China has been central to much of the current debate on Brazilian foreign trade. It is the main destination of Brazil’s exports, but these are concentrated in a few commodities (in 2010 63% were iron ore and soybeans). China’s share of Brazil’s exports (15%) is the same as the U.S. share, yet Chinese competition is seen as a threat to the survival of some industries in Brazil. Moreover, China crowds out Brazil’s manufactures in other markets: It started with Chinese shoes conquering the U.S. market, and now Chinese machinery competes in South America, where traditionally Brazil’s machinery had a comparative advantage.

Because the issues are extremely important, debate about what responses are possible is intense. Chinese direct investment in sectors that add value to basic products could promote export competitiveness. Trade protection measures (anti-dumping), transitional safeguard provisions, and perhaps taking the exchange rate issue to the World Trade Organization (WTO) could...
reduce Chinese imports. Yet China will continue to have an important role on the agenda of foreign trade not just for Brazil, but for the entire world.

A question arises in the face of the changing geography of trade: Is Brazil still a global trader? In 2002 Brazil’s foreign trade (exports plus imports) was US$108 billion. The participation of the European Union (EU) was 27%, the United States 24%, Latin America and the Caribbean 18%, and Asia 16%. In 2007, before the global crisis and the surge in commodity prices, Brazil’s trade flow was US$281 billion with the EU accounting for 24%, Latin America and the Caribbean 22%, Asia 20%, the U.S. 16%, and other countries 18%.

LEADERSHIP
Because the pace of recovery in developed countries is slower than in Latin American and Asian emerging countries (especially China) and because of higher commodity prices, in 2010 Asia took the lead in Brazil’s trade (US$384 billion). Asia’s share was 29%, Latin America 21%, the EU 21%, the U.S. 12%, and other countries 17%.

Growth in Asia is associated with China, which accounted for 24% of the total trade between Brazil and Asia in 2002 and 50% in 2010. As for the United States, it is important to note that its participation in Brazil’s trade dropped before the global crisis or the appreciation of the Brazilian real. Moreover, the decline is more pronounced in exports — the U.S. share declined from 22% in 2002–2005 to 13% in 2006–2010 — than in imports — down from 19% to 15%.

The fall in exports to the EU was less, from 25% in 2002–2005 to 23% in 2006–2010, while the EU share of Brazil’s imports fell from 26% to 22%. The high share of primary commodities (45% in 2007) in exports to the European market accounts for the relative stability in the percentage because prices of agricultural products and minerals are higher.

The Latin American share in Brazil’s exports increased from 22% to 25% and imports held constant at 17%. Here, however, the China effect is present indirectly: Countries like Argentina, Chile, and Peru benefit from sales of commodities to China and gain purchasing power to import Brazilian manufactured goods.

Brazil thus remains a global trader, although the geographic configuration is less balanced than in 2002 and 2007.

BALANCES
In 2007 Brazilian GDP grew 6.1% and trade volume 7.2% (trade as calculated by the Interna-
The Brazilian trade balance surplus reached US$40 billion. Brazil recorded surpluses with Latin America (US$20.4 billion), the U.S. (US$6.4 billion), and the EU (US$13.7 billion) and a deficit of US$5.6 billion with Asia, of which US$1.9 billion was with China.

Last year, Brazil’s GDP grew 7.5% and trade volume by 12%. The trade balance reached US$20.3 billion. Brazil recorded surpluses with Latin America (US$17.2 billion), the EU (US$4 billion), the Middle East (US$5.8 billion), and Asia (US$130 million). The trade surplus with China was US$5.2 billion, but Brazil had a deficit with the rest of Asian countries of US$5.1 billion. China may be exporting to Brazil through its production networks in Asia.

Then, between 2007 and 2010, with higher economic growth of 1.4 percentage points, which favors imports, but with 4.8 points higher trade, which reflects an increase in external demand, Brazil’s trade surplus declined by half. The exchange rate is the natural candidate for an explanation of this difference. Between 2007 and 2010, the effective exchange rate of the real appreciated by 26%. The good result for Latin America, where exports are concentrated in manufacturing, suggests that Brazilian businesspeople have managed to maintain their profit margins. There is no guarantee, however, that this will be the case if the exchange rate appreciates further.

Between 2005 and 2008, Brazil exported only 31 new products, so diversification of exports is also a challenge; specialization in commodities may be enough to serve the Chinese market, but it is not enough to ensure the dynamism of a global trader.

In the short term, external vulnerability seems not to be an issue since capital inflows ensure financing of the external current account deficit and the outlook is for a trade surplus of US$16 to US$18 billion—conditional, of course, on commodity prices, China’s demand, and a stable exchange rate.

The search for new opportunities, improvement in infrastructure, and reduction in administrative costs and the tax burden must remain priorities for the foreign trade policy agenda. Between 2005 and 2008, Brazil exported only 31 new products, so diversification of exports is also a challenge; specialization in commodities may be enough to serve the Chinese market, but it is not enough to ensure the dynamism of a global trader.

The search for new opportunities, improvement in infrastructure, and reductions in administrative costs and the tax burden must remain priorities for the foreign trade policy agenda.