

# The performance of Brazilian exports and the future challenges

**The consequences from the world financial crisis were experienced by Brazilian foreign trade in 2009, but it has been noticed a gradual reaction along the second semester. Next year, Brazilian exports will register better numbers thanks to the higher competitiveness of the involved products and the wide diversification of markets provided by the country's entrepreneurs, in spite of the excessive devaluation of the dollar against the national currency.**

## THE INTERNATIONAL SITUATION

The current scenario of the global economy continues to be preoccupying. The world financial crisis was not overcome yet, in other words, all the domestic measures for encouraging the countries' development and aiming an improvement of their financial situation have to continue and even be enlarged in case of the risks of the world development become higher.

International Monetary Fund (IMF) shows a concern about the loss of investors' trust and taxpayers in the capacity of the countries' fiscal balances, since their debt levels and public deficits are reaching record amounts, mainly regarding developed countries. According to IMF, that loss of confidence is a risk of the world economic recovery in the medium term.

The countries' great challenge is to know when and how they should reduce the given encouragements and how to do that in a coordinated way. The Fund affirms that the emerging countries are better prepared to reduce and eliminate their encouraging packages. Those countries should recover themselves before the richest countries, which experience historical debt levels.

IMF, through its half-yearly report "World Economic Outlook", which was published in October 2009, clearly shows that there are a lot of uncertainties about the recovery of the world economy, due to the credit limits, the drop in domestic demand of rich countries and the need of regulation of international financial market. In that context, the Fund foresees that the world economy will register an average reduction of 1% in 2009.

That forecast shows the great dimensions of that financial crisis that interrupted a vigorous growth that was happening in the global economy in the last 5 years with an average percentage of 5.0% a year.

According to the IMF's report, the performance of the world economy in 2009 could

be worse without the huge increases of the Gross Domestic Products (GDP) of the Asian developing countries, whose regional growth should attain 6.2% in 2009. China and India, the most populous countries in the world, should grow about 8.5% and 5.4%, respectively, in this current year.

The United States, the country that has generated the crisis, will have a decrease in their GDP of 2.7%, due to their high fiscal and trade deficits. Such drop in the world's largest economy means a brake in the development of global economy as a whole.

The foreseen drop of 5.4% for the economy of Japan in 2009 is preoccupying because that country has the second largest economy in the world.

IMF predicts a fall of 4.2% for the Euro Area (formed by the following countries: Germany, Austria, Belgium, Cyprus, Slovakia, Slovenia, Spain, Finland, France, Greece, Holland, Ireland, Italy, Luxembourg, Malta and Portugal) in this year. It is a significant drop in a region that had been growing a little, what certainly will increase its social problems, mainly in relation to job generation.

Latin America, an important market to Brazil, should move back 2.5% in this year. Brazil, according to the IMF's forecast, will have a drop of 0.7% in 2009, which could be considered as a good result as compared to the general situation. That projection, however, doesn't meet the one of Brazilian financial market, which expects a growth of 0.10% in the national economy in 2009.

## THE PERFORMANCE OF BRAZILIAN EXPORTS

Each country has been differently affected by the international financial crisis. Brazil has not been reached directly by the crisis, because its financial market is under rigid standards that have been implemented after negative experiences in a near past. The country, however, has experienced the indirect consequences of the crisis, mainly in relation to the loss of the purchasing power of the main buyers of its products and the shortage of foreign credits to its exporters.

In terms of shortage of foreign credits, the Government tried to supply them, using, among other resources, the one from the country's reserves in international currency, which now accumulate a high amount (around US\$ 230 billion).

The smaller purchasing power of developed countries that turned the international market more restricted, more competitive

and more protectionist, reached not only Brazilian exports but also those of the remaining countries, reducing a lot the overall trade among the nations.

To minimize those effects the Brazilian entrepreneurs are intended for a higher competitiveness, a more intense marketing of their products and an enlargement of the market diversification that already exist in Brazilian foreign trade; besides, evidently, of the incessant strive against the protectionism of the richest countries, what has been occurring since a long time ago.

Together with the hard foreign market, in which Brazilian products have to be still more competitive, the country's exporters are experiencing a more and more preoccupying problem. It is the excessive increase in value of the Brazilian currency, what is impeding that mentioned higher competitiveness.

The health of the Brazilian financial market, the fast recovery of the country in face of the crisis, the strength of its domestic market, its economic and political stability and the potential of new opportunities is attracting to Brazil speculative capital in addition to the US\$ 25 billion in foreign direct investments, according to the estimative of the Brazilian financial market for 2009. As Brazil has a floating exchange rate, the higher entrance of dollars in the country weakens the American currency in relation to the real (Brazilian currency). That fact rises the prices of the Brazilian exported products, which lose their competitiveness as a consequence. The dollar already dropped more than 25% only in 2009.

What increases, still more, the Brazilian exporters' concern is that the increase in value of the national currency doesn't seem to go downward, on the contrary, it should grow still more. For irony, the world optimism in relation to Brazil is harming its exports.

The negative consequences from the world crisis (mainly the drop in the purchasing power of largest international buyers) and the exchange rate policy are reaching the Brazilian exports in 2009. In the period from January to November 2009, Brazilian foreign sales amounted up US\$ 138.532 billion, a drop of (-23.8%) in relation to the sales in the same period of 2008 (by daily average), with reduction in the three categories of products. Imports and trade balance reached US\$ 115.330 billion (-27.6%) and US\$ 23.202 billion (+2.5%) respectively, in the same mentioned period.

Exports of basic, manufactured and semimanufactured products drop (-15.1%),

(-28.9%) and (-26.5%), in relation to the same period of the previous year (by daily average).

Three facts attracted the attention to the registered numbers of Brazilian exports in the considered period: the high decreases in the sale amounts to the United States (-43.7%) and Argentina (-34.4%), the two largest buyers of Brazilian products last year, and the increase in the export amount to China (+21.6%) in spite of the crisis, as compared to 2008.

The main destination countries to Brazilian exports, in the accumulated January-November/2009, were: 1st) China (US\$ 18.8 billion), 2nd) the United States (US\$ 14.4 billion), 3rd) Argentina (US\$ 10.8 billion), 4th) Netherlands (US\$ 7.5 billion) and 5th) Germany (US\$ 5.6 billion).

The Government's expectation concerning the export amount at the end of 2009 is more than US\$ 150 billion and for 2010 about US\$ 168 billion.

### THE FUTURE CHALLENGES

Although there is a consensus that there will be a growing improvement of the world market next years there also is a current concern about the debt level and the effectiveness of the policies adopted by each country to strive the crisis. That concern is basically about the financial situation of developed countries, which are the largest buyers of international market.

The attitudes in relation to foreign market and the austere measures taken by export companies in 2009 should be kept the same in 2010, the year in which the market should present a little higher liquidity than the one of the previous year.

The report "World Economic Outlook" shows that IMF believes in a gradual improvement of foreign market, what is directly proportional to the world economic development. For 2010, the Fund expects an average growth of 3.1% in global economy.

The United States, which are the largest economy in the world and the second largest importer of Brazilian products, will only increase 1.5% in 2010. The Euro Area and Japan will stop dropping and they will have growths of 0.3% and 1.7%, respectively, in relation to 2009. It is important to remind that those growths besides being small ones are compared to a very small base (year of 2009), on the other hand, they indicate a trend of an economic recovery.

According to the Fund, the region with the largest growth perspectives for 2010, continues to be Asia, boosted by China and India that will expand their economies in 9.0% and 6.4%, respectively.

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The mentioned economic recovery, predicted by the IMF, will certainly cause a reaction of Brazilian exports. That reaction should be gradual insofar as the largest buyers are recovering their purchasing powers. No doubt that the Fund is considering in its forecasts the success of the special development measures adopted by the countries reached by the crisis. The most part of those countries are protagonists of international trade.

One of the main future challenges of Brazilian exports will be the way how the companies will take advantage from that economic recovery. No doubt that the basic characteristics of the Brazilian export companies, mainly the large-sized ones (that account for about 90% of country's exports), in order to move forward on foreign market already exist. Thus, is necessary to intensify the support to the Brazilian medium, small and

micro companies in order to give them conditions to participate in foreign market or to enlarge the current foreign sales.

The institutions responsible for enhancing exports linked to the Government (BNDES, Banco do Brasil, APEX, SEBRAE, Correios, etc) have been carrying out a good work towards that aim and all of them are committed to the enlargement of that work.

There are two other challenges that Brazilian exporters will have to face from now on that depend exclusively on the Government's will. The first of them, concerns the low public investments in logistics infrastructure, which become the country's products more expensive and, therefore, less competitive in foreign market. More financial resources to that area would result in a compensatory return to Brazil.

The other challenge is regarding the Government's exchange rate policy, in which the dollar has been significantly decreasing its value. Brazil has been conquering a higher trust of foreign investors, what has been providing a strong entrance of foreign investments. As Brazil has a floating exchange rate policy, the increase in value of the Brazilian currency is almost inevitable, turning the country's products less competitive on international market.

That fact seems that will stay for a long time, what worries exporters a lot. Thus, exporters demand an attitude from the Government in order to neutralize that negative effect on country's exports. The forecast is of an entrance of direct foreign investments of approximately US\$ 30 billion in 2010.

If the Government has capacity to remove or even to lessen the mentioned obstacles, Brazil would have conditions to improve its place in the ranking of the world's largest economy, since exports are one of the main instruments for that.

BRAZILIAN TRADE BALANCE PERIOD 2000 - 2009 (US\$ billion)			
YEAR	EXPORT	IMPORT	BALANCE
2000	55.12	55.84	- 0.72
2001	58.28	55.57	2.71
2002	60.44	47.24	13.20
2003	73.20	48.29	24.91
2004	96.68	62.84	33.84
2005	118.53	73.61	44.92
2006	137.81	91.35	46.46
2007	160.65	120.62	40.03
2008	197.94	173.21	24.73
2009 (*)	138.53	115.33	23.20

(\*) from January to November  
Source: Ministry of Development, Industry and Foreign Trade.