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Brazil Hits China With Tariffs as Potholes Erode New Silk Road

Simon Kennedy

Aug 1, 2011 (Bloomberg): The biggest threat to a revolution in emerging market trade may be the emerging markets themselves as Brazil slaps import curbs on Chinese toys, Russia claims China dumps cold-rolled steel and China keeps its currency undervalued. Such barriers to commerce are digging potholes in the "New Silk Road," the name given by economists to the burgeoning trade between developing nations that is forecast to be larger than that among advanced nations by 2015. The tensions may cause intra-emerging market trade to fall short of the 10-fold increase that HSBC Holdings Plc sees as the potential for the next four decades, and thus reduce its role as a driver of world growth. Trade and other barriers may also take the "luster" off emerging-market shares, said Ed Kuczma, who helps manage about $30 billion at Van Eck Associates in New York. Emerging market equities have gained more than double those in developed economies since the start of 2009. "Thick borders discourage capital inflows, keep people trapped in rural poverty and leave economies persistently underperforming," said Stephen King, HSBC's London-based chief economist and author of "Losing Control: The Emerging Threats to Western Prosperity." "Only if they can connect with each will emerging nations be able to turbo-charge their economic futures." Even with restrictions, the so-called BRIC nations of Brazil, Russia, India and China are trading increasingly with each other. Commerce between emerging markets, also known as South-South trade, could account for 40 percent of world trade by 2030 from 18 percent currently, according to Standard Chartered Bank.

Tata in China

Lenovo Group Ltd. (992), China's biggest maker of personal computers, said May 26 that sales in emerging markets including India, Brazil and Russia climbed 14 percent in the fourth quarter. Tata Steel Ltd. (TATA), India's largest manufacturer of the metal, will increase investment in China by 5 percent in 2012 to maintain market share, Managing Director Hemant Madhusudan Nerurkar told China Daily in May. TNK-BP, Russia's third-biggest oil producer, plans to pay more than $1 billion for a 45 percent stake in 21 Brazilian oil and gas tracts, two people with knowledge of the deal said on July 19. China and Russia have almost completed technical and commercial talks on a gas supply contract, PetroChina Co. chairman Jiang Jiemin said May 18. Broader benefits may still take time. Simon Evenett, who teaches at the University of St. Gallen in Switzerland, found that between November 2008 and the start of last month Russia imposed 138 protectionist measures against fellow BRIC nations. India took 85 steps, Brazil 52 and China 33. By comparison, the U.S. imposed a total of 30 measures against the group, he found. No Fraternity? "There's not much evidence of a BRIC fraternity," said Evenett, noting that the four BRIC nations were among the eight most protectionist in the Group of 20. Russia, which is still lobbying for membership of the World Trade Organization, was No. 1. China, Brazil and India are WTO members. The annual competitiveness report of the Geneva-based World Economic Forum shows that each of the BRIC nations has higher average trade tariffs than at least 110 other countries, including Nigeria and the Kyrgyz Republic. Tariff rates in 2009 ranged from Russia's 11.6 percent to India's 14.4 percent. Reducing barriers to trade would reinforce the so-called New Silk Road, a modernization of the name given to the 4,000- mile (6,435-kilometer) network of trade routes crisscrossing Asia, southern Europe and North Africa starting 2,000 years ago. Once traveled by Marco Polo, the route helped promote the growth of civilizations from Egypt to Rome.

Biggest Trader

Its new iteration refers to growing trade links between emerging markets that Citigroup Inc. economists Willem Buiter and Ebrahim Rahbari predict will power an increase in worldwide trade in goods and services to $149 trillion in 2030 from $37 trillion in 2010. They estimate that China will usurp the U.S. as the world's biggest trader within four years. By 2015, they said, commerce between emerging markets will overtake that within advanced economies and by 2030 that between developed and developing nations. The projections may not be met should free trade fail to take hold, Buiter and Rahbari said in a June 22 report. While Kuczma of Van Eck identified port operators DP World Ltd. (DPW) of Dubai and Sao Paulo-based Santos Brasil Participacoes SA (STBP3) as standing to benefit from growing trade links between emerging markets, fettered markets may still "take the luster off the emerging market growth story," he said. "A sound, stable and well-defined open trade policy goes a long way to instilling investor confidence in emerging markets," said Kuczma, whose title is emerging-markets analyst.

Building Material

The longer BRIC nations take to drop trade barriers and controls on capital and credit, the slower the gains for potential beneficiaries. Credit Suisse Group AG's private banking division identified logistic companies, delivery services, building material manufacturers and port developers as winners from more open trade. Among them: Hong Kong-based container lessor Cosco Pacific Ltd. (1199), Germany's Deutsche Post AG (DPW) and building-material supplier Lafarge SA (LG) of France, the manager of about $1.5 trillion said in a January report. At the same time, the friction continues. Brazil in December raised to 35 percent from 20 percent a duty on imported toys after local manufacturers complained they were being harmed by a flood of cheap, Chinese-made goods. Complaints from Brazilian unions and industry groups, including textile producers, have led its government to enact 30 anti-dumping measures aimed at Chinese-made goods, more than those against any other country and almost four times more than directed at the U.S., according to the Trade Ministry.

Glass Fiber

China was the target of a May 30 announcement that India had started an anti-dumping probe on grinding steel balls. The same month, India imposed anti-dumping duties on "certain rubber chemical" imports from countries including China. Brazilian aircraft-maker Embraer SA (EMBR3) failed to get China's government to approve final assembly of its E-190 aircraft in China because of concerns it would compete with a domestic regional jet, Chief Executive Officer Frederico Curado said in April. Similarly, Indian Prime Minister Manmohan Singh pushed Chinese President Hu Jintao in April to boost imports of Indian information technology and pharmaceutical products. Russia, meanwhile, in February began an anti-dumping probe into cold rolled steel with polymer coating imported from China after complaints from steelmakers. Prime Minister Vladimir Putin says Russia is free to keep introducing import restrictions until it joins the WTO.

Yuan Strength

Another source of tension: China's policy of limiting the yuan's value to support its manufacturers in the global marketplace. Echoing complaints from the U.S., researchers at the Reserve Bank of India wrote in an April report that China's exchange rate policy "invariably and distinctly provides competitive advantage over its trade competitors." While the dollar has dropped about 5 percent against the yuan since the start of 2010, the Brazilian real has risen 5 percent against the Chinese currency and India's rupee has fallen just 1 percent. The yuan policy has drawn fire from Brazilian Finance Minister Guido Mantega, who last week reiterated that Brazil would defend itself from any "currency war" prompted by nations seeking to boost exports through lower exchange rates.

Growing Anyway

"Emerging market authorities are reluctant to allow exchange rates to move to market levels and that is part of the protectionist phenomenon," said John-Paul Smith, an emerging- market strategist at Deutsche Bank AG in London. Jim O'Neill, chairman of Goldman Sachs Asset Management in London and creator of the BRIC description, said the push will remain toward free trade, noting that commerce has surged in the past decade even with restrictions in place. Investors should buy into that trend even if the current regulatory climate irks them, he said. The MSCI Emerging Markets Index has risen 102 percent since the start of 2009, compared with the 41percent gain in the MSCI World

(MXWO) Index of 24 developed markets. “You can wait for the uncertainty to clear, but by the time you do it’s probably going to be too late” to profit, said O’Neill. “Acknowledging the powers of free trade for these countries is inevitable. It’s just a matter of time before they grow up.”

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IBSA plan to accelerate trilateral FTA talks

Sandeep Dikshit , The Hindu

Anand Sharma offers to host the first annual trilateral meeting in New Delhi in March next

19 October 2011: In an attempt to accelerate talks on a trilateral free trade agreement (FTA) , the India-Brazil-South Africa (IBSA) Summit that ended on Tuesday decided to hold an annual meeting of trade ministers from the three countries beginning from March next year. Commerce and Industry Minister Anand Sharma has offered to host the first annual trilateral meeting in New Delhi in March next.

The analysis at the IBSA meet is that trilateral trade has done well despite the 2008 economic slowdown and its aftershocks, including the prevailing uncertainties in the eurozone.

$25 b trade by 2015

Trilateral trade is already close to $20 billion, having crossed the target set for 2012 three years earlier than envisaged. India's trade with its trade partners in IBSA accounts for a majority of this trade. The leaders at the IBSA summit felt that the trends indicated that the target of $25 billion trade by 2015 would be achieved early, and “this gave reasons to be optimistic and more ambitious," said an official note.

The leaders tasked the Working Group on Trade and Investment to examine all issues related to trade holistically, including issues relating to non-tariff barriers, maritime and air links and opportunities for investments. Direct air connectivity is expected to give tourism a major boost and the trade ministers agreed to look at the visa related issues so that the process for business visas is made easy. The three trade ministers also interacted with the IBSA Business forum a day earlier.

To set up technical team

The trade ministers also decided to set up a technical team under the IBSA's working group on trade and investment to reconcile trade data and devise a common reporting format. Due to different methodologies of capturing trade data (calendar year v financial year or CIF or FOB) at times the numbers vary.
The South African and Indian trade ministers also decided to enter into long-term contracts for purchase of raw materials and commodities, and the recently opened office of MMTC in South Africa has been asked by Mr. Sharma to begin work on this proposal immediately.

The Ministers also felt that with the ratification process of the MERCOSUR SACU FTA advancing, and initiation of the process of deepening of the India MERCOSUR Preferential Trade Agreement (PTA), the deck was now clear for making progress on a trilateral FTA involving India SACU and MERCOSUR.
“This FTA linking developing countries in the three continents is envisaged as one of the most ambitious free trade areas and will be a symbol of growing south-south cooperation," noted Mr. Sharma. His sentiment was shared by his counterparts from Brazil and South Africa.

The three ministers also plan to meet before the WTO's 8th Ministerial conference in mid-December to coordinate their position on all issues relating to the WTO negotiations and to discuss the possible outcomes of MC8 as well as the way forward on Doha Development round.

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An Assault on Multilateral Trade Negotiations

Ravi Kanth Devarakonda, Inter Press Services

Geneva, March 17, 2012: India, Brazil, and South Africa, the international grouping for promoting international cooperation among the three countries known as IBSA, along with China and several other developing countries, have denounced the ongoing attempts to craft an exclusive, plurilateral agreement to liberalise trade in services without concluding the multilateral trade negotiations of the World Trade Organization. The plurilateral initiative, say trade envoys from the IBSA bloc, is likely to cause irreparable damage to Doha trade negotiations in particular, and the WTO in general. The Doha negotiations aim to achieve reforms of the international trading system through the introduction of lower trade barriers and revised trade rules. Besides, the negotiations were launched for providing developmental dividends to developing countries for integrating into the global trading system. In sharp contrast, the proposed plurilateral agreement for services, which aims to seek WTO commitments for the 16 countries part of the initiative, will turn the clock back for providing the much-promised developmental gains from the poorest and developing countries. Ahead of the current turmoil in global trade negotiations, the IBSA trade ministers warned that that "plurilateral initiatives go against the fundamental principles of transparency, inclusiveness, and multilateralism." The 16 countries, the United States, countries from the European Union, Japan, Canada, Norway, Switzerland, Australia, New Zealand, Singapore, South Korea, Taipei, Pakistan, Mexico, Colombia, and Chile, call themselves the real good friends (RGF) of liberalisation of trade in services. The RGF coalition will hold their third brainstorming session on Mar. 21 to prepare the ground for a plurilateral services agreement outside the WTO. Though the contours of the form and substance of the proposed agreement are not clear yet, the coalition appears determined to achieve an outcome based on the highest common denominator, say trade envoys from the coalition. The IBSA countries have not adopted any formal position on the ongoing plurilateral initiative of the RGF coalition. But trade envoys from the respective countries spoke against the dangers it would pose to the multilateral negotiations in general, and the Doha trade negotiations in particular. "We don't think that plurilateral initiatives will comply with the requirement of transparency and inclusiveness, which is the basis for any multilateral process," Brazil's trade envoy to the WTO, Ambassador Roberto Azevedo, told IPS. "Brazil doesn't believe it is a building block for the resumption of multilateral negotiations and on the contrary it would make that even more difficult." Brazil, said Azevedo, "is perfectly willing to negotiate multilateral market access in services as long as others are willing to negotiate market access in agriculture which is at the heart of the WTO's Doha trade negotiations." The plurilateral route for an agreement on services will undermine the "balance" in the Doha trade negotiations, said Ambassador Jayant Dasgupta, India's trade envoy. South Africa's trade envoy Ambassador Faizel Ismail expressed concern that a plurilateral agreement will undermine the much-promised "developmental" outcome in the Doha trade negotiations. Even the EU, which is taking an active part in the current RGF plurilateral initiative remains uncomfortable. "Our line is that we should not take initiatives that undermine the WTO because the WTO is very important for trade," the EU's trade commissioner Karel de Gucht said on Mar. 12. Under the WTO's General Agreement on Trade in Services (GATS), which governs global trade in services, any group of countries can strive for economic integration by seeking higher and deeper services commitments among themselves. Until now, there was no attempt by any group of countries to craft an exclusive plurilateral services free trade agreement among a select group of countries within the WTO since its establishment in 1995. In the past there were open-ended plurilateral agreements such as the WTO's Information Technology Agreement involving liberalisation of trade in various electronic goods, and the telecom services agreement. The ongoing exploratory talks among the 16 countries are taking place at a time when the WTO members have not been able to conclude the much-promised Doha negotiations, which were started in 2001. A continued stalemate in negotiations between a large majority of countries seeking a palatable outcome and one major industrialised country making "maximalist" demands has put paid to an early conclusion, said trade diplomats. As opposed to multilateral negotiations in which all members have an equal say, at least on the paper, the plurilateral process involves closed-door negotiations among select-members. The U.S. and other major industrialised countries, however, reckon that it is difficult to negotiate with 153 countries as it would involve a grand bargain of compromises. "We live in a consensus based-organisation and what that means is that 153 members have to approve on everything and what that means in practice is the least common denominator," the U.S. trade envoy to the WTO, Ambassador Michael Punke, told a seminar organised by the European Centre for Political Economy in Brussels. He said "we should look at the services plurilateral as a different, fundamentally different way, of approaching the agreement." Punke argued that the RGF group would provide the ideal ground for accomplishing an outcome based on "highest common denominator" since most of them are engaged in significant liberalisation of trade in services. However, developing countries remain opposed to the assault on the multilateral framework. "The greater the number of participants, it would be difficult to reach a common agreement but it would provide greater benefits," said Azevedo. "In short, a modest outcome with a larger number of participants should lead to more attractive and meaningful outcome."

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India, Brazil set trade target of $15 bn by 2015

Press Trust of India

June 14, 2012, Rio de Janeiro: India today sought investments from Brazil, mainly in the infrastructure sector for which it needs $1 trillion over the next five years, as the two countries set bilateral trade target of $15 billion by 2015.

Commerce and Industry Minister Anand Sharma, on a 4-day visit to Brazil, said businessmen of both the countries can cooperate in sectors like agriculture, textiles, IT, infrastructure and pharmaceuticals.

"Huge opportunities are available in both the countries. Currently the bilateral trade is at $10 billion. Both the sides have fixed the target of $15 billion by 2015. Trade is increasing but huge potential is there to further boost it," Sharma said here at a function. He sought investments from Brazil in setting up of the National Manufacturing and Investment Zones (NMIZs). The government is taking several steps to increase the share of the manufacturing sector in the GDP to at least 25% by 2020 from 16 per cent at present. For this, a new National Manufacturing Policy (NMP) was announced recently, which envisages setting up of NMIZs. They will be mega industrial zones with world-class supporting infrastructure. The government is offering a host of incentives and a liberalised labour and environment norms to promote these zones. Sharma, who is leading a Ficci business delegation here, said that entrepreneurs of India and Brazil can also come together in other areas of infrastructure like ports, airports and railways. "India is expected to absorb about $1 trillion investments in the infrastructure sector in the next five years. Brazilian companies should participate in it," he said. Besides, industry chambers, the minister met his Brazilian counterpart Fernando Pimentel in Brasilia and discussed ways to increase economic cooperation. Ficci President R V Kanoria said education is one of the important sectors for both the countries for increasing engagement. "Several Indian companies can help in this sector. We have expertise in distant education field. Our present trade is concentrated in oil and its by-products. The potential between the two countries allows us to expand and diversify our trade," Kanoria added. At present, few Indian companies like Renuka Sugars are operating in Brazil, while some Brazilian firms are operating in India in sectors such as biofuels. Brazilian industry also sought investments from India in infrastructure sector in the wake of Olympics game being hosted by Brazil in 2016.

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