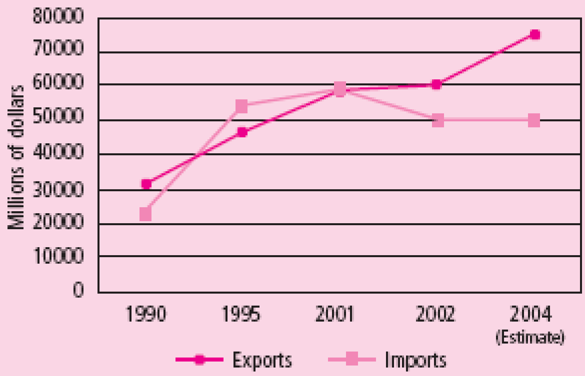
Brazil's trading relations: Signalling shifts in global trade

Case taken from The International Business Environment, second edition (Palgrave, 2006), by Janet Morrison

With a domestic market of 177 million consumers, Brazilian industries have tended not to be as interested in exporting as those in other developing economies. However, in recent years, their focus has been turning more to exports, aided by successive devaluations of their currency. After two good years of export performance (see figure), the country now enjoys a trade surplus, allowing it to accumulate foreign reserves, which will help it to withstand volatility in foreign exchange markets. Foreign trade in 2004 was just 27 per cent of GDP, which is still relatively low, but it is increasing, thanks to new initiatives and the continuing relative weakness of the currency. China has become Brazil's largest export market, its booming industries looking to imports to provide a range of essential products. Exports of iron ore and agricultural commodities such as soya beans have been particularly strong areas of export growth for Brazil's cultivation of Chinese markets. Other countries in Latin America, too, have enjoyed a boost due Chinese demand, including Argentina, Peru and Chile.



Brazil's merchandise exports and imports

Sources: WTO (2003) *International Trade Statistics 2003*, at http://www.wto.org; *Brazilian government statistics*, at http://www.tesouro.fazenda.gov.br.

Brazilian farmers have become highly competitive, often as productive as their counterparts in developed countries. Critics have warned that as China develops its own capacity to supply domestic demand, it will rely less on imports. Brazilian exporters, however, maintain that trading relations with China are leading to other opportunities to do business which have sustainable long-term prospects. One Brazilian banker says: 'The Chinese are looking for long-term suppliers of food and technology and we have both. They are coming to us to set up joint ventures' (Colitt, 11 November 2003). To satisfy China's growing thirst for instant coffee, currently supplied by two multinationals, Kraft and Nestlé, a Brazilian company has launched Café Pelé in the Chinese market. Beyond commodities, Chinese/Brazilian joint ventures in steel, textiles and computers are investing in Brazil for re-export to China.

Luiz Inacia Lula da Silva, Brazil's president, came to power in 2003, on the crest of a popularity wave, promising economic growth to bring financial stability and improvements in social and economic conditions, especially for the country's estimated 35 million people living in poverty. He has promoted trade diversification, saying: 'We need to be where the opportunities are … We need to broaden our portfolio of trading partners' (Colitt, 3 December 2003). The left-wing Lula da Silva, undeterred by US disapproval, has made trips to Cuba, Libya, Syria and Egypt, among other countries, to promote Brazil's exports, especially farm products. Closer to home, his Workers' Party has been distinctly unenthusiastic about the FTAA, fearing an extension of US hegemony. Among Brazil's businesses, farmers and industries such as textiles, footwear and vehicles, FTAA progress is encouraged, as a means of expanding exports. Of course, the prospect of access to the American market is the source of greatest concern to US farmers, who produce highly protected crops such as citrus fruits, sugar and soya beans. Brazil continues to look beyond regional horizons. The growing ties between Latin America and China, cutting across regional relations, are indicative of shifts in global trading patterns.

Sources: de Jonquières, G., 'The divided Americas', Financial Times, 17 November 2003; Wheatley, J., 'A year of impressive performance', Financial Times, 5 May 2004; Colitt, R., 'Lula takes political risk to widen Brazil's trade horizon', Financial Times, 3 December 2003; Colitt, R., 'China fever drives Brazil's exporters to frenzied activity', Financial Times, 11 November 2003.

Case questions

Explain the reasons behind Brazil's export drive into China. How do the new trading relations indicate a shift in global trading patterns?

@ World trade issues are highlighted on the WTO's website, www.wto.org