The last decade was unquestionably a golden one for Brazilian agribusiness. The numbers are abundant and have been widely disclosed. Besides the strong expansion of production, area planted, productivity and income generated by the agribusiness chain, it was the most successful sector of the country’s economy in terms of insertion in international trade flows.

However, although this success was partly due to internal merits, the sector was benefited by a highly favorable conjuncture, in particular the strong expansion of global trade and significant level of complementarity with the Chinese economy. It is precisely on these points that this report suggests reflections, because the coming years will not be so promising for Brazilian agribusiness. The question posed is: Will the strategy previously followed continue working in the coming years?

In this direction, besides presenting the main characteristics of Chinese agribusiness, this report also examines the interactions of the Chinese economy with Brazilian agribusiness and its expansion in the international market. How much space can Brazilian agribusiness occupy in supplying China’s needs in the near future? What opportunities are available to Brazilian producers in a setting where, on the one hand the Chinese government has a policy of achieving self-sufficiency in certain basic products to feed the population, while on the other the country clearly does not have the material conditions (land, water, technology and climate factors) to produce everything it needs internally?

Although multilateral organizations have produced a plentiful literature on Chinese agribusiness, especially documents prepared by the FAO and OECD, this report takes a different perspective in offering responses to and reflections on those questions: to the extent possible, the Chinese literature was consulted to characterize both that country’s insertion in international commerce and the evolution of its local agribusiness. Therefore, the summary presented here represents much more the vision that the Chinese have of their agricultural production than that of an outside specialist, such as a multilateral organization.

Based on the analysis carried out, it is clear that Brazilian agribusiness has managed to advance mainly in markets where the Chinese do not have minimally favorable conditions to supply products domestically or that are not a priority in the country’s food security policy. In other words, to expand, and principally to diversify Brazil’s exports to
China, Brazilian farmers will have to pay more heed to items that are not on the list of essential products for Chinese self-sufficiency. In this sense, special attention should be paid to processed food products instead of commodities and raw materials.

In the final analysis, Brazilian agribusiness has taken advantage of opportunities opened by a China in transformation, occupying a fundamental position in the supply of to that country of natural resources and agricultural products. This has made Brazil a world leader in the production and exportation of some of the most important farm products. In the same scenario, marked by the significant increase in the trade flow between the two countries, there has been a clear division between activities of greater and lesser aggregate value, resulting from, on the one hand, the competitive differences between the two countries and their productive sectors and on the other, the passive adjustment of Brazil to the transformations under way in China. On this last point, it is important to stress other variables and obstacles of a geopolitical and diplomatic nature, focusing on reducing the restrictions on commerce imposed by the two countries.

THE INSERTION OF AGRIBUSINESS IN GLOBAL VALUE CHAINS

The strong expansion of international trade

A deepening of the phenomenon called globalization has marked the past four decades. In the literature, this term identifies the growing interdependence between national economies, by means of more intense cross-border flows of labor, goods and services, capital and information.

Taking as a reference the exchange of goods and services, the dimension of the recent phenomenon of opening and integration between nations is evidenced by comparing the evolution of the value of trade flows in relation to global income and output. According to data from the World Bank, in the past 50 years, global exports have grown at a yearly average of 5.1% while global GDP has expanded by 3.5% a year on average.

It is possible to mention a set of factors responsible for reducing obstacles and strengthening commercial and productive links between nations:

- Improvements in infrastructure, reducing the costs of transportation (the so-called “natural barriers” to trade) and telecommunication;
- Reduction of commercial barriers and restrictions (tariff and non-tariff), implying lower transactions costs (information, contracting, legal, regulatory, customs and administrative costs, etc.); and
• Expanded internationalization of companies and global production.

Although all the factors mentioned so far are important to explain the expansion of international trade in farm products, two additional phenomena receive special attention in this report: the rise of the so-called global value chains and the emergence of China as one of the world's strongest economic powers.

**The importance of global value chains**

Besides advances in technology, new institutions and forms of political-economic integration, the expansion of world trade has been marked by new patterns of productive and geographic organization of companies and global production. In this context, the current application of the word “globalization” should be qualified not only by the quantitative increase in the international flow of goods and capital – a phenomenon present in other historical periods – but especially by the emergence of new patterns of production and productive integration on a global scale. In assessing this phenomenon, the literature has commonly applied the expression “global value chain.”

The cradle of global value chains can be traced to the significant reduction of transportation and communication costs, combined with lower international restrictions on trade and investments, which created singular conditions for firms to coordinate their activities in different competitive spaces of the world, leading to consolidation of global governance systems by large transnational corporations. Taking advantage of the deregulation and privatization processes then in vogue in the emerging world, as well as the consolidation of an international consumer market, firms became able to control their production and fight for markets both at home and abroad, especially in developing countries, through a net increase of foreign direct investments (FDI).

The fragmentation and dispersion of productive chains in the world has translated into an increase in the international flow of intermediate goods (parts and components), vis-à-vis final goods, a phenomenon mediated by the increase of intra-firm commerce. From a standpoint of value added, more appropriate to appraise the trade between countries, it is possible to note the significant contribution of value added in global exports, represented by parts, components and other inputs.

In light of these observations, it is clear that two important proxies exist to evaluate the insertion of a sector in global value chains: the flow of foreign direct investments and the volume of trade in intermediate goods, mainly in the intra-firm modality. Next, these numbers will be presented relative to Brazilian agribusiness to assess how the sector has managed to insert itself in the global value chains.
The international insertion of Brazilian agribusiness

On the heels of the expansion of international trade, Brazilian agribusiness substantially raised its degree of openness between 1996 and 2014, from 14.3% to 22.6% (with the peak occurring in 2004, of 25.9%). Between 1989 and 2014, exports by the sector rose from US$ 13.9 billion to US$ 96.7 billion, a yearly growth rate of 7.7%. In the same period, imports evolved from US$ 3.1 billion to US$ 16.6 billion, an annual growth rate of 6.7%. As a result of this exceptional performance, the agribusiness trade balance rose from US$ 10.8 billion in 1989 to almost R$ 80 billion in 2014, when the sector accounted for 25% of the country’s commercial flow (exports and imports). In the last year of the series, Brazil exported roughly six times more agricultural products than it imported in terms of value.

Based on this performance of the sector, sufficient to supply the internal market and generate a surplus for export, Brazil consolidated its position as one of the most important global suppliers of agricultural goods. Besides the country’s expanded share of world trade, Brazilian agribusiness became a major player in various supply chains. These results have given Brazilian agricultural output a standout role in balancing the country’s external accounts. In this sense, the increased production and productivity of the main goods, combined with rising international demand, has allowed the sector to generate consistent surpluses, attracting the foreign exchange necessary to finance the current account deficit (imports of goods and services). However, it is important to stress that the sector’s degree of openness has been at a virtual standstill since the start of the twenty-first century.

The new characteristics of the list of products exported by Brazilian agribusiness

In terms of the list of exports, taking 2000 as a reference year, Brazilian agribusiness has responded in line with the changes in the international scenario in the period. The relative importance has increased of exports of soybeans and soy products, meat (mainly beef and poultry) and sugar/alcohol, while forest products, leather, juices, fibers and textiles, coffee and tobacco have lost relative space. The highlights are the soybean complex and meat, which together have risen from 29.9% to 50.5% of the country’s agricultural exports.

One way to analyze the external performance of Brazilian agribusiness is to examine the degree of industrial processing of the products exported. In this respect, in 2014 about 70% of the nation’s exports were composed of products with low aggregate value (soybeans, sugarcane, soy meal, whole broiler chickens, unroasted coffee
beans, beef sides, wood pulp, corn and leaf tobacco). In the comparison of agribusiness exports between 2000 and 2014, from many standpoints (sectors of the national accounts, aggregate factor and level of industrial processing), the growth of exports was concentrated in intermediate goods, basic products and non-industrial products.

In reality, this situation is nothing new, since an important aspect of the evolution of agribusiness has been precisely the growing specialization in production of raw materials, generally with low aggregate value. The difficulty of Brazilian agribusiness to make progress in goods with more processing can be explained both by internal factors, such as high labor cost, deficient infrastructure, heavy bureaucracy and high taxes on manufactured goods in Brazil, and by external factors, like differences in tariff and non-tariff treatment by importing countries.

The concentration of exports by Brazilian agribusiness is not only in the products sold, but also their destinations. In terms of trade partners, China, the European Union, countries of the Middle East and the United States in 2014 accounted for 78.4% of the value of exports by Brazilian agribusiness. This contrasts with the situation in 2000, when more than half of the country’s farm exports went to the European Union and the United States. In this period, the participation of other Mercosur countries fell from 7.7% to 2.4% of the value exported.

**Agribusiness in foreign direct investment flows**

In terms of foreign direct investment (FDI), data from the Central Bank (Table 54) indicate that between 2001 and 2014 Brazil received about US$ 517 billion. Although the inflows fluctuated substantially in the period, the good performance in 2004, and again in 2007-08 and 2010-11, kept the average yearly FDI growth rate at 7.2%. As will be seen shortly, despite the importance of China to the Brazilian economy, that country is not among the large investors in the Brazil. Four countries were responsible for half the volume of investment inflows in the period: Netherlands (18.6%); United States (16.6%); Luxembourg (7.9%); and Spain (7.4%).

In sectorial terms, agriculture, forest production and related activities received only a small part of the annual investments. Comparing investments in agricultural activities to the amounts received by industry, mineral extraction and services, the percentage was only 1.2% between 2001 and 2014, a total of US$ 6.3 billion. Part of this result can be explained by legal restrictions and bureaucratic hurdles imposed on foreign investments in rural activities, such as purchase or lease of land by foreign investors. On the other hand, considering the limited participation of agriculture in agribusiness as a whole it is not surprising that the largest part of FDI in Brazilian agribusiness has
been concentrated in segments other than farming activities, especially manufacturing, distribution and support (e.g., financial) services.

That statement is corroborated by the data from the Central Bank: between 2001 and 2014, industrial activities associated with production of (i) foods and beverages, (ii) pulp, paper and paper products, and (iii) wood products together accounted for an inflow of US$ 41.5 billion, or 15.6% of the FDI in industry and mineral extraction and 8.1% of the total FDI in the period. The amount received in 2011 by this group of activities (US$ 8 billion) was greater than that received by agriculture in the entire period analyzed.

Although the activities of agriculture and its directly related services showed low participation in the total amount in percentage terms, the total investments in absolute terms received in these sectors grew significantly, from US$ 44.8 million in 2002 to US$ 772.8 million in 2014. This indicates, among other aspects, that the movement of “internationalization” of Brazilian agribusiness was connected to partnerships and transactions between Brazilian and foreign firms, in part associated with purchase of rural land for production of commodities and raw materials of interest to the foreign partner. Examples can be found on the list of the largest companies in agricultural production in Brazil, where leadership by multinationals is assured by foreign control: Louis Dreyfus (France) and ADM (United States), without considering firms with a broad spectrum of engagement in agribusiness, such as Bunge (Netherlands) and Cargill (United States). On the other hand, some Brazilian agribusinesses have important international presence, such as BRF, JBS and Coopersucar.

CHINA: CHARACTERISTICS OF THE HUGE TRADING PARTNER

Much discussion has been devoted to the transformations in the Chinese economy. Just like the topic of development of agribusiness in the world, the literature is vast on the Chinese economic boom. However, this report addresses in more detail a dimension that has not received sufficient attention from Brazilian agribusiness agents: the characteristics of Chinese agribusiness. To what extent can Brazilian output serve the interests of Chinese society?

The dimension and challenge of Chinese agribusiness

As in the Brazilian case, the Chinese agricultural sector plays a fundamental role in the country’s economy. Although the sector in recent years only has represented about 10% of gross domestic product (GDP), it employs one-third of the working-age
population (793 million people), and almost a half (46%) of the 1.36 billion Chinese people are officially registered as rural dwellers.

Despite the limited quality of arable land and shortage of water in certain areas of China, its production has been growing steadily since the 1970s, so that the country today is the world’s largest producer of products like rice, cotton, pork and eggs, and accounts for 18% of global output of cereals, 29% of meat and nearly 50% of fruits and vegetables. This expansion is due in large part to a substantial increase in productivity, resulting from better technologies, enabling average yearly growth of 2.5% between 1970 and 2007. Besides the overall expansion of production, the composition has also changed, with a notable increase in production of greens, meat and dairy products, accompanied by declines of the relative importance of traditional crops, especially grains and tubers.

With 135 million hectares of arable land, 9% of the world total, China feeds 21% of the global population. All the same, the sector is dominated by millions of farmers working small holdings (an average of 0.6 hectare per “rural productive unit”). Besides development of the sector, the main objectives of the Chinese government’s strategic agenda are to boost the income of farmers and assure self-sufficiency in production of grains. It is against this backdrop that Brazilian agribusiness needs to find space in this market.

The importance of food security to the Chinese

Since ancient times, food security has always been a challenge to the Chinese State, prompting the government to adopt a series of policies to reduce the country’s external dependence on food sources to supply the needs of the high and growing national consumption. This policy was reaffirmed at the start of the Popular Republic (1949), since when the central government has always given priority to self-sufficiency on the national food security agenda, to feed the world’s largest population and mitigate problems caused by sporadic natural disasters (e.g., floods). More recently, this priority has been expressed in various actions of the government:

- In December 2013, policymakers gathered at the Central Conference on Rural Affairs reiterated the national food security strategy, based on “domestic supply and moderate importation, and guarantee of productive capacity with the help of science and technology”;
- According to the National Plan for Medium and Long Term Food Security (2008-2020), launched in November 2008 in response to the global rise of grain prices, the government’s intention for the Chinese agricultural sector is to
maintain yearly production at around 540 million metric tons, so as to guarantee a rate of grain self-sufficiency higher than 95% by 2020.

So, self-sufficiency is a key component of the Chinese government’s food security strategy. This is basically centered on grains, which in the Chinese definition includes wheat, rice, corn, soybeans and other legumes and tubers. In this context, rice and wheat stand out as two products for which the Chinese government seeks to achieve a high level of self-sufficiency. The National Plan for Medium and Long Term Food Security defines a minimum of 120 million hectares of arable land and 105 million hectares devoted to growing grain crops by the end of the period and calls for average productivity to grow from 4.74 tons/hectare in 2007 to 5.25 tons/hectare in 2020. More recently, the government has been working to adjust (or better put, relax) this questionable rate of self-sufficiency. Instead of quantitative targets, the Central Conference on Rural Affairs of 2013 established the guideline to maintain “basic self-sufficiency in cereals and absolute security in grains for food (rice and wheat),” besides including, for the first time, “moderate importation” as an element of the food security strategy. It is precisely this point where Brazilian agribusiness needs to focus its efforts to capture higher shares of this market.

**Challenges facing the Chinese to meet and maintain the “grain” self-sufficiency goals**

Despite strong efforts, Chinese society faces major challenges in satisfying the overall policy on self-sufficiency in food production:

*Availability of arable land*

With a landmass of about 9.6 million square kilometers, China has only 135.2 million hectares of arable land, according to the most recent land census, or 14.3% of the country’s territory. However, after subtracting areas reserved for restoration of forests and pastures and land considered improper for food crops (polluted), the area suitable for food production is only slightly greater than the minimum level set by the government, of 120 million hectares. This works out to less than 0.1 hectare per capita, 40% of the global average. And this ratio is decreasing due to rapid urban expansion, soil degradation, excessive use of fertilizers and various environmental problems, such as floods, erosion and desertification. Besides this, the Chinese population will continue growing until around 2030. With this, it is estimated that in 2050, the total demand for arable land will exceed the supply by more than 12%.

*Availability of water resources*

Besides the restrictions on land suitable for cultivation, water shortage and pollution also can limit production of grains in the future. Although China is endowed with the
fourth largest total supply of freshwater resources in the world, the quantity per capita in 2013 was 2,059 m³, one-fourth of the global average. According to the World Wildlife Fund (WWF), 13% of China’s lakes have disappeared in the past 40 years, as have half its wet coastal zones. Among the main causes of this shortage are the large demand generated by agriculture, the rapid process of industrialization and urbanization, the uneven distribution of water resources, and the high levels of pollutants discharged into water bodies.

The lack of sufficient water is already seriously affecting grain production, especially in the arid and semiarid regions of the northern plains, a potential area for future expansion of grain cultivation. Besides this, problems with irrigation systems can also interfere in the productive capacity of Chinese agriculture. The reason is that China uses both rivers and aquifers to irrigate its crops. Half of the country’s cultivated land is irrigated, and this portion produces about 75% of the cereals and 90% of the cotton, fruits, legumes and other farm products. The World Bank, however, estimates that at the current pace of exploitation, the aquifers in northern China might be depleted in under 30 years.

**Rural workforce and productivity**

After reaching a historical peak of 844 million in 1992, China’s rural population declined to 695 million in 2012, a net reduction of nearly 150 million people. Population projections carried out by the United Nations indicate the rural population will decline by a further 100 million by 2022. This will have an enormous impact on the agricultural labor force, the productive structure, land management, and especially the rural economy. This pattern is driven by the migration to cities in search of higher wages, especially among young people and those with better schooling.

This situation will continue depriving Chinese agriculture of the skilled labor necessary for operations of greater complexity, such as use of modern machinery and equipment, diagnosis of crop pests and diseases, use of investment and marketing tools, and effective management of complex farming operations. This can limit future productivity, reduce potential supply and erode the competitiveness of the Chinese agricultural sector. All of these are threats to the strategic guidelines of the Chinese government regarding the nation’s food security.

**Structure of Chinese farm production**

Despite technological advances and the collectivization programs in the initial years of the Popular Republic, Chinese agriculture is heavily reliant on small-scale production, carried out by some 200 million farmers working small plots, distributed in various areas of the country. Despite the growth of large-scale livestock operations, small properties continue playing an important role in the production of pork and dairy
products. For grain output, the average size of farms is small and the cultivated land is fragmented. This fragmentation makes it impossible to use advanced farm equipment, hence inhibiting increased productivity due to lack of economies of scale. This structure also hampers investments in infrastructure projects like roads and irrigation systems and the implementation of regional agricultural policies, such as the designation of specific zones for commercial farm production. All of this has a negative effect on regional and national production.

Because of the characteristics of Chinese agribusiness, demand for imported food will continue to rise despite the policy on self-sufficiency

China is the world’s most populous country, with one-fifth of the world’s total. Between 2009 and 2012, the Chinese population grew by about 2%, despite the trend for declining population growth starting in the 1990s, which will continue in the coming years. It is estimated that the population will only start to decrease in 2030, when the population will have grown from today’s 1.3 billion to around 1.5 billion. Given this huge population, even small variations in per capita demand for food products translate into large changes at the national level. So, China will continue to be a huge international consumer of farm products, and annual demand for grains can reach 700 million tons in 2050.

More than population growth, factors such as urbanization and rising household income will play an increasingly important role in determining the configuration of food demand in China. One of the main reasons for the deceleration of demographic growth has been the family planning policy, in force since 1978. This has led to fast aging of the population. In 2000, the population under the age of 15 years was nearly four times that of people over 65, but by 2030 the two contingents will be roughly equal in size. Given the differences in the types of foods demanded by elderly, adult and young people, the aging of society will have an impact on the consumption of various foodstuffs. For example, the consumption of meat, especially red meat, can decline, with substitution by other items. Although this impact is not yet clearly discernible, it is an aspect that deserves future attention.

On balance, with expansion of urbanization and rising income, the direct consumption of grains will tend to decrease and the indirect consumption will increase due to structural changes in eating habits, with preference for animal protein, processed foods and meals eaten outside the home. This will mean greater demand for animal feed, such as protein meal, acting as a major driver of demand for grains in China in future years. For Brazilian agribusiness, the demand for soybeans appears assured.
What are the opportunities for investment in Chinese agribusiness?

It is worthwhile discussing the incentives for foreign direct investment in the agricultural sector. FDI in China is mainly governed by the Foreign Investment Catalog, which was most recently amended in 2015. The document classifies the categories in which outside investment is encouraged, restricted or prohibited:

- In the agricultural sector, China encourages FDI to raise productive capacity or develop technology to reduce pollution;
- The restrictions apply to the development of conventional seeds, wholesale marketing of grains and cotton, processing of oilseeds, and processing of rice, wheat, unrefined sugar and corn, as well as production of biofuels (ethanol and biodiesel);
- The Catalog prohibits FDI for development and production of genetically modified plants and animals.

How has China changed global trade patterns?

Until its accession to the World Trade Organization (WTO) in 2001, China’s participation in international trade basically involved exportation of agricultural products and simple manufactured items (the country continues to be a major exporter of agribusiness products, in fourth place). However, the radical transformations in the past ten years have made China the world’s second leading importer (only behind the USA). As mentioned, China’s rapid urbanization (10 million people leave the countryside each year), rising income and changes in eating habits (more dairy products and meat), against a backdrop of insufficient domestic production of certain items with growing demand, have led the government to assume commitments within the WTO framework to open its market more. Although state-owned trading companies continue to play an important role in the market for some commodities, like grains and cotton, commerce in Chinese farm products now exhibits new patterns in certain raw material categories, reflecting changes in the productive structure.

The impact of WTO membership on trade in agricultural and related products is obvious. Exports and imports expanded by 353% and 407%, respectively, from 2001 to 2013, even with the depreciation of the dollar (except in 2009, likely due to the world economic crisis). The balance of China’s agricultural trade went from a surplus of US$ 15 billion in the peak year of 2006 to a deficit of US$ 18.5 billion in 2013. This shift is coherent with the comparative advantage of Chinese agriculture, since it is
advantageous for the country to import items that are intensive in land use, such as oilseeds and edible oils, and to export labor-intensive processed products, such as processed foods, leather goods and textile products. This means the challenge facing Brazilian agribusiness to gain a greater share of the Chinese food market is much greater than that of supplying basic raw materials.

Since 1993, yearly growth in China has fluctuated between 5% and 15%, with an average of 9.6%. Even with the projection for slower economic growth in the coming years, per capita income in China should double by 2022. This will obviously increase the pressure from demand in the market for farm commodities in China:

- In light of the current policy objectives, this growing demand will probably require greater imports of secondary grains and oilseeds to supply the expanding livestock sector, as well as to meet the needs for production of edible oils.
- As the Chinese economy becomes more integrated with the global economy, its growth will offer more opportunities than challenges to the rest of the world. It is likely that the self-sufficiency index will decline for all crops that are land-intensive, except for rice. This will happen because these crops have less comparative advantage in the world market.
- In this same scenario, the most significant growth of imports is expected to be of oilseeds.
- Production of cotton and other plant fibers should expand over time, mainly because of increased productivity, but will continue to fall shy of meeting domestic demand.
- Among cereals, forage cereals will represent the largest part of imports.
- Domestic output of sugar will also be way short of satisfying internal demand and its level of self-sufficiency will be low, just after oilseeds.
- Fruits and vegetables will be the most heterogeneous group, and China will be both a large importer and exporter, depending on the product.
- In the livestock sector, China will probably increase exports of pork and poultry to East Asia, the European Union and NAFTA, while its imports from Australia, New Zealand, NAFTA and South America will show significant growth.

To summarize, the pattern of Chinese agricultural commerce is coherent with its comparative advantages and endowment of resources. Since entry in the WTO, this pattern has been reinforced, a sign that China is becoming closer to the rest of the world and improving its comparative advantages in agribusiness. Economic growth and trade liberalization will facilitate structural changes in Chinese farming, which will
migrate from land-intensive sectors, generally with comparative disadvantage, to labor-intensive sectors, with comparative advantage. This will generate more trade and gains for nearly all countries and regions. The size of these gains will depend, however, on the nature of the economic structure of each region. The economies considered complementary in relation to China will obtain the greatest advantages, while those that have similar economic structure can face adverse effects of Chinese competition. Brazilian agribusiness, if wanting to take greater advantage of the Chinese market, should look for complementarities instead of taking risks with products that China already produces, or intends to produce, on a large scale.

**Brazil and China: complementary economies?**

In recent years the economic relations between Brazil and China have gone through significant changes, especially regarding commercial exchange. To good measure, these transformations are due to the exceptional performance of the Chinese economy in recent years, and hence to the partial shift of the global economic and commercial axis to Asia.

In the case of Chinese-Brazilian relations, the closer trade ties can be explained by the complementarity between productive chains of the two economies, heightened by the limits faced by China in raw materials, natural resources and other items necessary to supply its industry, as well as its need to feed an increasingly urban population. In this scenario, Brazil will play an increasingly important role in supplying agricultural and mineral extraction products to the Chinese market. This pattern can already be clearly seen: since 2009, China has been the main trading partner of Brazil and the main destination for Brazilian exports, surpassing the United States, despite the effects of the international crisis on global trade. In numbers, the trade flow between the two countries grew by 26.4% a year between 2000 and 2014, while Brazilian commerce with the rest of the world expanded by an average of 8.6% per year. Agribusiness was one of the pillars of this increase in trade relations between the countries, showing yearly growth of 27.6% in the same period.

The fact that imports of farm products account for under 5.0% of total Brazilian imports from China makes agribusiness one of the fundaments for Brazil to finance growing imports from other sectors of the economy (such as electronic goods and clothing). This importance is underscored by analyzing the relative composition of the two countries’ trade between basic products and industrial products (manufactures and semi-manufactures). The surplus generated by primary products in 2014 (US$ 33.6 billion) was responsible for financing the net imports of industrial products from China (US$ 30.4 billion), leaving a surplus of US$ 3.3 billion that year. On this matter,
agribusiness was responsible for 60.6% of the positive balance in the bilateral trade in
basic products (US$ 20.4 billion of the US$ 33.6 billion).
These numbers show that the recent composition of the list of exports to China is
concentrated in products with lower aggregate value (basic products and semi-
manufactures among industrial goods), while Brazilian imports almost wholly consist of
manufactured products. More precisely, comparison of the composition of exports
between 2000 and 2014 reveals that despite the general growth in the value of exports,
this occurred more intensely among intermediate goods and fuels/lubricants (among
the sectors in the national accounts), basic products (in terms of aggregate value) and
industrial products (in terms of technological intensity).
Goods classified in these categories formed the greatest portion of Brazilian exports to
China in 2014. While in part this concentration reflects the complementarity between
the two economies, it also is a consequence of the significant competitive advantage of
Chinese industry. With respect to agribusiness, the largest portion of Brazilian exports
to China in 2014 consisted of goods with low level of industrial processing and/or
technology, including: soybeans (75.3%); wood pulp (7.7%); sugarcane (4.0%);
cowhides/leather goods (2.4%); and whole broiler chickens (2.4%).
So, in the final analysis, Brazilian agribusiness has been taking advantage of the
opportunities offered by a China in transformation, to occupy an important place in
supplying natural resources and agribusiness products, assuring its global leadership
in the production and exportation of some important agricultural products. In this same
scenario, marked by a significant increase in the trade flow between the two countries,
a clear division has formed between activities with greater and lesser aggregate value.
This is the result, on one hand, of the competitive differences between the countries
and their productive sectors, and on the other by the passive adjustment of Brazil in
response to the transformations under way in China. On this last point, it is important to
highlight some other variables and obstacles of a geopolitical and diplomatic order,
particularly the reduction of trade restrictions imposed by the two countries.

China is a major partner, but not a large investor in Brazilian agribusiness
Although China has assumed the position of Brazil’s main trading partner, direct
investments from that country only totaled US$ 1.93 billion from 2000 to 2014, under
0.4% of the total received by Brazil. This flow, however, increased substantially starting
in 2010, and the amount received in 2014, US$ 1.1 billion, represented 50.5% of the
total in the period.
According to a report from the Brazil-China Business Council, the increase of Chinese investments in Brazil is associated with the negative effects of the international crisis on more traditional markets, like the United States and European Union. As a result, Chinese investors have been looking for new markets, especially in emerging countries. The interest and sectorial distribution of FDI reflect the predominance of projects aiming to deepen integration between the economies, especially by facilitating bilateral trade. Therefore, besides responding to growing demand for natural resources by China (ores, oil and gas, agricultural products), Chinese investments have focused on setting up Brazilian subsidiaries of Chinese firms.