

Scientific review paper

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The importance of Latin America and Caribbean for Brazilian trade

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Abstract: It is clear nowadays that Brazil's foreign policy is oriented to consolidate the cooperation and integration within South American countries. In this sense, Brazil is aiming to exert a leadership role in the region in order to deepen trade relations and to establish greater integration regarding regional development projects. In this paper we point out the main characteristics of the trade between Brazil and the region of Latin America and Caribbean, emphasizing the role of this region as a destination of the Brazilian manufactured goods.

Keywords: Latin America, Brazil, Foreign Policy, Trade

JEL classification: F590

Значај Латинске Америке и Кариба за трговину Бразила

Сажетак: У данашње време је јасно да је спољна политика Бразила усмерена на консолидацију сарадње и интеграцију у оквиру држава Јужне Америке. У том смислу, Бразил има циљ да оствари водећу улогу у региону у циљу продубљивања трговинских односа и успостављања шире интеграције у домену развојних пројеката. У овом раду указујемо на главне карактеристике трговине између Бразила и региона Латинске Америке и Кариба истичући улогу овог региона као одређеног извора за робу произведену у Бразилу.

Кључне речи: Латинска Америка, Бразил, спољна политика, трговина

JEL класификација: F590

1. Recent evolution in Brazilian trade and the importance of Latin America and the Caribbean

The Brazilian economy registered trade surplus after the policy of fixed exchange rate regime was abandoned. The implementation of so called *Real Plan*, introduced in July 1994, enabled the reversal of the trade balance between 1995 and 2000. With initial appreciation of the new currency, the real, coupled with the external crisis of January 1999 and the consequent end of the *exchange rate anchor*, the adjustment of the rate permitted the resumption of an upturn in the generation of surpluses.

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Table 1: Exports, imports and trade balance – Brazil – 2011/2012 (USD current billions)

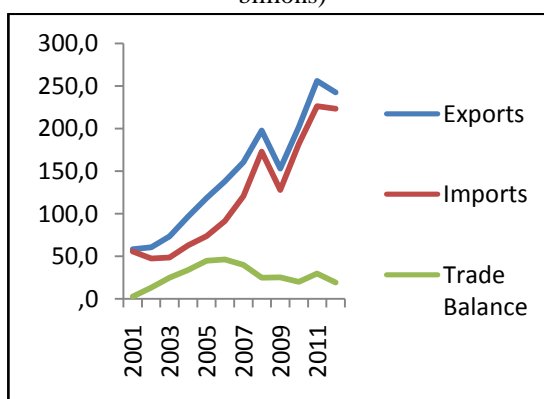
Years	Exports	2001=100	Imports	2001=100	Trade Balance
2001	58,29	100,00	55,60	100,00	2,68
2002	60,44	103,69	47,24	84,97	13,20
2003	73,20	125,59	48,33	86,91	24,88
2004	96,68	165,87	62,84	113,01	33,84
2005	118,53	203,36	73,60	132,37	44,93
2006	137,81	236,43	91,35	164,29	46,46
2007	160,65	275,62	120,62	216,93	40,03
2008	197,94	339,60	172,98	311,11	24,96
2009	152,99	262,49	127,72	229,71	25,27
2010	201,92	346,42	181,77	326,91	20,15
2011	256,04	439,28	226,25	406,90	29,79
2012	242,58	416,18	223,15	401,33	19,43

Source: (MDIC/Brasil)

As shown in Table 1 and Figure 1, this trend is largely due to the rapid increase in exports, which ensured a growing surplus even with the important simultaneous increase in the volume of imports. It is important to point out that the trade surplus was still possible in another context characterized by the resumption of economic growth at higher levels than in previous years to the third quartile of the first decade of this century.

In 2011, both exports and imports were already more than four times higher than the volume recorded in 2001, with a slight advantage for the export performance (4.39 times higher against a 4.01 times greater volume of imports in the same period) – see table 1. It should be noted, however, that the picture starts to show a relative change from 2007. In that year, the growth rate of exports was significantly lower than that recorded by imports (nearly half – 16.6% growth in foreign sales against 32.0% increase of international purchases). This situation has already demonstrated the effect of the onset of the international financial crisis, especially in developed countries, initially in the United States and its impact on the level of global economic activity – at a time when the Brazilian economy maintained its growth trajectory in motion at least by 2009, which supported the demand for imports.

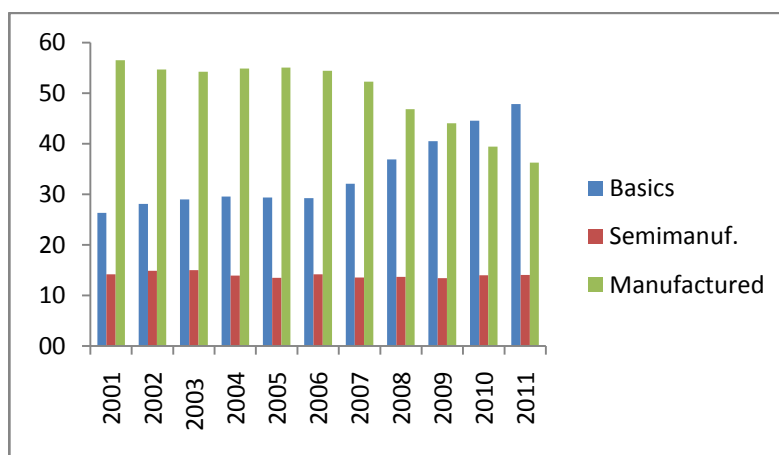
Figure 1: Exports, imports and trade balance – Brazil – 2011/2012 (USD current billions)



Source: (MDIC/Brasil)

Moreover, the beginning of the last quartile of the decade registered a fundamental change in the composition of Brazilian exports: the absolute and relative decline in exports of manufactured products. Part of this change was due to the cyclical higher international prices of major commodities exported by Brazil, which occurred throughout the decade. At the same time, the export of industrial products suffered two different problems, especially from 2006/7 – see figure 2. First, as noted earlier, the decline in economic activity that followed the financial crisis in the United States and later in the European Union, which caused significant decrease in demand for imports (the maintenance of Chinese demand explains the inverse behavior of commodity exports). Moreover, on the other hand, the combination of high interest rates in Brazil (also due to the external crisis scenario, but not only that) with a continued appreciation of the domestic currency, caused the increase of imports and, at the same time, led to the substantial drop in the competitiveness of industrial production.

Figure 2: Brazil – Composition of exports (1) – 2001/2011



Source: (MDIC/Brasil

(1) Exclusive Special Operations)

This change in behavior and structure of Brazilian exports determined, at the same time, significant change in the relative composition of the destinations of Brazilian exports - Table 2. As one can see, in the first decade of this century, traditional destinations of Brazilian sales, the United States and the European Union, were affected by substantial decline in overall exports structure. This is particularly true in respect to the U.S. participation, since Brazilian exports to the US fell from 24% of its total exports in 2001 to approximately 10% in 2011. In the case of the European Union, the decline was from 26.6% to 20.1% respectively. Imports also follow the same trend, noting the continued decline in the relative share of the United States and the European Union in the amount of purchases of Brazil abroad – see Table 2.

On the other hand, trade with China performs exactly opposite behavior. Between 2001 and 2012, China increased its share in Brazilian exports from 3.3% to 17%, surpassing in 2010 the United States ranking of Brazilian trade partners and steadily approaching the European Union. Another group of countries that maintains significant share of external transactions of Brazil is the region of Latin America and the Caribbean – the relative share of exports is between approximately 20% and 25% over the decade, while imports remain at around 17% in the period – see table 2. It is important to note, however, that the performance of trade relations between Brazil and China on one hand and Brazil and Latin America and the Caribbean on the other is the result of different situations.

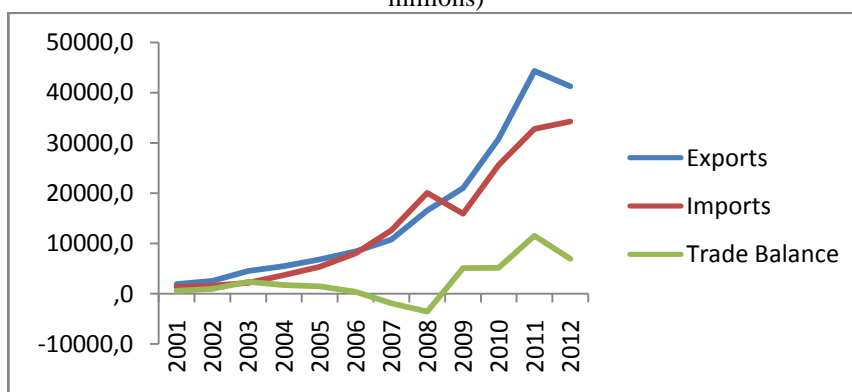
Table 2: Relative Share – Exports, imports, trade balance and trade current of Brazil – countries and bloc of selected countries – 2001/2012.

Years	China				USA				EU				Latin America and Caribbean			
	X	M	Balance	Current	X	M	Balance	Current	X	M	Balance	Current	X	M	Balance	Current
2001	3,3%	2,4%	21,4%	2,8%	24,4%	23,2%	48,5%	23,8%	26,6%	27,8%	1,6%	27,2%	23,2%	18,3%	126,1%	20,8%
2002	4,2%	3,3%	7,3%	3,8%	25,4%	21,8%	38,6%	23,8%	25,8%	28,6%	16,0%	27,0%	19,1%	17,7%	23,8%	18,5%
2003	6,2%	4,4%	9,6%	5,5%	22,9%	19,8%	28,8%	21,6%	25,7%	27,0%	23,2%	26,2%	20,3%	17,4%	26,0%	19,2%
2004	5,6%	5,9%	5,1%	5,7%	20,8%	18,1%	25,8%	19,7%	25,5%	25,4%	25,7%	25,5%	23,6%	16,5%	36,8%	20,8%
2005	5,8%	7,3%	3,3%	6,3%	19,0%	17,2%	22,0%	18,3%	22,8%	24,8%	19,6%	23,6%	25,5%	16,3%	40,6%	22,0%
2006	6,1%	8,7%	0,9%	7,2%	17,8%	16,0%	21,2%	17,1%	22,5%	22,1%	23,3%	22,4%	26,5%	18,4%	42,3%	23,3%
2007	6,7%	10,5%	-4,7%	8,3%	15,6%	15,5%	15,8%	15,6%	25,2%	22,2%	34,2%	23,9%	26,0%	17,7%	51,0%	22,5%
2008	8,3%	11,6%	14,1%	9,9%	13,9%	14,8%	7,2%	14,3%	23,4%	20,9%	40,9%	22,3%	25,9%	16,4%	91,1%	21,5%
2009	13,7%	12,5%	20,2%	13,2%	10,2%	15,7%	17,5%	12,7%	22,2%	22,9%	19,0%	22,5%	23,3%	17,8%	51,1%	20,8%
2010	15,2%	14,1%	25,8%	14,7%	9,6%	14,9%	38,4%	12,1%	21,4%	21,5%	19,9%	21,4%	23,8%	17,0%	84,8%	20,6%
2011	17,3%	14,5%	38,7%	16,0%	10,1%	15,0%	27,4%	12,4%	20,7%	20,5%	21,9%	20,6%	22,3%	16,7%	65,0%	19,7%
2012	17,0%	15,3%	35,9%	16,2%	11,0%	14,5%	29,1%	12,7%	20,1%	21,4%	6,2%	20,7%	20,8%	17,3%	60,4%	19,1%

Source: (MDIC/Brasil)

In China's case, despite the undeniable progress of exports and imports of this country relating to Brazil, the trade balance, although positive, is relatively low compared to the overall performance of the Brazilian external transactions. Besides, it shows a small positive inflection at the end of past decade, just as the level of economic activity in Brazil enters into a period of decline in growth rates, particularly with respect to the industry – see Figure 3.

Figure 3: Exports, imports and trade balance – Brazil/China – 2011/2012 (USD current millions)

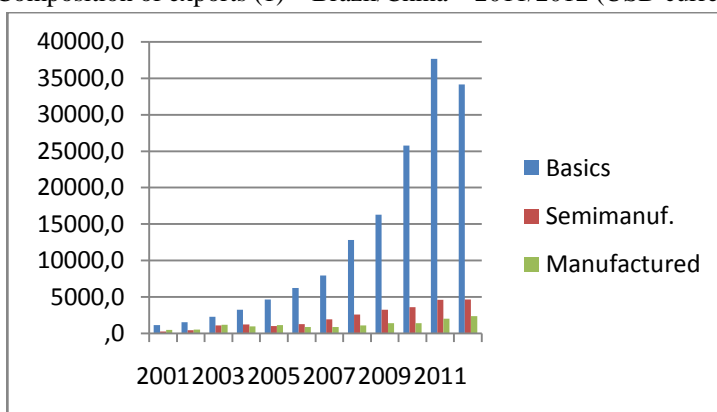


Source: (MDIC/Brasil)

Moreover, what clearly pulls export of Brazil to China are the commodities, characterized by low technological content, with increasing relative share, which has remained as a trend – see figure 4. Despite the slight decline in 2012, the relative share of primary products in total exports from Brazil to China jumped from 60.7% to 85%

between 2001 and 2011 (82.8% in 2012). Meanwhile, the share of manufactured goods in the exports from Brazil to China declined from 24.4% to 4.6% between 2001 and 2011 (5.8% in 2012).

Figure 4: Composition of exports (1) – Brazil/China – 2011/2012 (USD current millions)



Source: (MDIC/Brasil
(1) Exclusive Special Operations)

2. Brazil and the region of Latin America and Caribbean

The Brazilian relationship with the region of Latin America and the Caribbean is of specific performance and requires specific economic policy. It is the result of the Brazilian foreign policy and trade relations with characteristics quite different from those observed in the case of China. Official statements of Brazilian authorities below corroborate these issues (Brazil, 2008, p. 19.20, 24, 83.84):

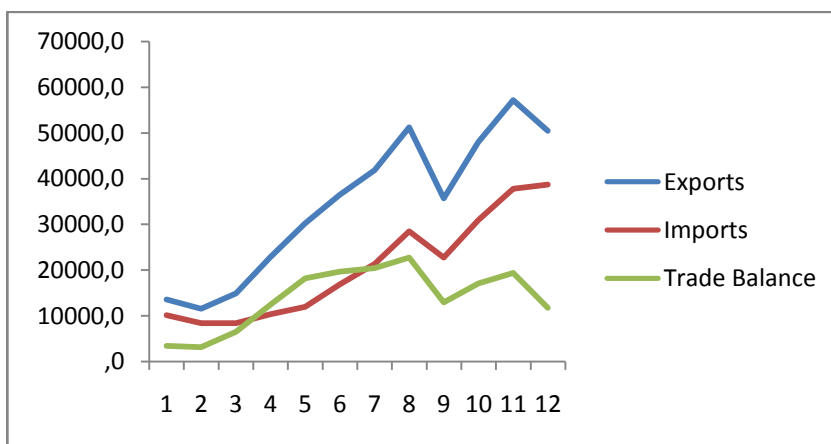
“When President Luiz Inácio Lula da Silva took office, Brazil changed the tone of its foreign policy; a policy that is concerned with the country’s sovereign insertion, at once universal and humanistic, firmly anchored in the interests of the Brazilian Nation and in the integration of South America [...] The South-South relationship is not only possible; it is also necessary. The South is not an amorphous complex of underdeveloped and dependent countries that have nothing to offer other than raw materials to wealthy countries. (...) Together we can become stronger, not only through the growth of our trade, but also by participating more actively in economic and political forums, such as the World Trade Organization and the United Nations, where questions of great interest to humanity are discussed. (...) Now, a more intense, more creative and a stronger relationship between countries of the South, does not mean that we will abandon our relations with developed countries, which are also important to all of us. Let’s do what developed countries do; take advantage of all opportunities and make our union our strength. Brazil is very similar to the Caribbean: a land of many cultures. We have the second largest population of African descendants in the world, only second to Nigeria. Like the Caribbean, we are proud to have provided a refuge for a great many European and Asian immigrants. Miscegenation and the harmonious co-existence (of our peoples) are a hallmark of our identities. (...) Brazil is prepared to move boldly forward, with flexibility

and generosity to further this association. We will stimulate business and cooperation projects that go beyond our trade relations. We will encourage the circulation of goods and services and we will seek greater inter-regional agreements on all levels [...] In Davos, at the beginning of this year, I said that Brazil had made an option for South America, an option that also extends to the whole of Latin America and the Caribbean. I am convinced that our region is more and more prepared to deal with the challenges of globalization. We are conscious of the fact that the destiny of our countries is becoming more and more intertwined.”

This stance of foreign policy reflects obviously the definition of a zone of preferential relations and a clear choice of development model. From a commercial standpoint, the choice is well founded and it characterized the evolution of trade and economic relations in recent years. First, there is a growing expansion of both exports and imports with countries in the region (see figure 5), following the trajectory of Brazil's trade relations in general.

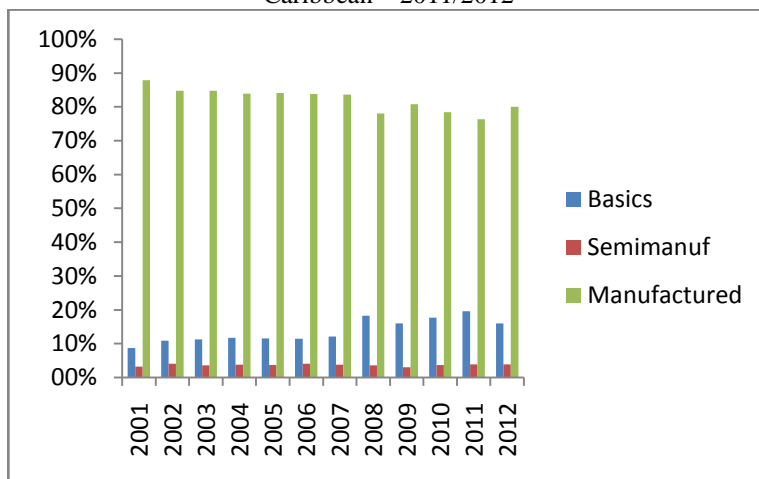
Second, and more important, unlike the global trend of business transactions of Brazil, where commodities grow considerably in the relative composition of total exports, Brazilian sales to Latin America and the Caribbean are increasingly concentrated in manufactured goods, with a stable performance throughout the first decade of this century – see figure 6. Thus, the region remains the prime destination of Brazilian industrial production, especially after 2006/7.

Figure 5: Exports, imports and trade balance – Brazil/Latin America and Caribbean – 2011/2012 (USD current millions)



Source: (MDIC/Brasil)

Figure 6: Composition of exports (1) – Relative Share – Brazil/Latin America and Caribbean – 2011/2012



Source: (MDIC/Brasil
(1) Exclusive Special Operations)

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