

China and Brazil: What you Need to Know

Just two months ago, the largest ship in world history sailed in to the port of Dalian, China to complete its maiden voyage. Longer than the Eiffel Tower, wide as the length of a football stadium, and with the capacity for more than 350,000 tons of iron ore, on each trip around the world, Brazil's *Berge Everest* delivers enough iron to make the steel for more than three Golden Gate Bridges. But this is only the first midsize ship in Brazilian resource company Vale's fleet of twelve.

The ship sails silently. China and Brazil are getting closer. But, few notice. Let's confront that trend, Lowell House. Let's talk Brazil-China.

As a brief roadmap, I'll first go over some economics, then talk human capital growing pains (where you guys come in), and last I'll talk a bit about future trends.

Lets talk numbers.

China is the world's largest nation by population and the second largest economy. With an annual GDP of \$7.3 trillion and projected annual growth rates around 8%, some expect China to be the world's largest economy as soon as 5 years from now.

With roughly 200 million people and a GDP of \$2.5 trillion, Brazil is the world's fifth largest population and sixth largest economy. Its closest trading partner for decades was the US, but two years ago, China overtook this position. This is crazy. These countries are not only on opposite poles of the planet, but their ships have to go all the way around South America before they can even begin to make the over 10,000 mile trip.

Nonetheless, as the US focuses elsewhere, the geopolitical landscape changes. China and Brazil keep getting closer. According to the Financial Times, in the first 10 years of the 21st century, trade exports between these nations multiplied 30 times. Investment is exploding too -- between 2009 and 2010, foreign direct investment of China in Brazil increased by 3000% to reach \$20 billion. How did this happen? Three steps.

The foundation of the relationship is trade. Brazil sends the resources that China needs to grow and China pays for the resources Brazil has to make Brazil rich. Brazil's exports are primarily commodities such as iron, soy, petroleum, sugar, and rare earth metals such as niobium -- which is used to create steel. China sends cheap manufactured goods like cars, consumer electronics, toys, and other industrial products. And while the foundation is trade, the landscape is evolving.

The second stage is infrastructure. Despite high trade, Brazil is plagued by a high cost of transportation for goods. Whereas the average cost to move goods out of the US is about 7% of total cost, this cost is 30% in Brazil. Brazil has long had these issues, but

now they have deadlines. With the World Cup in 2014 and the Olympics in 2016, Brazil has to revolutionize its transportation networks to prepare for the massive migration to Rio for these events. There is no better nation to do this than China. Seaports, expressways, railways, airports, power grids, and telecommunications -- these are all areas of China's expertise, and an opportunity for mutual growth.

The third stage is the consumer marketplace. As China and Brazil continue to grow as robust economies, you will see more companies that sidestep traditional markets historically centered in the US, and base their strategy on China-Brazil. This makes sense. Brazil has the resources, China has the manufacturing prowess, and once goods are completed they can be immediately sold locally in strong consumer markets. In 2010, Chery Automotive and JAC Automotive, two of China's biggest automotive brands, each pledged about \$500 million to build factories in Brazil and sell direct. There is more to come.

Stepping back, we can see that there's a big opportunity for us. While studying abroad in China last spring, I learned that at China's top liberal arts university, Peking University, only 1 student out of 30,000 was learning Portuguese. It's not much higher in the rest of Beijing -- everyone there thinks they speak Spanish in Brazil. In Brazil, few even try to learn Mandarin and the top university programs only teach two years of the language. People in Brazil would rather go out and have fun. But, make no mistake, *what we have here is a major skills gap.*

Who is going to fill it? 为什么不是你呢? E você, porque não? Why not you? After graduation, many of us will be looking for the path ahead. The best lesson I have learned here from my friends and from my mentors is not to look to where things are today, but to look where they may be in the future. For years I have been learning just Mandarin, but thanks to the influence of my roommate Johnny Motley and good friend Jon Kaufman, who both study Portuguese, this whole new world opened up, and I am now studying Portuguese. Open your ears, follow the trends, and use your time here to build the skills you need to be ahead of your target, whatever it may be.

Maybe it is China and Brazil that lies ahead for you; but no matter what, always remember to look up and look ahead. I think the 21st century will be one of man's most exciting -- let's grab it Lowell. Let's get ahead.