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Article

When only China wants to play: Institutional turmoil and Chinese investment in Brazil

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Abstract

The political and institutional crisis in Brazil from 2015, fueled largely by corruption probes and lawfare, had severe repercussions within the Brazilian construction and energy sectors. While many international investors withdrew from Brazil in this period, Chinese investment surged. This article accounts for the particular characteristics of Chinese investments, such as sectorial complementarities, risk assessment, market size attraction, and state-drivenness, which may explain this development.

Keywords: China; Brazil; FDI; investment; corruption.

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Introduction

Throughout the past decade, Chinese foreign direct investment (FDI) in Brazil has risen significantly. Investments have evolved from a few concentrated brownfield operations to greenfield projects in several sectors, as both public and private enterprises have gained a foothold within the country ("China global investment tracker." 2019; Cariello 2019; Hiratuka and Sarti 2016; Arbache and Maia, 2019). While Chinese FDI in Brazil was at a very incipient stage up until 2010, that year, a series of large acquisitions inaugurated a period which would see these numbers rise substantially (Silveira 2018). Moreover, another upsurge in both realised and announced Chinese investment projects has become evident from around 2015. The latest wave coincided with a severe domestic political and economic crisis in Brazil, partly caused by a large corruption scandal, which weakened the country's companies within the Brazilian energy and construction sectors (Campos 2019; Celestino 2017; Munhoz 2017, 6).

In this study, we seek to answer the overarching research question; which factors account for the growth in Chinese FDI in the Brazilian energy and infrastructure sectors after 2015? We identify four general variables that help explain why Chinese investments increased during the Brazilian crisis which we examine through four specific research questions related to sectorial complementarities, risk assessment, state-drivenness, and market size attraction. As many of the Chinese acquisitions and greenfield projects were concentrated in energy production and infrastructure, we first assess the link between the crisis within these sectors and the degree to which this might have served to attract Chinese investment. Secondly, we seek to explain the rise in Chinese investment around 2015-2018, - a period when other global investors generally were more hesitant - with point of departure in explanatory factors rooted in the characteristics of Chinese investors. The time period from 2015-2018 has been chosen, because 2015 represents the onset of the Brazilian institutional and economic crises, which provides the study's explanatory starting point, while the inauguration of the Bolsonaro administration in 2019 fundamentally changed the political environment for Sino-Brazilian cooperation. The current study engages with the growing phenomenon of investment between developing countries, and more specifically, with an important economic dimension of current Sino-Brazilian economic relations. We thereby illustrate the motivational drivers and particular characteristics that undergird this relationship, and highlight some of its future prospects and potential tensions.

In this article, we first conduct a literature review on studies of Chinese FDI and present our central research questions related to the characteristics of Chinese investment. Secondly, we analyse the processes which resulted in the weakening of enterprises within the Brazilian energy and infrastructure sectors, and how this appears to have led to a rise in Chinese investments. Third, we examine our research questions related to the particular characteristics of Chinese FDI, and how these may provide more focalized explanations for the upsurge in Chinese investments during the period analysed. Finally, we present our conclusions and discuss the wider implications of our findings.

Chinese FDI determinants

Recent changes in the sectoral composition of Chinese FDI are likely to constitute a relevant factor in determining Chinese investment behaviour in Brazil. Domestic overcapacity in infrastructure, construction, and energy sectors has led the Chinese government to incentivize the internationalisation of excess resources (Kaplan 2016, 644-645). The service sector has thereby become an important part of Chinese FDI (Collins 2013, 109). In Latin America, this has been seen in the increased participation of companies from this sector in infrastructure development projects (Dollar 2017, 12-13; Gransow 2015a; 2015b). Albuquerque and Lima (2016) divide Chinese investment in Brazil into three phases; an initial period of investment aimed at raw material extraction; a second phase targeting manufacturing; and a third phase with a focus on infrastructure development (Albuquerque and Lima 2016, 593). The Chinese technological capabilities within the energy sector may explain the commercial attractiveness of investment within this area (Becard and Macedo 2014, 156). Studies suggest that factors related to complementarity, such as the under-development of infrastructure, serve to attract Chinese investments (Amighini et al. 2013; Pahuamba et al. 2015). Economic complementarities rooted in Chinese material and technical capabilities should thereby help to explain the increased interest in new business opportunities within this sector in Brazil, not least to the extent that this compensates for the weakening of Brazilian capabilities within this field. Research question 1 has therefore been formulated in the following manner;

> *Sub-question 1: How do Chinese capacities complement the development of the Brazilian energy and infrastructure sectors, and how has this influenced inwards FDI flows?*

Recent literature has treated Chinese investors as comparatively more prone to risk exposure. Studies of Chinese enterprises' investment decisions frequently highlight their tolerance of host country risks (Cui and Jiang 2009a; Gonzalez-Vicente 2012; Quer et al. 2012; 2017). Some contributions even suggest that Chinese FDI is directly attracted to high-risk countries (Buckley et al. 2007) and weak institutional environments (Miranda 2013; Pahuamba et al. 2015, 44-45; Amighini et al. 2013; Kolstad and Wiig 2012). Kolstad and Wiig (2012, 29) affirm that the complex domestic institutional environment provides a comparative advantage for Chinese businesses, due to their experience in negotiation with obstructive political authorities. Yet, a more complicated institutional framework in host countries might also affect Chinese enterprises' preferred mode of entry, making joint ventures more common in these cases (Cui and Jiang 2009b). Chinese State-Owned Enterprises (SOEs) and private firms also differ, as the latter are more risk averse than the former (Ramasamy et al. 2012, 24). In sub-question 2, we thereby seek to assess whether Chinese investors might have had a different approach to engaging within the risk-intensive investment environment in Brazil from 2015-2018, compared to those from other countries;

> *Sub-question 2: How have alternative parameters for risk assessment and mitigation affected Chinese decisions to invest within the unstable political and economic context in Brazil from 2015-2018?*

Market size is another factor which affects the potential costs and benefits associated with investment decisions in Brazil; although devaluations of the Real and a decline in GDP meant that the Brazilian economy decreased from US$ 2,61 trillion in 2011 to US$ 1,71 trillion by 2016, this still represented the world's 9th largest economy and a huge market for goods and services. By 2016, Brazilian pr. capital GDP of US$ 8,649 stood slightly above that of China, at US$ 8,123. Existing studies of Chinese FDI indicate that market size, measured as total GDP and pr. capita GDP is a significant determinant of Chinese investment (Alon 2010, 19; Pahuamba 2015, 44; Zhang and Daly 2011). The volume and latent potential of the domestic market thereby also suggest an interest amongst Chinese enterprises in procuring recently devalued Brazilian assets. We thereby formulate sub-question 3 in the following way;

> *Sub-question 3: How did the volume of the Brazilian domestic market within the energy and infrastructure sectors attract the inflows of Chinese investments?*

A very particular aspect of Chinese foreign investment relates to the fact that a substantial part is conducted by SOEs. Many scholars ascribe a different operative logic to SOEs, compared to multinational enterprises (MNEs). A large body of literature highlights how Chinese SOEs the political and strategic motivations of Chinese SOEs, rather than by purely profit-oriented goals (Chi 2010, 108; Albuquerque and Lima 2016, 579; Buckley et al. 2007; Cui and Jiang 2012, 268; Wang et al. 2012). While Chinese SOEs have adopted an increasingly profit-oriented posture in recent years (Globerman 2016, 546), they differ from other investors due to the long-term character of their profit horizon (Kaplan 2016; Kaplinsky and Messner 2008, 199; Klinger 2015, 231). Such 'patient capital' is therefore less constrained by immediate concerns about lucrativeness, and more focused on nurturing long-term relationships and future returns (Kaplan 2016, 649; Liu et al. 2020). Relatively lower reliance on stock markets, compared to their Western counterparts means that Chinese enterprises within the natural resource sector also tend to adopt a more long-term investment horizon (Gonzalez-Vicente 2012, 38).

Chinese SOEs often enjoy significant advantages in terms of favourable financing conditions (Globerman and Shapiro 2009; Zhang and Daly 2011) as well as institutional favouritism (Alon 2010, 2; Wang et al. 2013, 12). The capitalization of Chinese enterprises has previously permitted an opportunistic acquisition of temporarily below low-priced foreign assets (Meunier 2014). In research question 4, we seek to analyse how asse ts made available as a consequence of the crisis of Brazilian companies involved in the *Lava Jato* probe may have been attractive targets for Chinese acquisitions. Sub-question 4 resumes these considerations;

> *Sub-question 4: How does the state-led nature of the Chinese FDI and its concomitant emphasis on non-market concerns explain the inflow of Chinese investments in Brazil from 2015-2018?*

The above-mentioned determinants related to risk assessments, sectorial complementarities, market size, and state ownership, thus all constitute possible explanations for the surge in Chinese investments within the energy and infrastructure sectors. In conjunction, they provide a constellation of factors which potentially may reinforce the argument that the situation created by the crisis in Brazilian enterprises involved in the Petrolão scandal led to the increase in Chinese investments.

Methodology

We make use of different sources of quantitative data, research papers, news reports, Chinese policy documents, and other secondary literary sources. Both Brazilian and Chinese official statistical reports on FDI numbers are marked by certain deficiencies, not least because they do not account for round-tripping (Kupfer and Freitas 2018). To assess the materialised and announced Chinese investments in Brazil, we cross data from The American Enterprise Institute and the Brazil-China Enterprise Council, which also provide a sectoral decomposition of these numbers. We conducted a systematised review of news reports on Chinese investment in Brazil within the digital archives of the three largest Brazilian newspapers, *O Globo, Folha de São Paulo,* and *Estadão* from 2010-2018. Through keyword searches on **Chinese* **Investment* and **Brazil,* we encountered 8231 hits, while a closer review of this material resulted in 381 news reports treating the issue in more detail, which yielded an important empirical database for this study.

Internal turmoil and the upsurge in Chinese investment

While trade between China and Brazil underwent exponential growth during the first decade of the 21st century (International Trade Centre 2019), FDI flows were more modest during this period. Yet, as Latin America was inserted within the Chinese "Going Out" Policy (走出去战略) (Armony and Strauss 2012, p.2), Chinese investors' interests in Brazil became evident in 2010 as investments in the order of US$ 12,69 billion were confirmed - a drastic surge from the total value of US$ 255 million, registered in the entire period from 1990-2009 (Cariello 2011). The substantial Chinese investment projects in Brazil that year mainly focused on acquisitions of stakes in oil production by Sinochem and Sinopec, purchases of electricity distributors by the Chinese State Grid Corporation, and takeovers of different operations within the mining sector (Trevisan 2010). State Grid's initial investment, totaling US$ 3 billion, was focused on completed transmission lines. Yet, in 2012, State Grid acquired a 51% majority stake in transmission from the Teles Pires hydroelectricity plant. In 2014, the company also became the majority partner in the consortium that would construct the transmission network from Belo Monte, requiring investments in the order of US$ 1,6 billion (D'Ercole et al. 2016, 65).

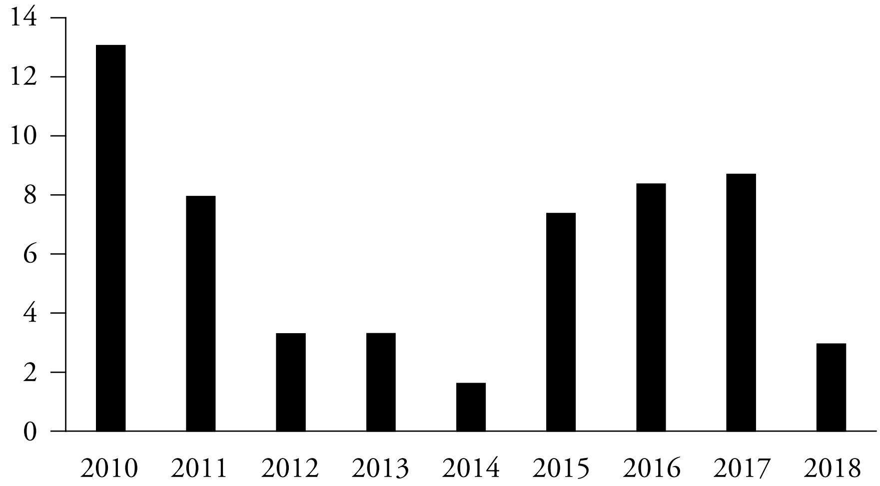
On Chinese President Xi Jinping's visit to Brazil in 2012, a list of 32 agreements was concluded with Brazilian President Dilma Rousseff. The list included plans for a partnership between the Brazilian electricity companies Furnas and Eletrobrás with the Chinese Three Gorges (CTG) for the construction of a hydroelectricity plant on the Tapajós River. Other ambitious plans for a joint bid on a transoceanic railway project connecting the Atlantic and the Pacific oceans were also agreed upon between the China Railway Construction Company and the Brazilian Camargo Corrêa (Paraguassu and Monteiro 2014). Thus, although a substantial part of the Chinese investment projects in Brazil announced between 2010-2014 did not materialize - 23 of 82 did not leave the drawing board - (Cariello 2011, 16), a noticeable surge in Chinese investment in Brazil can nonetheless be detected in the pre-crisis period.

2014 was also the year when the "Petrolão" scandal broke, revealing a kickback scheme in which Brazilian SOEs had been overcharged for various construction projects. The private enterprises executing the contracts had channeled part of their profits onto the political parties whose appointees within the SOE had facilitated these operations. Petrobras, the national flagship oil company, was deeply implicated in the scandal, and its market position was severely weakened. The Petrolão led to a prolonged operation by the Brazilian Federal Police, which became known as Operation Carwash, or *Lava Jato* (in Portuguese). Beginning in 2014, the Lava Jato probe led to the conviction of a series of business leaders and prominent politicians across the entire political spectrum. The scandal's wider repercussions redefined Brazilian politics, as it is illustrative of the economic, institutional and political crisis which engulfed Brazil from early 2015, as the country entered a profound recession that led to a drop in GDP of 3,5% in 2015 and 3,3% in 2016 (World Bank 2019a).

The bombastic lawfare approach adopted by prosecutors and investigators (Damgaard 2019) exacerbated the crises and economic consequences of the probe, spurring a deep crisis within the oil and construction sectors. This involved the jailing of executives, the halting of ongoing works, and the suspension from participation in new rounds of bidding (Celestino 2017; Munhoz 2017, 6). This situation became aggravated by a general decline in investments, which fell from an average level of 21,8% of GDP between 2010-2013 to 17,6% in 2015, and 15,4% in 2016 (Celestino 2017; Munhoz 2017, 7). The main implicated construction companies, Odebrecht, Andrade Gutierrez, Camargo Corrêa, Queiroz Galvão, Galvão Engenharia, UTC, and Constran experienced a collective loss of income of approximately 85% between 2015 and 2018, as their total revenues fell from R$71 billion to R$10,8 billion (Campos 2019). The combined level of financial consolidation of Queiroz Galvão, OAS, Andrade Guiterrez and Camargo Corrêa also fell from R$ 25,77 billion in 2014 to R$ 8,04 billion by 2017 (Paula and Moura 2019, 6). The collapse of demand, high levels of debt, and the costly compensation settlements thereby forced these enterprises to sell their assets (Ibid). Combined with the fact that many Brazilian companies were either blacklisted or incapable of assuming financial commitments, this situation provided large acquisition opportunities for foreign companies willing to assume the risks of an unstable Brazilian market.

The Brazilian context, marked by political crisis and recession from 2015-2016 appears to have hurt FDI inflows, which fell from US$87 billion in 2014 to US$60 and US$83 billion in 2015 and 2016, respectively (World Bank 2019b). Yet, this does not seem to have affected Chinese investments. Conversely, Chinese investments rose noticeably from 2015-2017, compared to the foregoing years (See table 1).

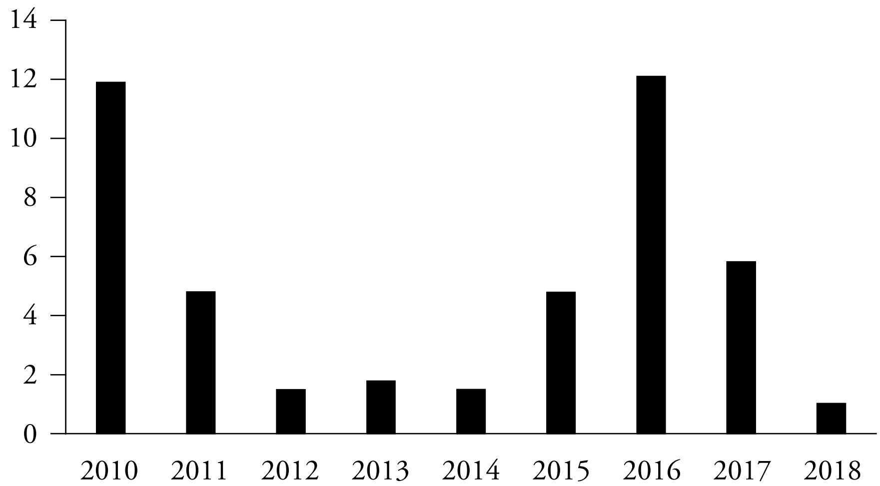
Figure 1. Confirmed annual Chinese FDI inflows to Brazil from 2010-2018 in US$ billion



Source: Cariello 2019

To evaluate whether the assets which became available as an indirect consequence of the Lava Jato probe have motivated Chinese investors, it becomes relevant to conduct a sectoral breakdown of investments. Notably, estimates for energy investments by AEI (energy investments extraction and production) in the period from 2010-2018 hint at a significant rise in Chinese investments with the onset of the crisis in 2015 and the following years (figure 2). Although the energy sector constitutes a broad category, it does provide a useful proximate measure for the types of projects and assets that were made available by the crisis-ridden Brazilian construction companies.

Figure 2. Chinese FDI in the Brazilian electricity generation sector from 2010-2018 in US$ billions.



Source: "China global investment tracker." 2022

A range of cases when Chinese businesses either have acquired or taken interest in assets of actors implicated in the Petrolão scandal in recent years also underscore this trend. The Camargo Corrêa Group's sale of its 23% stake in the energy company CPFL, to State Grid in September 2016 for R$5,85 billion constitutes a clear example of a Chinese company seizing the opportunity to acquire moderately priced assets during the crisis. The purchase also implied the potential for State Grid to eventually gain a majority stake in CPFL, as many stockholders were believed to be interested in selling their participations (Collet 2016).

A similar example relates to the project for a petrochemical complex in Rio de Janeiro (Comperj), which initially was planned as a partnership between Petrobras and Queiroz Galvão. As the latter had to abandon the project due to a lack of funds by 2015, and because neither Petrobras nor any of the large construction companies targeted by the Lava Jato operation possessed the necessary means to complete the project (Alvarez and Rosa 2015), in July 2017 the Chinese oil company CNPC reached a deal with Petrobras to conclude it (Ordonez and Rosa 2017). The purchase came along with a US$5 billion loan to Petrobras from the China Exim Bank, which was conditional upon the purchase of construction materials from China (Rosa 2017). In November 2015, CTG won a public auction for the right to operate two hydroelectricity plants in São Paulo at the value of R$13,8 billion. The auction did not see much competition from Brazilian companies, as the CTG was the only bidder with sufficient financial capacity (Neto et al. 2015). Finally, in 2017, the China Communications Construction Company (CCCC) purchased 80% of Concremat from Rio de Janeiro, which also had been severely weakened by the Petrolão scandal (Gois 2017).

The Chinese attention was not exclusively directed towards the acquisition of existing assets and ongoing projects, but also toward greenfield investment, which rose significantly relative to joint ventures and mergers and acquisitions in 2017 and 2018 (Cariello 2019). These efforts were increasingly met by encouragement from the official level in Brazil, as when a package of deals worth US$9,9 billion was signed during President Michel Temer's visit to China in September 2017. The agreement included projects for the construction of railways, a port terminal, and transmission lines from Belo Monte (Trevisan 2017). Thus, in the short term, the crisis of Brazilian companies initially provided certain incentives and opportunities for Chinese businesses to expand their operations within the country through asset acquisition. Yet, in the intermediate term, this situation also provided a space for Chinese entrepreneurs to undertake larger greenfield projects in the absence of Brazilian private sector capacities.

Assessing the characteristics of Chinese investment

The situation created by the Lava Jato investigation probe clearly appears to have spurred a noticeable surge in Chinese investments in Brazil within the energy and infrastructure sectors, in terms of greenfield, brownfield, and joint ventures. In the following sections, we analyze the study's four central research questions related to sectoral composition and comparative strengths, risk assessments, market-size attraction, and state-drivenness to seek to understand whether the characteristics of Chinese FDI might explain the inflows to Brazil from 2015-2018.

Sectoral composition and complementarity

Recently, the service sector has become an important part of Chinese FDI (Collins 2013, 109), especially as domestic overcapacity within the construction sector is offset through internationalization (Kaplan 2016, 644-645). Some studies suggest that the underdevelopment of this sector even attracts Chinese investment (Amighini et al. 2013; Pahuamba et al. 2015). It thus becomes relevant to assess how the complementarities between China and Brazil within this sector might have spurred the rise in Chinese FDI during the Brazilian crisis.

The infrastructure gap in Latin America presents a significant potential for Chinese capital and know-how. This perception has been found to be widespread amongst regional actors (Gransow 2015a, 274) as well as Chinese economic agents (Jaeger 2017, 17). Consequently, Chinese banks now account for more financing of infrastructure projects in Latin America than the World Bank and the Inter-American Development Bank combined (Dollar 2017, 12-13). Chinese SOEs have also taken great interest in these opportunities (Myers and Gallagher 2019, 4). The Brazilian crisis coincided with the third phase of Chinese investments in Brazil, which was characterised by a strong focus on the service sector (Albuquerque and Lima 2016, 593). The economic complementarities between Brazil and China in this field were clearly evident before the crisis, as Brazil suffered from a significant lack of resources and technical skills, which Chinese companies, in turn, possessed. After the Petrolão scandal broke, the crisis within the construction sector only accentuated the potential of Chinese investments to compensate for the lacking domestic capacity to undertake large-scale energy and infrastructure projects (Carneiro 2015; Oliveira and Fariello 2015). This also fueled official Brazilian efforts to attract Chinese investment as a means to mitigate the dire economic situation from 2015. Ambitious plans were announced at high-level meetings (Batista 2015; Oswald 2016). In 2015, the Brazilian former ambassador Marcos Caramuru de Paiva highlighted the need for Brazil to seize the opportunities provided by the large amounts of Chinese investment capital (Paiva 2015). Thus, while complementarities for cooperation within energy and infrastructure projects existed prior to the Petrolão, the advent of the Brazilian crisis accelerated the movements of Chinese enterprises toward the Brazilian market.

These complementarities were also perceived at the official level in both China and Brazil, and efforts were made from both sides to facilitate Chinese investments. Before 2015, Xi and President Rousseff had already emphasised the two- countries' infrastructure cooperation – such as electric power, extractive projects, and high-speed railway constructions (Ministry of Foreign Affairs of People's Republic of China 2014). However, Chinese foreign policy documents show that bilateral meetings increased after the Petrolão scandal broke, resulting in Chinese Premier Li

Kequiang's visit to Brazil to facilitate economic cooperation in 2015 (Ministry of Foreign Affairs of People's Republic of China 2015a; 2015b). The documents reflect a strong emphasis on behalf of Li on industrial collaboration, and the expansion of Chinese investment in the infrastructure sector was highlighted as based on "mutual complementarity," particularly, the potential for advancing smart grids and electric power transmission industries (Ministry of Foreign Affairs of People's Republic of China 2015c). Furthermore, Chinese actors also tended to view the infrastructure sector as a strategic market area, with mutual interest from both countries.

Risk assessment

Chinese investment has often been classified as more risk-tolerant compared to other global investors (Cui and Jiang 2009a; Gonzalez-Vicente 2012; Quer et al. 2012; 2017) or even as drawn by risk-prone political contexts and unstable institutional environments (Buckley et al. 2007; Miranda 2013; Pahuamba et al. 2015, 44-45; Amighini et al. 2013; Kolstad and Wiig 2012). It, therefore, becomes relevant to assess whether this also appears to have been the case in Brazil, and additionally, which risk-mitigation measures Chinese investors adopt.

The unstable political, economic and institutional environment in Brazil from 2015 mainly became expressed by elevated country risks, in the form of political, commercial, and business risks. However, the rapidly declining Real from 2014 also posed different short- and intermediate term currency risks, especially given the value of the fixed assets acquired by Chinese investors. While the assets which the crisis-ridden and indebted Petrobras had put up for sale by early 2015 quickly received much interest from Chinese enterprises, their Western counterparts were more reluctant to engage within an environment marked by cronyism and economic turbulence (Gaspari 2015). Assets put out for tender by companies such as Queiroz Galvão Energia, Renova, CPFL and Santo Antônio were also courted by State Grid and CTG which enjoyed a substantial credit line from Beijing, and therefore easily could outbid other more cautious potential investors. As remarked by a Brazilian investment consultant, "The Chinese have a larger appetite for risk in Brazil, but this does not mean that they are unaware of the risks. They clearly accept a somewhat lower return than most Brazilian investors, but that does not mean that they waste their money" ("Chinesas avaliam novas aquisições em energia no País." 2016).

Chinese investment should be viewed through a lens of patient capital, which operates with much longer horizons for returns to materialise. Many of the infrastructure projects acquired by Chinese companies from Brazilian counterparts weakened by corruption investigations also provided stable returns from operations through fixed contracts. This served to reduce risks and often also contained clauses for the purchase of Chinese equipment. Charles Tang, head of the Brazil-China Business Council, stresses that for the Chinese actors, "the intention is to construct alliances based on win-win situations, but China isn't Santa Claus (..!)" (Rosa and Ordonez 2017). The large proportion of joint ventures and brownfield investment relative to greenfield projects at the immediate peak of the crisis in 2015 and 2016 also suggests a cautious approach

(Cariello 2019 14). The Deputy Head of the Chinese Mission in Brazil, Qu Yuhui, affirmed that acquisition of existing low-priced assets provides better risk mitigation compared to undertaking new projects, - especially considering the unpredictable Brazilian regulatory environment (Fernandes and Warth 2018). Finally, the political relations cultivated by Beijing with both the Dilma and Temer government may also, amongst other things, have served the purpose of controlling political risks faced by Chinese investors in the country. In an environment marked by social turmoil, a crucial goal was to avoid stirring negative popular sentiments or regulatory sanctions, - as had happened with Chinese agribusiness investments in 2010.

Chinese investment during the Brazilian crisis has thereby relied on alternative means of controlling risk and adopted longer time horizons for capital returns. Yet, this is not necessarily synonymous with a significantly more tolerant posture regarding risks. The Chinese acquisitions in Brazil from 2015 reflect a wider trend for this country's investment in Latin America, which has been characterised as generally market-oriented and economically driven (Castaneda 2017, 21).

Market size attraction

Attraction to large domestic markets has been found to constitute a central determinant of Chinese FDI (Alon 2010, 19; Pahuamba 2015, 44; Zhang and Daly 2011). It thereby becomes relevant to scrutinise how this factor may explain the surge in Chinese investment during the Brazilian crisis. The fall in asset prices permitted Chinese enterprises to gain a foothold in a large emerging market. In the short term, this provided the benefit of the acquisition of infrastructure concessions, while in the long term, these companies could enjoy the strategic advantages of being present in a country with a strong catch-up potential.

The corruption investigations from 2015-2018 resulted in many underpriced assets being made available to foreign investors (Vallone 2015). Many Chinese investors viewed this as a golden opportunity to quickly initiate or expand operations within Brazil (Fernandes 2018; Pereira et al 2017). The sheer size of the market for infrastructural concessions has often been highlighted as an important motivation for Chinese contractors. Estimates of the market for construction projects from crisis-ridden Brazilian companies thus suggest a number between R$200-700 billion. Along with other strategic ambitions of gaining increased presence within commodity export corridors, this appears to have constituted an important motivation for Chinese investors (Batista 2015). In 2016, on a visit to China to promote investment in Brazil, the Brazilian Minister of Finance, Henrique Meirelles estimated the investment opportunities from 2016-2019 to amount to some US$268 billion, mainly within the oil and gas exploration, electricity, telecommunications and road construction sectors (Oswald 2016). Other estimates went much further. A Brazilian executive from the National Confederation of Transportation, José Mario Antunes, stated that "Brazil has a need for nearly R$ 1 trillion in infrastructure investments and urban projects. The Chinese enterprises are very interested, and with a lot of appetite for opportunities" (Carneiro 2015).

The Chinese investors' interest in Brazil was not only related to immediate opportunities but also explicitly highlighted as a long-term engagement. This commitment was underscored by Chinese executives within the electricity generation and distribution sector, which due to the massive investment required and the extensive time period of concessions is more prone to patient capital. The president of CTG, Li Yinsheng, thus confirmed that "we are in the market for the long term, this is our rationale for investing in Brazil. You can imagine that if a company takes 20 years to decide to enter, we can then only assume that it came to stay for a long time within the market" ("Chinesas avaliam novas aquisições em energia no País." 2016). Regarding the company's purchase of the US energy company, Duke Energy's Brazilian assets, CTG also released an official statement highlighting that "our decision to enter the Brazilian market was based on a long-term vision of the country's potential for large-scale generation projects, and we are already committed with concessions for the next 30 years to come" (D´Ercole, 2016). Cheap assets of Brazilian construction companies in financial distress thus appear to have been the catalyst which drove Chinese investment in energy distribution and production. These investments were devised as a long-term engagement and sought to yield a strategic positioning within a large developing economy. In 2015, Chinese foreign policy documents also consistently emphasised the massive economic benefits of the cooperation between the two countries. Herein, the Chinese government paid more attention to Brazil than other Latin American countries due to its large engineering contract market (Ministry of Foreign Affairs of People's Republic of China 2015a). Moreover, the president of the Brazil-China Chamber of Commerce and Industry in an interview stated that Chinese investors came to Brazil because large-scale projects "are for sale" after the Petrolão scandal (Mendes 2017).

State-led investment

Analyses of Chinese FDI often highlight how non-market strategic motivations influence investment decisions (Chi 2010, 108; Albuquerque and Lima 2016, 579; Buckley et al. 2007; Cui and Jiang 2012, 268; Wang et al. 2012). It, therefore, becomes relevant to examine whether considerations of this nature might explain the surge in the acquisition of Brazilian companies from 2015-2018. The role of SOEs is key in this regard, as they frequently act according to a dual rationale, considering both profit generation as well as broader national strategic aims. Thus, although the number of private Chinese investment projects in Brazil rose sharply from 2015-2018, the bulk of investments are undertaken by Chinese SOEs within the energy and infrastructure sectors. Accounting for 82% of the total value of Chinese investments in Brazil during the recent decade, these SOEs mainly act according to Chinese governmental directives (CEBC 2018, 9). The companies responsible for most of the Chinese investments in Brazil, such as CTG, State Grid, China Communication Construction Company, and Sinopec thereby operate directly under the State-owned Assets Supervision and Administration Commission's authority, meaning that their engagement within Brazil is firmly aligned with official Chinese objectives (Ibid).

Close affiliation with official strategic objectives has also bestowed the Chinese SOEs with certain competitive advantages. Their access to highly favourable financing conditions from public Chinese banks has proved vital to the Chinese companies engaged in the market for electricity distribution (Becard and Macedo 2014, 156-157). This was illustrated as State Grid managed to pay out its outstanding debt of R$1,5 billion to the Brazilian development bank, BNDES, with cheaper Chinese capital, well before the loan's expiration, (Ordonez 2017).

Geopolitical concerns are another important factor in Chinese SOEs' investments in Brazil, specifically with regard to securing strategic supply and expanding critical transportation infrastructure (Hirata 2018). The expansion of the Belt and Road initiative to cover Latin America in early 2018 should thereby also be viewed in this light. The domestic crisis and the strategic partnership between China and Brazil provided a springboard for Chinese SOEs to pursue national security-related objectives through the application of their comparative advantages within various infrastructural sub-sectors (Oliveira and Fariello 2015), while also leaving some open questions regarding the possible asymmetries in this relationship (Spitz and Malkes 2015). This resource-seeking engagement became evident concerning the oil sector in 2015, as substantial credit lines were extended to Petrobras by Chinese state-owned banks. These resources were vital to the cash-strapped Petrobras, but also cemented the Brazilian SOE's partnership and joint oil exploration with its Chinese counterparts, CNPC and CNOOC (Alencastro et al. 2015). As mentioned earlier, the long-term focus of Chinese investments also explains why large and costly projects were undertaken within the natural resource sector, which appear to have been vital to the broader Chinese geo-economic strategy.

We can hereby observe a range of non-market concerns related to resource security within China's engagement in Brazil, which also has been found to characterise Chinese relations with other Latin American countries (Czarnecka-Gallas 2011, 63). These concerns are not new to Chinese companies. Yet, the weakening of actors within the energy and infrastructure sector both provided a window of opportunity for the acquisition of valuable assets by Chinese SOEs as part of a broader resource-seeking strategy, while it also left an imperative for these enterprises to upgrade their strategic engagement within Brazil to guarantee vital resource supplies. Albeit still uncompleted, the plans for the construction of a bi-oceanic railway to permit the transport of bulk commodities to ports in the pacific provides a clear example of this. Moreover, loans conceded by Chinese financial institutions to Petrobras have also been found to reflect wider strategic and energy security related objectives, which corroborates the present interpretation (Barbosa 2022).

More broadly, the construction of a new international economic order to contain US influence is part of these efforts (Oliveira and Lessa 2014). Xi has continually emphasised that "Brazil is the first developing country to forge the strategic partnership with China" and both countries closely cooperate "to reform international monetary and financial systems" and other multilateral institutions such as G20, WTO, and the UN (Ministry of Foreign Affairs of People's Republic of China 2013; 2014). The Brazilian government has been a crucial supporter of China's foreign policy agendas in these forums. For example, Brazil supported China's efforts to include the RMB in the SDR currency basket in the IMF (Ministry of Foreign Affairs of People's Republic of China 2015e). Furthermore, China acknowledged Brazil's support for changing its status as a full market economy in WTO, despite much opposition (Ministry of Foreign Affairs of People's Republic of China 2017a). Chinese statements also appreciate Brazil's consistent support for the One-China policy (Ministry of Foreign Affairs of People's Republic of China 2017b). Official Chinese foreign policy documents clearly link support for these political agendas to the official support for investment in Brazil through Chinese state-owned banks and SOEs.

Conclusion

Throughout the 2010s , Chinese investments in Brazil increased while the political crisis related to corruption scandals grew stronger. This connection has multiple drivers, which remain scarcely explored in the existing literature. We have sought to address this gap by analysing different characteristics of Chinese investment, such as sectoral composition and comparative strengths, risk assessment, market attraction, and state-drivenness.

Sub-question 1 was examined through the analysis of how sectoral composition of Chinese economic capacities complemented Brazilian demands within the energy and infrastructure sectors and thereby increased FDI flows. We found that a perception of clear complementarities grounded in a Brazilian need for capital and know-how to complete large-scale infrastructure projects was present on both the Chinese and Brazilian sides. Although this complementarity in resource endowments was evident before the Brazilian crisis, the detrimental situation from 2015 accelerated efforts to define joint projects to spur the resumption of growth. The events analysed leave the question of whether Brazilian partners could benefit from any possible spillovers of Chinese technological applications and know-how. The lack of such ramifications defines Chinese investments in many other developing countries, yet, Brazil's potential leverage through a historically strong state apparatus and its economic weight could still lead to different future outcomes.

Sub-question 2 was addressed in the analysis of how different risk and risk-mitigation perceptions motivated Chinese investments in politically and economically turbulent times. Our results illustrate a somewhat different conception of risk amongst Chinese investors but do not point to any incautious conduct. Different ways of risk mitigation were adopted, such as fixed contracts and the acquisition of existing assets with secure returns. The 'patient' nature of Chinese capital, which is based on long-term strategic market analysis rather than the immediate need to satisfy shareholders, was also a key factor. From a political perspective, such a patient investment approach provides an important basis for investments and economic cooperation projects which in the long term could address Brazilian structural economic deficiencies. However, if Chinese investment remains restricted to the acquisition of temporarily undervalued fixed-revenue generating assets, these could become a means for continuous capital repatriation.

In our assessment of sub-question 3, we found evidence pointing to the sheer volume of the Brazilian market for energy and infrastructure projects as a factor of attraction for Chinese investment. The Petrolão scandal thereby created a large market for cheap assets made available because of the crisis of Brazilian companies. Both Chinese executives, as well as official policy documents, stressed the size of the Brazilian market as an important factor in spurring investments. This also converges with our findings regarding Chinese companies' risk assessments, as patient investments were required to create a strategic presence within a market with future growth potential, despite the temporary slope in economic activity.

Finally, our analysis of sub-question 4 highlights the role of non-market concerns in spurring Chinese investments in Brazil. As we have seen, market-related concerns justify many of the Chinese investments in energy and infrastructure in Brazil from a long-term perspective. However, these were not the only important factors at play. The bulk of Chinese investments was conducted by SOEs, which often have been associated with a modus operandi that includes different official Chinese geo-economic and political concerns. The acquisition of strategic assets, and the wider foreign policy-related objectives were also evident in the recent Chinese wave of investments within Brazil. The aim of guaranteeing Chinese supply chain security is thereby clear, and especially the projects within the logistics sector converge with this strategic objective. More broadly, these investments also served an important function of sealing the political Sino-Brazilian approximation as large developing countries and BRICS partners. Beyond political statements and gestures, economic bonds provide tangible connections which cannot be ignored. Posterior events corroborate this. Hostile political signalling towards Beijing from Brasília after President Bolsonaro took office in 2019 has thus been moderated by a strong internal critique from the business community, highlighting the importance of the trade and investment ties to China. Brazil and China thereby appear to have been connected through a partnership with multiple ties , and an increasingly salient dimension of economic necessity, - not least on the Brazilian side.

While all of the factors analysed through our sub-questions contain part of the explanation for the surging Chinese investments, their relative significance appears to differ. As we have seen, existing literature has often found sectoral complementarities and market size to be important determinants of Chinese FDI. In our case, both conditions were evident before the crisis, but did not change significantly from 2015. Moreover, it is also difficult to clearly differentiate Chinese investments from those from other countries exclusively through these two variables. They are thereby likely to have constituted necessary, but not sufficient conditions to explain the upsurge in Chinese FDI. One the other hand, different approaches to risk assessment and mitigation as well as the state-driven character of Chinese investment are two factors which differentiate these investors relative to those from other countries. Moreover, the crisis of 2015 created some general conditions which made these two factors key to explaining the investment upsurge in an apparently unfavourable and risk-prone environment. Finally, while they have been separated for clarification purposes in this analysis, a series of overlaps exist between these two variables, exemplified by the significance of patient capital within both.

Our conclusions raise a series of questions worth exploring in future research projects. An important issue regards the institutional environment in which the Chinese investments have been realised , and the resulting degree of transparency. Institutional weakness was what initially provided an entry-point for Chinese investors, and has often been associated with Chinese investments in other countries. Case studies and deeper scrutiny of the specific investment projects in Brazil are thereby highly warranted. A comparative overview of Chinese economic presence in developing countries also often highlights the environmental implications of the reliance on these investments compared to developed-country investors (Ray et al. 2017; Tracy et al. 2017). In the current situation in which developed country investors have threatened to divest from Brazilian assets associated with human rights violations and environmental degradation, Chinese investors have remained silent (Harris 2020). Finally, the increasing geopolitical tensions between the United States and China, and the incipient politico-economic division of the world around these powers, call attention to Brazil's role. While the country historically has been oriented towards the United States and Europe, the relative economic importance of China has rapidly surpassed that of traditional partners. The forging of long-term economic bonds through trade and committed investments has drawn Brazil closer to China, thus, providing very concrete reasons to reconsider future alignments.

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