China: Sustainable growth ahead



Clodoaldo Hugueney

Brazilian Ambassador to China

Solange Monteiro, *Rio de Janeiro*

CHINA, THE SECOND largest economy in the world, no longer pursues growth at all costs. Now, the concern of its government is sustainable growth, better income distribution, and prioritizing environmental issues. The 2012 GDP growth forecast is 7.5%. That is how Clodoaldo Hugueney, Brazil's ambassador to China, views the situation. He believes China's approach has advantages for Brazil. "We should not forget that imports from China are worth about US$2 trillion, and most of them are manufactures," he says. The ambassador approves of the development of Brazilian supply chains in China and elsewhere in Asia and the Pacific region.

***The Brazilian Economy*—Recently, the World Bank revised its estimate of China's 2012 GDP. What are the implications of that?**

Clodoaldo Hugueney—The change means that the country is making an effort to reorganize and grow its economy on a more sustainable basis. This implies less investment and more domestic consumption, changing the relationship between wages and capital. Quarter on quarter, the growth rate has been falling since the end of 2010. In China's 12th Five-Year Plan, projected GDP growth is about 8%, and Prime Minister Hu Jintao announced 7.5% for this year . . . . Now, it is not so much about just growing, but about growing with improved income distribution, promoting household consumption, reducing investment, prioritizing environmental issues, and changing the energy consumption matrix.

These changes in the economy coincide with major changes at the top of government. What should we expect?

Of the nine members of the Politburo Standing Committee, seven will be leaving. There is also a debate whether the committee will continue with nine members or be reduced to seven. There will also be significant changes in the central committee. The changes in government will be completed in March next year in the National Assembly, which will choose the prime minister, the members of the Council of State, and minis-

ters.... Not only are public officials changing, but there is a transition from the fourth generation of leaders to the fifth.

The expectation is that the new leadership will address three major challenges. The first is domestic politics: there need to be changes in how the government is organized, the party's relationship with the government and society, and [public sector] transparency. On this, there is a great expectation that the new leadership can move forward. The second is the economy, where the strategy is well-defined: the current five-year plan focuses on changing the growth model. And third are the challenges in the international arena. China is the second largest economy in the world, with increasing international responsibilities. So China needs a foreign policy that reflects this new dimension.

What about external impacts?

China is also passing through an external rebalancing, which has to do with its external balance surplus and its exchange rate policy. Lower growth means fewer imports, which is already happening. At the same time, however, the government has adopted a policy of increasing imports to reduce the trade surplus, which reached almost 10% of GDP and now stands at about 2.8%. In 2008, the surplus was close to US$300 billion, this year it should be about US$200 billion. The relation of the Chinese currency to the dollar has also varied. The latest IMF report shows a small depreciation in the exchange rate with the dollar, estimated at about 7%. Chinese exports were also significantly affected by the fall in growth in Europe, China's largest export market.

How will the international financial crisis and less Chinese growth affect China's trade with Brazil?

Brazilian exports to China are very concentrated; raw materials and agricultural products account for over 90%. Three account for something like 80%: soybeans, iron ore and oil. Soybean sales increased in January-August compared with the same period in 2011 because of higher prices resulting from problems with crops in the United States and Argentina. Brazil failed to expand oil exports because production of new deep-sea oil was less than expected. As for iron ore, with the reorganization of the Chinese economy, there was a significant reduction in the share of heavy industry, particularly the steel industry. China can produce close to 900 million tons of steel per year, but ... demand for steel was affected because there were fewer Chinese infrastructure and construction projects. ... Through August, Brazil's total 2012 exports to China were US$30 billion, but the fall in iron ore and oil exports was about US$3 billion. It is significant ....

Imports, on the other hand, continue to grow because the Brazilian economy is recovering. Chinese exports to Brazil are extraordinarily diverse. The eight major products, all manufactures, account for 13% of the total, compared to more than 90% in what we export there. From China we import industrial inputs, capital goods, telecommunication equipment, electronics, computers . ... These imports are important for Brazilian

China is making an effort to reorganize and grow its economy on a more sustainable basis.

growth. I expect hopefully that Brazil's trade balance surplus with China will decline to a reasonable level. Now, we have to make a serious effort to diversify Brazilian exports to China. We should not forget that imports into China are valued at US$2 trillion, most of them manufactures.

Not only are public officials changing in China, but there is a transition from the fourth generation of leaders to the fifth.

A 2011 IPEA study said that one of the problems in the progress of relations between Brazil and China is that the Chinese clearly know what they want from Brazil, but Brazilians do not know what they want from China. Do you see strategic advances in this relationship?

I think so. The first international trip President Rousseff made was to China, which demonstrated the importance she attributes to repositioning Brazil in relation to China and Asia. This involves many things, but certainly in trade relations it involves, first, a concerted effort to diversify and increase the value-added of Brazilian exports. We count on China's goodwill, and this year Chinese authorities are scheduling missions of businessmen led by the government to increase imports of Brazilian products.

Do changes in demographics and population in China open up opportunities for Brazil?

The rapid process of urbanization … will radically change the appearance of China in 15 years. At the same time, the aging population and reduction in the work force will have an impact on labor supply. Wages are growing at accelerated rates. The one child per family rule established 30 years ago will have more significant impact starting in 2015. The third change is that during the period of rapid growth there was a pronounced process of income concentration. The [income] disparity between rural and urban areas and between coastal and inland areas has grown. Today, China has about one million millionaires. Some of the largest fortunes in the world are here. You have income concentration in large cities like Beijing, Shanghai, and Guangzhou, and creation of a middle class estimated at 200 million people. From the standpoint of marketing, that has several consequences. As Ignez Lopes and Mauro de Rezende Lopes pointed out, there will be fewer workers in agriculture and prospects of increased consumption of protein, like meat; Brazil is positioning itself to capitalize on this growth. Since I arrived in China I have been working with the Ministry of Agriculture in an effort to open the Chinese market for Brazilian meat. Brazil is among the largest exporters of beef and chicken. What we have to do now is export not only frozen but also processed meat. The opportunities are immense. Coffee consumption in China is growing at 20% a year. And Chinese demand for wine is the fastest-growing in the world. We are not yet taking advantage of it.

Should Brazil be making efforts to export more quality than quantity?

We have to intensify the effort to improve quality. [We also have] to show Brazil that China is not only a matter of niche products. There is opportunity for just about everything. … European manufacturing companies are increasingly devoting

themselves to developing markets in China's countryside, with great success. There is where you will find great dynamism as well as income.

How can Brazil improve its competitiveness?

Brazil must look to the long term and seize the opportunities that China presents. Brazil should invest in China, developing production chains. People are no longer thinking about classic trade, but about production chains. We need to develop supply chains in Asia and the Pacific region, which is where globalization is moving to. We need an exercise that involves short-, medium-, and long-term strategy. Brazil is doing this. With the new industrial policy begins a new dialogue with China, putting on the table clearly what are our goals and the problems we have to solve.

China is the second largest economy in the world, with increasing international responsibilities, so it needs a foreign policy that reflects this new dimension.

In your opinion, what is the role of the BRICS (Brazil, Russia, India, China, and South Africa)?

There are three important dimensions. One that has been growing is dialogue: at first it involved only economic issues; now it is expanding to policy issues such as the situation in the Middle East and North Africa. Dialogue between Brazil and China is increasingly seeking to coordinate positions and identify common policies that can help resolve problems. This is also occurring in environmental issues.

The second area is BRICS coordination. They identify topics on which they have a common position, such as reforms of the IMF and World Bank and economic issues within the G-20, and take them to international forums.

The third area is cooperation. In agriculture, for example, ministers have been meeting to identify areas of cooperation in trade, investment, science, and technology. The Brazilian Enterprise for Agricultural Research (Embrapa) has just opened a laboratory in China and the Chinese Academy of Agricultural Sciences has opened one in Brazil to strengthen cooperation in science, technology, and agricultural innovation. The Brazil-China program to build satellites is being expanded to encompass nanotechnology and biotechnology. Last August the Minister of Science and Technology, Wan Gang, signed a cooperation agreement to expand the China-Brazil Center on Climate Change.

What can we expect from the relationship in 2013?

For China, Brazil has been a priority for years, and vice versa. That will not change. The second thing that will not change is that we still have a lot of areas of cooperation that we can develop. And finally I think Brazil and China have growing prospects of cooperation at the international level. Both are emerging countries with a rising profile in international relations and therefore capable of exerting influence on the course of world order. Therefore, they must have a more comprehensive and increasingly global relationship.