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Opening Speech

**" A Perspective on the Brazilian Economy and the Future
of the Economic Bilateral Relationship with Japan."**

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Talking Points

I. Introduction.

- Brazil is today recognized as a world economic and political emerging power, part of the selected group BRICs (a group of four nations that are expected to model the 21st century). Brazil experienced China-like economic growth in the 60s and 70s, reaching a top of 12% of economic growth in 1973. After having overcome the difficulties of recession related to indebtedness and rampant inflation in the 80s, the economic reform of the 90s - focused on the creation of a new fiscal and monetary system based in a new currency in 1994 ("real") - permitted Brazil to retake the path of development. In the first decade of this century, besides keeping sustainable economic policies aiming at economic growth promotion, Brazil deepened social policies in order to include the poorest.
- I would say that Brazil have some advantages if compared to other BRIC nations: i) as I have just mentioned, the country has already come through the "bubble" of high economic growth in the 70s and has solidified economic development in the real economy, beyond speculation; ii) the country is concentrated now in the "correction" of the past inequalities and the promotion of social development (population is predicted to stabilize in 230 million inhabitants in 2025); iii) it has a huge and solidified democratic culture; iv) "self-sustainability" is one of the core principles in the national development, what puts Brazil among the most ecology-friendly nations in the world; v) the country still having enormous potential for development in almost every sector of the economic life.

II. Brazilian Economy on Perspective.

- **GDP:** Brazil is expected to grow at a rate between 5% and 6% in 2010, retaking the speed of growth experienced in 2008 (6%). In 2009, the growth rate of 0% demonstrated the resilience of Brazilian economy to the world financial crisis,

once Brazil has been marginally affected by the economic recession. The GDP in 2009 was around USD 2.1 trillion (PPP), which means a GDP per capita of USD 10,400. These numbers rank Brazil among the eight biggest economies in the world. The country is expected to be amongst the five biggest economies as soon as in 2015.

- **Investments:** 2010 may meet the same level of investments observed in 2008, USD 45 billion, which shows confidence of foreign investors on the Brazilian future. Despite the global depression, Brazil could attract USD 26 billion of foreign investments in 2009.
- **Public debt management on control:** One of the issues that guarantee Brazilian economic stability is the technical administration of the public debt. In 2009, the federal public debt accounted for 43% of the GDP. The biggest challenge for the administration of the public debt was overcome in 2005, when the debt named in dollar fell from 40% to 12%, meaning the suppressing of the cambial risk. Nowadays, there is a growing interest by international investors, including Japanese, for bonds issued by the Brazilian Government.
- **Growth X inflation:** Many analysts are raising some comments on the consequences of high economic growth to inflation. In 2009, inflation was of 4.11% (INPC) compared to 6.48% in 2008. If we expect the Brazilian economy in 2010 to boast the same economic behaviour of 2008, inflation may well reach up to 6.5% this year. Personally, I doubt that this fact may pose any threat to economy stability for two main reasons: i) the Central Bank of Brazil possesses an "inflation target" economic policy that is able to adjust any exceeding inflationary impetus; ii) Brazil will face general elections next October, and electoral terms are always inflation prone as an increase in social programs and infra-structure investments are observed.
- **The "Real" appreciation and international reserves:** Other possible concern for Brazilian policy-makers is related to the appreciation of the Brazilian currency. Today the "real" is

quoted at around R\$ 1.78 per dollar. The "real", along with the Korean "won" are the two world currencies that suffered the biggest appreciation in the last 5 years. Boasting an international reserve of USD 250 billion, I believe that the policy-makers may opt for a monetary intervention if the over-appreciation of the "real" threatens the structural competitiveness of the economy. With an interest rate of around 10.25% a year (SELIC) in a solid and robust financial market, both the Brazilian financial market and public bonds are attracting strong attention from investors abroad, including Japan. All these financial remittances to Brazil support the appreciation of the currency.

- **Shrinking social inequalities:** South American countries point out that there are two successful economic models in the region to be followed. The "Chilean model" emphasizes deregulation and openness to global markets. The "Brazilian model" is more regulated and focuses on social policies to diminish the gap between rich and poor, consistent with a market-friendly economic strategy.

Brazil has adopted specific measures in order to improve the standard of living of the less privileged: i) direct payments for poor families; ii) financial support to keep the children at school; iii) subsidizing housing and electricity costs in rural areas; and so on. As a result of these social measures, nowadays $\frac{3}{4}$ of the Brazilian population is considered "middle class". The Gini index, that estimates income inequalities in a country, dropped from 60.7 in 1998 to 49.3 in 2008. The UN Human Development Index (HDI) of Brazil today is at 8.13, what means that Brazil is becoming a country with "high" social indicators.

- **International presence:** Brazilian foreign policy is based on multilateralism; peaceful dispute settlements and non-intervention in the affairs of third countries. Indeed, all of these principles are constitutionally safeguarded, which includes an express law on the development of nuclear weapons. In this regard, Brazil and Japan have much in

common. Brazil also pursues the integration of South America as a constitutional goal.

Until very recently, Brazil acted in the world arena more as a response to international demand than to defend its own interests. However, in the last years, the foreign policy has become more assertive: i) we launched a program to connect South America through infra-structure projects and to deepen regional institutional agreements; ii) we pursue, along with Japan, a permanent seat in the Security Council of the UN; iii) we established relations with all members of the UN, we now do have more embassies in Africa than England, a former colonialist power in the region, do; just to mention some of the initiatives.

- **International presence in economic forums:** As far as the Brazilian participation in world economic forums is concerned, Brazil believes that the new framework of G-20 reflects with more precision the world affairs of the present moment. The absence of President Lula in the last G-20 meeting in Toronto was due to the efforts to help those affected by floods in the Northeast Brazil. Last year, Brazil lent US\$ 10 billion to the International Monetary Fund- IMF aiming to provide the institution with the required liquidity to face the international financial crisis. This action conferred a higher status for Brazil in the IMF. As for the multilateral negotiations within the WTO, the country has been made all efforts to conclude the Doha round of negotiations, despite asymmetries existing among agricultural and industrial concessions.
- **Challenges:** I am frequently asked about the challenges Brazil faces to establish itself as global player. I believe that the biggest challenge for Brazil is to modernize its infra-structure system. Brazil needs investments in almost every sector to put its potential side-by-side with its infra-structure. It involves wider investments in transportation (highways, airports, high speed train); ports; housing; hospitals; sanitation. Even though Brazil has a defined strategy to handle some of these

deficiencies (there are plans to invest over USD 300 billion in some priority programs), I am convinced that Japan may take profit of the good moment Brazil is passing through.

Also, I believe Brazil must move forward toward some reforms, which entails a new labour and tax legislation, in order to allow a greater responsiveness to economic inputs, as well as to deepen inclusive social policies.

III. Brazil – Japan Bilateral Relationship.

- **Bilateral trade** - Japan is today the fifth biggest trade partner of Brazil, meaning a trade of USD 10 billion, responsible for 2.8% of Brazilian exports and 4.2% of all Brazilian imports. This equation shows a deficit of USD 1 billion for the Brazilian side. Brazil is an important supplier of food for the Japanese market, although its participation could be even more expressive if many Brazilian products would not face so many non-tariff barriers on the Japanese side. This is, in fact, an issue that makes it difficult for us to improve our bilateral trade.
- **Japanese investments** - During the 60s and 70s, Japan contributed immensely to the Brazilian development with huge investments in the areas of agriculture, mines and metallurgy and machineries. The 80s and 90s witnessed a slowdown in Japanese investments due to internal circumstances of both countries. A renewed interest for Japanese investors arose with the emergence of a new Brazilian middle class of around 40 million people that is anxious to consume automobiles, cell-phones and TVs. The government itself focuses in the development of infra-structure projects, including ports, airports and a high speed trains system.

IV. Conclusion.

- To conclude my presentation, I would like to mention that Brazil and Japan have more than 100 hundred years of diplomatic relation. In a century, Japanese-Brazilian friendship left indelible marks in the Brazilian society: i) today, there are almost 2 million "nikkeis" in Brazil, which means that we

Brazilians have Japanese blood in our veins; ii) Japanese investments participated of the economic boom of the 60s and 70s, including the "green revolution" of agriculture in the "cerrados"; iii) more recently, the Nipo-Brazilian TV digital system reassured economic ties.

- In this context, I believe that the cooperation between Brazil and Japan will be one of the pillars of the 21st century new world order, to be marked not only by the emergence of new powers but also by the solidification of ties that time revealed to be effective and full hearted.