When the divisive Jair Bolsonaro became president of Brazil a year ago, it raised many concerns about the direction his country would take. The domestic and international business community has been relatively united in welcoming him and his strong free-market inclinations, which remain particularly attractive to foreign investors. For Gulf countries, maintaining good trade relations with Brazil is undoubtedly positive – but Bolsonaro caused controversy across the Arab world when, shortly after taking office, he announced a plan to move his country's embassy in Israel to Jerusalem from Tel Aviv. It took a visit to Saudi Arabia, the UAE and Qatar last October – and many new trade deals – for the Brazilian leader to begin repairing relations.

Bridging the distance

At first glance the 12,000-km distance that separates the Gulf region and Brazil suggests that close economic relations are not the most likely. But Brazil is the largest economy in Latin America and the 9th largest in the world. As the world's top exporter of soybeans, and a major producer of meat, raw sugar and coffee, the country has much to gain from a solid trade relationship with Gulf countries, which have limited agricultural capabilities. Brazil is also rich in natural resources and has a sizable manufacturing sector which produces of cars, machinery and aeroplanes. This alone makes it an important trade partner and an attractive destination for investment – but perhaps even more importantly, Brazil serves as a gateway to the rest of the region.

Most of the trade between Gulf countries and Brazil is in meat, sugars and confectionary, ore slag and ash, mineral fuels, distillation products, wood pulp, cereals and other agricultural products and machinery. In 2018 Brazil exported commodities worth $2.31bn to Saudi Arabia; $2.03bn to the UAE; $673m to Bahrain; and $315m to Qatar. In the same year, its imports from the entire Arab world amounted to $7.6bn, a year-on-year growth of 18% over the previous year. Saudi Arabia's exports to Brazil accounted for $2.3bn, those from the UAE climbed to $561m – up 23 % from 2017 – while imports from Bahrain stood at around $155m in 2018. Most of Brazil's imports were in mineral fuels, mineral oils, fertilizers, sulphur and plastic.

Seeking stability

While economic relations between Brazil and the Gulf are undoubtedly advantageous, they are not always stable. For the past two decades, they've followed a pattern that is largely affected by the politics and economic stability of the latter. Between 2003 and 2014, for example, Brazil was on a growth trajectory, with GDP increases peaking at 7.5% in 2010. For most of those years, trade between Gulf countries and Brazil enjoyed healthy growth.

The legacy of these years of growth have created healthier socio-economic conditions, resulting in a significant decline in poverty levels. The income level of those in the poorest half of the population increased by an average of 7.1%.[1] Declining disparities normally represent a lower risk of political unrest, and hence a more conducive environment for foreign investment and growth. But a recession in 2015-16 and a slowdown in the first half of 2019 has shown that that despite its great economic potential, Brazil's structural deficiencies and inadequate fiscal policies have left the economy still vulnerable.[2]

Considering that Brazil is the world's seventh-largest recipient of foreign direct investment in terms of inflows, and by a big margin the top recipient in Latin America and the Caribbean, to the tune of $61bn, reassuring foreign investors is paramount for the performance of the country's economy.[3]

Follow the leader?

But perhaps the biggest challenge to Brazil-Gulf relations in recent years has been Bolsonaro himself. The president's boldly stated opinions on social, religious, and environmental matters have caused some world leaders to question the future of their relations with Brazil. But when Gulf leaders bristled at his stated intent to move Brazil's embassy in Israel, Bolsonaro executed a strategic backtrack, in which he decided to establish a "business office" instead of an embassy in Jerusalem.[4]

With this controversy out of the way, Bolsonaro's visit to Saudi Arabia, the UAE and Qatar in October last year turned out to be a pivotal moment. Meeting with regional leaders in person allowed the president to concentrate on enhancing existing economic relations, while embarking on a search for new investment opportunities where in some areas there are obvious synergies.

Investing in a collaborative future

Following the state visit, it was reported that Saudi Arabia's Public Investment Fund was planning to invest $10bn in Brazil. Projects include the construction of hundreds of miles of railroad from the Mato Grosso, the country's agricultural heartland, all the way to the Amazon River gateway of Para, which also hosts a major port and airport. The railroad will also make it easier to transport rubber, tropical hardwoods and minerals such as iron ore and bauxite from the Para region.[5]

Another immediate outcome from warming relations was the announcement by the Brazilian food processing company BRF that it would invest $120m in building a chicken processing plant in Saudi Arabia. BRF reportedly sees Saudi Arabia as an important growth market – a forecast supported at the end of last year[6] by the Saudi Food and Drug Authority's approval of eight Brazilian beef exporting plants. BRF has also the biggest meat processing plant in Abu Dhabi's Khalifa Industrial Zone, with a workforce of 600.[7]

Another area of potential collaboration with Gulf countries is investment in Brazil's oil industry. Brazil is currently producing almost 3m barrels per day, but according to some estimates could increase this by 25% by 2022 and by 70% in 15 years' time.[8] It is an ambitious, but not impossible, goal – Brazil's estimated 18.5bn barrels of oil reserves lie offshore, and extracting them will require substantial investment. Depending on the trajectory of oil prices, though, these reserves might be attractive to investors.

Despite the distance and political challenges between Brazil and its trade partners in the Gulf region, mutual economic interests continue to provide strong ties. As long as political pitfalls are avoided, the trajectory for trade in the next decade and beyond is one of substantial growth.

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