



Effects of Chinese Growth on Latin America: The Brazilian Experience

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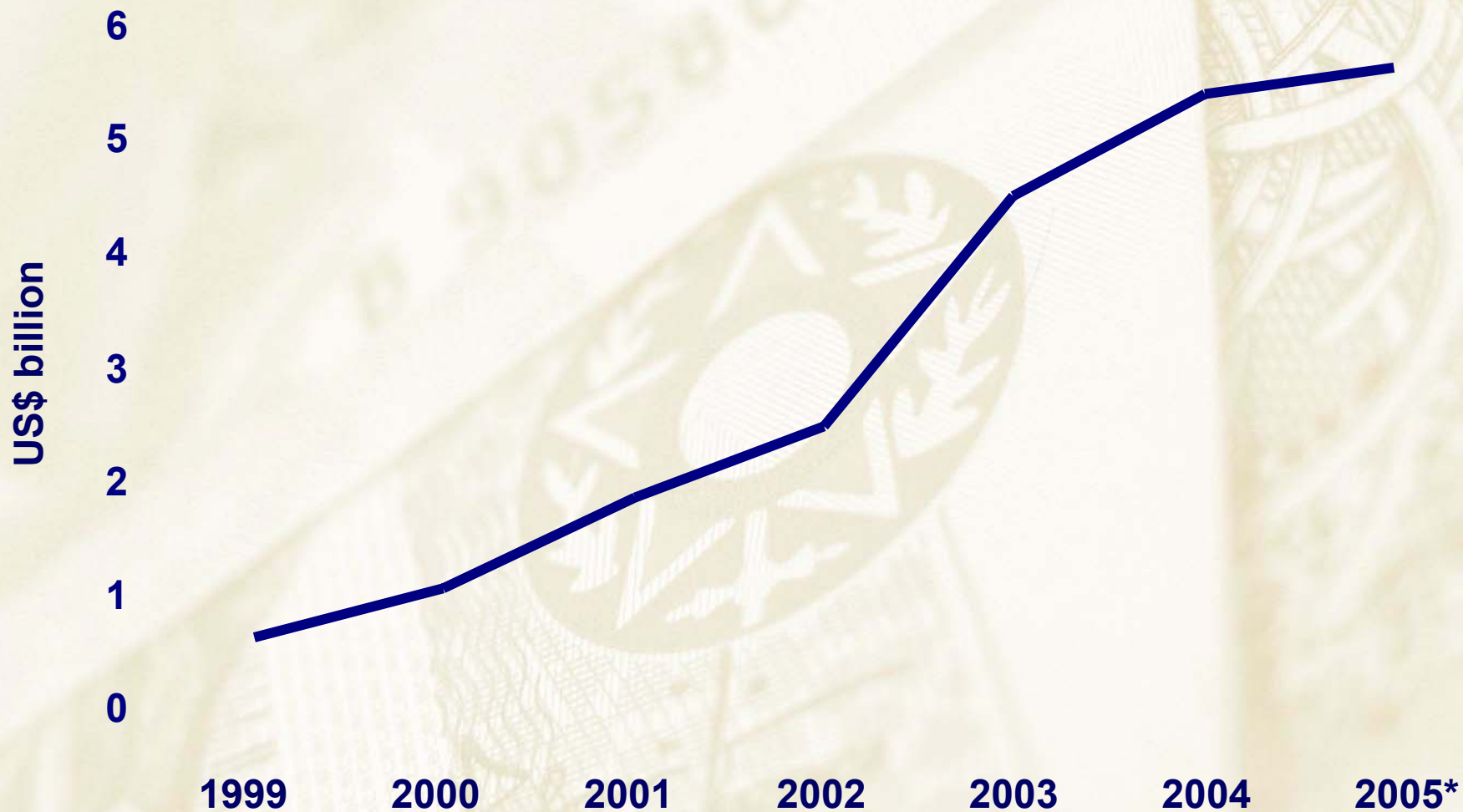


BANCO CENTRAL DO BRASIL

Brazilian Exports to China

- **Brazilian exports to China increased eightfold during the last 5 years.**

Brazilian Exports to China



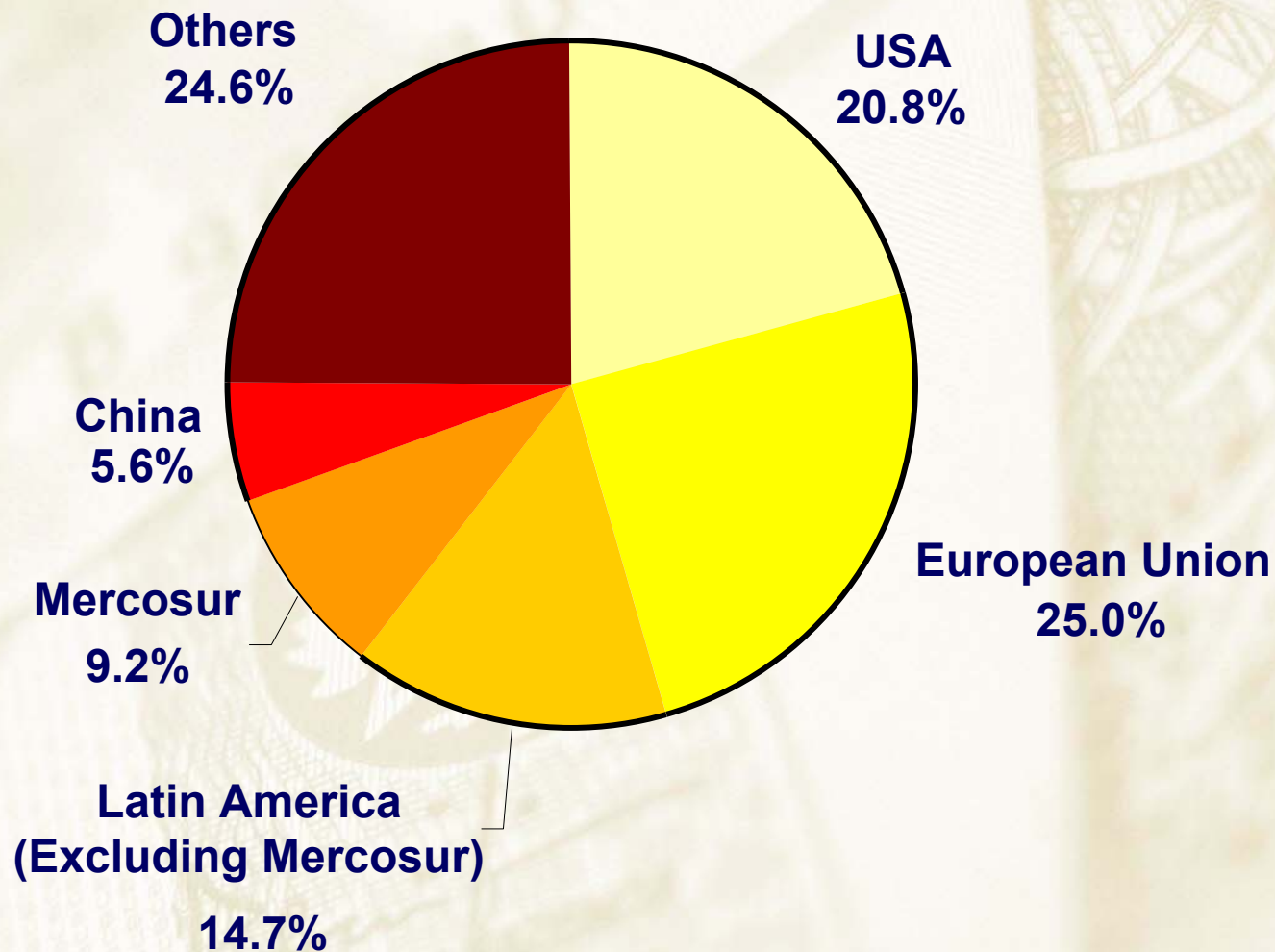
* 12 months through August

China's Relative Importance as an Export Destination



- **Despite this sharp increase, however, China represented less than 6% of total Brazilian exports in 2004.**

Brazilian Exports by Market (2004)



- **The increase in Brazilian exports to China has occurred in the broader context of robust Brazilian export growth to the rest of the world.**
- **Furthermore, Brazilian exports to China appear to have lost momentum since mid-2004, with China's share of total Brazilian exports peaking in 2003.**

Total Brazilian Exports Excluding China, and China's Share of Brazilian Exports



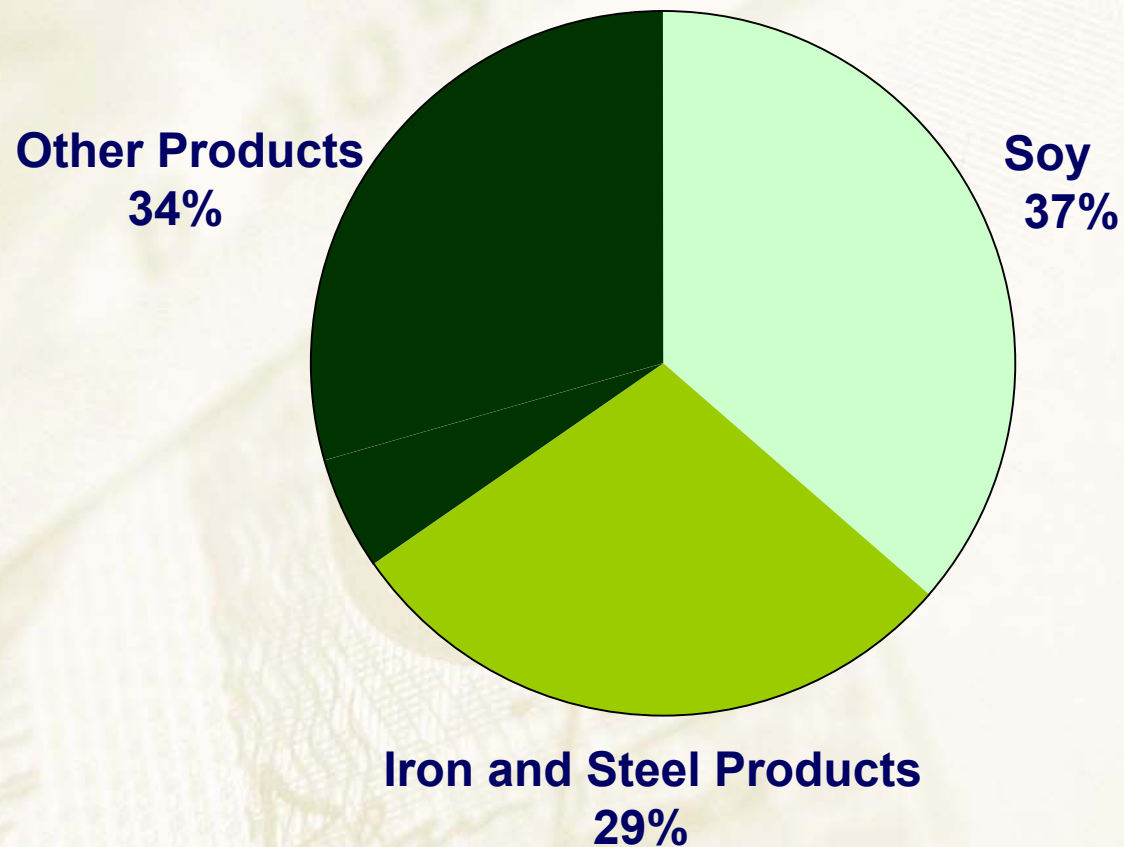
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Composition of Brazilian Exports to China



- **Brazilian exports to China are extremely concentrated.**
- **Soy and iron products accounted for roughly 66% of Brazilian exports to China in 2004/2005.**
- **These two commodities represented less than 20% of Brazil's total exports to the rest of the world.**

Brazilian Exports to China (Jan 04/Jul 05)

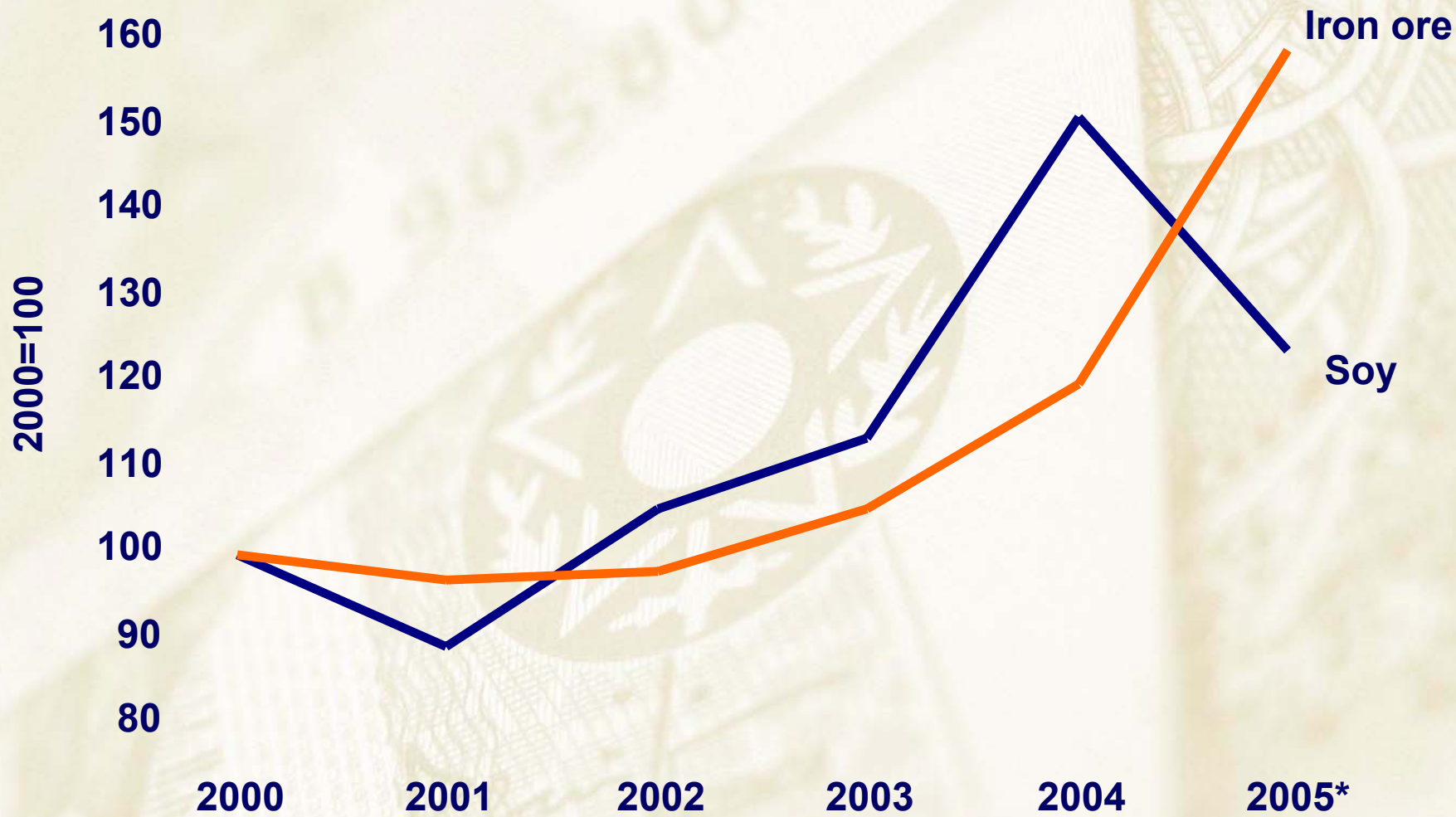


Commodity Prices Have Impacted Export Growth to China



- **The recent boom of Brazilian exports to China is partly attributable to the increase in commodity prices (particularly, soy and iron ore).**

Prices of Main Exports to China

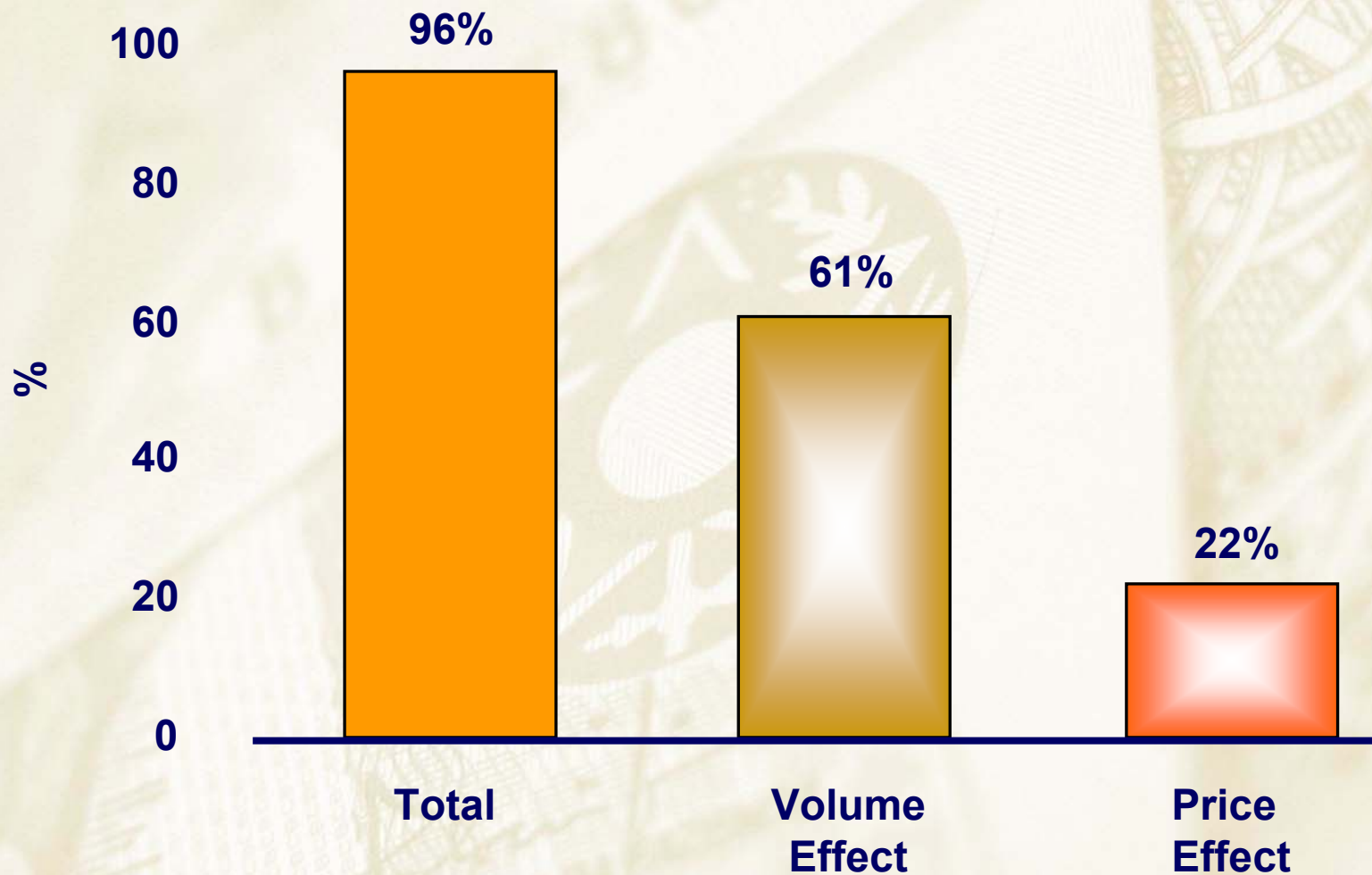


* January-July average

But Increases in Export Volumes Have Been Key Driver of Export Growth

- Though important in explaining bilateral trade dynamics with China, the price effect is not the key driver of the overall Brazilian export dynamism.
- Brazilian exports grew 96% in the last 3 years through July/2005, with 61% of that growth attributable to the increase in export volumes and 22% attributable to the increase in export prices.

Decomposition of Total Export Growth (Aug 02/Jul 05)



Export Price Effect is Relevant in China Case, but Not in Global Context



- In sum, export volumes – and not prices – explain the overall dynamism of Brazilian exports.
- In the specific case of trade with China, the composition of exports (a larger share of primary products) partly explains the export boom of 2003/2004, but the price effect is usually exaggerated (and soy prices have fallen since mid-2004...).

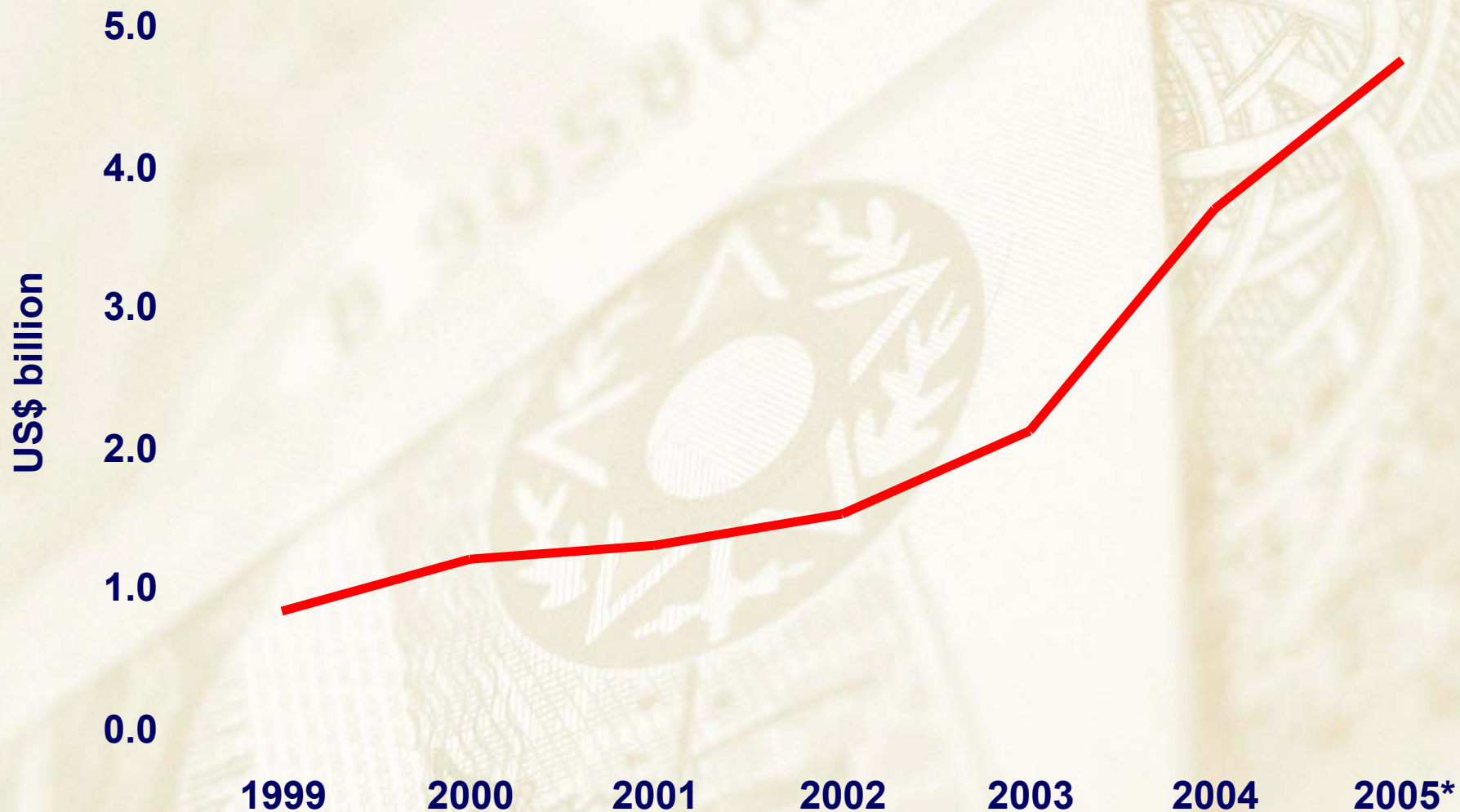
- **Controlling for recent price effects by holding export prices constant at 2000 levels would result in a 30% reduction in Brazilian exports to China in 2005, but a reduction in total Brazilian exports of only US\$1.8 billion, or less than 2%.**

Other Effects of Chinese Growth

- **There are also indirect effects of Chinese growth that bear consideration, such as its impact on world commodity prices, and the increase in exports to countries that are part of the Chinese supply and production chain (indirect exports to China).**

- **Is there also a “Brazil effect” in bilateral trade?**
- **Brazilian imports of Chinese products have also increased dramatically since mid-2003.**

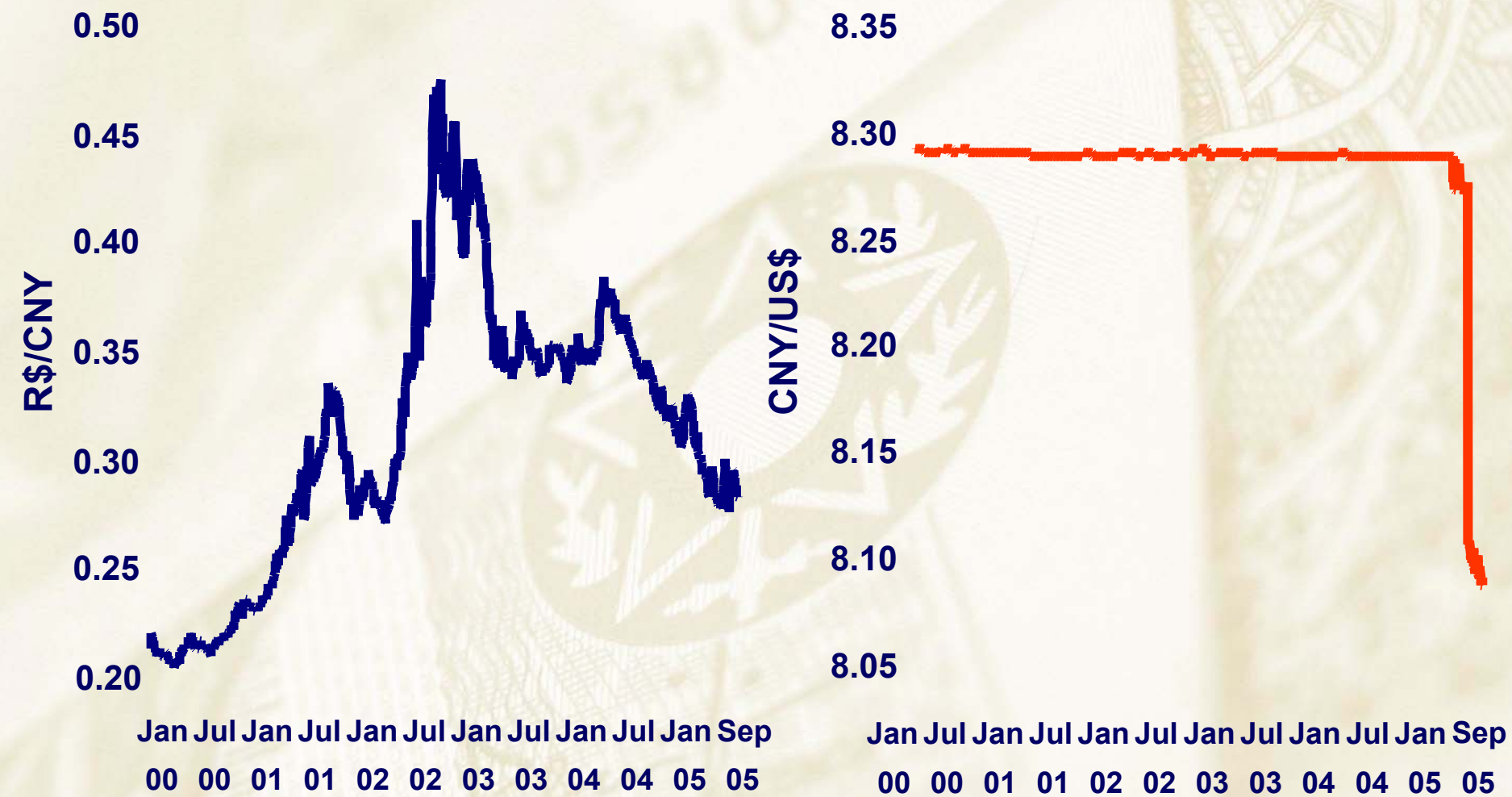
Brazilian Imports from China



* 12 months through August

- **The growth of Brazilian imports from China can be attributed to the rebound of the Brazilian economy since 2H2003 and to the appreciation of the Brazilian *real vis-à-vis* the Chinese *renminbi*, a consequence of the *renminbi* peg to the US dollar.**

Exchange Rates (R\$/CNY and CNY/US\$)



- **Since 2004, Brazilian imports from China are increasing at a faster pace than Brazilian exports to China, and as a result, the bilateral trade surplus has diminished.**

Bilateral Brazil-China Trade Balance



* 12 months through August

Summary

- **In a nutshell, Brazil's economic growth, efforts toward export diversification and trade deepening, and the effects of different exchange rate regimes seem to be more relevant than the “China Effect,” per se, in explaining recent Brazil-China bilateral trade dynamics.**



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