



**BRAZILIAN
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Newsbulletin

Brazil Summit

Economic and Political Outlook Addressed



Sergio Pereira, Lucio Pimenta, Vicente Bonnard, Minister Antonio Palocci, Richard S. Aldrich, Jr. and José Roberto de Azevedo.

Richard S. Aldrich, Jr., the Chamber President, gave the welcoming remarks at the Brazil Summit held on Monday, April 18th. Over 400 leaders from the international financial and business community gathered at the Waldorf=Astoria Hotel in New York City for this annual Chamber program that follows the spring meetings of the International Monetary Fund and the World Bank Group.

The participants of this program included several high-ranking officials in the Brazilian government, as well as several other distinguished speakers. This year's list of speakers included H.E. Antonio Palocci Filho, Finance Minister of Brazil; H.E. Roberto Rodrigues, Agriculture Minister of Brazil; H.E. Paulo Bernardo Silva, Minister of Planning, Budget and Management of Brazil; Mr. Henrique de Campos Meirelles, Governor of Brazil's Central Bank; and Mr. Joaquim Vieira Ferreira Levy, Treasury Secretary at the Ministry of Finance.

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Brazil, China and India

Taking a Closer Look at Economic and Trade Relations between Three Emerging Market Giants

Over the last few years, China and India have received a great deal of attention given their growing importance in the global marketplace. However, recently a new country has been added to this list of favorites – Brazil. Increasingly, these three economic powerhouses are feeding resources to each other and are profiting from collaborative relationships that transcend borders as well as cultural and linguistic barriers.

Brazil's relationship with China is the most extensive of any Latin American nation.

In the first annual “China – Latin America – India Forum”, held last March in Washington DC., government and business leaders from the three regions met to discuss trade and investment opportunities. The event focused heavily on opportunities in the Telecom and Energy sectors.

This article seeks to provide the reader with insights as to how Brazil stands against China and India at present. It is not intended to rank Brazil against the other two, but to provide sufficient economic data and facts to allow you to reach your own conclusion.

Brazil and China

Brazil and China have forged a broad political, technological and economic alliance over the past thirty years. Brazil's relationship with China is the most extensive of any Latin American nation. The large bilateral trade flows and a track record of cooperation in numerous areas provide evidence of that fact. In 2003, trade between Brazil and

China reached US\$8 billion. Brazilian exports to China have tripled in recent years, reaching 6% of total exports. Similarly, imports from China have more than doubled, reaching 4.5% of all Brazilian imports. Today, China is Brazil's third-largest trading partner. In 2004, President of China, Hu Jintao, and Brazilian President, Luiz Inacio “Lula” da Silva, met several times. During each visit, they signed a series of business agreements, boosting the relationship between the two countries from a trade partnership to a strategic partnership.

Brazil's foreign direct investment in China is still limited. In 2003, Brazilian investments in China stood at a mere \$13 million out of a total of US\$43.3 billion in investments by Brazilian firms abroad. However, the trade mission to China led by the President of Brazil in May 2004 attracted hundreds of attendees and has raised the interest level of Brazilian corporations looking for investment opportunities in China.

China's sustained demand for key commodity imports such as iron ore, meat, soybeans and soybean oil has played an important role in the growth of the Brazilian economy in recent years. Brazil is the largest producer of soybeans in the world. Under the WTO, Brazilian soybeans enter China at a lower tariff level than several of its competitors. Once sanitary agreements are in place, chicken and pork exports from Brazil to China will also pose stiff competition for other foreign suppliers. China is also one of the largest importers of kiln-dried lumber of which Brazil is a large exporter. More than 50 Chinese firms, such as Shangdong

Electric Power Group and Huawei Baostill, have established operations in Brazil in several industries over the last 20 years.

China is expected to become the world's second largest oil importer after the US in the near future. Chinese state oil companies are focusing on overseas exploration and production due to the nation's limited domestic resources and to meet China's growing demand for oil products. Petroleo Brasileiro SA (Petrobras), Brazil's state-owned oil company, and China Petroleum & Chemical Corp. (Sinopec), have inked a strategic cooperation agreement involving partnerships in deep-water oil exploration, oil production, refining, petrochemical development, pipeline engineering and technical cooperation. Sinopec is also interested in investing in a gas pipeline that will link the state of Rio de Janeiro to the northeastern state of Bahia.

India is known for its high-quality, low-priced software, but Brazil is quickly gaining ground.

Companhia Vale do Rio Doce (CVRD), a Brazilian steel and mineral company, has also benefited from the growth of the Chinese market. In 2004, China was the largest importer of iron ore and pellets in the world. Brazilian exports of iron and steel products to China mushroomed over 400% in 2003 and reached \$1.11 billion in 2004. In fact, almost 17% of CVRD's sales went to China last year. CVRD has also agreed to produce cooking coal for the Chinese

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market with China's Yukuang Group, and formed a partnership with the China Aluminium Company (Chalco) to mine bauxite and produce alumina (aluminum oxide).

Meanwhile, companies in other industries are also actively launching new binational business initiatives. The Brazilian Bicycle Company and the Jinan Qingqi Motorcycle Corporation have signed an agreement to manufacture motorcycles in China. Wireless carriers Telemar and China Mobile have entered into an international roaming agreement. Additionally, a deal between Varig and Air China will establish regular flights between the two nations, a move that should boost Brazilian tourism.

In May 2004, the China-Brazil Investment Development & Trade Center was established in Beijing to promote investments between the two countries. The Chinese Government expects bilateral trade to reach US\$20 billion in the next 10 years. The Center recently entered into an investment and trade cooperation agreement with Brazil's COMEXPERT Group, covering such diverse industries as coal, iron ore, cotton, sugar and railroad equipment. Potential for further trade and investment between these two vibrant countries is enormous.

While certain industries benefit from the growth of the Chinese market, some Brazilian companies are losing their market share to China in the US and the EU. Brazil's automotive and steel sectors have been particularly hard hit. From 1999 to 2003, exports of manufactured products from Brazil to the US grew by 59%, reaching US\$18.96 billion. Meanwhile, China's exports of manufactured products to the US skyrocketed 86%, to US\$163.25 billion. In Europe, Brazil is losing market share in sectors such as steel, iron, lumber, furniture, aluminum and the automotive industry.

China's exports will continue to

grow much faster than the global average in the near future. For Brazil, the sectors most likely to be affected are iron and steel products

While China and India present a threat to Brazilian trade interests in some instances, they also create many opportunities.

as well as transportation equipment. However, China's growing steel industry is likely to continue to depend on high-grade iron ore imports from nations such as Brazil. China's growing economy is also yielding significant export opportunities for Brazilian agribusiness.

Brazil and India

Recently, India and Brazil have also demonstrated a heightened level of economic cooperation. In June 2003, the two countries, along with South Africa, established a forum to promote mutual cooperation and to jointly voice common concerns and demands in the international arena. India and Brazil also signed a Preferential Customs Duty accord when President Lula visited there in 2003. These events have opened up opportunities on both sides for cooperation and bilateral trade.

The use of ethanol in India is becoming more and more common due to the high price of oil, environmental issues and fuel security concerns. This constitutes a huge market opportunity for Brazilian ethanol producers.

As a global leader in the area of information technology, India also spearheaded an initiative to develop greater cooperation between the two

countries in the areas of e-banking, e-governance and electronic certification system training. Both countries have emerged as strong global players in these key IT segments.

Brazil's software sector is the fastest growing in Latin America. Its revenue base is only slightly less than that of India. In 2001, the Brazilian software sector generated revenues of US\$7.7 billion, versus US\$8.2 billion in India. Global companies, such as IBM, have increasingly expressed interest in Brazil. IBM signed an agreement with Unicamp University in Brazil to create an IT hub on campus which will be available for local teaching and research institutions, Brazilian software companies as well as international research institutions. In 2004, the IT sector – including hardware, software and IT service providers – generated revenues of US\$11 billion, a 14% increase over 2003. This market is expected to grow 10% in 2005. India is known for its high-quality, low-priced software, but Brazil is quickly gaining ground.

Brazil's software sector, as well as its hardware sector, has the potential to grow exponentially. As is the case in India, Brazil has a large population, cheap labor and a growing economy. The Brazilian government along with the Brazilian Export Promotion Agency (APEX) and the Society for the Promotion for Excellence in Brazilian Software (Softex), are planning to help fund and promote the nation's software industry through investments and joint ventures with local software producers. In order to increase exports, the Brazilian government is debating a tax exemption for software.

Indian companies can benefit from this growing market in Brazil through investment and local production. Companies like Korea's TriGem, the US firm Altris and French software solutions company

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WeDo have already invested in Brazil. The Indian company Satyam Computer Services Ltd. is planning on opening operations in Brazil in order to service the Latin American market. The company sees Brazil as a market with high growth potential and strong talent in the IT sector. Other companies such as APTECH, Prologix, Infodesk Manipal, NIIT, Tata Infotech have also set up contracts with Brazilian firms.

India has a well established and successful generic pharmaceutical market. Many of these exporters are in the process of forming joint ventures or installing factories in Brazil. Reddy Laboratories and Ranbaxy were the first to enter the Brazilian market in 1998 and 1999 respectively. Both companies view Brazil as a successful venture because of the large pharmaceutical market and its easy access to other Latin American countries. Other Indian companies present in Brazil are Aurobindo, Strides Arcolab, Zeus and Torrent.

The Indian pharmaceutical market ranks 4th in volume and 13th in value in the global market. Indian companies produce mostly generic drugs because of patent issues. This has allowed them to become a low-cost, highly efficient manufacturer of a wide range of pharmaceuticals. The pharmaceutical sector is also growing industry in Brazil. According to the Brazilian Federation of Pharmaceuticals, Febrapharma, drug manufacturers are planning on investing more than US\$300 million in 2005. Brazilian companies primarily produce generic drugs for domestic use. Brazil had been experiencing a decline in pharmaceutical use in recent years. However, that trend was broken in 2004, when drug sales increased 10.3%.

The market for pharmaceutical drugs in Brazil and the Latin American countries is large, with a high demand for cheap medicines. In

India, the government is on the verge of passing a series of patent laws which many believe will put a stop to Indian copycat drug manufacturing. However, Indian companies can continue to grow and expand by entering global markets such as Brazil. With the presence of more pharmaceutical companies and heightened domestic research and development, the Brazilian pharmaceutical sector will also continue to grow. Through joint ventures and investment, Brazilian companies can benefit from the increasing Indian presence.

The ethanol market is clearly an

*Brazil's revenue base in
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of India.*

area where Brazil can benefit from the large Indian demand. The use of ethanol in India is becoming more and more common due to both the high price of oil, environmental issues and fuel security concerns. Domestically, Brazil is increasingly using ethanol as a substitute for gasoline. Brazilian engineers have developed an efficient technology for producing ethanol from alcohol. Two-thirds of Brazil's sugarcane production is now used to create ethanol and this amount is expected to grow because of rising sales of more fuel efficient cars. However, the industry is limited by high sugarcane prices and insufficient infrastructure capacity at the nation's sugar mills.

In 2002, Brazil and India signed a bilateral memorandum of understanding regarding ethanol. The agreement recognized Brazil as an expert in manufacturing ethanol and called for further joint research. Brazil can gain from this relationship by continuing to sell sugar to

India and also by selling the technology to produce ethanol to Indian firms. The Brazilian firm Dedini has already transferred technology to Indian firms, leading to the construction of distilleries in India. These distilleries are becoming more commonplace in India as the government seeks to mix ethanol with petroleum. And there are many more opportunities for Brazilian companies to expand the ethanol trade with India.

While India and Brazil remain competitors in many economic and trade arenas, companies are taking advantage of the increased cooperation between the two countries and forming strategic partnerships.

It is no secret that China and India will be the driving forces behind the global economy in the years to come. What we have yet to define is how these huge economies will affect other developing regions around the world. While China and India present a threat to Brazilian trade interests in some instances, they also create many opportunities. Despite the geographical and cultural divide between the three countries, Chinese and Indian corporations have invested in Brazil in search of natural resources and production benefits. This trend appears likely to continue. And as China and India continue to grow and expand relations with Brazil, it is likely that Brazil will continue to grow as well. ■

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