic survival of the Chinese State and the Communist Party.¹⁴ This uncompromising approach to international relations has been very effective and profitable. They have benefited from the United States led world order and may have their eye on a future power transition. Today however as the United States maintains the world maritime domain and acts as the world police, China can focus on growing its economic power.

China's number one interest is securing resources. Their thirst for energy and raw materials to sustain their manufacturing base must be met. Second, they need a vibrant open market to sell their goods. Third, the sheer size of the population makes nutrition important. The second and third order affects of succeeding in the previous interests presents a new challenge. As manufacturing centers expand so do urban areas. China needs to meet the food requirements of rapidly growing population centers and sustain their manufacturing based economy. Four, China looks for access to technology. The strength of the Chinese manufacturing industry is assembly not research and development. They are constantly scanning for new technologies that can be reversed engineered. Their core competence is to produce goods at low cost and quickly distribute them to the international market. Lastly, China wants to continue to achieve all these interests without creating any international waves. Ideally nothing they do upsets the current world order, specifically the United States, until they have the ability to change the world order and assume its leadership.¹⁵

Brazil has been all too eager to meet Chinese demand for resources. Chinese demand was a windfall for Brazil pushing commodity prices to all time highs and injecting large amounts of capital into the economy.¹⁶ The main exports to China are soy products, iron and petroleum. Soy production in Brazil has increased dramatically over the last decade. This is a direct result of China's demand for soy products. In 2010 China represented 56% of all Brazil soy exports.¹⁷ Soy has become an essential source of protein for China's workforce. To avoid the fluctuating commodity prices China has explored negotiating long term contracts directly with Brazilian farmers.¹⁸

The iron and petroleum exports from Brazil meet the raw material and energy requirements for China's continued manufacturing based economy.

While on the surface this appears to be a win-win for both countries there is reason for caution from Brazil. Interdependency between the two countries is shallow. Brazil is becoming too dependent on China; the same cannot be said for China regarding Brazil. While China is Brazil's number one trading partner, Brazil is not even cracking the top ten regarding Chinese top trading partners.¹⁹ This imbalance is starting to become apparent to Brazilian officials. "As the Council General of the Brazilian Consulate in Shanghai Marcos Caramuru de Paiva stated, 'China's strategy is very clear: it is doing everything possible to control the supply of commodities', and thus has created an image problem in the region."²⁰

China's access to the 200 million plus consumers in the Brazilian marketplace has exacerbated trade relations. As an example in 2009, 77% of Brazil's exports to China were commodity based raw materials.²¹ In return what China sent Brazil was 98% finished goods. Brazil business' have difficulty competing with China's low cost imports. "The Federation of Industries of the State of San Paulo estimates that this competition with China has led to the loss of approximately 70,000 Brazilian manufacturing jobs in 2010 and 10 billion dollars in expected earnings for local industry."²²

In return for continued access to these resources China does engage in Foreign Direct Investment. The focus can be grouped into three categories: resources acquisition, market access and efficiency seeking.²³ This is one area that China excels. Their investment can be tied directly to interests; any benefit derived by Brazil is

secondary. They are able to do this because of a coordinated government approach. The United States government, corporations, private business and investors cannot synchronize their efforts like China. The lack of a single entity able to act quickly and according to a grand strategy is a definite challenge for the United States and an advantage for China.

China spends 75 cent of every dollar invested on resource acquisition. This can be buying land to farm, mines to extract raw materials or improving infrastructure. A port and highway built by China will be specifically designed to facilitate Brazilian resources going East and Chinese manufactured goods going west.

Technology exchange has been one area that seems to be mutually beneficial. Space technology has long provided dual use spinoff benefits such as rockets, electronic and computer technologies. The joint venture of remote sensing satellites has resulted in the successful launch of three earth observation satellites with more planned in the near future. There is no other project like it in the world.²⁴ This endeavor has made both countries independent regarding satellite imagery, with the additional ability to provide it as a service.

There is a sharp contrast when comparing the United States and China as responsible partners in the Space Domain. Space currently has no rules but more of an accepted self regulating guidelines. In 2007 China conducted an anti-satellite test by destroying one of its aging weather satellites. They chose to destroy the satellite while in orbit amongst the rest of the world's communication, security satellites and the International Space Station. According to United States Space Command the Chinese test added debris more than 10% of the 50-year total in an instant.²⁵ This should be

very disturbing for Brazil, just 8 months earlier their first astronaut spent 8 days at the International Space Station.

Another technology based joint venture is the Brazilian aircraft manufacturer Embraer's plant in Harbin, China.²⁶ This endeavor has been rocking. Since its inception in 2000 China has been resisting Embraer's desire to build larger regional jets. This would compete with Chinese interests to develop their own aircraft manufacturing industry. Brazilian perceptions went so far as to question whether China only wanted to gain access to technology for its own industry verses a successful joint venture. As of April 2011 China finally allowed production of the larger aircraft and made purchase contracts of over 1.4 billion dollars.²⁷

Chinese military engagements with Brazil have also been increasing. The most intriguing of these engagements is the Brazilian training of Chinese fighter pilots on aircraft carrier operations. There are only 4 countries in the world currently operating conventional launch aircraft carriers, (United States, Russia, France and Brazil), and Brazil was the only country willing to provide China the necessary pilot training. China does not possess a blue water navy and has arguably benefited the most by the United States Navy's maintenance of the global sea lines of communication. An interesting fact is throughout written history the Economic Hegemon has always been the Naval Hegemon. It is not a stretch of the imagination to link China's blue water navy ambition to its economic ambition. While the aircraft carrier they have is outdated it is a clear indication of developing a greater naval capacity.

Other military engagements included reciprocal visits by Defense Ministers in the same month during 2010.²⁸ Additional senior and mid level officers participate in

education and training opportunities in China. Some Brazilian colonels have even attended the Chinese National Defense University, but most attend a one year defense and strategy course.²⁹ Mid level and junior officers attend functional courses such as logistics, intelligence, artillery and command and staff.³⁰ However, it is not uncommon for officers that attend Chinese exchanges to be the brunt of jokes by officers that attend western exchanges.³¹ Clearly from the Brazilian military point of view the Chinese exchanges are not held in the same regard as western exchanges. It is important to note that few Chinese officers attend Brazilian military schools. One can infer that few Chinese officers actually speak Portuguese and that China has anxiety exposing its officers to other cultures.³²

Over the past ten years China has become an active participant in United Nations Peacekeeping Mission. Since 2004 they have had a continual military police presence in Haiti as part of the United Nations Stabilization Mission in Haiti (MINUSTAH). During that same period Brazil has assumed the military leadership of the mission. Seven years of working together, even at lower levels, has fostered improved relations and understanding of operating in a Latin American environment.

Brazilian Interests

A more confident Brazil has emerged over the last decade. No longer will Brazil compromise its interests.³³ Brazil is an independent player in international relations. It is essential for the United States to understand this. The days of counting on Brazil to stand in line behind us are gone. While today Brazil is a bull market for China the same friction will more than likely occur between China and Brazil.

Brazil must address its trade imbalance and dependency with China. The track record of China is not encouraging. The asymmetric trade relationship is not a

surprise. What remains to be seen is how Brazil responds. As stated above the strong independence streak and emerging global clout make Brazil unlike any other developing country that China has aggressive trade policies. Entering into other trade deals with the United States and European Union could mitigate this reliance on China.

To fuel international aspiration Brazil must focus internally on several domestic issues (pillars of strength): agriculture, mining, growing the middle class and energy production.³⁴

Agriculture is already a key component to Brazil's economic prosperity, but it also positions the country for a leading role in global food security. Brazil can feed more than its population and is the world's largest producer of soy, beef, coffee and sugarcane³⁵. Innovation has resulted in expanded farming acreage and industrial technology to efficiently harvest crops. Further increases in productivity are already under way with investment by United States companies.³⁶

Mining provides Brazil additional high demand exports. A balance must be struck between exports and internal requirements. The rapid growth has strained Brazil's infrastructure and new construction is imperative. An overall strategy for resource consumption and capital improvements is necessary.

Brazil is unique in that it is considered a developed country but has many developing country problems. Poverty is the biggest problem. According to the CIA Fact Book in 2008, 26% of Brazil's population lives below the poverty line. Aggressive programs like Bolsa Familia, paying families to ensure children attend school, subsidized housing loans and raising the minimum wage have made upward mobility a reality for many Brazilians.³⁷ Growing the middle class will provide Brazil an increased

consumer base with money to spend and increased human capital available for skilled labor.

Brazil's energy independence is a source of power; there are 500 billion barrels of oil beneath Brazilian waters, an annual production of 167 million barrels of ethanol, the world's sixth largest uranium deposits and hydroelectric supplying 75% of the current domestic electrical demand.³⁸ Brazil's ability to power its domestic growth and export energy makes it a substantial international actor.

Brazil has always seen itself as the natural leader of South America. Their view has expanded now to a leader for developing countries around the world. This puts Brazil and China on a collision path. The short term mutual beneficial trade could result in a long term competition for global markets and international clout.

A point of great consternation for Brazil is a permanent seat on the United Nations Security Council. The Brazilian point of view is the world has changed since the end of World War II and so should the Security Council. They are not alone in this view. The Group of Four (Brazil, Germany, India and Japan) have presented a plan to increase the Security Council to include six new members³⁹. The new members would come from Asia, Africa, Latin America and Europe. The strongest argument is that the new increased council would be more representative of the current world and increase the council's legitimacy. As a compromise in gaining permanent seats veto power would remain with the original five members.

Brazil has a strong desire for an independent defense industry. While many other countries are eager to purchase arms, Brazil prefers a different approach. Minister of Strategic Affairs Roberto Mangabeira has stated "We are no longer

interested in buying weapons off the shelf".⁴⁰ It is the only BRIC member without a nuclear bomb, not because it cannot produce one but because it chooses not to.⁴¹ The military leadership sees modernization and an operational Brazilian defense industry as a requirement to accompany the new internationally active Brazil. The essential element needed to build this industry is technology transfer. The United States International Traffic in Arms Regulations, (ITAR), looks like a roadblock.⁴² While the joint satellite venture with China is an example of a trade deal that has the potential to also invigorate a budding defense industry. A second look at ITAR as it relates to Brazil could be a win-win situation. Brazil could gain military technology and a genesis for their own Defense Industrial Base as the United States sustains some of its own base.

Brazil's recent attempt to negotiate the Iranian fuel rod swap deal is less a reflection of pro-Iranian or anti-American ideology as it was Brazil's desire to be an active member in global security issues. One can applaud their effort and creative solution but choosing this particular issue as a first go at leading a global security issue was not prudent. Further illustrating Brazil's independent view on this issue they voted against United Nations sanctions, but as a responsible member of the international community is fully implementing them.

United States Opportunities

Today the United States is ending its wars in Iraq and Afghanistan as it continues to struggle with high unemployment and lagging financial markets. Preoccupation with these issues blinded the United States to the emergence of Brazil not only as the cornerstone of South American growth and stability but now an active member on the world stage.⁴³ As simple as it may sound the United States needs to forget all of its preconceived views of Brazil and start over. Brazil must be recognized for what it is

today, a global actor with a powerful and growing economy.⁴⁴ President Obama's visit with newly elected Brazilian President Rousseff in March 2011 is a step in the right direction, but any gains can be quickly eroded if actions do not follow the rhetoric.

Brazil is posed for an unprecedented opportunity to send the world a positive strategic communication; Brazil will host the 2014 World Cup and the 2016 Summer Olympic games. According to the International Federation of Football Association the 2010 World Cup in home television coverage reached 3.2 billion people around the world.⁴⁵ If that was not impressive enough according to Nielson the 2008 Summer Olympic Games had a viewership of 4.7 billion, 70% of the world's population.⁴⁶ The point to be taken is Brazil may have celebrated the sweep of gaining these two events, but can they build the necessary infrastructure, secure all the events and simply host all the athletes, fans, media and leaders that attend? If they can what a powerful strategic message it will send.

Now is the time for the President of the United States and Industry leaders to engage Brazil. During President Obama's visit a Memorandum of Understanding was signed specifically regarding these two events. The United States can offer best practices from securing events like the Super Bowl and Times Square on New Year's Eve. Industry has safety and security technology that can be shared and sold. The United States will not be the only country engaging Brazil for opportunities. Focusing on those areas that will strategically position the United States for fostering a long term relationship are appropriate. Building more fast food restaurants, bars, and hotels are not the right targets. Safety and security will have far reaching consequences. As Brazil becomes more involved globally, worldwide conflict resolution and stability is a

common interest shared with the United States. Currently as Brazil is leading the United Nations operations in Haiti there were tangible bilateral lines of effort that can be developed further. Cooperation in Haiti was the largest combined operation of United States and Brazilian military since fighting side by side in World War II.⁴⁷

Brazil is not the only country looking for ways to send global strategic messages; the United States is as well. One of the greatest strengths of the United States is the military and within the military, logistics has been a core competence. A crisis like the Haitian earthquake will happen again. And again a rapid logistical response will be needed to save lives. The world expects that the United States responds by virtue of its world leadership, capabilities and wealth. The American people will disagree and say it responds because it's the right thing to do. Brazil will quickly find itself in this position. Economic wealth brings responsibility and all indications are that Brazil willingly accepts an expanding role in the world. A United States and Brazilian partnership on this issue is a win-win for both countries. Strengthening the ties between the two countries enables leveraging the capabilities of both and achieving more than either could on their own. The new strategic message for Brazil is increased global prestige as an equal partner with the United States and demonstrated concern and action in global crisis. The United States gains another international partner to ease the burden of unilateral action and a strategic message of multicultural partnership.

Along the same global line of effort Brazil has petitioned for a permanent seat on the United Nations Security Council. They are not alone in their desire to expand the Security Council; the issue involves other strong allies of the United States as well. The world has changed a great deal since the end of World War II and the United Nations

Security Council needs to be brought into the realities of the 21st Century. Brazil has already increased its voice and voting power in the G20, World Trade Organization, World Bank and International Monetary Fund supported no less by the United States.⁴⁸ The issue of a permanent seat on the Security Council is not going to die. Brazil will continue to pursue this seat because it promotes Brazil's global interests. A strategic partnership with a rising power that is also a democracy is an opportunity that cannot be wasted. By giving serious consideration and facilitating discussion on expanding the Security Council the United States will publicly acknowledge the emerging power of Brazil.

Military cooperation and engagement must be increased. Since 2002 Brazil has refused to sign Article 98, a bilateral agreement that exempts United States civilians and soldiers from prosecution by the International Criminal Court. The consequence for not signing the article was a loss of United States military assistance. Implementing this policy was nearsighted. Secretary of State Rice went so far as to say "we are sort of shooting ourselves in the foot" by applying this policy to key allies.⁴⁹ An example of how military exchanges can have strategic affect is the response to the earthquake in Haiti. The United States Joint Task Force commander was Lieutenant General P.K. Keen. Divine providence had Keen on the ground in Haiti during the earthquake conducting a routine theater cooperation visit. But more important was that the commander of MINUSTAH was Brazilian Major General Peixoto. These two Generals had a long standing relationship dating back to an exchange program. Captain Keen had been assigned to a Brazilian Airborne Brigade where Captain Peixoto was a

Pathfinder.⁵⁰ Their relationships more than anything else enable a rapid and coordinated response when lives were in the balance.

Cooperation begins with regular dialogue. Senior level visits by the Secretary of the Defense, Chairman of the Joint Staff and USSOUTHCOM leadership help to break down barriers. Secretary Gates' Defense Bilateral Working Group with Brazil is a huge step.⁵¹ The first meeting was held June 2011 in Brazil. The working group can identify mutual interests, review current cooperation efforts and explore emerging opportunities and threats.

Individual military exchanges have the potential to pay strategic dividends like Haiti. Joint exercises can be viewed as exchanges taken to the next level. Exercises will expose larger numbers of soldiers from both countries to each other individually and on a broad scale improve military interoperability. There is a long standing precedence for joint exercises. The naval exercise UNITAS, Spanish for united, has been conducted for over 50 years, each of those years Brazilian and United States navies have trained together. This is also a great example of cultivating a strategic partnership. It is physically impossible for the United States Navy to maintain freedom of movement on all of the world's commercial shipping lanes, support ground combat operations and maintain the readiness of the fleet. As stated in the United States Navy Cooperative Strategy for the 21st Century expanded cooperative relationships with other nations will contribute to the security and stability of the maritime domain for the benefit of all. The same logic can easily be said for all of the military domains.

Economic opportunities for the United States are enormous. While it is true that a significant portion of the Brazilian people live below the poverty line successful

domestic programs have targeted middle class growth. The wealth of natural resources and commodities in Brazil has led to large raw material exports and large profits. It has not been an incentive for innovation or growth in other industries.⁵² The opportunity for the United States is to allow controlled technology transfers. A quick way to accomplish this is through increased sales to Brazil of military equipment. There are multiple benefits to this strategy. Bilateral trade, US industry and military cooperation all grow and Brazil gains technology to stimulate innovation.⁵³ As stated earlier the one and only Brazilian Astronaut was trained by the United States. Brazil and the United States reaffirmed their agreement on the use and exploration of space for peaceful purposes in March 2011.⁵⁴ Collaboration on space related projects will counter Brazil-China satellite venture and as an industry space is highly leveraged in technology, exactly what Brazil desires.

Brazilian President Rousseff has quickly recognized that the growing dependency on commodity exports to China puts Brazil at a distinct disadvantage long term. Brazil needs a manufacturing sector to compete with imports, specifically Chinese imports. Again as the Brazilian middle class grows a larger educated workforce grows too. The United States manufacturing industry has a window to establish complimentary manufacturing sites in Brazil not to compete for badly needed jobs in the United States but fill gaps that complete production cycles and shares technology.

Energy common interests are many: energy efficiency, biofuels, reduced carbon footprints, natural gas and off shore exploration.⁵⁵ Energy security is a vital interest of the United States and Brazil's energy sources are an attractive alternative to Middle

Eastern and African sources. The shorter transport distance and regional stability alone makes Brazil a clear choice as an energy source.

The United States and Brazil literally own the world ethanol industry. Combined production and consumption equals 89% of the global ethanol market.⁵⁶ United States energy security must include a long term solution beyond fossil fuel. While ethanol may not be the direct replacement for fossil fuels it very well could be a competent to an overall renewable energy policy. It would be negligent not to pursue bilateral research and development of ethanol with Brazil.

Conclusion

Today China's engagement in Brazil is not a direct threat to the United States; it represents the United States' neglect in Brazilian relations. While the United States has failed to recognize and capitalize on the emerging power of Brazil there is still time to do so now. Brazil is not just another BRIC country. The Economist summarizes it quite well "in some ways Brazil out classes the other BRICs...unlike China it's a democracy...unlike India it has no insurgents, no hostile neighbors...unlike Russia it exports more than oil and weapons...Brazil is much more a model for developing countries to follow than China."⁵⁷

The United States model of engagement and long term commitment is in stark contrast to China. The lack of effective dialogue created misunderstandings which lead to mistrust. Recent new high level engagement by the President and his staff are promising. The cooperative agreements on the economy, defense, technology, energy and more look great on press releases, but actions must be soon to follow.

Brazil has a vote and they will vote in their self interest. Brazil is not a threat to the United States, it is an opportunity. A strategic partnership with an emerging power in the Americas should be viewed with optimism.

By 2025 the United States will no longer be the world leader in GDP; it will be third behind China and India then followed by Brazil at number four.⁵⁸ While it is not politically correct to say the United States will not be the world's super power it is a possibility. Selecting countries today and nurturing long term relations across all elements of national power is the wise course of action.

The United States has a history of failing to frame the environment and identifying the problem correctly. Brazil is not strengthening ties with China as a zero sum alternative to the United States. Brazil's national interests motivate them to seek the economic opportunity which China is providing today. The Brazil-China relationship is financially based, there is no ideological, cultural or deep value based relationship.

Comparatively the United States and Brazil have many common traits: both are young democracies with common values in free markets, rule of law, individual rights, religious freedom, diversity and equality.⁵⁹ Leveraging these traits along with the geography of the Americas will give the United States an added advantage in re-establishing the special relationship status that once existed with Brazil.

The United States and Brazil will be global leaders on issues such as energy, food security and distribution, conflict resolution and finance. A strategic partnership between the United States and Brazil will be mutually beneficial and when aligned a powerful global force across all the elements of national power. Seizing the opportunity

appears obvious, common interests and traits are easily identifiable, all the right statements have been made, now is the time to act.

Endnotes

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