“Brazil-Asia Trade: Emerging Configurations”

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in

Reaching Across the Pacific: Latin America and Asia in the New Century

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Brazil-Asia Trade: Emerging Configurations

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During the past decade, Brazil’s cooperation with Asia has boomed. Although these expanding relations include areas of cooperation such as development, science and technology, and education, as well as investment, the trend is particularly clear in commercial and investment flows. Brazil’s bilateral trade with most of its Asian partners more than doubled between 2002 and 2012. Commercial flows between Brazil and East Asia, Southeast Asia, and Central Asia now total some $140 billion.¹ There was a significant surge in investments with certain bilateral partners, particularly China and Japan, as well as significant increases with India and the economies that belong to the Association of Southeast Asian Nations (ASEAN). This chapter examines these changing dynamics in Brazil’s cooperation with Asia, focusing on trade and investment. What are the main drivers for this enhanced cooperation, and what are the key challenges? How has the Brazilian government been reshaping its trade strategy in response to the changing global context, and what role does Asia play within this changing approach? The chapter explores some of these questions through an analysis of trade patterns, policy initiatives, and the broader context of Brazil’s global trade strategy. However, rather than explaining these trends merely in terms of economic interest, the chapter casts a wider net to consider some of the political and strategic considerations that help to propel (or, in some contexts, limit) Brazil-Asia trade and investment.

The recent policy and academic literature on Brazil-Asia trade tends to stress two points: The first is the dramatic increase in Brazil-China ties, primarily in commerce, over the past fifteen years; the second is the role of Asian demand for Brazil’s commodities, and the corresponding abundance of these resources, as driving Brazil-Asia relations. Although these
factors help explain the growth of trade flows, the analysis presented here suggests that a narrow focus on these two dimensions tends to oversimplify the scope, variety, and dynamism of Brazil’s relations with Asia. First, even before China’s economic takeoff, some Asian countries were already important commercial and investment partners for Brazil—especially Japan, which remains a solid and reliable partner for Brazil through economic booms and busts. Second, although China has since become the most important of Brazil’s partners in Asia, there has been a significant diversification of Brazil’s trade and cooperation partners across the region. This diversification encompasses not only Brazil’s historical partners, such as Japan and South Korea, but also relatively new ties, such as those with India and Indonesia, and even the small island countries of the Pacific. This branching out is also reflected in the number of strategic partnerships that Brazil has been forming in Asia since its landmark 1993 agreement with China. Finally, though Asian demand for natural resources is no doubt a core motivation for Asia’s growing relations with Brazil, it is far from the only significant factor. The recent patterns in Brazil-Asia trade are explained not by only economic factors but also by political considerations.

The resulting surge in trade and investment, among other cooperative ties, has added dynamism to the Brazilian economy, expanding the diversity of goods available to Brazilian consumers and offering new areas for knowledge exchange, including science and technology programs. Nevertheless, these ties have also generated new asymmetries, along with significant institutional and structural challenges. The trade balance consistently benefits the Asian partners far more than Brazil, with Asian manufactured goods being exchanged for a narrow basket of commodities. What is more, Brazil has proved unable to move beyond its status of raw inputs provider, and Brazilian products directly compete with Asian goods not only in Brazil but also in key third markets.

Despite the persistence of structural issues that contribute to Brazil’s low levels of competitiveness and innovation—including poor physical infrastructure and low-performing public education—attempted reforms have been diminished by piecemeal implementation or thwarted by interest groups, generating limited results. A coherent, longer-term economic cooperation strategy by Brazil in its relations with Asia will need to not only redress these structural problems domestically but also muster the political will to overcome the “addiction to commodities” that contributes to the growing asymmetries in its trade with Asia. Finally, the uneven growth of the Brazilian economy—0.9 percent GDP growth in 2012, followed by 2.3 percent in 2013, falling again in early 2014—raises the question of whether the Brazilian government will be able to successfully implement long-awaited policy changes to boost productivity and competitiveness, particularly given the rise in labor costs. This is particularly relevant because current projections for growth in Asia also foresee a continuing downturn.  

In addition, the emergence of new configurations of trade blocs—including transregional groupings such as the Pacific Alliance, the Trans-Pacific Partnership (TPP), and the Trans-Atlantic Trade Agreement—is pulling other South American states, along with their Asian partners, in other directions. Given that Brazil is faced with the proliferation of such arrangements even as the roles of the World Trade Organization (WTO) and MERCOSUR remain uncertain, the country’s commercial future will depend greatly on the strategy it develops to cope with rapidly shifting markets and to seize new opportunities while addressing the sources of competition that they may generate.

This chapter is divided into three sections. The first section provides brief background on Brazil’s economic profile and engagement with international trade, as well as with Asia more specifically. This background section also explains some of the key contextual changes reshaping Brazil’s trade relations during the past ten years, including the impact of the global economic crisis and the political impetus for renewed South-South cooperation. Next, the chapter analyzes key trends in the changing trade relationship between Brazil and Asia, both for the region as a whole and for Brazil’s key Asian trade partners: China, Japan, the ASEAN countries, South Korea, and India. The final section examines some of the recent developments that may make a significant impact on this trade relationship—among them, the implications of a sluggish MERCOSUR, the competition presented by the Pacific Alliance, and the implications of a United States–European Union trade deal. The conclusion outlines key challenges for Brazil-Asia trade relations given the ongoing economic slowdown and emerging transregional trade initiatives.
BRAZIL’S ECONOMIC PROFILE

Brazil is currently the world’s seventh-largest economy by nominal gross domestic product (GDP), totaling $2.477 trillion in 2011. This is a significant change in absolute and relative terms as compared with 1980, when Brazil was the planet’s sixteenth-largest economy. Brazil has a large (currently nearing 200 million) and rather young population, as well as a vast national territory that is rich in natural resources, including oil, iron ore, and hydroelectric power. During the past decade, the country has acquired a reputation as a global commodities powerhouse. Brazil has become the world’s largest net exporter of agricultural commodities, thanks to high levels of agricultural productivity, a sophisticated agricultural exports sector, and significant potential for further expansion. Total Brazilian exports grew by 326 percent between 2002 and 2011, leaping from $60.4 billion to $256 billion. During the same period, its imports grew 380 percent, rising from $47 billion in 2002 to $226 billion in 2011. Its total trade during this decade grew 350 percent, from $108 billion in 2002 to $482 billion in 2011. Its major exports were iron ores and concentrates (15 percent), oil and derivatives (8 percent), sugar (6 percent), soybeans and derivatives (5 percent), and poultry (3 percent). And its major imports were cars (6 percent), refined oil (5 percent), automobile parts (4 percent), electronic integrated circuits (3 percent), and packaged medicines (2 percent).

This surge in foreign trade has altered vast stretches of Brazil’s landscape, with export-oriented cultivation and minerals exploration taking place both along the coastline and within the country’s interior. It has also helped to finance efforts to alleviate poverty and mitigate social inequality through policies such as conditional cash transfer programs. The largest of these, Bolsa Família, benefits 13.8 million families comprising almost 50 million people—about a quarter of Brazil’s population. Between 2002 and 2012, the number of Brazilians living on less than 70 reais (approximately $30) a month fell from 8.8 percent to 3.6 percent of the population.

However, both Brazil’s GDP and its boom in trade have been subject to oscillations. After experiencing a decade-high of 7.5 percent GDP growth in 2010, its growth slumped to 1.0 percent a year in 2012. Moreover, Brazil’s total trade fell 3.4 percent compared with 2011, with exports decreasing 5.3 percent and imports shrinking 1.4 percent. In absolute terms, its total trade fell from $482.3 billion to $465.7 billion in 2012. Its trade surplus for 2012 was $19.4 billion—a reduction of 34.8 percent from the figure for 2011, $29.8 billion. Because Brazil’s exports are highly concentrated in mineral and agricultural products, its foreign trade is particularly susceptible to price fluctuations and changes in demand for those key commodities.

Despite the scale of its trade in absolute terms, Brazil remains a relatively closed economy, accounting for a mere 1 percent of total global trade. Recent World Bank data show that Brazil is the country that imports the least in the world as a proportion of its GDP. In 2011, its imports of goods and services accounted for no more than 13 percent of its GDP, which placed it dead last on the list of 179 countries surveyed (in comparison, China’s ratio of imports to GDP was 27 percent; India’s was 30 percent; and Argentina’s was 20 percent). Although Brazil’s rich stock of natural and energy resources helps to explain this disparity—as a net exporter of oil and possessor of abundant hydroelectric potential, Brazil does not need to import significant amounts of energy—the country has a long history of protectionism and import substitution. During the “Brazilian Miracle”—a term that refers primarily to a five-year period between 1969 and 1973, during the military regime—Brazil experienced double-digit growth (as well as higher income concentration and poverty rates). The government sought to foster industrialization by protecting Brazilian companies from foreign competition, which required it to borrow vast quantities to build the heavy infrastructure needed to support this industrialization drive. When the Organization of the Petroleum-Exporting Countries raised oil prices in 1979, Brazil—which at that time was still dependent on oil imports—became heavily indebted, and its fiscal problems were then compounded by the United States’ interest rate raise. With little access to foreign capital, Brazil experienced a long period of economic instability, high inflation, and indebtedness—especially to the International Monetary Fund, which demanded austerity measures and other structural adjustment policies—even as the country transitioned back to democratic rule in the 1980s.

Limited trade liberalization was implemented in Brazil during the 1990s, particularly during the administration of President Fernando Collor de
small component of its overall economy, accounting for about 20 percent of its GDP. This characteristic is relevant to Brazil-Asia relations not only because it means that policymakers’ attention is often focused on topics other than trade, but also because it represents a significant divergence from the Asian growth models based on export-led strategies and insertion into global value chains. For all the comparisons being drawn between Brazil’s developmental trajectory and Asian state-led growth models, Asian economies have been far more open to trade, and they are much more deeply integrated into regional production chains. In contrast—and in spite of the Brazilian Workers’ Party’s strong rhetoric about deepening ties with the rest of South America—Brazil remains largely isolated from its neighbors, with little de facto infrastructure and production integration. These differences are important in explaining not only past trends but also some of the key limitations of current Brazil-Asia trade and investment patterns.

BRAZIL’S TRADE WITH ASIA

Key Trends and Patterns

Despite the relative closed nature of the Brazil’s economy, commercial ties between Brazil and Asia have grown significantly in comparison with a decade ago. Among all the regions with which Brazil trades, Asia registered the greatest increase in commercial ties with Brazil between 2002 and 2011—a jump of 770 percent. In comparison, although Brazil’s trade with South America also grew during this period, it expanded by “only” 403 percent. This comparison reflects the growing relative importance of Asia to Brazil’s international trade.

Brazil’s low degree of economic openness helps to explain the somewhat limited importance of trade to the Brazilian economy even with the commodities export boom. Although Brazil has large and well-developed agricultural, mining, manufacturing, and service sectors, trade remains a rather

Mello, but this process was partial and uneven. Macroeconomic stability was achieved through the 1994 Real Plan, an effort led by the then–minister of finance, Fernando Henrique Cardoso. Despite this achievement, Brazil’s economy remained largely inward oriented. However, its exports did begin to grow significantly after the turn of the millennium, fueled particularly by Asian demand for iron ore, soy, and other commodities.

Strong lobbies by key industries have limited the Brazilian government’s willingness to further liberalize the economy. According to one Brazilian scholar, “The prevailing mind-set in the last 70 years—with a short interval in the mid-1990s—tells the government to pick winners and nurse them with a recipe of trade protection, tax breaks, and loads of subsidized credit.” In addition, external factors reinforce Brazil’s economic isolation. Brazil’s export diversification strategy has been limited in part by the maintenance of trade restrictions by many countries. Moreover, some of Brazil’s trade issues can only be negotiated through MERCOSUR. The initiative has become weakened in recent years, with members divided over whether the institution should remain focused on regional trade, ongoing controversies about the politicization of the group, and the creation of the Unión de Naciones Suramericanas (UNASUR; Union of South American Nations)—all of which have cast some doubt on the usefulness of MERCOSUR. Most important, some MERCOSUR members (notably, Argentina) have not been eager to open up trade, hampering negotiations on transregional agreements. Despite talks to negotiate free trade agreements with China and South Korea in the aftermath of visits by China’s President Hu Jintao and South Korea’s President Roh Moo-Hyun to MERCOSUR countries, discussions have advanced very little. India signed a Framework Agreement with MERCOSUR in June 2003 that led to the Agreement on Fixed Tariff Preferences in 2009, yet this preferential trade agreement only covers a limited list of products. India has recently expressed a desire to expand the agreement, broadening the products covered, but progress has been slow.

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implement their particular styles of state-led developmentalism, while other Asian economies experienced growth—not just China but also Indonesia, Thailand, and India. Although this growth coincided with Brazil's timid attempts to open up the economy in the 1990s, the major driver of the surge in trade was the Asian initiative to expand exports beyond Asia. The "rise" of these economies—rather than Brazilian initiative—thus set the stage for the boost in transregional trade that took place approximately a decade later. The pattern of goods traded was also established at that time: Brazil's exports to Asia consisted mostly of commodities, whereas imports, consisting primarily of manufactured goods such as electronics.

<table>
<thead>
<tr>
<th>Table 1. Brazilian Exports to East Asia</th>
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<tr>
<td>Importing Countries</td>
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<tr>
<td>China</td>
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<td>Japan</td>
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<tr>
<td>Republic of Korea</td>
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<tr>
<td>Indonesia</td>
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<td>Thailand</td>
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<td>Singapore</td>
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<td>Malaysia</td>
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<td>Australia</td>
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<td>Vietnam</td>
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<td>Philippines</td>
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<td>New Zealand</td>
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<td>Myanmar</td>
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<tr>
<td>Cambodia</td>
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<td>Mongolia</td>
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<td>Brunei</td>
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<tr>
<td>Laos</td>
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<td>Total</td>
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</table>

Prepared by MRE/DPR/DIC – Division of Commercial Information based on data from MDIC/SECEX/Aliceweb.
Countries listed in descending order of value in 2010.
Thailand, Singapore, and Malaysia. Brazilian exports to Indonesia, for instance, increased from $256.6 million in 2002 to almost $1.7 billion in 2010 (during the same period, imports grew from $318.1 million to more than $1.5 billion). Other, smaller countries saw their exports to Brazil expand rapidly during this period. Vietnam, whose economy is well integrated with that of China, experienced a dramatic growth in its exports to Brazil, from $15.3 million in 2002 to $473.6 million in 2010. As noted by Brazilian diplomat and economist José B. S. Sarquis, these trade relations are characterized by several overarching trends: a relative and dramatic decline of manufactures in Brazilian exports to Asia, from about 40 percent at the beginning of the 1990s to about 10 percent in recent years; stagnated or low levels of inter-industry trade; and the replication of those two trends in Brazil’s trade relations with the main Asian economies. 17

China

In Brazil’s trade relations with China, the patterns noted by Sarquis are very evident. There is no doubt that Brazil–China trade accounts for much of the increase in Brazil’s commerce with Asia, both before and after the onset of the global financial and economic crisis in 2008. This is particularly evident after China’s entry into the WTO, which allowed it to vastly expand its trade ties. China’s dramatic growth, having outgrown a dependence on national resources, required inputs from abroad to continue the expansion of its manufacturing as well as the changing lifestyle of the Chinese population, particularly its fast-growing middle class. Whereas China’s top export to Brazil had once been crude oil, starting in the 1990s it had been replaced by iron ore.

In 2009, China surpassed Brazil’s historic trading partners like the United States and Argentina to become Brazil’s top trade partner, as well as its biggest market for exports. That year, Brazil–China trade reached $36.1 billion, whereas Brazil–United States trade totaled $35.6 billion. Trade with China opened up a new front of trade expansion for Brazil, and the trend continued even with the 2008 onset of the global crisis. From 2000 to 2010, Brazilian exports to China increased more than forty times, from $1.1 billion to $44.3 billion. The initial shock of the global crisis affected

Table 2. Brazilian Imports from East Asia

<table>
<thead>
<tr>
<th>Importing Countries</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010 (Jan-May)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1.554.0</td>
<td>2.147.8</td>
<td>3.710.5</td>
<td>5.354.5</td>
<td>7.996.4</td>
<td>12.621.3</td>
<td>20.044.5</td>
<td>15.931.1</td>
<td>25.954.6</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>1.067.7</td>
<td>1.078.8</td>
<td>1.079.5</td>
<td>1.124.9</td>
<td>2.037.0</td>
<td>3.106.3</td>
<td>3.391.4</td>
<td>5.441.3</td>
<td>8.481.8</td>
</tr>
<tr>
<td>Japan</td>
<td>2.847.5</td>
<td>2.503.0</td>
<td>2.668.7</td>
<td>3.035.0</td>
<td>3.833.6</td>
<td>4.909.2</td>
<td>6.807.0</td>
<td>8.687.9</td>
<td>7.978.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>18.71</td>
<td>26.01</td>
<td>44.01</td>
<td>82.67</td>
<td>1.270.6</td>
<td>1.005.2</td>
<td>1.200.1</td>
<td>1.200.0</td>
<td>1.200.0</td>
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<td>Malaysia</td>
<td>35.54</td>
<td>44.40</td>
<td>51.55</td>
<td>63.70</td>
<td>90.12</td>
<td>12.71</td>
<td>1.200.0</td>
<td>1.200.0</td>
<td>1.200.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>71.81</td>
<td>89.34</td>
<td>96.78</td>
<td>1.128.3</td>
<td>1.200.0</td>
<td>1.200.0</td>
<td>1.200.0</td>
<td>1.200.0</td>
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<td>Australia</td>
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<td>29.04</td>
<td>9.74</td>
<td>1.79</td>
<td>1.200.0</td>
<td>1.200.0</td>
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<td>Singapore</td>
<td>15.19</td>
<td>24.15</td>
<td>29.90</td>
<td>28.32</td>
<td>34.31</td>
<td>35.60</td>
<td>49.10</td>
<td>294.4</td>
<td>330.0</td>
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<tr>
<td>Vietnam</td>
<td>18.5</td>
<td>22.1</td>
<td>31.9</td>
<td>47.2</td>
<td>75.6</td>
<td>10.7</td>
<td>20.01</td>
<td>286.6</td>
<td>475.6</td>
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<td>Philippines</td>
<td>34.1</td>
<td>28.7</td>
<td>34.11</td>
<td>56.0</td>
<td>49.10</td>
<td>294.4</td>
<td>330.0</td>
<td>1.200.0</td>
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<td>New Zealand</td>
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<td>Cambodia</td>
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<td>Myanmar</td>
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<td>Brunei</td>
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<td>Sri Lanka</td>
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<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Mongolia</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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</tr>
<tr>
<td>Total</td>
<td>6.591.1</td>
<td>77.64</td>
<td>10.70</td>
<td>14.05</td>
<td>19.61</td>
<td>31.68</td>
<td>40.18</td>
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<td>40.18</td>
</tr>
</tbody>
</table>

Prepared by MRE/DPR/DIC – Division of Commercial Information based on data from MDIC/SECEX/Aliceweb.

Source: Ministério das Relações Exteriores, Estatísticas comerciais Ásia do Leste x América Latina FOCALAL, “June 2011.”

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Brazil-China trade less than Brazil’s overall global trade (a reduction of only 1 percent, versus 24.3 percent). In fact, Brazilian exports to China grew 23.9 percent that year, whereas its global exports fell by 22.7 percent. In 2012, however, when both China and Brazil experienced economic slowdowns, the bilateral trade flows fell 2 percent. Brazil’s main exports to China were iron ore ($15 million), soybeans and derivatives ($12 million), oil and derivatives ($4.8 million), wood pulp and paper ($1.3 million), and semi-finished steel and iron products ($1 million). There was also a substantial increase in Chinese investments in Brazil, with China becoming one of the main sources of investment in Brazil. Conversely, Brazilian investments in China have been far smaller; there are few examples of major Brazilian companies making some headway, such as Embraer’s factory in Harbin, which opened in 2003.

Bilateral institutional mechanisms to support this growing link were also strengthened. A High-Level Sino-Brazilian Commission for Coordination and Cooperation (COSBAN) was created in 2006, and its eleven subgroups, each devoted to a specific sector of cooperation, have been meeting regularly on the bilateral cooperation relationship (though the meetings have not been as regular as planned). These efforts were strengthened through President Hu Jintao’s visit to Brazil in April 2010, which led to the Brazil-China Joint Action Plan for 2010–14. Subsequent COSBAN meetings were held in Brasilia in 2012 and in Guangzhou in 2013. The most recent meeting took place after Brazil’s relations with China were upgraded from Strategic Partnership to Global Strategic Partnership, and it was the first edition after China’s leadership transition, with the Chinese government under the helm of Xi Jinping. The two parties agreed to diversify commercial and investment ties in the direction of agribusiness, higher-value-added products, and energy and infrastructure. China has already become involved in Brazil’s pre-salt oil exploration. In October 2013, two Chinese state-owned oil companies—China National Petroleum Corporation and China National Offshore Oil Corporation—joined Brazil’s Petrobras, Royal Dutch Shell, and France’s Total in a consortium that won the auction bid for Brazil’s Libra deep water oilfield.

These efforts take place against the backdrop of closer political alignment between the two countries, including through loose coalitions such as the Group of Twenty (G-20) and the BRICS grouping (Brazil, Russia, India, China, and South Africa; this partnership was launched in 2006 as BRIC and broadened in 2011 to include South Africa). The private sector has also been active, sometimes in tandem with high-level bilateral and multilateral meetings, with business chambers and forums helping to drum up interest and support for investment. Moreover, growing ties between Brazil and China have a demographic reflection; the Chinese community in Brazil has been expanding rapidly with the recent influx of workers and immigrants, swelling the Chinese diaspora in Brazil to about 150,000 individuals.

Economic relations between Brazil and China, however, have been marked by strong asymmetries, particularly in terms of the composition of trade and the largely unidirectional flows of investment—from China to Brazil. Although some Brazilian firms and associations have explored emerging niches within the Chinese market to boost exports and investments, such as wines, barriers to entry continue to be high. Finally, there is growing competition in third markets, with Chinese exports displacing Brazilian products in the United States, Europe, and Latin America and also in Brazil.

Japan

Despite China’s growing leadership vis-à-vis Brazil-Asia trade, Brazil’s interdependence with Asia has been historically anchored on its relations with Japan. Brazil has the largest group of Japanese and Japanese-descended persons living outside Japan, with about 1.5 million citizens—representing more than 90 percent of Latin America’s population of Japanese heritage. The Japanese-Brazilian communities have played a crucial role in consolidating trade and investment ties, especially since the 1970s, by helping to spur interest by governments, state-owned enterprises, and private-sector companies. However, the bulk of Japanese exports go to other Asian states (58 percent in 2012), with Brazil receiving only 0.8 percent of Japan’s exports. In contrast, Brazil was the origin of 12.02 percent of Japanese imports in 2012. Although the Japanese economy has been adversely affected by the recent global crisis, even after its onset Brazil-Japan trade continued to grow, rising from $12.92 billion in 2008 to $15.69 billion in 2012. In 2012,
a full 73.2 percent of Brazil’s exports to Japan consisted of commodities (especially iron ore), whereas the overwhelming majority of its imports from Japan consists of manufactured products (99.4 percent in 2012). Brazil’s trade ties with Japan have experienced oscillations. One earlier watershed was the 1997 crisis, which tested the strength of the Japanese economy just as China was starting to take off, and propelled Japan to diversify its trade ties, especially outside Asia, through preferential arrangements. Brazil’s imports of Japanese goods grew rapidly, as did its exports of iron ore to Japan. More recently, although Japan has been seriously affected by the recent global crisis, it remains an important trade and cooperation partner for Brazil.

The Brazilian government views Japan as a solid, dependable partner that has stuck with Brazil through both the peaks and troughs of economic cycles. More than 400 Japanese firms invest in Brazil, and there are efforts underway to expand these flows. In May 2013, Brazil and Japan signed an agreement to diversify their bilateral trade and investment ties and to deepen industrial cooperation. Business chambers, including the Japanese entity Keidanren and the Brazil-Japan Economic Cooperation Committee, have also stepped up efforts to deepen economic ties, particularly in two strategic sectors: infrastructure, especially that related to transportation and logistics; and energy, especially given Japan’s ongoing efforts to substitute other sources of energy for nuclear power.

Moreover, there has been substantial cooperation between Brazil and Japan in areas such as shipbuilding. In terms of development assistance, the Brazilian Cooperation Agency (Agência Brasileira de Cooperação, ABC) and the Japan International Cooperation Agency (JICA) have collaborated in innovative triangular cooperation programs, including agricultural projects in Africa; the Pro-Savana agricultural corridor project in Mozambique is perhaps the most visible of these efforts. The two countries are also trying to identify possibilities for joint partnership in third markets in the energy sector. Petrobras, for instance, has invested in Japan by acquiring a refinery in Okinawa. In a recent courtesy telephone call with Japanese chief cabinet secretary Osamu Fujimura, Brazil’s minister of development, industry and trade, Fernando Pimentel, stressed Brazil’s view of Japan as a strategic partner in Asia, particularly with respect to the cultural and historic ties between the two countries. Hoping to boost science and engineering cooperation, Japan recently agreed to receive Brazilian undergraduate, graduate, and postdoctoral students in related areas to study in Japan starting in 2013.

ASEAN

Brazilian trade with the ASEAN countries (South Korea, Indonesia, Thailand, Malaysia, Singapore, the Philippines, Vietnam, Burma, Brunei, Cambodia, and Laos) grew rapidly between 2003 and 2011, from $3.15 billion to $17.744 billion. In 2009, Brazil’s trade with the ASEAN countries surpassed its trade with Japan. From 2002 to 2009, the relative weight of ASEAN in Brazil’s worldwide trade oscillated between 2.59 percent and 3.57 percent. Brazil-ASEAN trade grew 236.8 percent—much faster than Brazil’s global trade (which grew 160.6 percent during the same period). Brazil’s exports to the ASEAN countries grew 234.8 percent, and imports increased 239.1 percent. At the same time, there was an attempt to deepen ties between ASEAN and MERCOSUR, although discussions have yielded few concrete results thus far.

Among ASEAN members, the major destinations for Brazilian exports are Singapore, Thailand, Malaysia, and Indonesia; the same countries are the top ASEAN exporters to Brazil. However, Brazil still represents a small market for ASEAN exports, making up only 0.7 percent of the total for 2011. ASEAN presents a special opportunity for enhancing Brazil-Asia commercial ties because the bloc has one of the highest intra-industrial trade levels in the world, and because the TPP under negotiation would include ASEAN members such as Malaysia, Singapore, and Vietnam.

Other Asian Partnerships

Among other Asian countries, South Korea in particular has emerged as a promising commercial and investment partner for Brazil, with total trade surging from $8.547 billion in 2008 to $13.599 billion in 2012. As with most of its Asian partners, Brazil exports minerals (especially iron ore) and agricultural commodities, and imports manufactured products from South
Indonesia is the site of Brazil’s single largest investment in Asia, with Vale operating open-pit nickel mines and a processing plant on the island of Sulawesi. This investment helped drive the signing of a Strategic Partnership with Indonesia in 2008. The Plan of Action that followed set in motion a Working Group on Trade and Investment. These initiatives show that Brazil’s trade with Asia is far from coterminous with its commercial relations with China. They also show that Asia has come to occupy an increasingly important role vis-à-vis Brazil’s foreign trade, not only relative to the United States and Europe but also in comparison with MERCOSUR. In many cases, however, these growing ties have resulted more in proactive commercial diversification strategies undertaken by Asian countries than in Brazilian overtures.

Korea, especially electrical machines and automobiles. The Brazilian government has expressed interest in enhancing cooperation in biotechnology, nanotechnology, and nuclear energy; in 2013, South Korean businesses explored new ways to invest in Brazil, but they also complained about the lack of information and of incentives to attract foreign capital.

These Brazilian–South Korean economic ties, however, have a deeper history. Although South Korea was deeply affected by the 1997 Asian crisis, like Japan it responded with concerted efforts to expand its trade relationships within and beyond Asia. This strategy resulted in the growth of its trade and investment relations with Brazil. More recently, South Korea’s growing concern with energy security has led it to boost relations with South American countries, especially Brazil. South Korean investments in Brazil have grown substantially, but there is no Brazilian investment in South Korea, despite potential opportunities in renewable energy and software.

In the case of India, trade with Brazil has also grown dramatically, from $1 billion in 2003 to $10.62 billion in 2012. This surge has been facilitated by deepening ties at the political level, both bilaterally and multilaterally. Prime Minister Mahoman Singh’s visit to Brazil in September 2006 launched a Strategic Partnership between the two countries, which helped to boost investment relations. In an effort to further boost these ties and redress the imbalance in its economic relations with India, Brazil has created monitoring groups for trade with India. At the same time, India is taking steps to boost its trade with MERCOSUR by expanding the Agreement on Fixed Tariff Preferences to cover a wider range of products. Brazil’s and India’s common participation in the G-20, the India–Brazil–South Africa Dialogue Forum, and the BRICS also suggests potential for further cooperation, despite the two countries’ frequently divergent positions regarding agricultural trade.

Finally, Brazil’s ties with Asia have undergone diversification beyond the key economies, to include many of the smaller countries, even the island nations of the Pacific. Brazil has begun to import textiles from Bangladesh and Pakistan, for instance. The diversification of Brazil’s export market in Asia is seen in the case of Embraer, which has sold airplanes not only to China and Japan but also to India, Australia, Pakistan, and Sri Lanka.

Figure 1. Participation of Manufactured Products in Brazilian Exports (percent)

Source: Sarquis 2011, p. 181.
Figure 2. Destination of Brazilian Exports by Region, 2011


Figure 3. Origins of Brazilian Imports by Region, 2011


Figure 4. Brazil’s Top Ten Trade Partners in 2012 (billions of dollars)


Figure 5. Origin of Main Brazilian Imports in 2012 (billions of dollars)

Brazil became self-sufficient in crude oil, which was formally announced by the government in 2006). This occurred partly because of China's strategic importance during the Cold War; in addition to establishing itself as a nuclear power, China also succeeded in replacing Taiwan within the United Nations, including on the Security Council. In addition, China, like Brazil, forged foreign policies that were more autonomous from the great powers. After Deng Xiaoping launched China’s economic reforms, triggering high economic growth in the 1990s, Brazil made a concerted effort to further deepen its ties with China. A Strategic Partnership was signed in 1993, and thereafter China’s growing demand for raw materials helped boost the Brazilian economy through imports of iron ore, soybeans and derivatives, and other commodities. Brazil, in the meantime, imported Chinese manufactured goods but encountered difficulties in entering Chinese markets. China’s entry into the WTO in December 2001 took place after the Communist Party’s leadership made significant structural changes to the Chinese economy, and it proved a turning point in Brazil’s trade relations with China.

Under the two Workers’ Party administrations (under President Luiz Inácio Lula da Silva, 2003–11; and Dilma Rousseff, 2011–present), the Brazilian government has reinvigorated its bid to lessen political and economic dependence on the advanced economies by making South-South cooperation one of Brazil’s foreign policy priorities. Within the economic dimension, diversifying trade and investment partnerships with Latin America, Africa, and Asia became a guiding principle of Brazilian economic foreign policy during this period. The deepening of such ties represented not only a way to continue forging a more autonomous development trajectory but also a chance to broaden support for Brazilian positions in multilateral discussions regarding commerce, security, and global governance reform. The project of the Workers’ Party to transform Brazil into a global player has been reflected in the opening of dozens of new diplomatic representations abroad. Although most of these are located in Africa, they also include several in Asia. New embassies have been established in Sri Lanka, Bangladesh, Kazakhstan, Nepal, Afghanistan, North Korea, and Myanmar, while Bhutan, the Marshall Islands, Micronesia, and Kiribati have gained diplomatic representation.

Emerging Configurations and Institutional Constraints

The surge in trade and investments between Brazil and its Asian partners cannot be explained by comparative advantage alone; there are also institutional factors that both enable and constrain these flows. From the Brazilian side, the deepening links reflect a broader trend of commercial partner diversification by the Brazilian government, which for a long time dealt with only a handful of partners, primarily the United States and the Western European countries (and, after the formation of MERCOSUR, some South American partners, especially Argentina). Since the 1960s, the Brazilian government has sought a greater variety of trade partners, as well as a wider geographic distribution of these partnerships, in addition to broadening and diversifying Brazilian exports. This drive has intensified under the recent Workers’ Party administrations (starting in 2003), in part due to the party’s emphasis on South-South cooperation.

In the case of Asia, despite the geographic distances involved, cultural and historical ties have helped to deepen trade and investment ties. Although Brazil has no Pacific coastline, it has significant historical and demographic relations with Asia. Brazil’s trade with China dates back to the seventeenth century, when Portuguese merchant ships traveling between Macao and Lisbon stopped at Brazilian ports. Brazil’s diplomatic ties to Japan were first established in 1895, and Japanese immigration to Brazil (which started in 1908) helped to establish a significant diaspora community in Brazil, especially in the country’s southeastern and southern regions (smaller numbers of immigrants came from South Korea and China). Diplomatic relations between Brazil and the Asian countries often stress these historical links—for instance, by highlighting the shared cultural heritage and transnational communities as bases for expanding economic and other types of cooperation.

Political factors have also helped shape these trade relations over time. In 1974, Brazil cut off diplomatic relations with Taiwan (although trade relations were maintained) so that it could intensify its trade ties with the People’s Republic of China. Brazil soon became China’s main trading partner within Latin America, exporting commodities (mostly iron ore, primary materials, foodstuffs, and some consumer products) while it imported manufactured goods such as machines and oil (the latter, only until...
constrained MERCOSUR’s effectiveness, thus hampering the formulation of a more proactive transregional trade strategy. At the same time, while the Pacific Alliance countries have traded with Asia and have become a gateway to Latin America, Brazil has steadfastly prioritized MERCOSUR and the WTO. With respect to MERCOSUR, in late 2013 Brazil began pushing for MERCOSUR to sign a trade agreement with the European Union, focusing on the industrial sector, in part as a way to counterbalance the potential competition arising from the TPP being negotiated by the Latin American, North American, and Asian countries, and the Trans-Atlantic Trade and Investment Partnership (TTIP) being discussed by the United States and the European Union. However, resistance by Argentina poses political challenges to such a deal. In the meantime, the election of the Brazilian diplomat Roberto Azevêdo to become the director-general the WTO has strengthened Brazil’s commitment to overcoming paralysis in the Doha Round of multilateral trade negotiations; the WTO’s December 2013 meeting in Bali, which ended with an agreement to resume negotiations, was hailed by the Brazilian government as a significant achievement and helped to underscore Brazil’s longtime position that the WTO is the most legitimate body to regulate global trade. This focus means that the Brazilian government will continue putting high expectations on the WTO to boost the country’s trade relations, including those with Asia.

The Global Economic Crisis and Brazil-Asia Trade

How resilient are Brazil’s commercial ties to Asia? The onset of the global financial and economic crisis in 2008 did not weaken these ties—on the contrary, trade between Brazil and its Asian partners continued to grow, in some cases accelerating. Total Brazilian exports to Asia surged from $22.14 billion in 2007, before the start of the crisis, to $48.9 billion in 2010. Imports from Asia also showed a robust reaction to the crisis, growing from $26.3 billion in 2007 to $49.2 billion in 2010 (see tables 1 and 2 above). This resilience can be partly explained by the fact that, at least in its initial wave, the global crisis affected primarily advanced economies. Brazil’s top Northern trade partners (the United States and Europe) lost space within global trade, and their commercial relations with Brazil were
negatively affected. Meanwhile, the key emerging economies, which initially were hit by the decline in demand and shrinking capital, were able to recover. Not only did they have low exposure to U.S. subprime mortgage loans and securities, they had sounder macroeconomic policy frameworks in place (compared with the experiences of the 1990s). Brazil experienced two quarters of recession, as global demand for its commodities shrank and external credit dwindled. However, Brazil was among the first emerging markets to begin recovering—by 2010, its consumer and investor confidence had revived, helping to propel its GDP to the decade’s peak of 7.5 percent. China was also able to weather the crisis, thanks in part to a series of economic stimulus packages; despite a relative slowdown, the country’s GDP grew 7.8 percent in 2012, a slowdown from its double-digit growth rates of previous years, but still a significant rate of economic expansion. India was also able to rebound from the crisis, whereas Japan has experienced three periods of recession since 2008.

South-South cooperation thus became a way to compensate for the eroding trade and credit from the North, while helping to cushion emerging and smaller economies against the ongoing crisis. Brazil’s trade with Asia has allowed it to reduce its commercial exposure to the recessions and slowdowns of other partners, such as the United States and the European Union. The crisis also exacerbated the loss of confidence in Western models of development that had taken root with the debt crisis and the Washington Consensus initiatives of the 1980s and 1990s. Among those Brazilians in academic and policy circles, many looked increasingly to Asian state-led models of development (though with less focus on trade liberalization) as offering alternative ideas for socioeconomic development.

The crisis also gave impetus to multilateral efforts through the loose coalitions that have proliferated during the past decade. Brazil, China, and India interact not only bilaterally but also via the G-20 and the BRICS. These groupings’ initial goals included not only the deepening of trade ties among emerging economies and developing countries in general but also advancing reform of the global governance system—including the UN and the Bretton Woods institutions. With the global crisis under way, finding effective means to maintain growth and implement development in more sustainable, less vulnerable ways also became key concerns for these emerging economies.

CONCLUSION

Although the public narratives about Brazil’s booming trade with Asia have been dominated by the relative novelty of China’s surging demand for Brazilian commodities, the trends examined within this chapter suggest a more complex picture. The diversification of ties since the turn of the millennium has not only built on Brazil’s historical ties to Asia, especially Japan; it has also been driven by the Asian countries’ drive to diversify their commercial ties, including with respect to oil and the other commodities exported by Brazil. The extent to which Brazil has formulated a coherent, proactive strategy to intensify and maintain these ties is less clear. Moreover, though these flows have brought substantial benefits to the Brazilian economy, helping to drive its growth in recent years (and, indirectly, helping to finance the poverty reduction programs implemented by the Workers’ Party), they have also posed new challenges for Brazil’s trade and investment strategy. Some analysts have stressed the fact that, somewhat ironically, Brazil thus has exchanged one source of dependence for another—and that it must now deepen its ties with the advanced economies in order to reduce what they view as its excessive dependence upon Asia, especially China.

In addition, the Brazilian government will not be able to address the growing asymmetries vis-à-vis China and its other Asian partners without confronting its structural problems at home. These hurdles include an onerous and complex tax system, inadequate infrastructure, and other factors contributing to the so-called Custo Brasil—that is, the elevated cost of doing business in and with Brazil. The country’s other key challenges include the slow pace of reforms, especially those meant to attract investments to improve infrastructure—as in the recent case of the ports incentives package, whose effectiveness in reducing barriers to investment in the country’s maritime and fluvial ports has been watered down by concessions to existing interest groups. There is also a persistent need to address basic shortcomings in health care and education. To begin to deal with these issues, the government has hired foreign doctors—mostly Cubans—to address the scarcity of professionals in Brazil’s remotest and poorest areas, and a presidential decree has allocated pre-salt oil royalties to improving public education. However, without deeper structural transformations and
more responsible fiscal management, Brazil will not be able to improve its productivity and competitiveness in global markets.

One overarching concern—common to Brazil and its Asian partners—is the possibility of a sustained economic slowdown in both regions. In 2012 and 2013, Brazil experienced substantially lower growth rates than in previous years during the decade, with annual GDP growth rates dropping, and in 2013 Brazil’s ability to attract foreign direct investment also decreased. Meanwhile, projections for most of the Asian economies have also ranged from tepid to pessimistic, and political factors such as the recent change in the Chinese leadership—along with Xi Jinping’s plans to restructure the Chinese economy—and ongoing tensions between Beijing and Tokyo have fueled greater uncertainty regarding Asia. If the current slowdown turns into a prolonged slump, Brazil will need to rethink not only its approach to economic growth but also its trade and investment strategy.

Brazil also needs to forge a more coherent path in trade policy because the playing field is changing rapidly. One of the last major trade-related decisions that Brazil made was to reject the Free Trade Area of the Americas—out of fear that an agreement that included the United States would prove a destructive force for its own industry. As a result, Brazil bet heavily on the WTO and the Doha Round of multilateral trade negotiations, as well as on the political coherence and economic potential of MERCOSUR. Although the Bali agreement may breathe new life into the Doha Round, ongoing discussions about new transregional configurations such as the TPP and TTIP suggest that the structure of global markets may undergo deep changes during the next decade.

There is already some pressure from industry groups for the Brazilian government to devise a clearer trade strategy. The National Confederation of Industry recently argued before the government that Brazil needs to sign more trade agreements, and that Brazil is being “left behind” as its key competitors (and cooperation partners) expand their trade ties. Other industry groups are pressuring the government to negotiate agreements outside the MERCOSUR framework. Within the government, some diplomats believe that the potential deal with the EU is the only viable concrete strategy at the moment, because Brazil’s prioritization of its South American neighbors will keep MERCOSUR on the country’s foreign policy agenda for the foreseeable future, especially if the Workers’ Party wins the October 2014 presidential elections.

NOTES

5. Instituto de Pesquisa Econômica Aplicada, Programa Bolsa Familia: Uma década de inclusão e cidadania (Brasilia: Instituto de Pesquisa Econômica Aplicada, 2013).
6. The preliminary figures put 2012 GDP growth at 0.9 percent. On December 3, 2013, Brazil’s national statistics institute (Instituto Brasileiro de Geografia e Estatística) announced that it had revised the 2012 figure up to 1 percent. Instituto Brasileiro de Geografia e Estatística, “Revisão das taxas de crescimento,” Brasilia, 2013.
13. Brazil’s Ministry of Development, Industry, and Trade defines Asia as encompassing twenty-eight markets: Afghanistan, Bangladesh, Brunei, Bhutan, Cambodia, China, Singapore, China, South Korea, North Korea, the Philippines, Hong Kong, India, Indonesia, Japan, Laos, the Labuan Islands, Macau, Malaysia, the Maldives, Myanmar, Mongolia, Nepal, Pakistan, Sri Lanka, Thailand, Taiwan, East Timor, and Vietnam.
14. MRE, “Comércio exterior brasileiro 2012 (março),”