

Information Note

This Newsletter brings substantive changes in relation to previous numbers. In order to improve the monitoring of Chinese investments projects in Brazil the team of the Secretariat of International Affairs (SEAIN-MPDG) undertook in the last few months great effort to update the database. New information stemming from additional sources and contacts with agents directly or indirectly involved in the projects was considered. This allowed for reviewing our historical series (2003-2018). In particular, several projects that had been computed as *announced* could be reconsidered as actually *confirmed*. This implied a significant change in the amounts computed in some years.

Two indicators illustrate the new values thus obtained: i) the latest issue (No. 6) of this Newsletter indicated a total amount invested between 2003 and August 2018 worth US\$54 billion. The current estimate up to December 2018 is US\$ 69.2 billion; ii) the recent publication Relatório de Investimento Direto no País – 2018, by the Central Bank of Brazil, indicates a total value between 2014 and the first semester of 2018 worth US\$20.7 billion. For the period from 2014 to December 2018 we estimate a value of US\$ 28.6 billion.

The difference in comparison to the Central Bank figure is explained by the fact that the official data are estimated on the basis of the actual inflow of resources, coupled to the parallel mapping of the ownership of the companies. The database supporting this Bulletin considers the actual value of each project, as obtained from various sources, as already mentioned.

Despite the significant value of Chinese investment it should be noted that - according to the aforementioned publication of the Central Bank of Brazil - in 2017, when the value invested by Chinese companies reached its maximum level, that country was 'only' the 9th largest investor in Brazil. The necessity to compute data for the full year 2018 has made this Newsletter to exceptionally comprise four months. In 2019 it will be published each quarter.

Section 1 – Chinese FDI in Sep - Dec 2018

Investor company	Project or Company	Public / Private	Sector	Status ¹	State	Value (US\$ million)	Modality of investment
Tencent Holdings	NUBank	Priv	Financial	Confirmed	SP	180.0	Brownfield
Anhui Zhongding Holding	-	NA	Automotive parts	Confirmed	SP	51.2	Greenfield
Gree do Brasil	-	NA	Manufacture	Confirmed	AM	20.7	Greenfield
State Grid	CPFL Renováveis	Pub	Energy	Confirmed	SP	1,060.0	Brownfield

From October to December 2018 four Chinese investment projects were confirmed in Brazil, as follows:

October 08th - Chinese company Tencent Holdings Ltd., owner of the Chinese app WeChat, paid US\$ 180 million for a 5% participation in the Brazilian financial technology company Nu Payments AS-Nubank. (SOURCE: www.reuters.com and www.infomoney.com.br)

November 09th - China's Anhui Zhongding Rubber-Plastic Products Co. Ltd., one of the world's largest non-tire rubber manufacturers, started its activities in São Paulo-SP. This is the first factory plant out of China and was created to meet local manufacturing requirements of General Motors's Global Emerging Markets platform, designed for 9 entry-level passenger cars and crossover commercial vehicles for developing markets. The plant is expected to lead to the expansion of Zhongding in the South American automotive noise-damping market. (SOURCE: www.rubbernews.com)

Section 1 — Chinese FDI in Sep - Dec 2018

November 19th - The Chinese air conditioning company Gree announced that it intends in the next 5 years to expand its share of the Brazilian market from 10% to 30%. To reach this target it will put into operation the company's new factory in the Manaus Free Trade Zone. Total investment is about R \$ 80 million (US \$ 20.7 million). (SOURCE: <http://broadcast.com.br/cadernos/financeiro/>)

November 28th - China's state-owned State Grid has successfully completed the offer to purchase the remaining shares of CPFL Renewable Energies. The Chinese company pays R \$ 16.85 per share for a total of R\$ 4.1 billion (US\$ 1.06 billion). State Grid now holds 99.94% of the company's total capital. (SOURCE: <https://renewablesnow.com>)

Section 2 — Announcements of Chinese investment intentions in Brazil - Sep-Dec 2018

November 19th - BNDES approved a R\$ 5.2 billion loan to State Grid for the Belo Monte transmission line. The financing corresponds to 61% of the total Project, estimated as R\$ 8.5 billion. (<https://br.reuters.com>)

November 29th - In a meeting with the president of the Suape Port Industrial Complex the Chinese CCC Construction Company has shown interest in investing in the Transnordestina Railroad and the Suape Port Ores Terminal. (SOURCE: www.portosenavios.com.br)

Section 3 — News

September 06th - Chinese Alibaba wants to create a distribution center at Viracopos airport: Owner of Ali- Express, Chinese giant Alibaba has proposed to acquire the Viracopos airport concession in Campinas (SP). (SOURCE: <https://olhardigital.com.br>)

November 12th - China Technology Commission prospects for new partnerships in Pernambuco: a technical group visited Porto Digital, the State Secretariat for Science, Technology and Innovation (Secti) and UFPE, looking for economic and scientific partnerships with the State. (SOURCE: www.folhape.com.br)

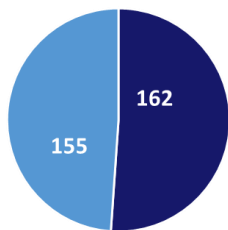
November 28th - Brazil and China signed a memorandum of understanding to facilitate trade of fruit and fish. The memorandum was signed by the Ministry of Agriculture, Livestock and Supply and the Ministry of General Administration of Chinese Customs. (SOURCE: www.comexdobrasil.com)

December 04th - The Deputy Governor of Maranhão and the Chinese Consul celebrated advances in the works of the Port of São Luís: The main reason for the visit was the presentation of the Chinese investments that have already started. (SOURCE: <https://oimparcial.com.br>)

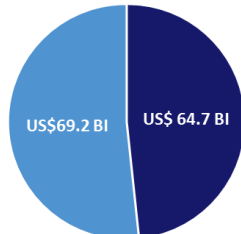
Section 4 — Overview of Chinese investment in Brazil

Chinese Projects in Brazil — 2003 - 2018

Number of Projects



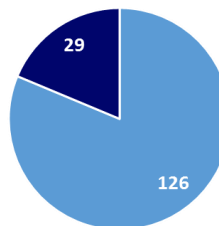
Projects Value



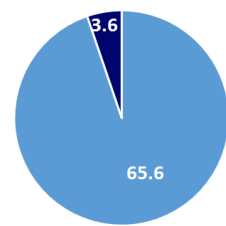
■ Announced ■ Confirmed

Project Types — 2003 - 2018

Number of Projects

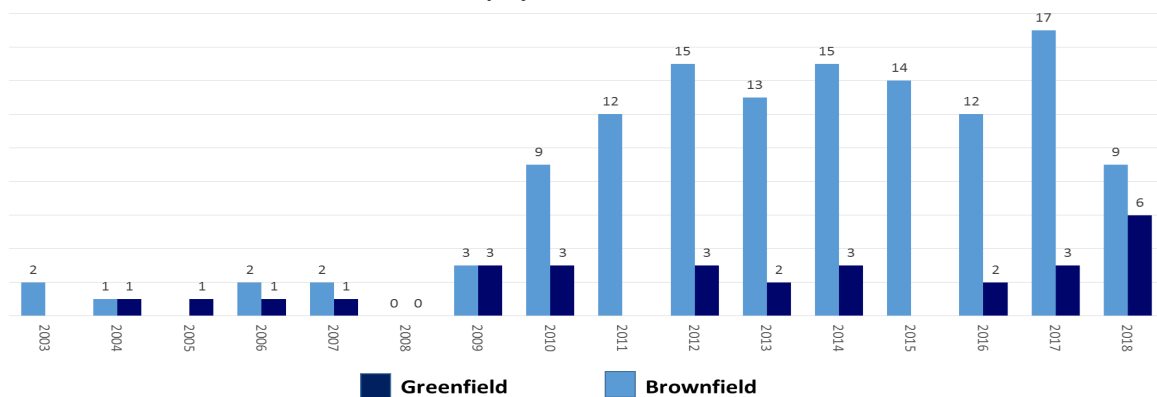


Value (US\$ milhões)



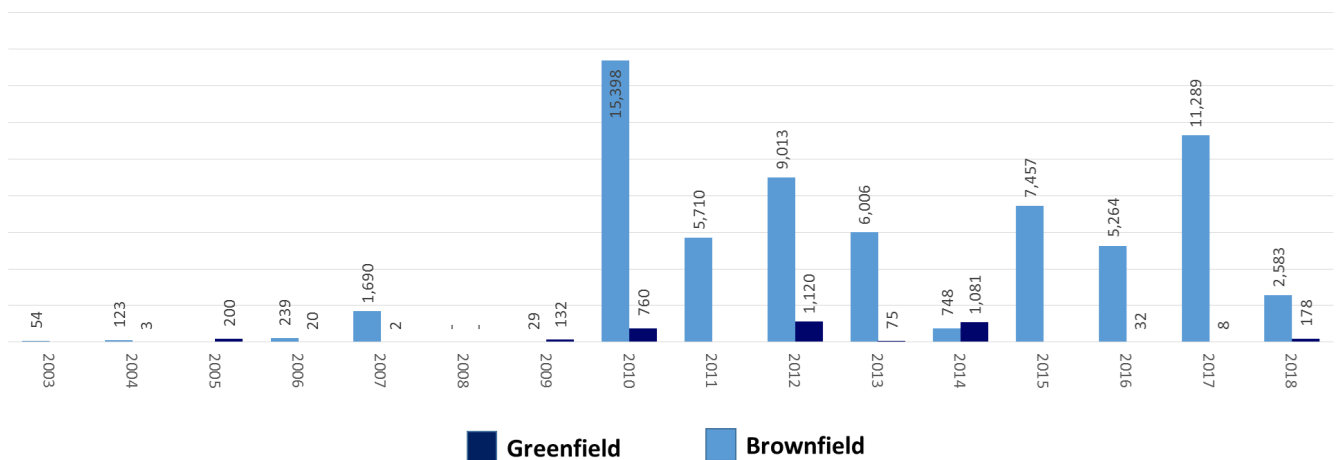
■ Greenfield ■ Brownfield

Confirmed projects Greenfield X Brownfield 2003-2018



■ Greenfield ■ Brownfield

Confirmed value of the projects Greenfield X Brownfield 2003-2018 (US\$ Million)



■ Greenfield ■ Brownfield

Adjustment of previous data

Due to the updating of our database by the Secretariat for International Affairs (SEAIN-MPDG), some numbers and values have undergone considerable variations.

Section 5 – Analytical Synthesis of investments in Infrastructure and FDI

The *Mapa Estratégico da Indústria 2018-2022* of the National Confederation of the Industry (CNI) suggests that Brazil should have as target a share of infrastructure investment to GDP close to 3.0 % up to 2022. An element that has proved to be of great value in promoting investment in the infrastructure area is foreign direct investment (FDI)

When analyzing the investments in Infrastructure in Brazil in the last ten years, considering the GDP released by IBGE and the investment in infrastructure as estimated by the Brazilian Association of Infrastructure and Basic Industries (ABDIB), which excludes the sectors of industrial production, mining and oil and gas and services, we obtain a variable rate of investment in infrastructure that has been falling along the series, according to table 1. The data indicate a significant distance, in recent years, in relation to the recommended percentage. This calls for a consideration of the contribution of Chinese investments.

Table 1	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GDP (IBGE) in R\$ trillion	3.11	3.33	3.89	4.38	4.81	5.33	5.78	6.00	6.27	6.56	7.41*
Total Investment in infrastructure (Abdib) R\$ trillion	0.105	0.117	0.135	0.145	0.155	0.165	0.167	0.140	0.113	0.110	0.114**
Ratio (Total Investment in infrastructure (Abdib) / GDP)	3.4%	3.5%	3.5%	3.3%	3.2%	3.1%	2.9%	2.3%	1.8%	1.7%	1.5%

Produced by SEAIN. Source: IBGE (<https://www.ibge.gov.br>), ABDIB (<https://www.abdib.org.br/2018/08/24/investimento-in-infraestrutura-despenca-e-participacao-privado-grows-in-the-crisis-fiscal-fiscal>) and Bulletin Focus (Bacen).

GDP calculated based on the expectation of growth in 2018 according to the Bacen Focus Bulletin. Projection of 1.3% disclosed in 12/14/2018.

** ABDIB estimate

The Brazil-China relationship has steadily intensified, as reflected in investment in Brazil; since 2003 the total of confirmed projects is worth US\$ 69.2 billion, according to data collected by this Secretariat. According to ECLAC's Foreign Direct Investment in Latin America and the Caribbean - 2018, this inflow of investment helped China to become the region's largest investor in merger and acquisition projects in 2017, when Asian companies entered heavily into the Brazilian energy sector.

Considering China's investment in infrastructure in Brazil, according to the Abdib methodology, which includes electricity, transportation, telecommunications and basic sanitation, Table 2 shows the annual participation of these investments. The amounts of these investments were translated into Brazilian Reais at the average annual exchange rate published by the Central Bank. The percentage fluctuation is remarkable. The years 2015 and 2017 are worth noting, with the highest percentages of 17.3% and 28.2% (respectively). This result is strongly due to the performance of China Three Gorges and State Grid, which invested heavily in the acquisition of Brazilian assets in the energy sector. It is important to note that these are cumulative annual flows rather than stock flows. They show an important contribution of Chinese companies to the recuperation of the low investment in infrastructure in recent years.

Table 2	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018*
Total Investment in infrastructure (Abdib) R\$ trillion	-	-	134.80	145.30	155.00	165.20	166.50	139.70	113.10	110.40	113.70
Chinese Investment (SEAIN-MPDG) - R\$ trillion	-	-	4.77	5.42	6.81	0.10	3.84	24.12	11.30	31.10	4.93
Ratio (Chinese Investment / Total Investment in infrastructure in Brazil (Abdib))	-	-	3.5%	3.7%	4.4%	0.06%	2.3%	17.3%	9.9%	28.1%	4.34%

* Expectation of Total Investments in Infrastructure for 2018 prepared by Abdib .

Section 6 – Methodology

Confirmed investment (Confirmed group) — An Investment is included in this category when it is directed to projects or companies in Brazil, whose information can be confirmed by more than one data source, including institutional pages of companies or institutions directly involved.

Announced Investment (Announced group) — An Investment is included in this category when there are formal announcements of future investment, thus becoming subject to be monitored by the market and interested institutions. When such Investment is confirmed it leaves this group and joins the “Confirmed” group.

Greenfield — An Investment is included in this category when the investor puts resources into the construction of a new structure necessary for the operation. In other words, when the operation is not based on a pre-existing structure.

Brownfield— An Investment is included in this category when there is a pre-existing Project or a project to be updated that will be based on an existing structure.

Sources:

Websites of the named companies, federative entities, China’s Embassy in Brasil and Brazil’s Embassy in China, database from China-Brazil Business Council, Financial Times (FT), The Heritage Foundation & American Enterprise Institute and other referenced communication vehicles, highlighted: Agência Brasil, Aiddata, Bloomberg, China Daily, Dealogic, Estado de S. Paulo, Exame, Folha, Gazeta Mercantil, G1, Investing.com, Istoé, MacaHub, Reuters, Terra, UOL, Valor Econômico, CNI, CEPAL, ABDIB.

Produced by:

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