

Stepping up to the Plate:
**Emerging Powers and
International Responsibility**

**BRAZIL IN ITS REGION AND IN
THE WORLD**

Denise Gregory

Executive Director, Brazilian Center for International Relations – CEBRI

**KAS - SAIIA Governance Workshop
Johannesburg, 6 November 2008**

INTRODUCTION

- New global architecture has to take into account the diversity of countries and interests.
- G8 Heiligendamm process: G5 (Brazil, China, India, Mexico and South Africa) as new G8 partners in shaping global governance.
- Credentials: economic bigness, regional leadership role, diplomatic skills, share in social and environmental problems with global impact.

BRAZIL: Main Indicators

- Population: 190 million
- Inflation: 6.2% (last 12 months)
- GDP: US\$ 1.3 trillion (2007)
- Average GDP growth = 3.1% (2003-2007)
- 9th world major economy - PPP
- Investment grade status
- Foreign reserves above US\$ 200 billion

BRAZIL: Main Indicators

- Degree of trade openness: 13% (2007)
- Strong export performance since 2002
- Diversified Exports in products and markets
- Expressive and unprecedented growth of inward and outward FDI in the last years

ECONOMIC BIGNESS

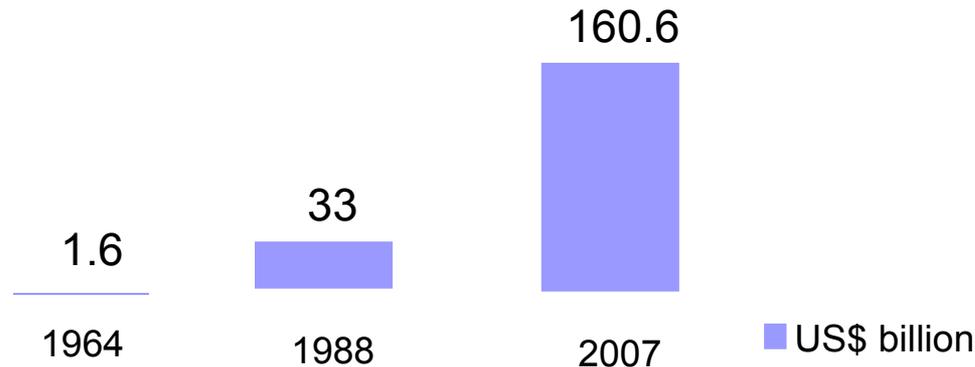
- 1990s: financial stabilization plan succeeded to overcome the burden of external debt and inflation.
- Regulatory and institutional changes led the way to economic opening and trade liberalization.
- Competitive commodities supplier with an export-oriented robust agribusiness sector.
- Growing weight as a global food supplier.

ECONOMIC BIGNESS

- Brazil ranks first among world exporters of sugar, ethanol, beef, chicken, pork and coffee; and is among the top four exporters of soy, cotton and orange juice.
- Large producer of manufactured goods of low technological intensity, but also some of high intensity like civil aircrafts, mobile phones, and jets.
- In the future: relevant supplier of biofuels (expertise and technology of sugarcane plantation/ transformation into ethanol. Also relevant role as energy supplier (recent discovery of massive oil and gas reserves).

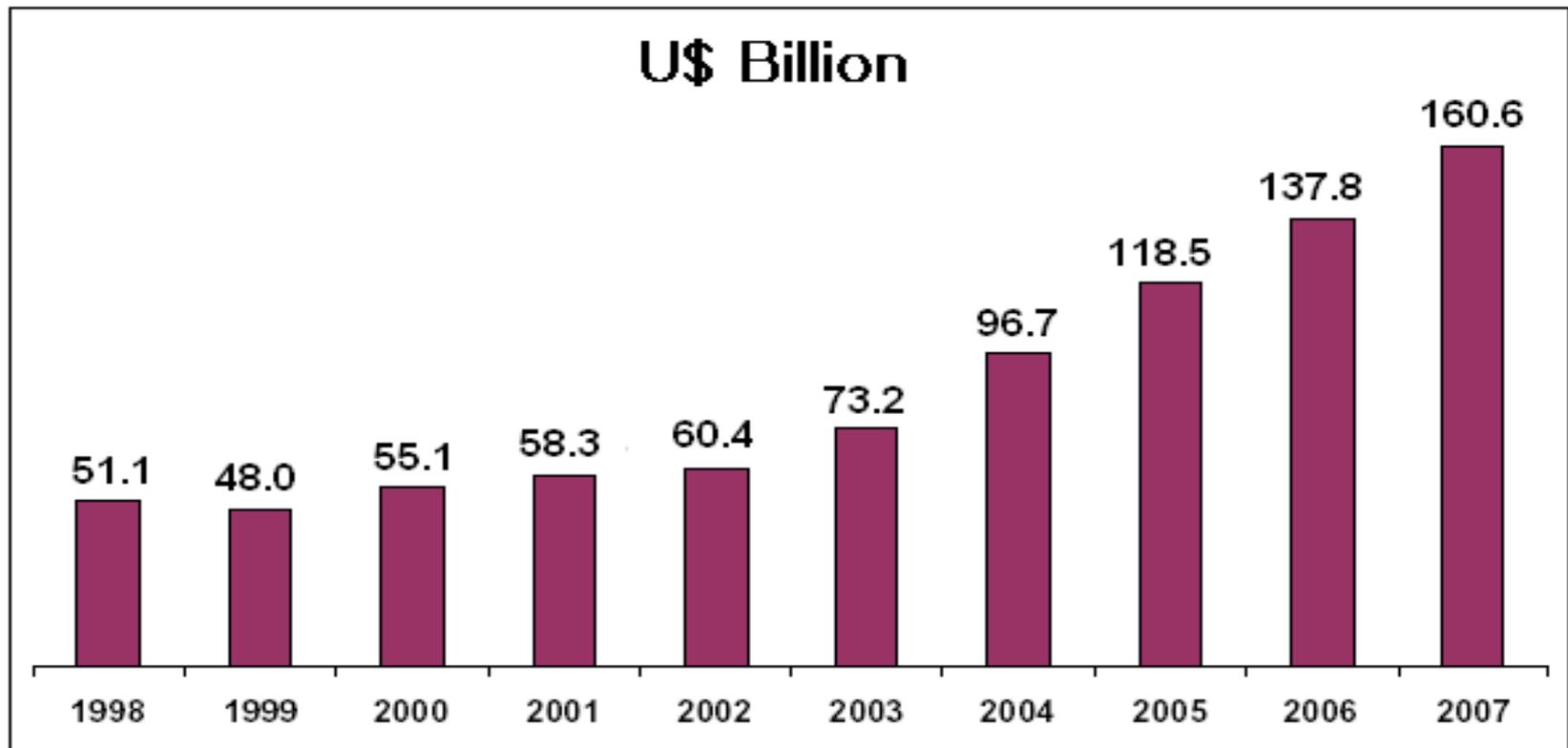
BRAZILIAN EXPORTS

- Diversified foreign trade in products and markets.
- Since 2002 export boom, pushed by the growth of world economy and Asia's hunger for food and commodities. China our second trade partner in 2008



Source: Secex/MDIC

EVOLUTION OF BRAZILIAN EXPORTS



Source: Secex/MDIC

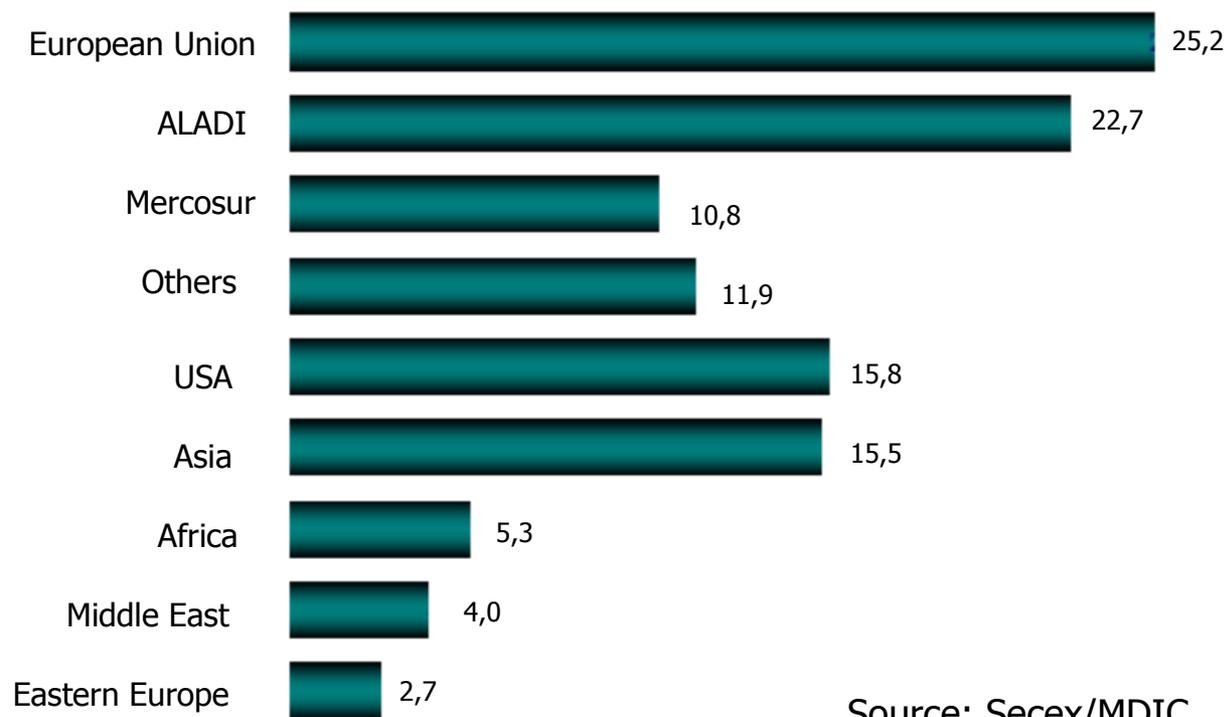
EXPORTS: Main Sectors 2007

(US\$ billion)

- Transport material	23.8
- Metallurgical products	16.1
- Oil and fuel	16.0
- Mineral ores	12.0
- Soy complex	11.3
- Meat	11.0
- Chemical	10.9
- Machinery and equipment	8.7
- Sugar and alcohol	6.5
- Electrical equipment	5.7

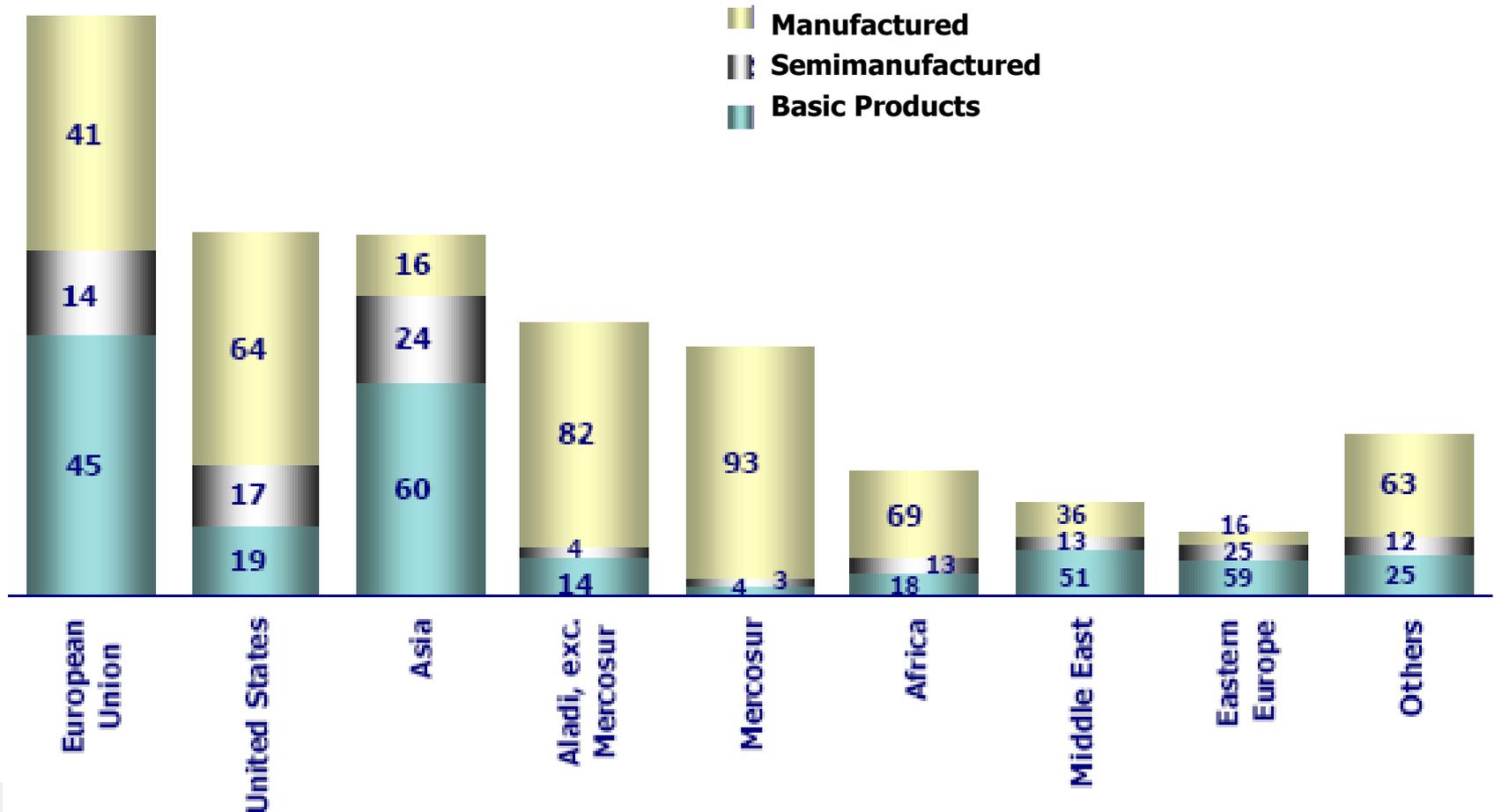
Source: Secex/MDIC

EXPORTS: Main Destinations 2007 (%)



Source: Secex/MDIC

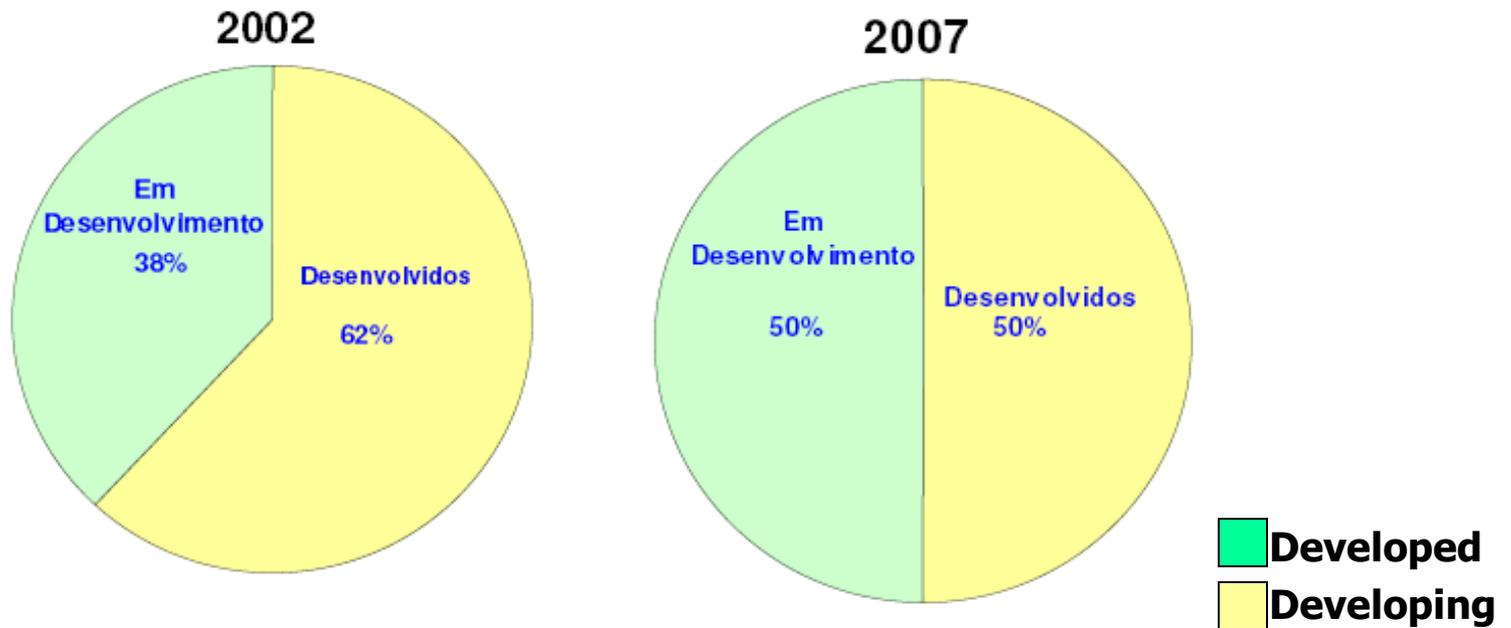
SHARE OF EXPORTS BY DESTINATION (%)



SOUTH-SOUTH FLOWS

- Emerging countries became less dependent on the North and more dependent on each other's growth.
- As a result, explosion of South-South flows of trade and investment.
- Brazil: Expressive increase in trade with other emerging countries.

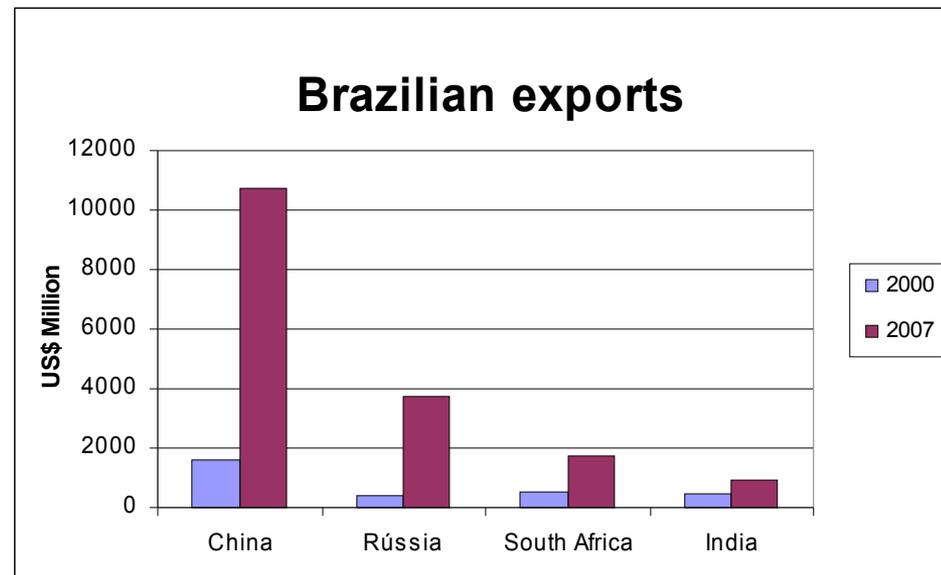
BRAZILIAN EXPORTS



source: MDIC

Brazilian exports to:	US\$ million	
	2000	2007
China	1.600	10.748
Russia	423	3.741
South Africa	529	1.757
India	488	958

Source: Secex/MDIC



MAIN WORLD EXPORTERS COUNTRIES

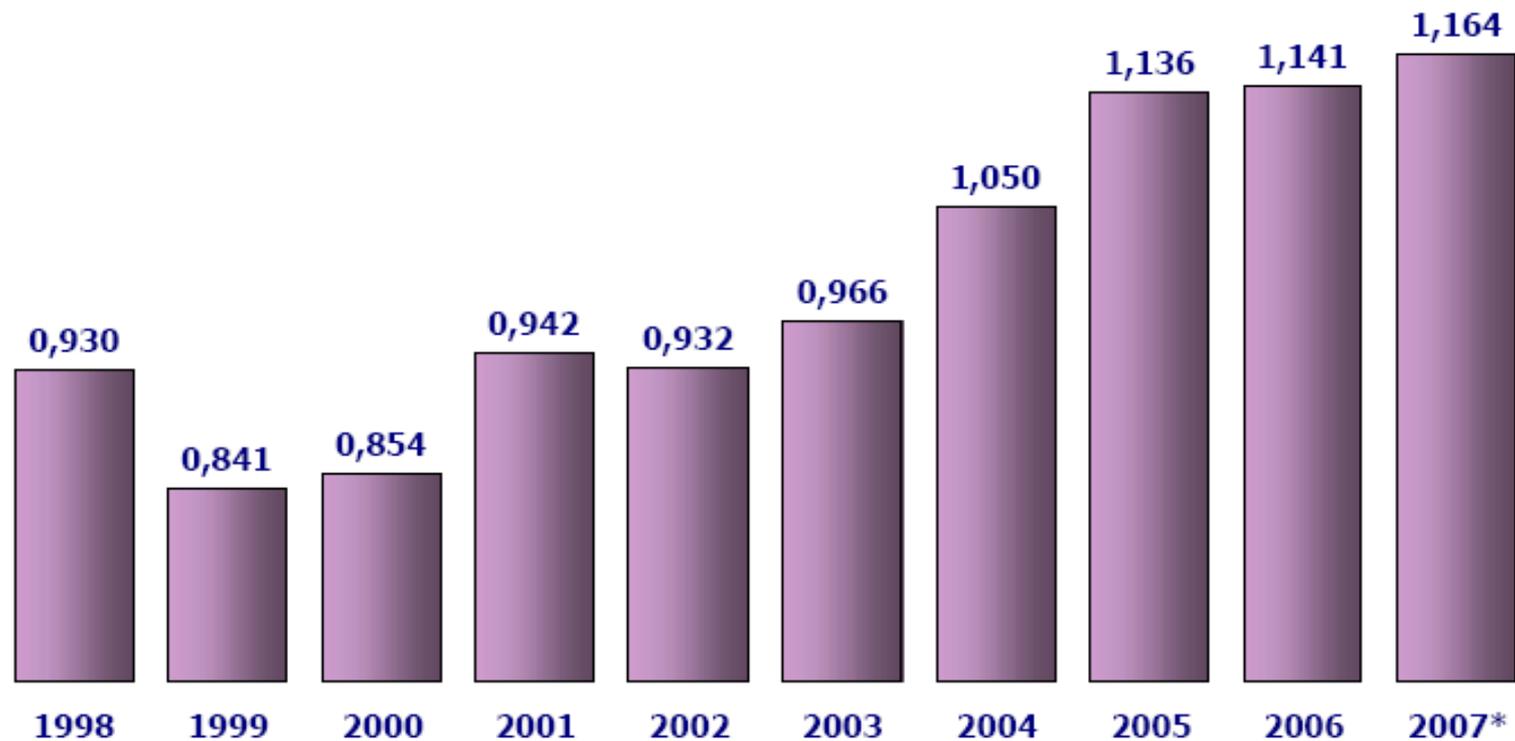
Principais Países Exportadores Mundiais

Principales Exportadores Mundiales / Main World Exporters Countries

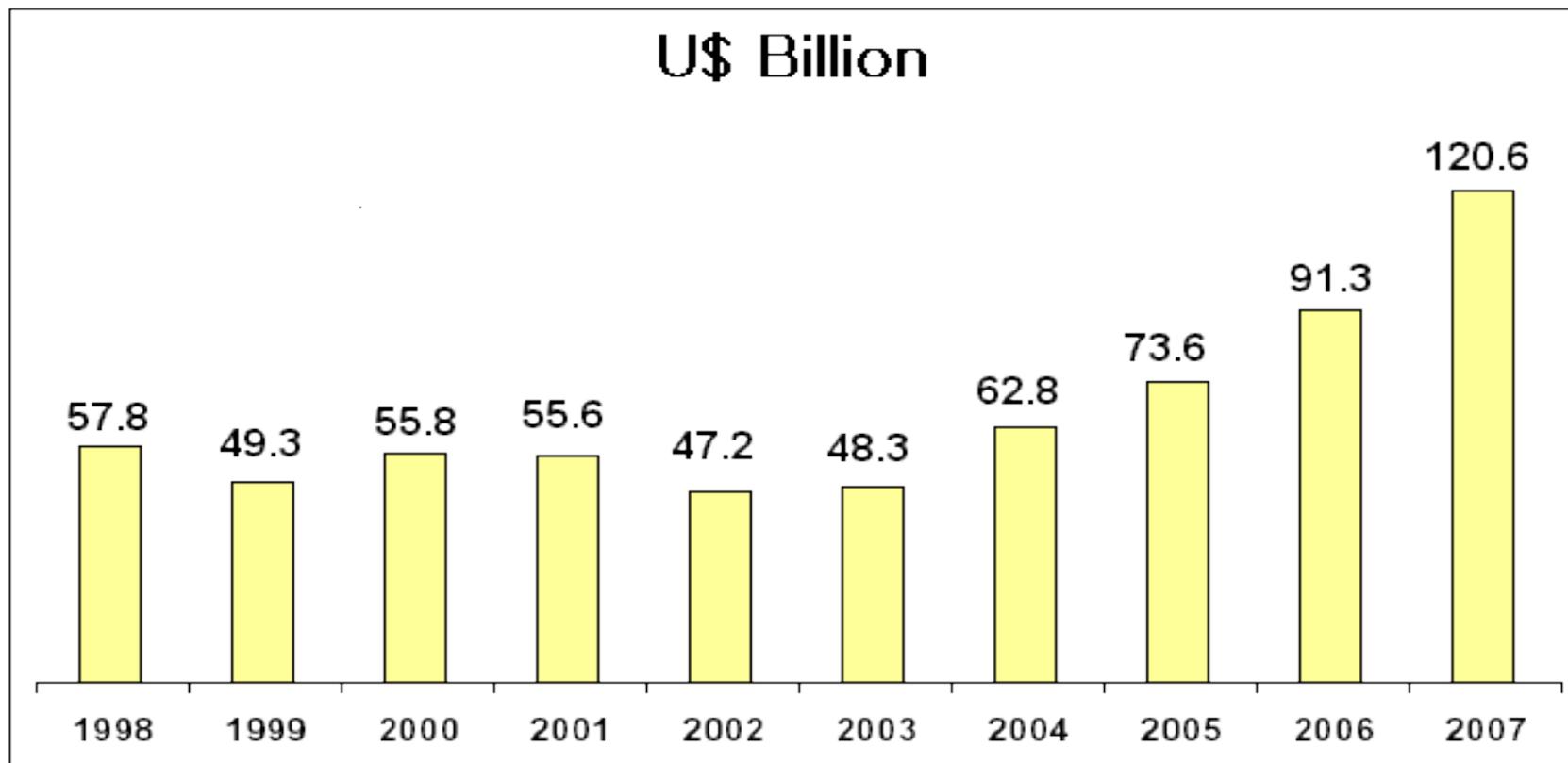
2006 - US\$ bilhões / US\$ billions / US\$ billions

Ordem / Rank		País / Country	Valor / Value	Part. % / Share	Var. % / Growth 2006/05
2006	2005	Mundo / World	12,062,0	100,0	15,2
		Total abaixo / Total abajo / Total below	10,032,4	83,2	14,4
1	1	Alemanha / Alemania / Germany	1.112,3	9,2	14,6
2	2	Estados Unidos / United States	1.037,3	8,6	14,5
3	3	China	969,1	8,0	27,2
4	4	Japão / Japón / Japan	647,1	5,4	8,8
5	5	França / Francia / France	490,1	4,1	5,8
6	6	Países Baixos / Países Bajos / Netherlands	462,1	3,8	13,7
7	7	Reino Unido / United Kingdom	443,4	3,7	15,3
8	8	Itália / Italia / Italy	409,6	3,4	9,8
9	9	Canadá / Canada	387,6	3,2	7,8
10	10	Bélgica / Belgium	372,0	3,1	11,2
13	13	Rússia / Rusia / Russian Federation	304,5	2,5	25,0
15	15	México / Mexico	250,3	2,1	17,0
24	23	Brasil / Brazil	137,5	1,1	16,2
28	29	Índia / India	120,2	1,0	20,8

SHARE OF BRAZILIAN EXPORTS IN WORLD EXPORTS 1998-2007 (%)



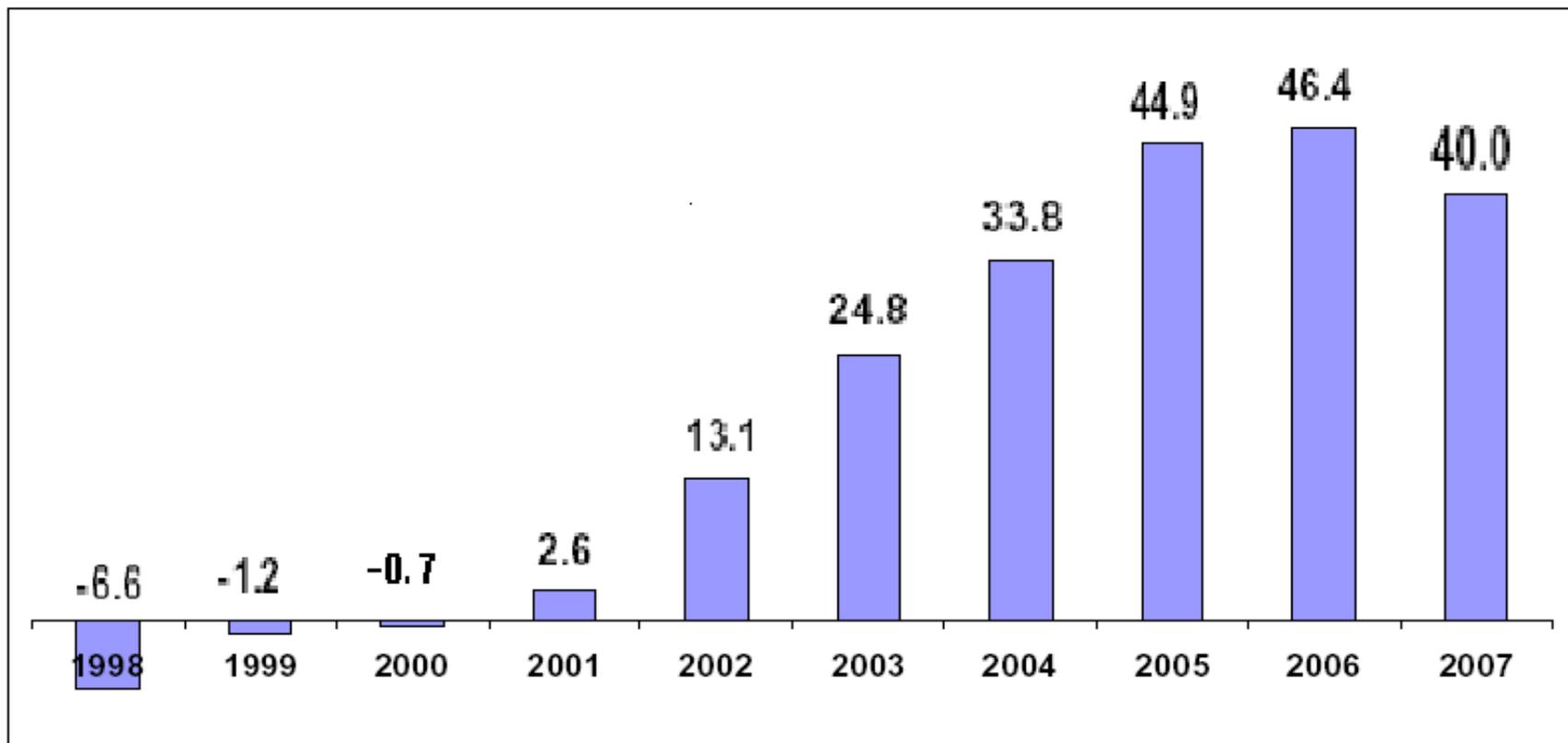
EVOLUTION OF BRAZILIAN IMPORTS



Source: SECEX/MDIC

EVOLUTION OF BRAZILIAN TRADE BALANCE

(US\$ billion)



Source: SECEX/MDIC

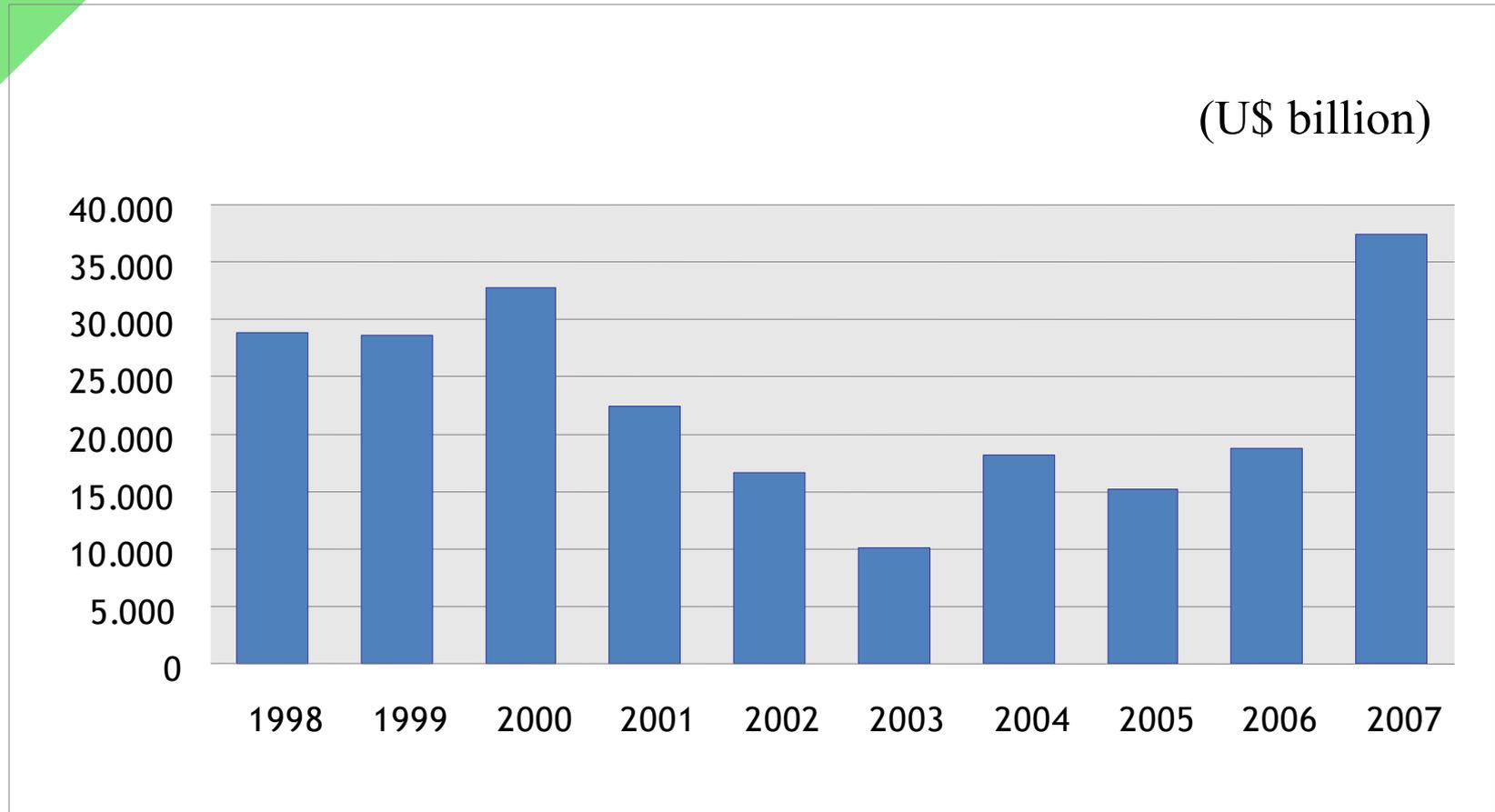
FDI OVERVIEW

- In 2007 FDI world flows increased by 30% and reached the historical record of US\$ 1.8 trillion.
- Brazil, with inward FDI of US\$ 37.4 billion, registered the highest growth rate among the emerging countries (double of 2006 level).
- Brazil is the 4th largest FDI destination among the developing economies.

SOUTH-SOUTH FDI

- Multinational enterprises are flourishing in the emerging market countries.
- Since 2003, FDI from those countries grow faster than FDI originating from developed countries.
- FDI flows from emerging countries are mostly intra-regional and concentrated in services, banking, telecommunications, natural resources based activities, oil and gas, mining and steel.

BRAZIL: Inward FDI Flows



Source: Brazilian Central Bank

BRAZIL: Outward FDI Flows

- In the current decade: surge in growth of outward FDI. The Brazilian multinationals are growing at an impressive rate in number and geographical scope.
- Brazilian multinationals are entering takeover contests, establishing greenfield operations, or bidding for resources extraction concessions in all the six continents.
- Brazil has the leadership in investments in South America. Main destinations: Argentina and Chile.

BRAZIL: Outward FDI Flows

- In 2006 outward FDI flows exceeded inward FDI for the first time ever.
- Vale acquired the Canadian INCO for US\$ 18.7 billion.
- Outward FDI in 2006 and 2007 exceeds the sum of the previous 12 years.

BRAZIL: Outward FDI Flows

- But few Brazilian multinationals rank among the very largest worldwide.
- According to the Boston Consulting Group, Brazil is listed with only 13 enterprises among the top 100 multinationals of emerging market economies. Behind China with 41, India with 20, and ahead Mexico with 7 and Russia with 6.
- UNCTAD's World Investment Report in 2006 listed only Vale, Petrobras and Gerdau among the 20 largest enterprises in their respective sectors.

SOUTH-SOUTH FDI: Major M&As Operations

Lean and hungry

2

Top five emerging-market M&As

Year	Target	Buyer	Deal value Sbn
2006	Inco <i>Canada</i>	Companhia Vale do Rio Doce, <i>Brazil</i>	18.7
2006	Rinker Group <i>Australia</i>	Cemex SA de CV <i>Mexico</i>	16.7
2008	Rio Tinto (12%) <i>Britain</i>	Alcoa; Aluminum Corp of China <i>US; China</i>	14.3
2006	Corus Group <i>Britain</i>	Tata Group <i>India</i>	13.0
2007	GE Plastics <i>US</i>	Saudi Basic Industries Corp, <i>Saudi Arabia</i>	11.6

Source: Dealogic

10 BIGGEST EMERGING MARKET ENTERPRISES - 2008

The new giants

3

Ten biggest Fortune Global 500 emerging-market companies, 2008

Company	Country	Global 500 rank	Revenue \$bn
Sinopec	China	16	159.3
State Grid	China	24	132.9
China National Petroleum	China	25	129.8
Pemex	Mexico	42	104.0
Gazprom	Russia	47	98.6
Petrobras	Brazil	63	87.7
Lukoil	Russia	90	67.2
Petronas	Malaysia	95	66.2
Indian Oil	India	116	57.4
Industrial & Commercial Bank of China	China	133	51.5

Source: Fortune

BRAZIL: International Dimension

- New and stronger relationship with both the developed and developing world: outward attitude.
- Take part with G5 in the Dialogue with G8.
- Invited by OECD to join the organization.
- Strategic partnership with the European Union.
- Special relationship with the United States in the area of biofuels.

FOREIGN POLICY AGENDA

- Active presidential diplomacy: search for a more active role in the region and in the world.
- Multilateral approach to global political and economic governance:
 - UN reform and campaign for a UNSC permanent seat
 - Reorganization of the international financial architecture to increase the South influence.
 - WTO trade negotiations: G20 created to push for an offensive agenda in the Doha Round, dismantling of protectionism and trade distorting subsidies.

FOREIGN POLICY AGENDA

- Multilateral and bilateral cooperation to focus on social investments and development assistance.
- New priority given to South-South cooperation
 - Establishment of IBSA in 2003
 - Institutionalizing of the BRIC's arrangement
 - Diplomacy of generosity
- Trade does not play a central role in the agenda anymore, but a wider thematic, including cultural, health, energy and environment cooperation.

BRAZIL: REGIONAL DIMENSION

- South American integration has been first priority to Brazilian diplomacy since mid 1980s:
 - Mercosur (1991)
 - The Amazon Initiative (1993)
 - SAFTA (proposed in 1994)
 - IIRSA Infra-Structure Initiative (2000)
 - CASA (proposed in 2004)
- Mediation of conflicts in the region
 - Peru-Ecuador: 1995 and 1998
 - Potential crisis in Venezuela, Ecuador and Bolivia

BRAZIL'S AGENDA FOR SOUTH AMERICA

- Reinforcement and expansion of Mercosur.
- Consolidation of UNASUR as an unified economic and political space with a diversified agenda, which includes trade, investments, infra-structure and energy.
- Promote the reduction of asymmetries.
- Support democracy.

PROBLEMS WITH THE AGENDA IMPLEMENTATION

- Uncoordinated and fragmented governmental decision-making process.
- Multiple initiatives led to loss of focus and to few concrete results from an economic prospective: only two trade agreements in goods: Mercosur-India and Mercosur-SACU (reciprocal concessions of tariff preferences for only 450 and 958 products respectively)
- FTAA came to a standstill in 2004 and Mercosur-EU trade negotiations were not concluded.
- Mercosur is paralyzed. Brazil and Argentina did not reach a common position in Doha.

PROBLEMS WITH THE AGENDA IMPLEMENTATION

- Brazil has limited capacity to deliver financial aid and security and exert full leadership.
- Any policy agenda aimed at promoting a deeper integration of Brazil into the world economy needs to address domestic constraints:
 - improvement of infra-structure and logistics
 - reduction of the complex tax burden
 - labor reform
 - improvement of judicial system

CONCLUSIONS

- Brazil is moving upwards in the scale of new international responsibilities, playing a more prominent role in global governance architecture.
- But a clear strategy for that goal is still lacking.
- The current political leadership hesitates to implement fully the global agenda. In the dialogue with G8, Brazil continues to press for a typical developing country agenda, and joining the “club of the rich” could damage the South-South alliance.
- Brazil’s “diplomatic GDP” is greater than its real GDP
- Modest results achieved so far in the strategies pursued.

Thank you!

Denise Gregory

Executive Director

Brazilian Center for International Relations (CEBRI)

dgregory@cebri.org.br



BRAZILIAN CENTER FOR INTERNATIONAL RELATIONS