A trade perspective

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In the list of GDPs measured by purchasing power parity of 2008 of the World Bank, three developing countries are among the top ten: China (second place), India (fourth) and Brazil (ninth). The term BRIC (Brazil, Russia, India and China) arose from an article by Jim O’Neill of Goldman Sachs. The constitution of the group occurred in June 2009, through a formal summit between governments. It is difficult, however, to imagine common agendas between these countries, except on issues of reform of multilateral organizations, and especially in the field of finance. The creator of the acronym in an interview with the newspaper O Estado de São Paulo (April 15, 2010) said that political differences between countries are a factor that hinders the joint action.

India and Brazil are together, but in another agreement, the IBSA, which aggregates also South Africa. The IBSA was established in June 2003 as a mechanism for cooperation and coordination of common interests of the three countries. At first, the identity of the IBSA was associated with the role of these countries in the leadership of South-South and North-South. Moreover, they shared common values such as respect for democracy. The IBSA agenda expressed in thematic working groups is vast, including agriculture, culture, defense, education, energy, environment and climate change, human settlements, information society, public administration, tax administration, science and technology, social development, commerce, transportation, and tourism.

Trade is only one item on the agenda of the IBSA. However, after six years and at the 4th Meeting of the Heads of States of the country members of the IBSA, held in Brasilia last April 15, it is worth to evaluate the results obtained so far. Here stands out the commercial relationship between Brazil and India.

Trade

In 2009 respectively, India and Brazil were 22nd (US$155 billion) and 24th (US$153 billion) world’s
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According to the World Trade Organization, the participation of two countries in international exports is close to 1.2%. The percentage is similar, but the exports of the two countries show differences. In India, the major group of exports are manufactured goods (64%), followed by fuels and minerals (24%) and agricultural (12%). In Brazil, the manufactures are in first place (45%), followed by agricultural (32%) and fuels (23%). In world trade, Brazil gained market in agriculture and India gained in manufactures. Between 2000 and 2008, Brazil’s share in the world’s agricultural exports rose from 2.9% to 4.6%. During that same period, the India’s share in the world’s trade of manufactures increased from 0.7% to 1.1% and Brazil from 0.7% to 0.8%.

Regarding imports, India is in 15th place (US$244 billion and participation of 1.9%) and Brazil in 26th (US$134 billion and 1.1%). The degree of openness (the share of trade flows in GDP) of Brazil was 24% and India 42%.

Regarding services, India stands out. It is the 12th largest exporter (US$ 86 billion, with participation of 2.6%) and import (US$ 74 billion and 2.4%). Brazil occupies the 31st place on the list of exporters (US$ 26 billion and 0.8%) and 20th place in imports (US$ 44 billion and 1.4%). The openness measured in terms of services is 28% for Brazil and 58% for India.

The structure of tariff protection (implemented in 2008) reflects differences in comparative advantages in the agricultural sector. In India, the average tariff for agricultural products is 32% and in Brazil 10%. Regarding non-agricultural products, the averages are close — 14% in Brazil and 10%, India.

The importance of markets in developing countries increased for both Brazil and India. Brazil’s trade share for these countries increased from 40% to 49% between 2000 and 2008, while India’s share rose from 32% to 51% in the same period. The share of exports of developing countries grew in Asia, the Middle East, and Latin America and Caribbean.
Brazil and India

In 2009, India was the ninth destination market for Brazilian exports with a share of 2.2%. The result of exports in 2009 was atypical. In 2008, India occupied the 38th place in Brazilian exports. Excluding 1994 and 2009, which show much higher shares of usually registered; the average share was 0.5% in 1990-1999 and 0.7% in 2000-2008. Thus, in terms of participation, the increase was small.

As the market of origin of Brazil’s imports, India ranked 14th in 2009 and 11th in 2008. The share of imports was more stable and there is a clear upward trend. The average share rose from 0.7% in 1990-1999 to 1.3% in 2000/09.

Brazil’s exports to India grew from US$314 million in 1999 to US$1,102 million in 2008. The growth of 210% between 2008 and 2009 is due to the extraordinary increase in imports of Brazilian sugar (US$43 million to US$1,326 million) due to weather problems in India. In addition, exports of crude oil increased from US$2 million to US$872 million. Between 2003 and 2008, the average annual growth of exports was 15%. From the creation of until 2008, the average annual growth of imports from India was 49%. The decline in imports from India in 2009 resulted from the overall drop in purchases by Brazil.

The structure of Brazil’s exports to India shows an increase in the share of manufactures from 23% to 40% between 2003 and 2006. Since then, the share of Brazil’s manufactures drops a bit to 38% in 2008 and 22% in 2009 partly because of the increase in commodity prices. The main products exported were crude oil, which come back in the form of diesel oil, sulfides of copper ore, other minerals and sugar. In 2005 and 2006, sales of aircraft are among the top five Brazil’s export products to India. Five products explain more than half of Brazil’s exports to India.

Mercosur and India

An agreement between Mercosur and India was signed in March 2005 and entered into force in June 2009. The trade flows do not reflect yet the

**India’s shares in Brazil’s external trade**

(Percent of total Brazil’s exports or imports)

Source: Brazil’s Ministry of Development, Industry and Commerce, elaboration IBRE/FGV.
agreement. Mercosur offered to India 452 products with tariffs reductions ranging from 100% (zero import tariffs) to 10%. India has offered 450 products and 75% of products will benefit from tariff reductions of 20% over the current rates.

In a study by the author for the Latin America Trade Network (Latn, www.latn.org.ar) and Center of Studies for Integration and Development (Cinder, www.cindesbrasil.org), we calculated that the share of imports benefiting from the agreement coming from India in the total imports of such products is 1.3% for Brazil, while the share of imports benefiting from the agreement coming from Brazil Is 3.2% for. We can say that the agreement for both countries covers a small number of products, and the trade liberalization modest.

IBSA
At the 4th Meeting of the Heads of States of the country members of the IBSA, held in Brasilia on April 15, there were several speculations about the event outcomes. These ranged from negative assessments that the IBSA meetings were “opportunities for meetings producing statements about wishes not accompanied by actions” until very optimistic views about the importance and effectiveness of the IBSA in the international scenario. In the field of trade, negotiations cannot be made between Brazil and India directly as they it must go through Mercosur. Experience shows that this leads to complicated procedures in terms of reconciling interests. This may be one factor to explain the “modesty” of the agreement. In addition, the low density of trade and concentration in few products not just boosted the speed of the negotiations. It may be added that Brazil and India focus on strengthening their industries, both in their domestic and international markets. In this case, proposals for broad liberalization may be present in both countries. The path to a comprehensive free trade agreement between Brazil and India depends on a firm political decision of governments, which for now is still in the phase of intentions.

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