"International House of Japan"
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Brazil Now and After the Global Economic Crisis (focus on cooperation with Asia)

Talking Points

- Initial Presentation.

Brazil is today the ninth world economy, boasting a GDP of US$ 1.9 trillion in 2008 and a per capita GDP of around US$ 10,000. In the last ten years, the country adopted sound macroeconomic policies and reached the stabilization of the national economy, creating a favorable environment for socioeconomic development and in the attraction of investments. The Brazilian macroeconomic strategy in based on principles such as fiscal balance, inflation target policy, social investments, reduction on external financing dependency and broadening of the Brazilian participation on both world trade and politics.

The current international economic crisis showed how Brazilian economy's background is sustainable. After the international credit crisis of 1999/2000, the country adopted a floating exchange rate and started to depend less on the international financial system, creating a solid, regulated and strong financial system, based more on the real economy variables than the speculative financial system. Presently, the Brazilian economy is expected to grow at a negative 1.2% in 2009, due to the world crisis. The country showed a growth rate of 5.1% in 2008 and the forecast is a growth rate of 2.2% in 2010.

With the good conditions created through the past years and taking into account the great potential of the Brazilian economy, now the way is open for a sustainable and accelerated growth, which could take into account the respect for environmental protection and social achievements.

- Economic activity.

As mentioned beforehand, Brazil is today the ninth word economy, with a GDP of US$ 1.9 trillion in 2009 and a per capita GDP of around US$ 10,000. After having grown at a rate of around 4% to 5% in the last few years (5.1% in 2008), it is expected to scale back around 1.2% this current years, for the obvious consequences of the financial crisis. The forecast for 2010 is 2.2%. For the following years, one expects the country to retake the growing tax of around 5% a year.

Even though Brazil keeps being the largest exporter of primary goods (responsible for 5.5% of the national economy), the country is progressively a service-based economy (65.5% of the GDP). Meanwhile, industrial sector remains stable (28.7% of GDP).

Brazil possesses a work force of 101.8 million people, around 54% of the population. The unemployment rate, in December 2008, was of 6.8%. Among the Brazilian great cities, the lowest unemployment rate is that of Belo Horizonte (5.5%) and the biggest rate is that of Salvador (10%).

- Interest rate X Inflation.

In 2008, effective inflation rate was around 5.9% (basic family products supply, around 4.46%) and interest rate around 12% (Selic). Evidence of the stability of the Brazilian economy refers to the maintenance of the inflation control (inflation rate between 3% and 6% a year) and a declining tendency of the interest rate. As an example, in 2005, Selic was 18.5% a year and prospects is that, in 2009, it will be 10% a year.

The Brazilian economic authorities point to a gradual reduction on the interest rate, in order to create a desirable environment for investors in the real economy. This strategy may not prompt inflation, as the reduction on the interest rate is observed since 2005.

- *PAC – Economic Acceleration Program.*

The Government established, in 2007, the *Economic Acceleration Program* – PAC, which expects investments of around R$ 503 billion (US$ 251 billion) in a period of 4 years (2007-2010), R$ 274 billion (US$137 billion) refers to investments in the energy sector and R$ 170 billion (US$ 85 billion) to social and urban development programs. Moreover, R$ 58 billion (US$ 29 billion) are reserved for transport network developments (including the project of the "shinkansen" linking the two biggest Brazilian cities, Rio and São Paulo). The main objective of the PAC is to conjugate economic growth to income distribution.

- *Public Finance.*

The Brazilian Public debt reached, in December 2008, US$ 1.3 trillion (around US$ 650 billion), or 34% of the total GDP. This rate keeps the same level of that of 2007. 25% of the public debt is "short-term" debt, with payments expected for a 12 months period.

The most important step towards debt control was done from 1995 on, when Brazil started to securitize the public debt (involving both local, provincial and central government debts). Another important policy to control public debt was the releasing, in 2000, of the Fiscal Responsibility Law, which regulates government expenditures through the adequate planning, control and transparency of public debt in all the three levels of governance.

As for the external debt, it stood at US$ 198 billion in 2008 (US$ 161 billion long-term and US$ 36 billions short-term debts). 60% of that amount related to the public financial sector and 40% referred to the public non-financial sector. It should be stressed that, in 2007, Brazil had zeroed its debt with the IMF, which implies greater autonomy in the implementation of economic policies. It also illustrates that the national financial system is strong and reliable enough.

Moreover, the Brazilian international reserves was around US$ 206 billion in 2008, bigger than that of France (US$ 193 billion) and Germany (US$ 138 billion). That means that the Brazilian international reserves would be enough to pay all the current external debt of US$ 198 billion.

- International economy.

At the second half of 2008, the real suffered a temporary devaluation comparing with the dollar. The relation was US$ 1 / R$ 1.63 in August 2008 and US$ 1 / R$ 2.33 in December 2008. With the general devaluation of the dollar in the international financial system, this correlation reached US$1 / 2.05 in May 2009. Private analysts expect that exchange rate will be US$ 1/ R$ 1.90 in December 2009.

In 2008, Brazil exported a total of US$ 197 billion. The main export destinations were the USA (15.8%), Argentina (9.9%), China (7.9%), the Netherlands (5.4%) and Germany (4.7%). The main products exported by Brazil were transport equipments, steel; soya, coffee, shoes, automobiles, meat, auto equipments and machinery.

On the other hand, Brazil imported, in 2008, US$ 173.2 billion. The main importer markets were the USA (11.9%), China (10.6%), Argentina (9.0%), Germany (7.5%), Nigeria (4.5%) and Japan (4.0%).

As a result, the trade balance was of US$ 24 billion. The figures below evidence the status of the Brazilian foreign trade:

	Exports	**Imports**	**Difference**
Total	197.942	173.107	24.836
Mercosur	21.737	14.934	6.804
Chile	4.792	4.079	6.804
China	16.403	20.041	- 3.638
South Korea	3.119	5.413	-2.294
Japan	6.115	6.807	-692
USA	27.648	25.808	1.840
European Union	46.395	36.187	10.208

US$ million

- *Brazil-Japan trade.*

In 2008, trade between Brazil and Japan reached the level of US$ 12.9 billion (MDIC), which represents a growth of 44.7% compared with 2007, when bilateral trade reached US$ 8.9 billion. The year of 2008 showed a trade deficit for Brazil of US$ 692 millions (US$ 6.8 billion import from Japan against export to Japan of US$ 6.1 billion). After modest superavits for Brazil in 2005 and 2006, 2007 and 2008 were more favorable for Japan exports, mainly due to the growing import from Brazil of machineries, which represents good impacts for the Brazilian industrialization.

Even showing deficit for Brazil, bilateral trade presented an increment of 41.5% in the Brazilian exports to Japan. In 2008, Japan was the sixth most important destination for Brazilian products, comparing to the eighth position in 2007. Brazil keeps being an important supplier of primary goods for Japan, with the following list of products: 1) steel (23.74%); 2) frozen chicken (18.95%); 3) other mining products (9,85%); 4) aluminium (8.84%); 5) coffee (4.87%); 6) iron (3.61%); 7) soya (3.52%); 8) timber (2.18%); 9) silicium (1.97%); and 10) alcohol (1.85%).

From the point of view of the Japanese exports to Brazil, there was an increment of 47.68% in 2008 compared to the previous year. This number is bigger than the average rise of Brazilian imports from third markets, around 43.59%. In this context, Japan jumped from the sixth to the fifth position as a supplier for Brazil, accounting for 3.9% of Brazilian imports in 2008 (in comparison, the USA, the bigger supplier for the Brazilian market, accounted for 14.9%).

Brazil keeps being a great importer of industrialized products from Japan, as following: 1) gear box for automobiles (3.14%); 2) motorcycles accessories (2.74%); 3) automobiles (2.17%); 4) equipments for printers (2.03%); 5) tractors and other vehicles accessories (2.02%); 6) carriages for automobiles (1.82%); 7) motors (1.81%); 8) planes and helicopter parts (1.64%); 9) machineries and mechanic devices (1.60%); and 10) digging machines/diggers (1.45%).

- Free Trade.

Brazil is an active member in many economic international organizations, such as the WTO and the IMF. In the case of the WTO, the country played an important role to promote the liberalization of international trade. In the ambit of the WTO, Brazil is part of the Group of Cairns, which supports the opening of the agricultural sector in the international trade, mainly by the most advanced economies, as a compensation for the openness of the goods and service sectors by the emerging markets. As for the IMF, Brazil, along with other emerging powers, supports a new decisional process that can give bigger relative weight for developing countries.

The main platform for the Brazilian trade openness is the Mercosur, destiny of one quarter of the country's exports. Mercosur has been widening free trade schemes of third countries and regions. Recently, the South-American block signed agreements with Israel and Morocco. There are advanced negotiation being held with the European Union, SACU (South African Customs Unions) and South Korea.

Last week, in Asuncion, Paraguay, trade authorities of Japan gathered together with Mercosur authorities to shape a trade agreement and launch first step conversations. This is a strategic opportunity to boast commercial proximity between Brazil and Japan.

- Brazil-Japan: opportunities for investments.

Once concluded the commemorations of the Centennial of the Japanese Emigration to Brazil, this is time to re-launch the partnership Brazil-Japan in all dimensions (economic, commercial, political, cultural e humanitarian). Despite the adverse consequences of the financial crisis that shook the world economy, Brazil and Japan are countries with deep complementarity and great potential to be explored.

Among these opportunities I can mention the followings:

i) Transportation: Brazil lacks infra-structure in transportation, mainly in railways. Japan has all the condition to be an important investor in this area, as well as a supplier of technology. Shinkansen, urban trains, monorails and subway are among the potentialities.

ii) Strenghthening of infra-structure in Brazil and South America. In the ambit of the project to interlink South America (IIRSA) there are a wide range of projects to be developed (ports, airports, bridges, etc).

ii) Biofuel: Japan is the second importer of biofuel in the world and depends 80% of the foreign supplier of general combustibles. Brazil is leader in the development and production of biofuels (mainly ethanol), a clean and renewable source of energy. As an example of potentialities in this matter, it should be mentioned the investments of Petrobras in Okinawa, in 2007, and the Japanese government plans to mix gasoline and ethanol at 3%.

iii) Food supply: Japan imports 60% of all its dietary necessities. Brazil is the largest food and meat exporter, the only country in the world to possess an "agricultural frontier", which means great capacity to increase food production.

iv) Regional Air-jets: In November 2008, Brazilian Embraer started to deliver 10 jets ERJ-170 to the Japanese airline J-AIR, subsidiary of Japan Airlines (JAL).

v) Digital TV system: Brazil adopted the Japanese digital system and has influenced many South-American countries to follow his decision. This fact opens the path for many investments in the sector.

vi) Information technology (IT): The Brazilian market of IT involved a sum of 1.4 billion in 2008, a 75% increase in relation to 2007. One could imagine how many results can emerge from the adaption of Japanese technology and Brazilian creativity.

vii) New industrial investments: Brazil can be an important base for many Japanese firms interested in the potential big market of South-America. Japan was a great investor in Brazil during the 70s, when it actively participated in the process of industrialization of the country, especially in the mining (Usiminas) and tropical agriculture sectors (cerrados). Today, despite the economic crisis that hit Japan, the country possesses great liquidity available and is looking for new opportunities and new markets. Therefore, Brazil appears a great partner for Japanese investments.