

Wanted: More markets and better Brazilian products



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BRAZIL'S TRADE BALANCE was US$2.4 billion in 2013, after recording double-digit surpluses going back to 2002; trade surplus projections for 2014 are about the same as last year. Because of the declining trade surplus, the current account deficit is around US$ 80 billion and warning lights are on as it approaches 3.5% to 4% of GDP. No currency crisis is expected, but in 2013 the country had to use part of its international reserves (US$6 billion) to finance the current account deficit (US$81 billion).

The trade deficit in oil and oil products, which rose from US$5 billion to US$20 billion between 2012 and 2013, has contributed significantly to the deterioration in the trade balance as a whole. The oil deficit rose because oil rig problems have reduced production and price controls on sales of domestic fuel sales have pushed up fuel imports. Once these issues are remedied, it would be possible to resume higher trade balance surpluses.

Trade surpluses

Improvement in the oil trade balance is essential to improve performance of the general trade balance, but other factors also contributed to the general decline. Between 2002 and 2007, Brazil's trade surplus went from US$13 billion to US$40 billion, peaking at US$46 billion in 2006. In 2003 Brazil's trade surplus with China was US$2 billion, though it fell thereafter. During this period Brazil posted trade surpluses with South America, the European Union, and the United States. In 2008, the surplus fell to US$25 billion as trade surpluses declined in most markets, particularly in the United States, and in trade with China a deficit of US$3.5 billion emerged.

After 2009, Brazil posted trade surpluses with South America and China. Brazil has posted trade deficits with the United States since 2009, because of both declining demand and less competitive Brazilian products. Since 2013 Brazil has posted trade deficits with the European Union and other countries.

The trade surplus with South American countries has declined since 2011, mainly because of the Argentine crisis but also because exports to other countries in the region dropped. To raise Brazil's trade surplus with neighboring countries means manufacturing exports will have to improve, because they represent 80% of Brazilian exports within the region. This brings us again to the issue of the competitiveness of Brazilian products. Outside the Mercosur countries, the other major economies in the region (Chile, Colombia, and Peru) have signed agreements with the United States, the European Union, and China (except Colombia). As result of these trade agreements, Brazil has lost the advantage of preferential import tariffs.

A near-term boom in commodity prices is unlikely. We do not consider that a slower pace of growth in China, around 7%, will have a major impact on Brazilian exports to that market. Even if Brazil exports of iron ore and soybeans to China declines, diversification of agricultural exports could ensure continued trade surpluses there.

Pessimistic scenario

In general, as an economy grows less, imports decline and the trade balance improves. In 2013 Brazil grew by 2.3% and in 2014 growth is expected to be near or below 1%, yet despite lower growth the trade balance has worsened. Appreciation of the exchange rate may have contributed to increase imports, and loss of competitiveness has reduced exports.

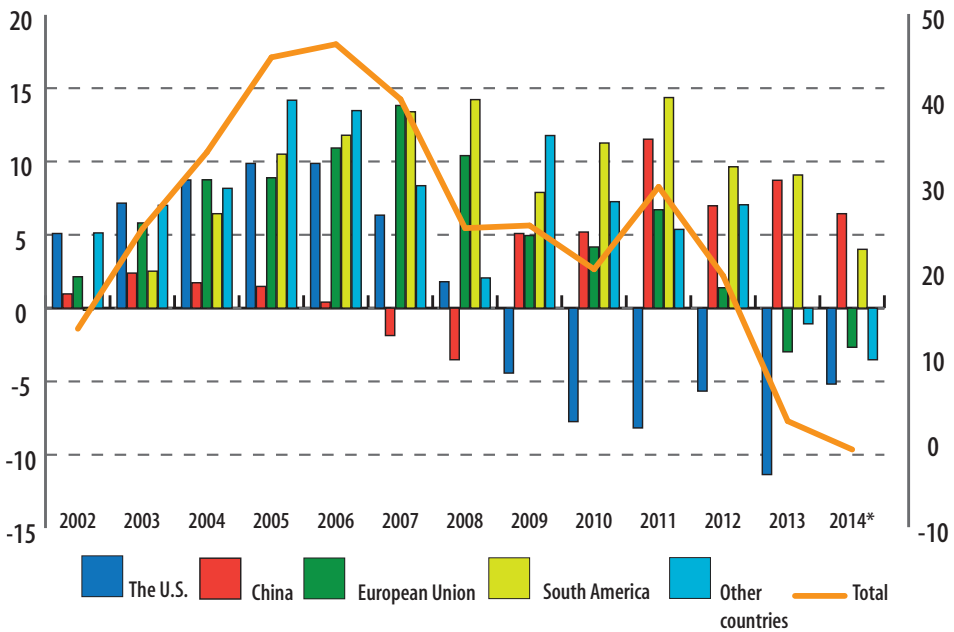
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Earning trade surpluses of US$20 billion or so will require changes in the composition of foreign trade.

In short, the worsening of the trade balance started before the 2008 crisis. In the past high commodity prices improved Brazil's trade balance with China, but if Brazil is to post trade surpluses of close to US$20 billion, commodity exports only to China and oil exports elsewhere may not be sufficient. Brazil needs also to address the competitiveness of its exports to improve its trade balance with the United States, the European Union, and other countries.

Brazil's bilateral trade balance by country

(U$ billions)



Source: Ministry of Development, Industry and Commerce.