

EXPANSION OF TRADE AND INVESTMENT BETWEEN BRAZIL AND THE GCC — THE POTENTIAL OF BRAZIL AS A PARTNER IN THE FOOD AND CLEAN ENERGY SECTORS —

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SUMMARY

- Brazil is strongly dependent on trade with China. However, it is seeking to diversify its economic partnerships and deepen economic ties with emerging country blocs that are not its primary trade and investment partners.
- In terms of Brazil's relationship with the Gulf Cooperation Council (GCC)¹, the bloc's national strategies for economic diversification, decarbonization, and stable food procurement align with Brazil's goal of diversifying its economic partners, to boost its economy by increasing exports of meat and grains and attracting infrastructure investments. This move toward strengthening cooperation is being accelerated.
- With its food supply capacity, rich investment opportunities in clean energy and other sectors, and geopolitical stability, Brazil is gaining attention as an economic partner from various regional blocs.

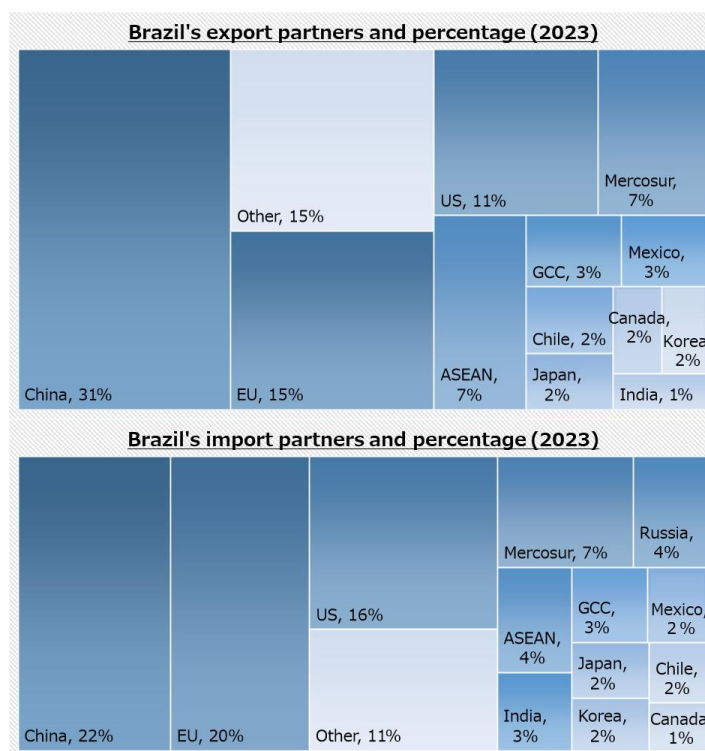
1. DEEPENING ECONOMIC TIES BETWEEN BRAZIL AND THE GCC

1-1. NEW SIGNS FOR CHINA-DEPENDENT BRAZIL

In Brazil, China has been the leading trading partner since 2012, accounting for 31% of Brazil's exports and 22% of its imports in 2023 (Figure 1). In addition, Chinese investment in Brazil has been aggressively expanding across various sectors, including energy, natural resources, infrastructure, and manufacturing, with the number of projects increasing from 13 in 2013 to 40 in 2022.

However, looking at Brazil's recent trade by country and region, there has also been a growing trend in trade with emerging blocs such as the GCC and ASEAN (Figure 2). With ASEAN, exports have increased by an average of 16.0% per year since 2018 due to the opening of markets for new products such as Brazilian meat and biogas; with the GCC, exports to Saudi Arabia and the UAE, which have particularly large populations and

(Figure 1) China's presence in Brazil's trade



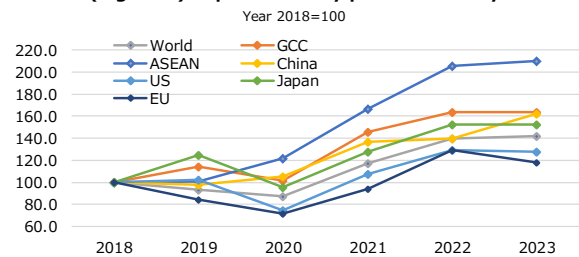
(Source: Compiled by MGSSI based on ITC data)

¹ The participating countries are Saudi Arabia, the United Arab Emirates (UAE), Kuwait, Qatar, Bahrain, and Oman.

GDPs in the region, have increased steadily, and investment activities from these countries in Brazil has become active.

This report focuses on Brazil's relationship with the GCC, particularly Saudi Arabia and the UAE, and examines the background and outlook of Brazil's new step to deepen economic ties with emerging blocs that are not its primary trading and investment partners, such as the US, Europe, and China.

(Figure 2) Export value by partner country



(Source: Compiled by MGSSI based on ITC data)

1-2. BACKGROUND OF THE PROXIMITY BETWEEN BRAZIL AND THE GCC

In the GCC, which imports 85% of its food supply, the government of each member state has been compelled to restructure its supply chains, including securing imports, due to growing demand driven by economic growth and population increases, as well as increased supply concerns caused by the pandemic and the Ukraine war. Food² imports from Brazil, a major producer of agricultural products such as poultry, beef, corn, and sugar, have been on the rise, increasing at an average annual rate of 12.1% since 2019. In terms of investments, GCC countries have been intensifying both domestic and international investments as part of their national strategies aimed at economic diversification and decarbonization, and Brazil is one of the targeted markets as it offers rich opportunities in the energy and infrastructure sectors and its geopolitical stability. Brazil was designated as a strategic partner by the Saudi government's Public Investment Fund (PIF) in 2019.

Although Brazil has been keen to maintain good relations with China in order to leverage Chinese investments for its economic growth, it is also wary of being overly dependent on a single country and is seeking to diversify its economic partners. As part of these efforts, Brazil has been actively attracting investment and promoting trade expansion through initiatives such as sending economic missions to the GCC and advocating for market access through its Ministry of Agriculture, Livestock, and Food Supply. Brazil is also pursuing a deeper, more comprehensive approach to strengthen its ties with the GCC, as evidenced by its support for Saudi Arabia and the UAE joining BRICS (Figure 3).

The GCC's search for a stable partner in food supply partner and its investment strategies focused on economic diversification and decarbonization, and Brazil's need of mitigating the risks of dependence on a single country for trade, are accelerating the cooperation between the GCC and Brazil.

² Total of major imports: meat, grains, and sugar.

(Figure 3) Key developments in strengthening economic relations with Saudi Arabia and the UAE

| | | |
|-------------|--|---|
| <p>2022</p> | <p><March></p> <ul style="list-style-type: none"> · Crown Prince Mohammed bin Salman and President Bolsonaro confirm strengthening of bilateral relations in a phone call | <p><February></p> <ul style="list-style-type: none"> · Mubadala establishes Brazil Special Opportunities Fund I (BSOF I), a new fund dedicated to Brazil, raising USD 332 million <p><March></p> <ul style="list-style-type: none"> · President Bolsonaro invites a UAE business delegation to Brazil <p><April></p> <ul style="list-style-type: none"> · UAE surpasses China to become top importer of Brazilian poultry |
| <p>2023</p> | <p><July></p> <ul style="list-style-type: none"> · Both Agriculture Ministers agree to establish a working group to enhance cooperation in the agricultural sector · Saudi government permits goat imports from Brazil · Saudi-Brazilian Investment Forum in Sao Paulo Companies sign 26 MoUs and meeting held between Brazil's Minister of Development, Industry, Trade and Services and Saudi Arabia's Minister of Investment <p><August></p> <ul style="list-style-type: none"> · BRICS invites Saudi Arabia to join <p><November></p> <ul style="list-style-type: none"> · Embraer and PIF-subsiary Saudi Arabian Military Industries (SAMI) sign MoU to establish a domestic MRO center and final assembly line for transport aircraft for the Saudi Ministry of Defense · Brazil's Minister of Mines and Energy and Saudi Minister of Industry and Mineral Resources meet at Davos to explore investment opportunities in the critical minerals sector · Saudi government announces USD 9 billion investment in Brazil by 2030 at Riyadh Summit | <p><August></p> <ul style="list-style-type: none"> · BRICS invites UAE to join · Brazilian Minister of Agriculture visits Abu Dhabi Fund for Development (ADFD), Abu Dhabi Investment Authority (ADIA), and Abu Dhabi Investment Council (ADIC) during economic mission to attract investment in sustainable agriculture · UAE Minister of Foreign Affairs visits Brazilian Minister of Agriculture to discuss cooperation in the agriculture and livestock sectors <p><September></p> <ul style="list-style-type: none"> · Petrobras and Mubadala sign MoU to advance cooperation in refining and distribution <p><October></p> <ul style="list-style-type: none"> · Mubadala establishes Brazil Special Opportunities Fund II (BSOF II) dedicated to Brazil, raising USD 710 million <p><November></p> <ul style="list-style-type: none"> · President Lula attends COP28 in Dubai |
| <p>2024</p> | <p><May></p> <ul style="list-style-type: none"> · Vice President Alckmin and other economic mission members visit Riyadh and sign three Protocols of Intent related to food business and investment <p><June></p> <ul style="list-style-type: none"> · PIF Governor participates in FII Priority Rio de Janeiro summit; expresses interest in IT, minerals, renewable energy, and soccer, with USD 15 billion investment under consideration | <p><January></p> <ul style="list-style-type: none"> · UAE joins BRICS <p><April></p> <ul style="list-style-type: none"> · Three agreements signed on diplomacy and climate change at Dubai Summit <p><May></p> <ul style="list-style-type: none"> · Mubadala subsidiary Acelen announces USD 2.5 billion investment plan in Brazil's biofuel sector (renewable diesel and aviation kerosene) · UAE provides relief supplies for Rio Grande do Sul floods |

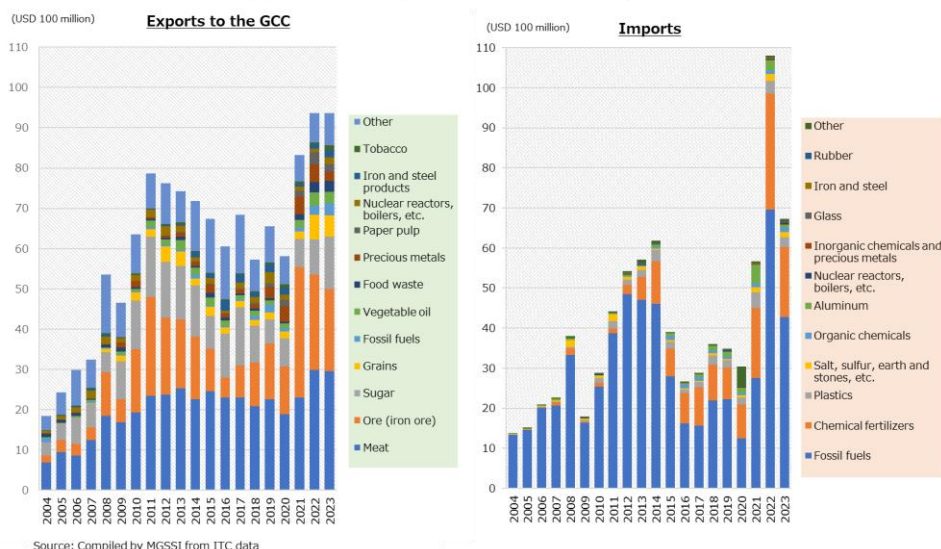
(Source: Compiled by MGSSI based on media reports)

2. BRAZIL EXPANDS FOOD EXPORTS TO GCC

2-1. TRADE STRUCTURE WITH THE GCC

The value of Brazil's exports to the GCC has increased by an average of 9.3% annually since 2019. In 2023, the top three exports from Brazil to the GCC were meat, iron ore, and sugar (Figure 4). Food exports, in particular, have led Brazil's overall exports to the GCC, with meat exports increasing by 7.0%, sugar by 21.1%,

(Figure 4) GCC import and export values by item

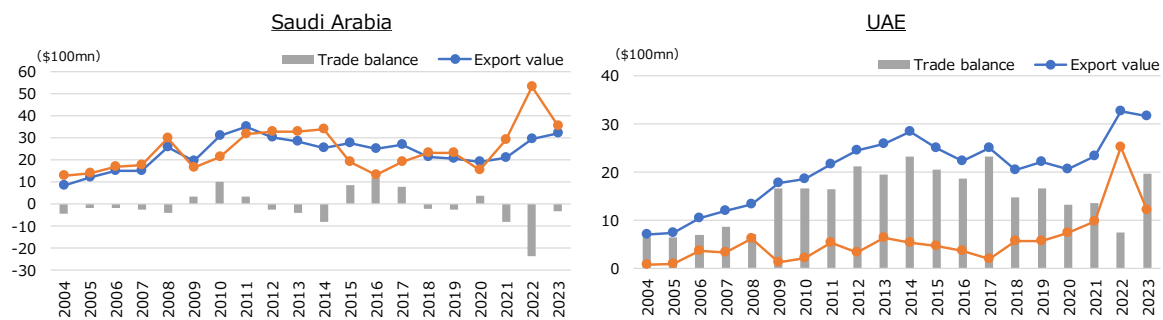


Source: Compiled by MGSSI from ITC data

and grains by 33.5%. Iron ore exports also grew by 10.6%, due to the expansion of Vale’s operations and increased production in Brazil, which boosted exports to Oman and Bahrain. The value of Brazil’s imports from the GCC has also seen significant growth, with an average annual increase of 17.8% since 2019, driven mainly by key commodities such as oil and chemical fertilizers.

An analysis of the trade structure by major partner country shows that crude oil, fuel oil, and chemical fertilizers accounted for about 90% of imports from Saudi Arabia in 2023. The trade balance is heavily influenced by crude oil prices, and the surge in oil prices since 2021 has driven the growth in import value from the GCC as a whole. During a summit in Riyadh in November 2023, both governments confirmed their intention to expand bilateral trade from \$8 billion in 2023 to \$20 billion by 2030, indicating their intention to continue cooperation to expand trade. With UAE, meanwhile, Brazil maintains a significant trade surplus (Figure 5). In 2022, exports of key items such as poultry, beef, sugar, and gold led to a record high export value of approximately \$3.26 billion. In addition to petroleum, which accounts for 82.4% of total imports, the UAE is an important supplier of chemical fertilizers and sulfur for Brazil, a major agricultural country. In July 2024, the UAE agreed to begin Free Trade Agreement (FTA) negotiations with Mercosur³, the economic group to which Brazil belongs.

(Figure 5) Balance of Trade with Saudi Arabia and UAE



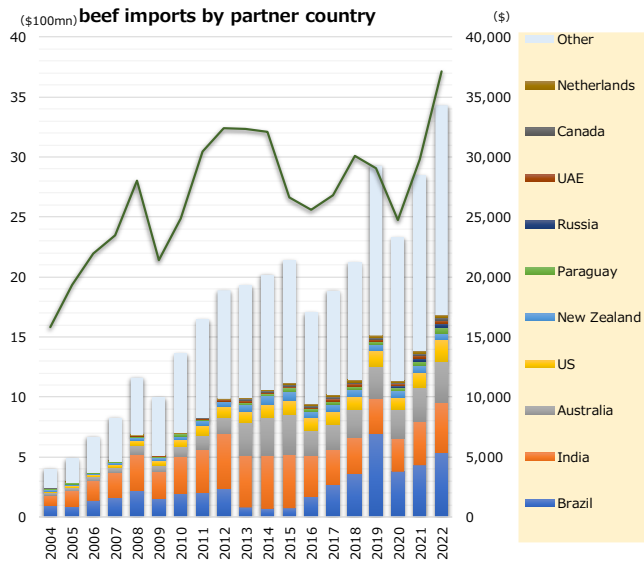
(Source: Compiled by MGSSI based on ITC data)

2-2. BACKGROUND AND FUTURE OUTLOOK FOR EXPANSION OF FOOD EXPORTS

Brazil has been a stable supplier of poultry to the GCC, and its presence in this market has significantly increased in recent years. The pandemic and the war in Ukraine have heightened concerns about food security, leading to a growing global recognition of Brazil’s importance as a stable food supplier. In 2022, while Ukraine’s share of the GCC’s poultry imports decreased from 9.2% to 6.9% year-on-year, Brazil’s share rose from 63.0% to 66.1%.

In addition, beef imports from Brazil have been increasing in the region due to rising incomes and changes in consumer preferences driven by an increasing expatriate population in the region over the past 20 years. (Figure 6).

(Figure 6) GDP per capita in the GCC and beef imports by partner country



(Source: Compiled by MGSSI based on ITC and World Bank data)

³ Mercosur (Southern Common Market), the economic group comprising Brazil, Argentina, Paraguay, and Uruguay, has established a principle that FTA negotiations with countries or regions outside its membership are to be conducted as a bloc. Therefore, in order to conclude an FTA with Brazil, it is necessary to negotiate with Mercosur as a whole.

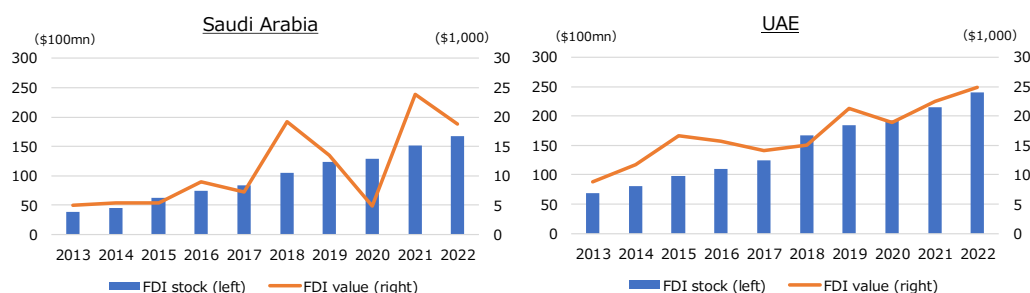
According to a report by Dubai-based investment bank advisory firm Alpen Capital, the GCC’s food demand is expected to increase by an average of 2.8% annually from 2022 to 2027 due to anticipated population growth and rising incomes. Despite the region's efforts to improve food self-sufficiency, the production of beef in the desert climate is challenging, making the GCC reliant on imports. Consequently, imports from Brazil, home to some of the world’s largest meat processing companies such as JBS and BRF, which have Halal meat production lines, are expected to increase.

3. BRAZIL AS A DESTINATION FOR OIL MONEY INVESTMENT BY SAUDI ARABIA AND THE UAE

3-1. GCC’S STRATEGY TO MOVE BEYOND AN OIL-BASED ECONOMY AND DECARBONIZATION

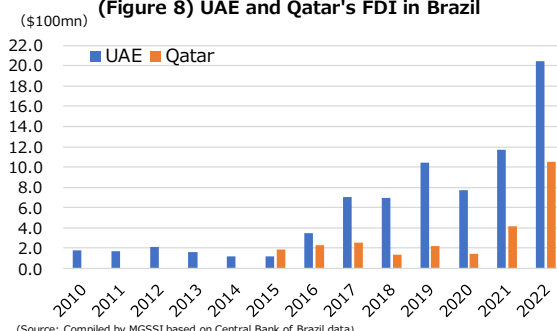
The GCC is aiming to diversify its economy in order to break away from an oil-dependent economy with high price volatility, with “Vision 2030⁴” for Saudi Arabia and “Vision 2021” and “‘We the UAE 2031’ vision” for the UAE.⁵ It is advancing investments in diverse fields, from healthcare and retail to energy and cutting-edge technologies, both domestically and internationally (Figure 7). These countries are promoting economic partnerships with Brazil in a wide range of sectors, including agriculture, livestock, mineral resources, energy, and military, as shown in Figure 3. Notably, investments from the UAE and Qatar into Brazil have been on the rise, with investment balances in 2022 standing at \$2.05 billion and \$1.05 billion, respectively (Figure 8). While data on Saudi investments in Brazil is not publicly available, individual investment cases from 2023, discussed later, suggest an upward trend.

(Figure 7) FDI in Saudi Arabia and the UAE



(Source: Compiled by MGSSI based on UNCTAD and FDI/MNE database)

(Figure 8) UAE and Qatar's FDI in Brazil



(Source: Compiled by MGSSI based on Central Bank of Brazil data)

⁴ A strategic framework announced by the Saudi Arabian government in 2016 to reduce dependence on oil and diversify the economy. It includes the development of public service sectors such as infrastructure, tourism, education, entertainment, and healthcare; the expansion of non-oil industry trade; and increased government spending on military and manufacturing equipment.

⁵ Vision 2021 was a 10-year plan launched in 2011 with the aim of moving away from a natural resource-dependent economy and modernizing the nation. The plan focused on key areas such as providing world-class healthcare services, ensuring a sustainable environment and infrastructure, and establishing a top-tier education system, with the goal of achieving these objectives by the end of 2021, coinciding with the UAE’s 50th anniversary. Launched in 2022, the ‘We the UAE 2031’ vision is another 10-year plan aimed at further strengthening the UAE’s position as a global economic hub.

In response to the global push toward decarbonization, GCC countries, with the exception of Qatar, have set net-zero emissions targets and are increasing investments in renewable energy and decarbonization projects. While they are expanding collaboration with countries outside the region, such as Europe and North Africa, Brazil is also a strong candidate for investment in the decarbonization related areas, given its potential for biofuel production as an agricultural giant and its favorable natural conditions for renewable energy generation.

3-2. EXAMPLES OF INVESTMENT IN BRAZIL AND FUTURE OUTLOOK

Looking at the most recent GCC investment trends in Brazil, there have been large-scale investments, such as the \$1.65 billion acquisition of a Petrobras refinery by Mubadala, an Abu Dhabi sovereign wealth fund, in 2021, and the \$3.4 billion acquisition of 10% of Vale's nonferrous sector by the PIF in 2023. These investments span various sectors beyond energy and resources, including food, services, education, and IT (Figure 9).

Moreover, in November 2023, the Saudi government announced a plan for \$9 billion investment into Brazilian clean energy, defense, agriculture, science and technology, and infrastructure projects by 2030. In May 2024, Mubadala further announced a \$13.5 billion investment in Brazil's biofuel sector, signaling further growth in GCC investments in Brazil.

(Figure 9) Examples of investments in 2023

| | Investment Sector | Company | Details | Investment |
|-----------------------|-------------------|--|--|--------------------------------|
| UAE → Brazil | Food & Services | Mubadala | Acquired 51% of Bluefit sports gym | BRL 464 million (\$95 million) |
| | Food & Services | Mubadala | Increased share of Burger King stock | Unknown |
| | Finance | Travelex | Currency exchange service business | \$43 million |
| | Apparel | Carter & White | Unknown | \$80 million |
| | Defense | EDGE | Acquired 50% of SIAT | Unknown |
| | Education | Mubadala | Acquired UniFTC and UnesulBahia | Unknown |
| | IT | Mubadala | Acquired minority stake in Odata Data Center from Aligned (USA) | Unknown |
| | Energy | Mubadala | Became major shareholder in Atvos, a leading sugarcane ethanol company | Unknown |
| Brazil → UAE | IT | SASI | Established local subsidiary in Dubai | \$27 million |
| Saudi Arabia → Brazil | Oil & Gas | PIF | Acquired 10% stake in Vale's nonferrous metals division | \$3.4 billion |
| | Manufacturing | Aramco (subsidiary of ARLANXEO) | Invested in expansion of synthetic rubber plant | \$96 million |
| | Manufacturing | Aramco (subsidiary of ARLANXEO) | Constructed a logistics center | \$43 million |
| | Food | Saudi Agriculture and Livestock Investment Co. (SALIC) | Acquired 10-15% stake in Marfrig | \$890 million |
| Brazil → Saudi Arabia | Food | JBS | Constructed poultry processing plant in Jeddah | \$432 million |
| | Construction | OEC (formerly Oderbrecht) | Established local subsidiary | \$66 million |
| | Food | BRF | Constructed poultry processing plant in Dammam | \$18 million |

(Source: Compiled by MGSSI based on ApexBrasil data and media reports)

Brazil, which has restrictions on public investment spending due to its Fiscal Responsibility Law⁶, is interested in leveraging private investment particularly in the infrastructure sector, and is actively seeking to attract GCC investment, which has the capacity to invest in large-scale projects. Under the Lula administration, the Novo PAC (New Growth Acceleration Program), which aims to accelerate economic growth through infrastructure investments and requires private investments amounting to BRL 612 billion (\$122.4 billion)⁷ was implemented. The aforementioned investment from Saudi Arabia will further strengthen the bilateral relationship as a strategic partner.

3-3. BRAZILIAN INVESTMENT IN THE GCC

Brazilian investment in the GCC is also progressing, thanks to active efforts such as economic missions. According to Apex, the key investment sectors in Saudi Arabia are food, construction, apparel, and healthcare. In the UAE, machinery is added to these areas. Examples of investments materialized in 2023 include the

⁶ A fiscal balance policy established in August 2023, which limits the growth rate of government expenditure to within 70% of the revenue growth rate over the past 12 months. Expenditure growth is set between a minimum of 0.6% and a maximum of 2.5%. If the primary surplus target is not met, the upper limit of the expenditure is reduced from 70% to 50%.

⁷ Converted at an exchange rate of \$1 = 5.0 Brazilian Reals (BRL).

construction of a poultry processing plant in Saudi Arabia by JBS, and the establishment of a local subsidiary in Dubai by the IT company SASI.

4. BRAZIL AS A PROMISING ECONOMIC PARTNER

While the conclusion of an FTA with the EU has been delayed, Mercosur, of which Brazil is a member, concluded an FTA with Singapore in December 2023. Subsequently, efforts are underway to expand FTAs with regions expected to experience economic growth, such as negotiations with the UAE and Indonesia, as well as public hearings on expanding the preferential trade agreement with India.

According to the OECD, Brazil ranked second after the US in inward direct investment in 2023 (Figure 10). With its food supply capacity, rich investment opportunities in clean energy and other sectors, distance from major conflicts, and geopolitical stability, Brazil is gaining attention as an economic partner not only from the GCC but also from regional blocs worldwide.

(Figure 10)
FDI ranking by OECD

| | Year 2022 | Year 2023 |
|----|-----------|-----------|
| 1 | US | US |
| 2 | China | Brazil |
| 3 | Brazil | Canada |
| 4 | Australia | China |
| 5 | India | Germany |
| 6 | Canada | Mexico |
| 7 | Sweden | Spain |
| 8 | Spain | Australia |
| 9 | Mexico | France |
| 10 | France | Sweden |

(Source: Compiled by MGSSI based on OECD FDI Statistics)

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