

China makes a big bet on electric vehicles with Brazil investment

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Chinese electric vehicle manufacturer BYD plans to expand operations in Brazil [Eugene Hoshiko/AP Photo]

Sao Paulo, July 22 (RHC)-- Stella Li stood in front of a packed stage, banging a brightly decorated drum to a samba-reggae rhythm. Moments earlier, Li, global vice president of the world's largest electronic vehicle manufacturer, BYD, had announced that the Shenzhen-headquartered Chinese company would open an industrial complex in Brazil's northeastern state Bahia.

BYD plans to invest 3 billion Brazilian reais (\$600 million) to generate more than 5,000 jobs and produce electric and hybrid cars, as well as electric buses and trucks, in Camacari near Bahia's capital, Salvador.

The plan marks a political victory for the government of Brazilian President Luiz Ignacio Lula da Silva, himself a former metalworker, who hopes to "reindustrialise Brazil" with support from China.

Last year, another Chinese manufacturer, Great Wall Motor, had announced it would invest \$1.9 billion in Brazil over the next decade to produce hybrid and electric cars in Sao Paulo state. It expects production to begin next year.

Western car companies like Ford and Mercedes-Benz have left Brazil in recent years after setting up there decades ago, adding to the country's deindustrialisation woes. But Chinese carmakers are beginning to fill the gap as part of Beijing's ambitious automaking expansion abroad.

The Chinese manufacturers' plans carry especially strong symbolism: BYD plans to set up shop in an abandoned Ford factory, while Great Wall Motors will take over an old Mercedes-Benz factory. Experts point to a series of benefits for Chinese car companies in Brazil, a middle-income country of 203 million people with a non-aligned foreign policy.

"There is no geopolitical tension here with China, unlike Europe, the USA or Canada," Mauricio Santoro, a political scientist and author of *Brazil-China Relations in the 21st Century*, told Al Jazeera. "There is no vetoing of Chinese companies, the great example being Huawei, which operates in Brazil with total freedom."

Santoro added that BYD's new facilities will act as a jumping-off point to expand in the region. "They are going to use Brazil as an export platform to other countries in South America, to countries like Argentina and Chile, which is something that other multinationals also do here," he added.

Almost half of China's current investments in South America are in Brazil, which offers opportunities for Chinese manufacturers, said Tulio Cariello, content and research director at the Brazil-China Business Council. "Brazil is a country that has an emerging middle class," he told Al Jazeera, "and it is a country where people want to have a car."

According to Brazil's Institute of Geography and Statistics, just under 50 percent of the country's households had a car in 2022, compared with 92 percent in the United States. The Chinese vehicle makers' plans also reflect, in part, the consolidation of China's rise in South America and perhaps the start of a new chapter of the continent's most defining geopolitical shift this century.

China is Brazil's top trading partner, having overtaken the United States in 2009, with nearly \$151bn in trade between the two countries in 2022, according to official government data.

Now serving his first year of a historic third term, Lula re-established openly warm relations with Beijing with an April visit to China, where he met with President Xi Jinping. The visit seemed aimed at repairing a relationship previously strained by the anti-China stance of far-right former President Jair Bolsonaro.

As part of that renewed rapport, Brazil offered China concessions to attract the car manufacturer. In return for its commitment to invest, BYD will receive a 95-percent break on Brazil's value-added tax until 2032, no car ownership tax on electric vehicles up to 300,00 reais (\$62,375), and access to the nearby Aratu Port for the import of raw materials and exports of the products it makes locally.

Brazilian authorities also promised to improve the roads to reach the port as well as considering withdrawing property taxes, dependent on talks with Camacari city hall, according to Brazil's UOL news portal's specialist car column.

While Brazil's electric vehicle (EV) market is still in its nascent stages, selling just 564 units in the first quarter of 2023, Cariello said that — in the long term — Brazil would catch up with more advanced electric car markets and that the Chinese are “pioneers” to establish themselves first in the local market.

Rodrigo Zeidan, a professor of finance and economics at New York University Shanghai and at Brazil's Dom Cabral Foundation, said China's electric models were more suited to the budgets of middle-income countries like Brazil.

“The Western companies are building more valuable models like Tesla. The Chinese manufacturers, they produce cheaper stuff,” he told Al Jazeera. “It is a middle-income market in which consumers are not that rich, and they know this market.”

There is one indication that EV-related jobs will be welcome in Brazil. In just seven days in July, BYD received 44,000 job applications for its announced 5,000 vacancies. Zeidan warned that current infrastructure to support electric vehicles in Brazil is woefully inadequate and building charging stations for cars across the vast country “requires long-term planning.”

Chinese companies, often helped by generous state subsidies and loans, are able to work in longer time frames than competitors, which may help them in Brazil, Santoro said. Still, he and other experts interviewed by Al Jazeera warned of significant challenges ahead, including China's slowing economy and geopolitical tensions with other world powers, as limits to the Lula government's hopes to “reindustrialise” Brazil. “The rhetoric that the Chinese will somehow reindustrialise Brazil, that is an exaggeration,” he said. “No country has managed to reindustrialise.”

Zeidan also criticised the tax breaks that are being given to BYD but said Ford and other Western carmakers had been offered the same kinds of deals to entice them to do business in the country. “Brazil has thrown a lot of money at car companies,” he said. “It's a lot of public money given to privately owned companies.”

He said that although Brazil was a “tough” market, it is possible for car companies to make good profits. “The question is can BYD make enough money to justify being in Brazil 30 years from now?” he said.

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