



Brazil's Trade with Asia: Key Drivers and Challenges Ahead

Adriana Erthal Abdenur

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I. Introduction

Over the past decade, Brazil's cooperation with Asia has boomed. Although these relations also encompass cooperation areas such as development, science and technology, and education, as well as investment, the trend is particularly clear in commercial flows: Brazil's bilateral trade with most of its Asian partners more than doubled between 2002 and 2012. By 2011, trade between Brazil and Asia (with the exception of Middle Eastern countries) totaled some US\$140 billion (MRE 2012). This paper examines these changing dynamics in Brazil's cooperation with Asia, focusing on trade. What are the main drivers behind this enhanced cooperation, as well as the key challenges? How have broader structural changes in global trade been shaping Brazil's trade strategy, and what role does Asia play within this changing approach? How, and to what extent, has Brazil-- both state and non-state actors-- been proactively responding to and preparing for the emerging challenges? This paper explores some of these questions through analysis of trade patterns, policy initiatives, and the broader context of Brazil's global trade strategy. Rather than explaining these trends merely in terms of economic interest, I cast a wider

net and take into consideration some of the political and strategic considerations that help to propel (and, in some contexts, brake) Brazil-Asia trade.

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. While these factors are important, even central to explaining 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, Asia was already an important commercial and investment partner for Brazil, especially Japan, which remains a solid and reliable partner for Brazil through economic booms and busts. Secondly, 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 in the region. This diversification effort encompasses not only 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 is also reflected in the number of Strategic Partnerships that Brazil has been signing in Asia, aside from its landmark agreement with China, dating back to 1993. Finally, while Asian demand for natural resources is no doubt a core motivation for Asia's approximation with Brazil, it is far from the only significant factor. The recent patterns in Brazil-Asia trade are explained not only economic factors, but also by institutional factors that constrain and enable these relations, including economic multilateralism.

The resulting surge in trade and other cooperation ties has added to the dynamism of Brazil's economy, expanded the diversity of goods available to Brazilian consumers, and (beyond the domain of trade) offered new areas for knowledge exchange, including science and technology programs. On the other hand, there are new asymmetries to deal with, as well as significant institutional and structural challenges. The trade balance consistently benefits the Asian partners far more than Brazil, with Asian manufactured goods being traded for a narrow basket of natural resources. What's more, Brazil has proven unable to move beyond its status of raw inputs provider, and its own exports directly compete with Asian goods not only in Brazil, but also in

key third markets. Despite the persistence of structural issues that contribute to low competitiveness and innovation, including poor physical infrastructure and low-performing public education, attempted reforms so far have been half-hearted or piecemeal, with limited results. A coherent longer-term cooperation strategy by Brazil in its relations with Asia will entail not only redressing these structural problems domestically, but also mustering the political will to overcome the "addiction to commodities" that contributes to the growing asymmetries in its trade with Asia. Finally, the disappointing growth of the Brazilian economy in 2012 and predictions of continuing low growth for 2013 raise the question of whether the Brazilian government will successfully implement long-awaited policy changes to boost productivity and competitiveness. This is particularly relevant because current projections for growth in Asia also foresee a continuing downturn (World Bank 2013).

The paper is structured in the following manner. The first section provides a 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 over the past ten years, including the impact of the global economic crisis and the political impetus for renewed South-South cooperation. Next, the paper analyzes key trends in the changing trade relationship between Brazil and Asia, both for the region as a whole and for key trade partners: China, Japan, ASEAN countries, South Korea, and India. The final part of the paper examines some of the recent developments that may significantly impact this trade relationship-- among them, the implications of a sluggish Mercosur, the competition presented by the Pacific Alliance, and the implications of a US-European Union trade deal. The conclusion outlines key challenges for Brazil-Asia trade relations given the ongoing economic slowdown and emerging trans-regional trade initiatives.

II. Background

a. *Brazil as a Commodities Powerhouse (and Closed Economy)*

Brazil is currently the world's seventh economy by nominal GDP, totaling some US\$ 2.477 trillion in 2011ⁱ. This is a significant change in absolute and relative terms as compared with 1980, when Brazil was the planet's 16th economy. Brazil has a large population (currently nearing 200 million) and a vast national territory that is rich in natural resources, from iron ore and oil to agricultural commodities and hydroelectric power. Over the past decade, the country has acquired a reputation as a global commodities powerhouse. The country has become the world's largest net exporter of agricultural commodities, with high levels of agricultural productivity, a sophisticated agricultural exports sector, and significant potential for further expansion. Total Brazilian exports grew by 326% between 2002 and 2011, leaping from US\$60.4 billion to US\$256 billion. During the same period, its imports grew 380% between 2002 and 2011, going from US \$ 47 billion to US \$ 226 billion. Total trade during this decade grew 350%, from US\$ 108 billion in 2002 to US \$ 482 billion in 2011. The trade balance grew 130% between 2002 and 2011, with Brazil's surplus going from US \$13.2 in 2002 to US \$ 30 billion in 2011ⁱⁱ. 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.

This trend has been subject to oscillations, even during this past decade. In 2012, when Brazil's GDP slumped to 0.9% a year, there was a 3.4% reduction in Brazil's total trade compared to 2011, with exports falling 5.3% and imports 1.4%. In absolute terms, total trade fell from \$482.3 billion to US\$ 465.7 billion in 2012. The trade surplus for 2012 was US\$ 19.4 billion—a reduction of 34.8% in relation to the figure for 2011: US\$29.8 billion. Major exports were: iron ores and concentrates (15%), oil and derivatives (8%), sugar (6%), soybeans (5%) and poultry (3%). Major imports were cars (6%), refined oil (5%), automobile parts (4%), electronic integrated circuits (3%), and packaged medicines (2%).

Despite the scale of its trade—particularly its agricultural exports-- in absolute terms, Brazil remains a relatively closed economy, accounting for a mere 1% of total global trade. Recent World Bank data shows that Brazil is the country that imports least in the world as a proportion of GDP. In 2011, Brazil's imports of goods and services accounted to no more than 13% of its GDP, which placed Brazil dead last in a list of 179 countries surveyed (in comparison, China's

imports-to-GDP ratio was 27%; India's was 30%; and Argentina's was 20%). While 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 to 1973, under the military regime-- Brazil experienced double-digit growth (although, concurrently, higher income concentration and increase in poverty). 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 OPEC raised oil prices in 1979, Brazil – back then, 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, indebtedness (especially to the IMF, which demanded austerity measures and other structural adjustment policies), and high inflation rates, even as it transitioned to democratic rule in the 1980s.

Limited trade liberalization was implemented during the 1990s, particularly during the administration of President Fernando Collor de Mello, but this process was partial and uneven (Abreu 1997, Guimarães 1995). Macroeconomic stability was achieved through the *Real Plan* of 1994, an effort led by Minister of Finance Fernando Henrique Cardoso, yet Brazil's economy remained largely inward-oriented. Its exports began to grow significantly after the turn of the millennium, fuelled particularly by Asian demand for iron ore, soy, and other commodities.

Strong lobbies by key industries help to limit the government's willingness to further liberalize the economy (Marzagão 2008). As Pio (2012) has put it, "...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, there are external factors that reinforce Brazil's closedness. 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 the Mercosur trading bloc. The bloc 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 UNASUR casting doubt on the usefulness of Mercosur. Most importantly, some Mercosur members (notably, Argentina) are not eager to open up trade, hampering negotiations of trans-regional agreements. Despite talks to negotiate free trade agreements with China and South Korea in the aftermath of Hu Jintao and Roh Moo-Hyun to Mercosur countries, these talks have advanced very little (Barbieri and Pedrozo 2009). India signed a Framework Agreement with MERCOSUR in June 2003 that led to the Agreement on Fixed Tariff Preferences (APTF) in 2009. However, the agreement covers a limited list of products (there are ongoing efforts to expand the list of products covered)ⁱⁱⁱ.

The Brazilian economy's low degree of openness helps to explain the somewhat low importance of trade to the Brazilian economy even now. Brazil has large and well-developed agricultural, mining, manufacturing, and service sectors. The economy has grown substantially (if unevenly) over the past decade: GDP reached 7.5% in 2010, though recently it has slowed down considerably, dipping below 1% in 2012 (the World Bank has cut its estimates for 2013 from 3.4% to 2.9%). Major advances have been made in poverty alleviation and reduction of inequality. Despite these changes, trade remains a rather low component of the overall economy, accounting for around 20% of Brazil's GDP^{iv}. This characteristic is relevant to Brazil-Asia relations in part because it represents a significant divergence from the Asian growth models which, in spite of early reliance on protectionism, have turned to export-led strategies and insertion into global value chains in order to achieve high, sustained growth (Amsden 2001). For all the discussion of Brazil (and, more broadly, Mercosur) sharing with Asian economies state-led growth models, there has been far more openness to trade and to integration in Asia, as well as integration into regional production chains. In contrast to major Asian economies like China and India, Brazil remains largely isolated from other South American neighbors, with limited infrastructure and production integration. These differences are important in explaining not only past trends, but also some of the key limitations to Brazil-Asia trade given current economic orientations domestically.

b. Brazil's Trade with Asia: Key Trends and Patterns

Despite the relative closedness of the Brazil's economy, commercial ties between Brazil and Asia (defined by Brazil's Ministry of Development, Industry and Trade as encompassing 28 markets: Afghanistan, Bangladesh, Brunei, Bhutan, Cambodia, China, Singapore, China, Republic of Korea, Democratic Republic of Korea, Philippines, Hong Kong, India, Indonesia, Japan, Laos, Labuan Islands, Macau, Malaysia, Maldives, Myanmar, Mongolia, Nepal, Pakistan, Sri Lanka, Thailand, Taiwan, East Timor and Vietnam). have grown significantly as compared to a decade ago. Asia was the region that registered the greatest increase in Brazil's trade between 2002 and 2011, with a growth of 770%. In comparison, although Brazil's trade with South America also grew during this period, it expanded by "only" 403%^v, reflecting the increasing relative importance of Asia to Brazil's trade.

In reality, this was not the first “jump” in Brazil-Asia trade, though it is both qualitatively and quantitatively different from the previous wave. From 1995 to 1998, Brazilian imports from Asia grew over 250% in comparison to 1993. This resulted from the efforts by several Asian countries to counteract, though expanded trade, the signs of economic slowdown emerging from Japan during the first half of the 1990s. Taiwan, Singapore, Hong Kong and South Korea continued to implement their particular styles of state-led developmentalism, while there was also growth elsewhere in Asia—not only China, but also Indonesia, Thailand, and India (Amsdem 2001). While this coincided with Brazil's timid attempts to open up the economy, the major driver was Asian initiative for export expansion beyond Asia. The “rise” of these countries would thus set the stage, on the Asian side, for the boost in trans-regional trade that took place approximately a decade later. The pattern of goods traded was also established: Brazil's exports to Asia consisted mostly of commodities, whereas imports were dominated by manufactured goods, including the high value-added products in which the Asian countries sought to specialize.

The second (and more significant) jump in trade between Brazil and Asia began after the turn of the millennium, as Asia—particularly but not exclusively, China—experienced high growth, creating new demands for the commodities that Brazil possesses in abundance: iron ore needed for major infrastructure projects, soybeans and derived products for feed and foodstuffs, and so on. By 2011, as Figures 1 and 2 indicate, Asia accounted for nearly one-third of Brazil's exports and the same proportion of its imports. However grander in scale this flow may be from the

previous (1990s) jump in Brazil-Asia trade, it differs little from that previous wave in term of content: Brazil exports to Asia mostly minerals, soy and soy products, sugar and alcohol, steel products, oil and derivatives, poultry, paper and pulp, non-iron metals, cigarettes, and aircraft^{vi}. Imports from Asia, on the other hand, consist primarily of manufactured goods such as electronics.

The dramatic expansion of trade ties was also evident for specific trade partners. By 2011, not only was China Brazil's top trade partner (Figure 3), Japan and South Korea also figured in the list of top destinations for Brazilian exports. These three countries also appeared among the key sources for Brazilian imports (though not in the same order: by then, South Korea had surpassed Japan). In fact, as tables 1 and 2 show that Brazil's trade with most of its Asian partners more than doubled between 2002 and 2011. Thus, despite the clear centrality of China to this booming trade, and the continued relevance of both Japan and South Korea, Brazil's commercial ties to the region are far more diversified, with vastly expanded ties to Indonesia, Thailand, Singapore, and Malaysia. Brazilian exports to Indonesia, for instance, increased from USD 256.6 million in 2002 to almost USD1.7 billion in 2010 (during the same period, imports grew from USD\$318.1 million to over USD\$ 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 US\$ 15.3 million in 2002 to USD\$473.6 million in 2010.

As noted by Sarquis (2011 p. 180), these trade relations are characterized some overarching trends, namely:

- a) A relative and dramatic decline of manufactures in Brazilian exports to Asia, from around 40% at the beginning of the 1990s to around 10% in recent years;
- b) Stagnated or low levels of inter-industry trade; and
- c) The replication of those two trends in Brazil's trade relations with the main Asian economies.

China

In Brazil's trade relations with China, these patterns are very evident. There is no doubt that Brazil-China trade accounts for much of the increase in Brazil's commerce with Asia, before and after the onset of the global crisis. 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 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 its manufacturing capacity became the main engine of its exports to Brazil.

In 2009, China surpassed historic partners like the US and Argentina to become Brazil's top trade partner, as well as its biggest market for exports. That year, Brazil-China trade reached US\$ 36.1 billion, whereas Brazil-US trade totaled US \$ 35.6 billion. Trade with China opened up a new front of trade expansion for Brazil. From 2000 to 2010, Brazilian exports to China increased more than 40 times, from US\$ 1.1 billion to US\$ 44.3 billion. Even the 2008 onset of the global crisis affected Brazil-China trade less than Brazil's overall global trade (a reduction of only 1%, versus 24.3%). Brazilian exports to China grew 23.9% that year, whereas its global exports fell by 22.7%. In 2012, Brazil's main exports to China were iron ore (US\$15 million), soybean (US\$12 million), oil and derivatives (US\$4.8 million), wood pulp and paper (US\$ 1.3 million), and semi-finished steel and iron products (US\$ 1 million)^{vii}.

There was also a substantial increase in Chinese investments in Brazil. On the other hand, Brazilian investments in China have been far smaller; there are few examples of major Brazilian companies making headways, such as Embraer's factory in Harbin, which opened in 2003. 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 2010-2014. The private sector has also been active, with business chambers helping to drum up interest and support for investment.

These growing ties have a demographic reflection, with the Chinese community in Brazil expanding rapidly with the recent influx of immigrants, which number around 150,000. These ties, however, have been accompanied by a growing asymmetry. Some analysts interviewed for this paper believe that the best Brazil can hope for with respect to exporting to China is finding a few niche markets, such as wines. Moreover, this asymmetry emerges not only in terms of the trade balance and investment, but also with respect to competition in third markets, with Chinese exports competing successfully against Brazilian products in the US, Europe, and Latin America in addition to Brazil (Pereira and Castro Neves 2011).

Japan

Despite the growing protagonism of China within Brazil-Asia trade, Brazil's interdependence with Asia is historically centered on its relations with Japan. It is often noted (and worth noting again) that Brazil has the largest number of Japanese and descendants group living outside Japan, with around 1.5 million citizens – which represents over 90% of this population within Latin America in Brazil. These communities have played a crucial role in consolidating trade and investment ties with Asia, especially since the 1970s, by helping to spur interest by governments and state-owned enterprises, as well as private sector companies. That said, Brazil's trade ties with Japan have experienced certain 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 trade ties. 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 global economic crisis, it remains an important trade and cooperation partner for Brazil. The Brazilian government views Japan as a solid, dependable partner who has stuck with Brazil through the peaks and troughs of economic cycles.

Moreover, there has been substantial cooperation beyond trade, including in areas such as shipbuilding. In development assistance, Brazil's Agencia Brasileira de Cooperação (ABC) and Japan's JICA have collaborated in innovative triangular cooperation programs, including agricultural projects in Africa such as the implementation of the Pro-Savana project in

Mozambique. 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 call between Brazil's Minister of Development, Industry and Trade with Japanese Chief Cabinet Secretary Osamu Fujimura, Minister Pimentel highlighted that, for Brazil, Japan is a strategic partner in Asia, also important for the cultural and historic ties between the two countries^{viii}. Japan recently agreed to receive Brazilian undergraduate and graduate and post-doctoral students in science and engineering to study in Japan starting in 2013.

ASEAN Countries

Brazilian trade with ASEAN countries (South Korea, Indonesia, Thailand, Malaysia, Singapore, Philippines, Vietnam, Burma, Brunei, Cambodia and Laos) grew rapidly between 2003 and 2009, from US\$ 3.15 billion in 2003 to 9.74 billion in 2009. Even before the impact of the global crisis, trade reached a record of US \$13.23 billion. In 2009, Brazil's trade with the ASEAN countries surpassed its trade with Japan. Between 2002 and 2009, the relative weight of ASEAN in Brazil's worldwide trade oscillated between 2.59% and 3.57%. During this period, bilateral Brazil-ASEAN trade grew 236.8%-- much higher than the expansion of Brazil's global trade (which grew 160.6% during the same period). Brazil's exports to ASEAN countries grew 234.8%, and imports grew 239.1%. At the same time, there was an attempt to approximate ASEAN and MERCOSUR; however, this has so far yielded few results.

South Korea, in particular, has emerged as a promising partner for Brazil. Although the South Korean was deeply affected by the 1997 Asian crisis, like Japan it responded with leading concerted efforts to expand its trade relationships within and beyond Asia. This led to growth of 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 in renewable energy and software. The joint ventures that Brazilian companies formed with Japanese counterparts could serve as a model for new initiatives with South Korean companies).

Other Countries

In the case of India, trade with Brazil has also grown dramatically, although starting from a low base. Trade relations between the two countries expanded more than five-fold, from US \$1 billion in 2003 to US \$5.6 billion in 2009. Prime Minister Mahoman Singh's visit to Brazil in September 2006 launched the Strategic Partnership with India, which helped to boost investment relations, although here, too, the ties are skewed. In order to try to redress this imbalance, 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 APTF agreement to cover a wider range of products. Brazil and India's common participation in the G20, IBSA and the BRICS also suggest potential for further cooperation, despite the two countries' divergent positions regarding subsidies in agricultural trade.

Finally, Brazil's ties with Asia have undergone diversification even 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. Indonesia is the site of Brazil's single largest investment in Asia, by Vale. 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 in Trade and Investment. These initiatives show that Brazil's trade with Asia is not coterminous with its commercial relations with China. They also show that Asia has come to occupy an increasingly important role within Brazil's foreign trade, not only relative to the United States and Europe, but also in comparison to Mercosur.

Graph 1. Participation of manufactured products in Brazilian exports (%)

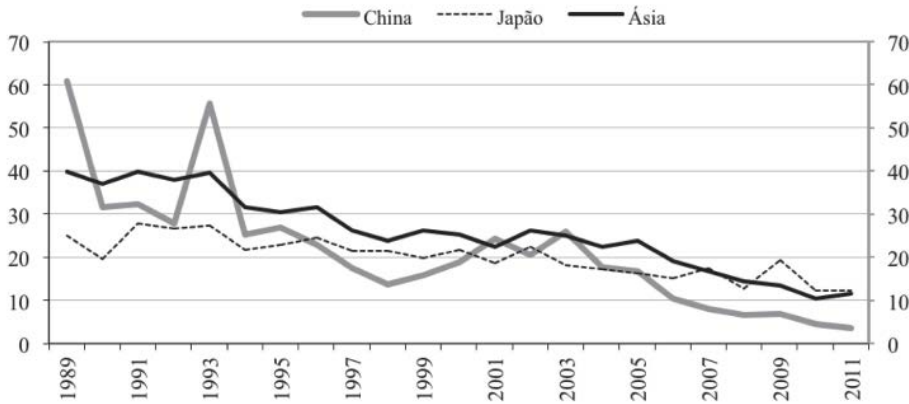
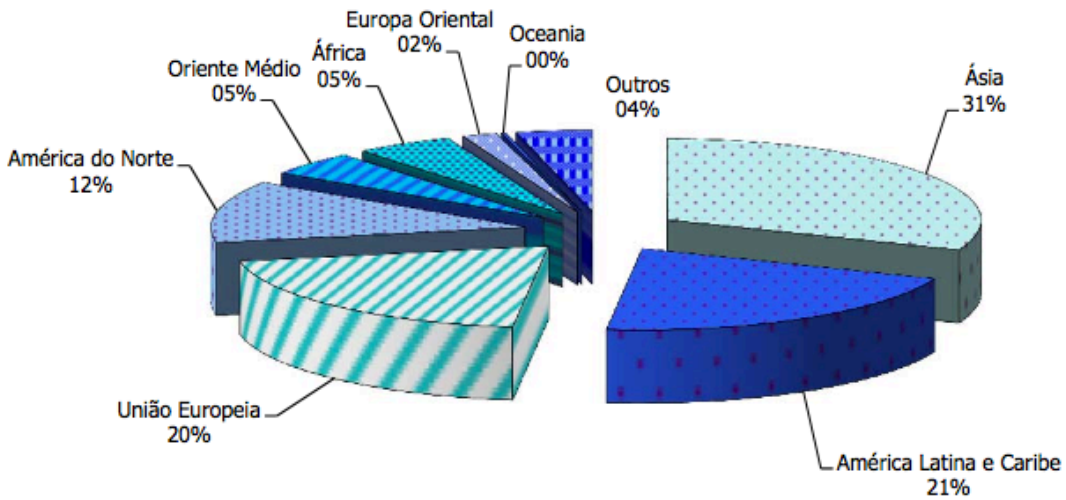
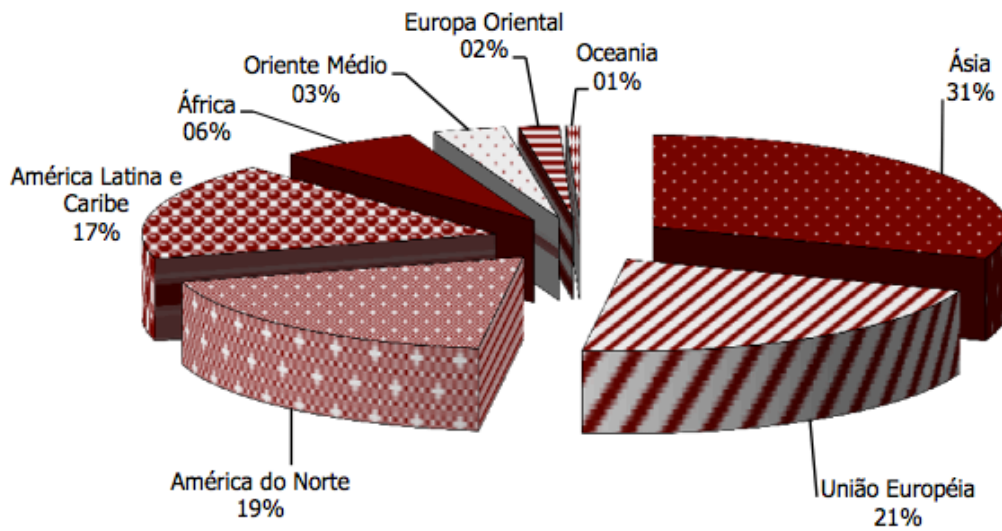


Figure 1. Destination of Brazilian Exports by Region (2011)



Source: MRE^{ix}

Figure 2. Origins of Brazilian Imports by Region (2011)



Source: MRE^x

Figure 3: Brazil's Top Ten Trade Partners in 2011 (in US\$ billions)

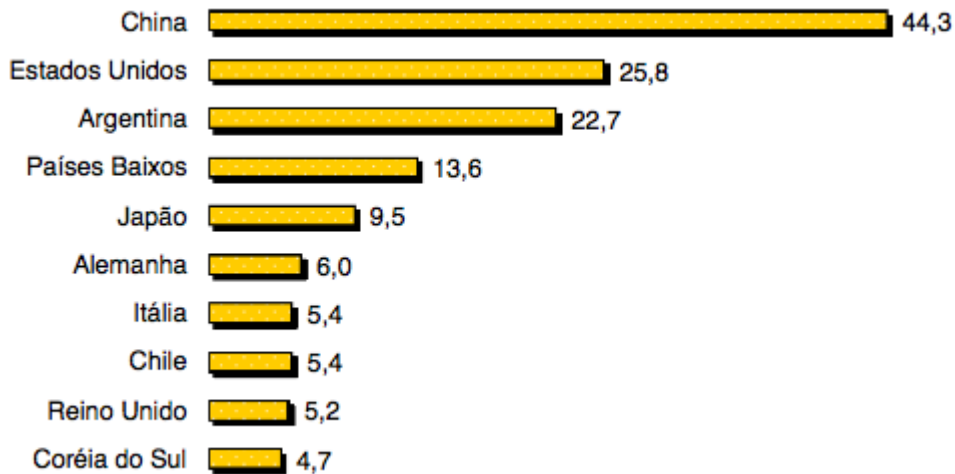


Figure 4. Origin of Brazilian Imports in 2011 (US\$ billions)

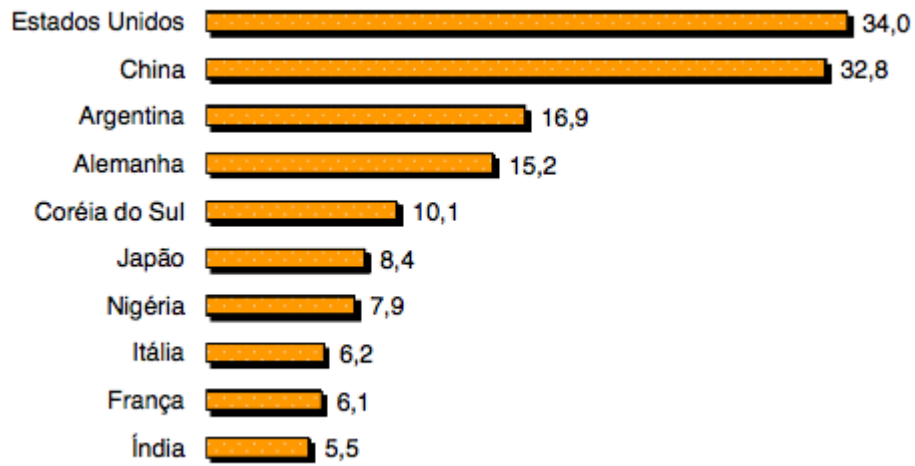


Table 1. Brazilian Exports to East Asia

EXPORTAÇÕES BRASILEIRAS PARA A ÁSIA DO LESTE 2002 - 2010 e 2011(jan-mai) US\$ milhões										
PAÍSES IMPORTADORES	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 (jan-mai)
China	2.521,0	4.533,4	5.441,7	6.835,0	8.402,4	10.748,8	16.522,7	21.003,9	30.785,9	15.744,8
Japão	2.102,5	2.315,6	2.774,2	3.482,6	3.894,5	4.321,3	6.114,5	4.269,7	7.140,8	3.421,6
República da Coreia	852,6	1.223,3	1.429,6	1.896,6	1.962,5	2.046,6	3.133,5	2.658,3	3.760,1	1.445,0
Indonésia	256,6	322,9	382,9	498,4	481,8	693,4	1.143,1	1.150,6	1.662,9	410,6
Tailândia	350,3	416,5	648,0	887,9	732,0	967,5	1.565,7	1.132,0	1.486,4	608,6
Cingapura	469,7	338,2	571,9	844,9	944,8	1.379,2	2.107,6	1.297,4	1.309,3	801,1
Malásia	281,7	225,7	283,1	406,1	647,4	679,8	877,3	810,5	1.201,8	428,8
Austrália	254,2	305,6	370,2	464,2	512,2	614,2	1.252,9	492,7	587,1	371,2
Vietnã	27,6	25,0	38,0	61,6	129,0	216,3	334,5	344,9	463,3	270,5
Filipinas	126,8	117,5	243,4	244,4	272,6	394,5	584,5	320,5	449,4	185,1
Nova Zelândia	30,5	36,3	51,5	54,6	56,5	72,2	81,2	39,8	46,1	48,1
Mianmar	0,8	4,6	3,1	2,0	2,8	1,0	4,0	7,9	20,7	3,2
Camboja	0,6	0,7	0,7	0,7	1,7	2,9	4,9	3,6	12,3	1,0
Mongólia	0,2	0,1	1,3	1,9	1,7	2,5	5,4	2,9	2,4	4,4
Brunei	0,2	0,3	0,3	0,6	1,0	0,5	1,6	0,6	0,6	0,3
Laos	0,0	0,2	0,2	0,1	0,1	0,0	0,1	0,0	0,1	0,0
TOTAL	7.275,3	9.865,9	12.240,1	15.681,6	18.043,0	22.140,7	33.733,4	33.535,2	48.929,2	23.744,3

Elaborado pelo MRE/DPR/DIC - Divisão de Informação Comercial, com base em dados do MDIC/SECEX/Aliceweb.
Países listados em ordem decrescente de valor em 2010.

Table 2. Brazilian Imports Originating in East Asia

IMPORTAÇÕES BRASILEIRAS ORIGINÁRIAS DA ÁSIA DO LESTE 2002 - 2010 e 2011(jan-mai) US\$ milhões										
PAÍSES IMPORTADORES	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 (jan-mai)
China	1.554,0	2.147,8	3.710,5	5.354,5	7.990,4	12.621,3	20.044,5	15.911,1	25.594,8	12.105,0
República da Coreia	1.066,7	1.078,8	1.729,9	2.327,0	3.106,3	3.391,4	5.413,1	4.818,6	8.421,8	4.092,2
Japão	2.347,5	2.520,5	2.868,7	3.405,0	3.839,6	4.609,2	6.807,0	5.367,8	6.981,9	3.371,8
Tailândia	187,1	261,0	440,1	521,6	736,8	1.005,2	1.420,4	1.270,8	1.838,7	975,6
Malásia	357,4	444,1	515,5	637,1	901,2	1.280,1	1.636,8	1.225,6	1.749,1	979,6
Indonésia	318,1	318,4	369,8	456,1	650,2	893,8	1.109,2	987,2	1.517,9	845,4
Austrália	212,6	292,6	373,7	628,3	737,8	775,9	1.229,3	844,0	1.353,4	459,7
Cingapura	311,9	414,7	425,3	815,2	1.188,1	1.208,8	1.745,2	658,4	848,3	302,3
Vietnã	15,3	22,1	31,9	47,8	75,6	107,0	200,1	219,6	473,6	241,8
Filipinas	186,2	241,5	209,0	283,2	343,1	336,0	497,3	294,4	330,0	120,1
Nova Zelândia	34,1	22,8	27,8	30,0	27,6	28,7	77,7	52,2	45,2	17,6
Camboja	0,1	0,2	0,5	0,5	1,0	3,8	5,5	9,1	8,7	8,2
Mianmar	0,1	0,0	0,1	0,5	0,9	1,1	1,4	1,3	1,2	0,3
Brunei	0,0	0,0	0,0	0,0	15,7	0,0	0,0	0,0	0,3	0,0
Laos	0,0	0,0	0,1	0,0	0,0	0,3	0,2	0,2	0,3	0,7
Mongólia	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
TOTAL	6.591,1	7.764,5	10.702,9	14.506,8	19.614,3	26.262,6	40.187,6	31.660,3	49.165,2	23.520,3

Elaborado pelo MRE/DPR/DIC - Divisão de Informação Comercial, com base em dados do MDIC/SECEX/Aliceweb.
Países listados em ordem decrescente de valor em 2010.

Source: MRE/DPR/DIC^{xi}

c. Institutions Enabling and Constraining Brazil-Asia Trade

These growing trade ties are not explained by comparative advantage alone; there are institutional factors that both enable and constrain Brazil's trade ties with Asia. 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 only with only a handful of partners, mostly the United States and 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 (with limited success) Brazilian exports.

In the case of Asia, despite the geographic distances involved, there are cultural and historical ties that help to fuel this approximation, at least with key trade partners. Although, like many South American countries, Brazil has no Pacific Ocean coastline, it has deep historical relations with Asia. Brazil's trade relations with China date back to the 17th century, when Portuguese merchant ships traveling between Macau 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 numerous and important diaspora community, especially in Southeastern and Southern Brazil (smaller numbers of immigrants came from South Korea and China). Diplomatic relations between Brazil and Asian countries often draws on, and consciously builds upon, these historical ties, for instance by noting their shared cultural heritage and transnational communities.

Political factors have also helped shape these trade relations across time. In 1974, Brazil cut off diplomatic relations (although it maintained trade relations) with Taiwan so that it could forge trade ties with the People's Republic of China. Brazil soon became China's main trade 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 Brazil became self-sufficient in crude oil, which was formally announced by the government in 2006). This occurred partly because, during the Cold War, China-- which had not only a permanent seat in the UN Security Council, but had also developed an arsenal of nuclear

weapons-- represented a key partner for Brazil as both countries sought to forge foreign policies that were more autonomous of the Great Powers. After Deng Xiaoping began undertaking economic reforms, and especially once the Chinese economy took off in the 1990s, Brazil made a concerted effort to deepen 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 World Trade Organization in December 2001 proved a turning point in the two countries' trade (and, to a lesser degree, investment) relations.

More broadly, Brazilian foreign policy makers—especially under President Luiz Inácio Lula da Silva (2003-2011)-- had made South-South cooperation one of Brazil's priority, with trade and investment partner diversification a guiding principle of its economic foreign policy. The deepening of such ties was not only a way to continuing to forge a more autonomous foreign policy vis-à-vis the North, it also offered a chance to broaden support for Brazilian government positions in multilateral settings. These positions included not only trade-specific positions, such as advocating the end of agricultural subsidies that hurt commodities exporters, but also more political goals, including Brazil's bid for a permanent seat in the United Nations Security Council. These multi-faceted concerns—and, more broadly, Brazil's quest to become a great power-- help to explain the Brazilian government's decision to open up dozens of new embassies and diplomatic representations, including many in Asia (Sri Lanka, Bangladesh, Kazakhstan, Nepal, Afghanistan, North Korea, and Myanmar gained new embassies, and Bhutan and the Marshall Islands, Micronesia, and Kiribati gained diplomatic representation) (MRE 2010).

Economically, South-South cooperation offered a way to complement trade with the advanced economies, especially the US and the European Union (which, in 2003, represented 23.12% and 25.26% of Brazilian exports, respectively). During the administration of President Lula, cooperation with Asia, and particularly China, was presented as one of the government's top priorities, and the strategic partnership was deepened through efforts that involved not only trade and other cooperation agreements, but also an active presidential diplomacy.^{xii}

Since many Asian countries were experiencing high (even double-digit) growth, they represented new opportunities to boost Brazil's GDP despite the vast distances separating them. In addition, the regional pattern of growth, and not just specific countries, was attractive to Brazil. Asia's most dynamic countries (China, Japan and to some extent India) helped catalyzed growth in smaller countries in the region through integration of productive sectors. In the case of the textile industry, booming apparel manufacturing in China and India helped boost production in Vietnam, Laos, Bangladesh, and Sri Lanka. The regional integration of production chains in Asia, and the decentralization of growth nodes, spurred Brazilian interest in trade not just with China, but also with smaller countries.

At the same time, Asian institutions engaged in trade relations waxed and waned. In the late 1990s, the Asian crisis that started in 1997 in Thailand and spread to other countries in the region catalyzed important though limited changes in the Asian trade architecture. The governments of those Asian countries that were most deeply affected by the crisis resented the lack of support from the advanced Western economies (Harvie & Lee 2002, Sharma 2002). A new Asian regionalism began to emerge that was partly a response to the eroding credibility of regional and multilateral trade mechanisms. This emerging regionalism was also related to the expansion of preferential trade zones in other parts of the world, as well as growing competition among Asian countries. Trade agreements from this period tended to be bilateral, and many overlapped in complex ways. The heavy emphasis on bilateral agreements was also a result of the impact that the crisis had on ASEAN, with a loss of cohesion among the member countries. This fragmentation, even as commercial ties expanded, helps to explain the heavy bilateralism that characterizes Brazil's trade with Asia despite the regional interests.

As already mentioned, the weakness of Latin American regional institutions, including Mercosur, also contributes to this pattern. One potential (albeit partial) solution to a more balanced trade relation would be to foster the subregional coordination needed to pool economic resources and political leverage into a bloc capable of negotiating trade on more equal terms. Yet political divisiveness in South America, especially as reflected in the sluggishness of Mercosur, hamper the formulation of a more proactive trade policy. At the same time, while the Pacific Alliance countries—far more open to trade than Brazil, and experiencing solid economic growth-- join

forces to boost trade with Asia while increasing their leverage in commercial negotiations. Brazil thus faces growing competition within Latin America in its relations with Asia.

On the Asian side, growing competition among individual countries (including, but not exclusively, for energy sources beyond Asia) has led to a proliferation of bilateral trade agreements-- the so-called "noodle bowl effect". Here, too, the lack of trade policy coordination creates contradictions and redundancies and dampens the prospects for a more concerted approach to cooperation with Brazil. Growing awareness that further trade asymmetries may provoke a political backlash, some Asian countries have expressed support and launched initiatives meant to boost innovation and high value added production in Brazil. However, these are typically niche projects that have limited transformative potential.

c. The Global Economic Crisis and Brazil-Asia Trade

The onset of the global economic crisis in 2008 did not weaken Brazil's trade with Asia-- on the contrary, commercial ties continued to grow, and in some cases at a faster rate than before. Total Brazilian exports to Asia surged from USD\$ 22.14 billion in 2007, before the start of the crisis, to USD\$ 48.9 billion in 2010. Imports from Asia also showed a robust reaction to the crisis, growing from USD\$ 26.3 billion in 2007 to USD\$ 49.2 billion in 2010 (See Tables 1 and 2)

In part, this continued growth within a context of crisis took place because the crisis affected primarily the industrialized economies, creating new budgetary pressures and causing economic slowdown-- even recession-- in the global North. Brazil's top Northern trade partners (the USA and Europe) lost space within global trade, and their commercial relations with Brazil were negatively affected. Meanwhile, key emerging economies, while initially hit by the crisis, were able to overcome its shock with relative resilience. Not only did they have low exposure to US sub-prime loans and securities, they had sounder macroeconomic policy frameworks in place (compared with the experiences of the 1990s) (Didier, Hevia and Schmukler 2011)

Brazil, for instance, 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, consumer and investor confidence revived, helping to propel GDP to its decade peak of 7.5%. China was also able to weather the crisis, thanks in part to a series of economic stimulus packages; despite a relative slowdown, the country had GDP growth of 7.8% 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 robustly from the crisis (whereas Japan has fared less well, experiencing three periods of recession since 2008). Sarquis (2011) notes that Brazil's trade boost with Asia happened very differently from its commercial ties with other partners, not only due to their explosive growth but also because, despite the geographic and cultural distances separating Brazil from Asia, those ties "did not depend on the international institutions that promote inter-regional trade, especially within free trade or integration agreements" (p. 180).

These emerging economies, including Brazil, saw South-South cooperation (beyond the political opportunities presented) as a way to compensate for the eroding trade and credit from the North, also helping to cushion their economies against the ongoing crisis. Brazilian trade with Asia, for instance, allowed it to reduce trade exposure to shocks or adverse economic cycles in other commercial partners, such as the United States or the European Union. More broadly, the crisis also exacerbated the loss of confidence in Western models that had begun with the debt crisis and the Washington consensus initiatives in earlier decades, and which included a measure of disillusionment with Northern models and cooperation. Among academic and policy circles, many Brazilians—already familiar with the rise of Japan, the Asian Tigers and China-- looked increasingly to Asian state-led models of development (though with less focus on trade liberalization) as sound paths to development (Diniz 2010, Novy 2009).

The attractiveness of Asia as a trade and cooperation partner, particularly within a context of crisis, was thus accompanied by a mutual desire for political approximation between emerging economies. Brazil, China and India increased their participation not only in multilateral settings, but also participated in the creation of new, informal groupings such as the G20 and the BRICS, launched in 2006. Its original 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 Bretton Woods Institutions. With the global

crisis, finding alternative ways to reverse economic downturn and recession and to implement development in more sustainable, less crisis-prone ways also became key concerns for these emerging economies. All of these factors have helped drive the boost in Brazil-Asia cooperation ties, including trade.

d. Conclusion

Although the story of Brazil's booming trade with Asia has been dominated by the relative novelty of China's explosive demand for Brazilian commodities, the picture that emerges from statistical patterns and institutional analysis reveals a more nuanced narrative. The recent boom can only be understood in light of earlier ties between Brazil and Asia, especially through the Japan links. Moreover, the recent boom has entailed not only the intensification of trade and investment with China, but also a commercial partner diversification strategy on the part of Brazil that is explained by a combination of economic and political factors related to its foreign policy. The broad picture, however, shows that, while these flows have brought great benefits to the Brazilian economy, they also pose new challenges for Brazil's regional and global trade strategies.

In Brazil and abroad, analysts agree that the Brazilian government will not be able to address these asymmetries—with China or other Asian partners-- without addressing structural problems at home that include an onerous and complex tax system, inadequate infrastructure, and other factors contributing to the so-called "Custo Brasil". Key challenges include the slowness of reforms, especially those meant to attract investments to improve infrastructure—as in the recent case of the ports package, meant to quickly boost investment in the country's maritime and fluvial ports, but which has been watered down by concessions to interest groups. There is also a persistent need to address education, even beyond President Rousseff's decree that royalties be 100% allocated to public education. Without addressing these and other factors, Brazil will not be able to improve its productivity and competitiveness in global markets.

One overarching concern, beyond the structural and institutional challenges already mentioned, is the possibility of a sustained economic slowdown in Brazil and Asia. In 2012, Brazil

experienced substantially lower growth rates than in previous years during that decade, with annual GDP growth rate falling below 1%. Projections for Asian economies have also ranged from tepid to pessimistic. If the current trend turns out to be a persistent slump, Brazil will have to rethink not only its approach to economic growth, but also its external trade strategy.

Brazil also needs to forge a more coherent path in trade policy within a rapidly changing field. Over the past ten years, especially with the rejection of ALCA out of fear that an agreement that included the United States would prove a destructive force for its own industry, Brazil bet heavily on the WTO and the Doha round. In the meantime, its trade with Asia, especially China, begins to raise some of the questions regarding the health and survival of certain industries, with a growing impetus for protectionist measures (even if they by and large fall within the scope of moves permitted by the OMC rules). The National Confederation of Industry (CNI) recently argued before the Brazilian 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^{xiii}. Other industry groups are pressuring the government to negotiate agreements outside the Mercosur framework.

Even as the Brazilian government celebrates the election of Brazilian diplomat Roberto Azevedo as head of the World Trade Organization-- a victory for which Brazilian diplomats actively campaigned-- the Brazilian government seems to be tacitly acknowledging the paralysis of the Doha round (and limited optimism regarding its chances of recovery) by betting elsewhere, at least in the short to mid term, for its trade future. Journalists report hearing from officials that the command is to bet on increasing trade ties with the US and European Union, out of fear that the incipient talks on a US-EU agreement will leave Brazil isolated^{xiv}. Others note that such an approximation with advanced countries would help to spread the risk of excessive interdependence with, or dependence upon, China precisely as it undergoes significant transformation of its growth model. Given that Mercosur remains weak, that Brazil is not a part of the Pacific Alliance, Brazil may find itself within a vulnerable position. All of these changing dynamics within global trade raise new questions about the role of Brazil-Asia trade, as well as the future of Brazil’s economic development.

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ⁱ World Bank.

ⁱⁱ <http://www.brasilglobalnet.gov.br/ARQUIVOS/IndicadoresEconomicos/ComExtBrasileiroABR2012.pdf>

ⁱⁱⁱ <http://www.thehindu.com/business/Economy/india-mercosur-countries-to-discuss-expansion-of-agreement/article614049.ece>

^{iv} <http://www1.folha.uol.com.br/fsp/opiniao/107787-o-significado-da-vitoria-na-omc.shtml>

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^x *ibid.*

^{xi}

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